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Alberta Legislative Assembly

COMMITTEE OF SUPPLY, SUBCOMMITTEE A

Room 312, Legislature Building

April 3, 1978

8 p.m.

Chairman: Mr. Kroeger

MR. CHAIRMAN: It's 8 o'clock. We'll come to order.

I'm going to ask the minister for some opening remarks. In order to keep this thing running as smoothly as possible, I'd like your remarks addressed either to the Chair or the minister. As chairman, I don't necessarily have to know what's in here or understand it. So, as I've already said, we'll send the remarks around.

I think we'll get going. Mr. Minister, would you like to say a couple of things?

DR. BUCK: Mr. Chairman, just before the minister does that, would it help us any if we knew who his support staff were?

MR. GETTY: Yes. Mr. Chairman, I'd like to introduce a fairly heavy contingent of people with me, and I should say it's the Hon. Dallas Schmidt and myself whose estimates are going through tonight. If the committee doesn't mind, I think that I'd ask that we do it on the basis of Energy first, so that we deal with my part, and then Dallas, so that there will be some continuity rather than as it is in the book where it bounces around.

HON. MEMBERS: Agreed.

MR. GETTY: Mr. Chairman, we have Dr. Mellon, Deputy Minister of Energy Resources. Barry, perhaps you could just stand for a moment. Bob Steele, Deputy Minister of Renewable Resources, as of March 31. Wayne Minion, Chairman, Petroleum Marketing Commission; Dr. Clem Bowman, who is Chairman of AOSTRA. We have Fred McDougall, Assistant Deputy Minister of Forest Service; Charlie Paquin, Assistant Deputy Minister of Lands; Tom Vant, who is Chairman of Syncrude Equity. We have George Ford, Executive Director of Administrative Services; Les Cooke, who is Executive Director of Resource Evaluation and Planning; and Mo Phalenpin, Senior Budget Analyst. Also joining us tonight, Mr. Chairman, is Tom Chambers, MLA, our representative on the Syncrude Board. I should also say, by the way while I'm on it, that Tom Wood, my Executive Assistant, is also here.

Mr. Chairman, in looking at the estimates this year, it's not a year of new programs, it's a year that's going to be different for several reasons. One, it's a year in which we have oil pricing, more or less the first year in about four that we haven't or won't be going through an oil pricing negotiation. We have our reorganization of the Department of Energy and Natural Resources complete. In that regard, we've had two key personnel changes, unfortunately. Dr. Govier was on leave of absence from the Energy Resources Conservation Board, has returned to the Board and, effective April 1, we've lost Bob Steele. He is taking the position as Deputy Minister of Utilities and Telephones with Dr. Warrack. So that will be a problem of replacing Mr. Steele who has done an extremely fine

job reporting to both Dallas and I, I think probably the only deputy minister in the government who is reporting to two ministers.

We have, as I said, no fairly new programs or policies. We have probably things to work on more in terms of fine tuning, fine tuning of lease tenure system. We are holding our forest policy statement until after the hearings of the ECA. We have some decisions to make though, decisions on timber royalties which are being assessed. We have perhaps some decisions and negotiations on a third oil sands plant with, it looks like, Shell Oil. A decision, perhaps, depending on the ERCB recommendations, on Imperial Oil at Cold Lake; a possible decision on an expansion for Great Canadian Oil Sands. The official opening of Syncrude is presently scheduled for September 15 of this year. It may well be that shortly thereafter Syncrude will be considering an expansion. We have, possibly, negotiations and a decision to make on heavy oil plants, and we have a considerable amount of work to do in managing the balance between activity and our natural gas surplus and the possibility of exports from the province to the U.S. and, perhaps, a federal decision on swaps.

One other thing of significance, I think, is the Luscar mine will open this year at Coal Valley and start the flow of coal to Ontario Hydro from that mine. I think one of the main things we will also be working at is keeping a healthy communication relationship with the oil and gas industry, energy industry. And of course, Mr. Schmidt will be administering the first full year of the Eastern Slopes policy.

Other than that, Mr. Chairman, I think I'd be pleased to go through the estimates and answer questions.

MR. CHAIRMAN: Okay. We'll follow through on the basis of dealing with the energy related areas first, and the grazing lease related secondly, public lands. No motions will be entertained except the motion to adjourn.

MR. APPLEBY: Can I move that now?

MR. CHAIRMAN: Yes.

AN HON. MEMBER: (inaudible) just table it.

MR. CHAIRMAN: We'll start with Vote 1. Page 121 for anyone who is not there. Any questions?

MR. Thompson: Before we get to 121, down here on the bottom it says: "The 1978-79 Estimates of Expenditure for Alberta Housing and Public Works provide $2,118,000 for the construction and furnishing . . ." What does that mean?

MR. GETTY: The Housing and Public Works budget provides for a capital expenditure which would be in your capital book.

SOME HON. MEMBERS: We can't hear you.

MR. GETTY: Mr. Thompson asked what was the $2 million for construction and furnishing of new facilities which would be in the estimates for Alberta Housing and Public Works, and we are just getting it.

MR. CHAIRMAN: Bottom of page 119.

MR. GETTY: We are working from the book: Estimates of Expenditure 1978-79. Program estimates.

MR. STEELE: There are several minor things. One of the major things is a photo laboratory building for our photography reproduction system in the department and, because we are being moved out of the Natural Resources Building, they are building a new facility for us and that's $150,000. I perhaps should skip over the smaller items. We have a completion of a move at Grande Prairie, to move the garage, warehouse, carpenter shop that are now on the Grande Prairie College site to the other new buildings at Grande Prairie, for the forest headquarters up there. That's $718,000. Sorry, that's recommended for '79-80. That's next year's. I'll learn how to read this thing.

MR. THOMPSON: I was more interested in why, instead of what. Why would they do it through Public Works?

MR. CHAIRMAN: The question is: why through Public Works?

AN HON. MEMBER: Public Works does all the construction work.

MR. THOMPSON: I know, but why wouldn't it be in this budget if it's capital assigned to the energy (inaudible)

MR. GETTY: That's program budgeting and a system that Treasury uses, John. I see your point. You mean, why is it broken out.

MR. THOMPSON: Yes.

MR. GETTY: That's just our style of budgeting. Perhaps the question could be asked of Mr. Leitch at some time. We just go along with the system, and it's made up of a lot of small items in our case.

MR. CHAIRMAN: Okay, can we go to Vote 1? Mr. Notley.

MR. NOTLEY: Mr. Chairman, to the minister. I assume when we discuss Vote 1, that this will be the opportunity to look at general directions, policy.

MR. GETTY: I think it's a good time, right.

MR. NOTLEY: I wonder if I might just start out on the question of natural gas reserves.

There's been an increase in reserves but Mr. Millican is quoted as saying about 1.7 trillion cubic feet discovered last year. That strikes me as being a rather low figure. My understanding was that in one field south of Grande Prairie alone, there is an estimated 5 trillion cubic feet of natural gas discovered. Where do we stand now in terms of our natural gas situation?

MR. GETTY: Well, it's actually in an area of the Energy Resources Conservation Board under Executive Council, but let me summarize it this way. The ERCB, as a result of the amount of drilling that's gone on -- some very promising drilling results -- will be bringing out before the end of this spring, early summer, a new estimate of Alberta's supply and demand for natural gas. It's a request that we have made of the ERCB to carry out this new review because of the socalled gas bubble and surplus, and we wanted to get a feel for

just exactly how big it is. Now, even when this comes out -- and I can't prejudge it -- the Board will not be guessing at the extent of, say, an Elmworth field. They will go by the actual statistics of proved and probable reserves that are before them. So, it will be at least a year I'd say, Grant, before we start to know some of these newer discoveries, what impact they will have on Alberta's natural gas surplus. Some of the operators are very bullish about the size of the reserves, but there is usually a catch-up period before the ERCB actually builds them into their figures. Fields have to be delineated.

MR. NOTLEY: Could I just pursue that, Mr. Chairman? Where, in your best judgment, Mr. Minister, is the line between building up additional reserves and the need to market, even if that market is outside the province? In other words, have we really come to the point where we must in fact market surpluses in order to retain the buoyancy in the drilling or is that something which, at this stage of the game, we haven't crossed that bridge yet?

MR. GETTY: No I don't think we've crossed the bridge yet. As a matter of fact, if you had a natural gas prospect right today, you probably couldn't get a rig to drill it. So I believe it's fair to say that we haven't come to the crossover point. Two things are happening. People are working very hard on new markets, but also because of the West Pembina-type oil find a lot of people have switched as well from natural gas exploration to oil exploration. In a way that's kind of the market place working. They can't sell the natural gas, so they have taken off the shelf some of their oil prospects which they have up to now not been pursuing, and the reason was that they were able to really do well with shallow natural gas drilling -- extremely good economics. I think some of them in recent years -- when I'm talking now of "them" I'm referring to industry -- kind of get a little spoiled in that they took for granted that if they found gas today, they could sell it tomorrow. While that's been true over the last short-term period of maybe five years, it was never the fact in history in Alberta, but rather that surpluses have always built up first and then pipelines and markets being built. So, a company has an alternative: they can arrange their financing and circumstances so that they can drill and not have to get income immediately; or they can drill reserves and sell the reserves in the ground and get money for them that way, presumably to someone who is prepared to sit through the short-term surplus. I think the reason they aren't slowing down in drilling yet is that most of them are convinced that sometime in the 1980s natural gas that is being found now will be very, very valuable.

MR. NOTLEY: So if I can just pursue that, Mr. Minister. At this stage then we are still in a relatively good position to take a fairly strong stand when the government is bargaining, for example on tariff collection. You don't feel constrained to have to find markets rapidly at this stage, that it's quite obvious to maintain momentum, but it wouldn't be necessary to export. Would that be a fair statement?

MR. GETTY: Yes, if you put the emphasis on the word rapidly or quickly, I think it is fair statement. You should know though, there are two applications before the Board -- Pan-

Alberta's and TransCanada's. TransCanada's for a large amount of gas -- I think some 7 trillion cubic feet -- to take to eastern Canada, and one is a so-called gas swap. Then, Pan-Alberta's is for 1 billion cubic feet a day, also to take out of the province and, in Pan-Alberta's case, all of it out of the country to the United States in what might lead to a gas swap.

MR. NOTLEY: Could I just pursue the gas swap question for a moment? The government has set out the objective of certain concessions for tariffs and we don't need to get into that because that's really Federal and Intergovernmental Affairs I would suppose. Are there any other conditions? For example, the suggestion has been made by some that the Americans are cooling to the idea of the Alcan pipeline and what they would like is to get the southern leg of it completed without necessarily pursuing the rest of it. Do we have any other conditions? In other words, would Alberta's acquiescence or agreement to a gas swap be dependent upon a commitment to complete the entire Alcan route as opposed to just a southern leg of it?

MR. GETTY: The term "swap" -- we've used it -- is not really reflective of Alberta's aims. Alberta wouldn't want a swap. The gas presumably will be found surplus to our needs so we don't need it back; therefore, the people who will be putting certain restrictions and negotiating the actual swap or return will be the federal government, so I believe the federal government will want to know that the northern part of the pipeline is going to be built before they will agree to and work out any swap arrangements. As far as Alberta is concerned, the gas is surplus to our needs. We are prepared to sell it and then it has to go through the National Energy Board, and presumably the federal cabinet will catch it there.

MR. NOTLEY: But at this stage of the game, it wouldn't really be a major matter of public policy concern in Alberta as to whether the entire project were completed or not, because it would be essentially surplus to Alberta's needs. With that in mind, what would be the position of the government with respect to the, I think it's the Q & M line isn't it, to service Atlantic Canada? Would our preference as a matter of policy be to accommodate that market or in fact be finding markets per se?

MR. GETTY: Well, I have a preference, and I think it's always been the preference of this government, that we care for Alberta's needs first, and then Canadian needs next, and then, if there's still surplus, other needs outside the country. The key is whether the Q & M pipeline makes economic sense. It should make sense. The Quebec market is able to convert sufficiently. It would take them off a dependency on imported crude oil which is still -- even though there aren't rumors of shortages or reductions in supply now, that certainly is a possibility any time -- a Middle East war or something like that. They also would like to expand -- as much as triple -- the amount of their energy use which comes from natural gas. So, it should be able to be put together. Alberta has got a surplus, another part of Canada has got a market. It should be able to be worked out. There is a problem with this residual oil that's being dumped in the market down there by the refineries which is undercutting natural gas in the market place and therefore industry is staying on this heavy fuel oil.

MR. NOTLEY: Could I just -- Mr. Chairman, other members will have questions, but is there some time line that you could give us, Mr. Minister, as to where these various projects would fit in in terms of natural gas export from the province per se, whether it goes to Q & M line or whether we're looking at additional export to the United States? Could you give us some figures as to what would be a reasonable assessment today of the total volume of surplus we're looking at? Would 5 or 6 trillion cubic feet be a reasonable estimate? And what would be the alternative at this stage? Are we going to see a coming together, if you like, of several options, one where there would be additional export to other parts of Canada, but another that in fact there would be some variation of what we have been calling a gas swap with the U.S.?

MR. GETTY: The current Alberta surplus -- I have in my mind some 12 trillion cubic feet, and of course it's subject to the review that's coming out from the ERCB. I don't have in my mind the accumulative effect of the variety of projects we were talking about where it comes to the surplus, because we are going to rely on the board. They'll either recommend them to us because it is surplus or they won't. If they don't find it surplus, it won't reach the cabinet.

MR. NOTLEY: Could you give us some indication just of how you see the projects coming together in terms of . . .

MR. GETTY: Well, the TransCanada one is before the ERCB right now and they've actually had the hearing. So I anticipate the TransCanada recommendation will come to the Executive Council probably before the end of the summer.

MR. NOTLEY: That's 7 trillion?

MR. GETTY: Seven trillion. Partly for increased Canadian markets and partly for U.S. markets.

The Pan-Alberta one has been filed. There has been a deficiency letter from the board and the deficiencies have to be made up in their application. There would then be a hearing. We're talking, probably, fall -- but probably before the end of this year.

The Q & M application hasn't been made as far as I know. It would have to be made in two places: one to Alberta, and one to the National Energy Board, because it's crossing provincial boundaries.

TransCanada has announced that they too wish to file for a Quebec line and service the Quebec market, so there obviously will be competition there. One of them will get it. There won't be two built.

MR. CHAIRMAN: Mr. Taylor.

MR. TAYLOR: There are two points I would like to pursue, Mr. Getty. The first is: what are the criteria for setting our 30-year long- term supply for Alberta? Is it a case of taking what we are using now and multiplying by 30, or is a calculation made to indicate the amount that would be used in the twentieth year, the fifteenth year, and so forth?

MR. GETTY: It's more complicated than just the straight this year times 30. Unfortunately I would have had this information for the ERCB estimates, Mr. Chairman, but I don't have it right with me. But I can get it for Mr. Taylor and provide it to him. Dr. Mellon, do you have in your mind the board formula?

DR. MELLON: Not the exact formula, Mr. Taylor, but the board attempts to forecast what additional amounts will be used in the province. So they take into account not only what is being used today, but what will be used, say, 10 or 15 years down the road. Those factors are used in determining the so-called 30-year requirement. It's a moving (inaudible)

MR. APPLEBY: Then there's an escalation factor in there, is there?

DR. MELLON: Yes, that's right.

MR. GETTY: Every foreseeable possible need is a general principle to . . . .

MR. TAYLOR: That leads me to the next question I wanted to ask. Both of these questions were asked of me at public meetings.

In connection with the 30-year supply, I was asked: is this based on a large amount of gas being used for industry, or is it being based on a theory that we're not going to use natural gas for industry -- they have to use coal and we'll keep this clean gas for residential use? I couldn't answer it. I told them I would try to find out.

That leads me to this next point. At one time in Alberta when we couldn't sell gas anywhere in Canada or the United States and we had a large surplus, the government at that time persuaded the city of Edmonton, for one, to convert from coal to natural gas. This was argued and one of the very strong advocates against doing that was Dr. Bob Hardy, the engineer, who was then Dean of Engineering. I was inclined to support his view that this is too valuable an asset to be used for industry, that industry should be required to use coal. With this surplus building up again, are we going to be in a similar position where we make commitments to industry for the use of gas simply because we have a large surplus, and later on down the road when our surplus may disappear, then there's a matter of reconverting back to coal or to some other fuel? Do you have a policy on that particular item?

MR. GETTY: About 1972, the board came out with their recommendations to the government on their efficient use of energy resources, and we accepted their recommendations that coal would be used for the generation of electricity in the province. The only exception to that was that we allowed Edmonton Power to continue on with those units which they had already planned for andordered. Other than that, we are still on the policy that the most efficient basis for making our electrical energy will be coal. Now, there will be also some investigation into possible hydro-electric energy, but basically it's going to be from coal. Industry will use, though, in Alberta, natural gas as a feedstock for petrochemicals, but there will be not any large commitment of natural gas for electrical energy. In looking at the board's forecast -- and this will be confirmed in, again I'm sure, June or whenever the report comes out -- you'll see that Alberta's needs are fairly flat actually in future demand for natural gas within the province. However, in talking to the board, even that estimate is very conservative. In other words, they are covering every possible feasible use for natural gas within the province in our 30-year supply.

MR. TAYLOR: The government can certainly control this within Alberta. What control do we have when we let the gas go out of the province, the surplus we export to the U.S.A., or the surplus we export to Quebec and the maritimes?

MR. GETTY: None.

MR. TAYLOR: None. They may use that for industry?

MR. GETTY: It's beyond our jurisdictional control. The end use is ultra vires provincial control

MR. TAYLOR: That could be very harmful to industry in Alberta, couldn't it?

MR. GETTY: Actually I think there is a potential cleanliness about burning gas but . . .

MR. TAYLOR: Isn't there an economic . . .

MR. GETTY: I think we're getting lower cost energy from coal than from natural gas -- I'm sure of it. Natural gas has really gone up in price.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Thank you, Mr. Chairman. Mine is more or less a supplementary to Mr. Taylor's. Recognizing that in 1972 we put forth a program of utilizing other forms of energy than natural gas for the generation of power, I have a direct concern that the Saskatchewan Power Corporation are presently building a pipeline to pipe natural gas from Saddle Lake into Saskatchewan. My concern is whether that is to be used for the heating of homes or for the generation of power.

MR. GETTY: Both. They will use some of it for electrical power. Again we can't control the end use, nor can we really deny other Canadians a resource that is surplus to our needs. We would hope they will have intelligent management of resources as well, and perhaps the federal government can get involved too in planning future energy within Canada. But we cannot control what Saskatchewan Power does with their natural gas, other than deny it to them.

MR. MILLER: I was wondering if any suggestions that this fuel be recognized as a clean fuel that is best for heating rather than the generation of power, that we would limit their supply to the extent that it would just be used for home heating.

MR. GETTY: Well, our Gas Resources Preservation Act would then, I think, be strained beyond its credibility. The control which we have over our natural gas supply and how we can stop people from taking it out of the province under the Gas Resources Preservation Act I think could be challenged if we used it for those kinds of purposes that are beyond our jurisdiction.

MR. CHAIRMAN: Mr. Gogo.

MR. GOGO: I want to ask a question, Mr. Chairman, about the coal policy on royalties, but I see that's in Vote 3 so perhaps I could wait.

MR. CHAIRMAN: Mr. Kidd.

MR. KIDD: Thank you. I guess my question was along the lines of the Member for Spirit River-Fairview, and I think what I heard him say was that he thought that our plans for exporting gas were too supercritical. That's what I thought he said.

MR. NOTLEY: Were which?

MR. KIDD: We're too supercritical in exporting gas. That's my understanding of what you said. Are we being supercritical in our surplus in exporting gas?

MR. GETTY: I hope not, and I'm not sure about the term.

MR. KIDD: The term simply was, sir, that we have a surplus of gas and as I understood -- maybe I'm wrong and I'll let the Member for Spirit River-Fairview again state his views, but I thought the trend of his thoughts were that we had so much gas here that we're being supercritical in our consideration of why we should export it.

MR. GETTY: Or sort of working very hard to export it?

MR. KIDD: Working very hard to maintain the gas in Alberta and not export it, and retain it for our own use. That's what I thought he said.

MR. GETTY: He can speak for himself.

MR. KIDD: Well I just listened to him.

MR. GETTY: Actually, our problem is the management of activity with surpluses. Activity is jobs, and activity is exploration, and exploration results in more reserves. So you have to be careful you don't -- you stop one and you stop finding reserves for the future, and you end up without the supplies you need for the future. So we're trying to manage this activity and surplus over the next few years and I think we can. But we can also, as a result of this, gain some additional access for our agricultural products to the United States, then I'll be pleased.

MR. CHAIRMAN: Mr. Planche.

MR. PLANCHE: Thanks. I wonder if the minister could maybe help me with some thinking I've been doing about . . . The Carter administration is now making a big thing out of replacing gas with coal wherever possible. If we are tending to limit our exports to the U.S. and try to have Canada as a market, and we're having residual oil competition for industry in Ontario, and we're going to perhaps extend our gas sales into the maritimes where there isn't a big industry base, then aren't we going to come into a fantastic seasonal load factor problem that could upset the ability of gas to compete anywhere over the long run and maybe do a great deal of damage to our plants that are geared now for a more consistent load factor than we're having in terms of expansion and so on? It's a fairly complex subject and I don't mean to trouble you. I'm not trying to throw this thing out of kilter, but your remarks that it was outside of our jurisdiction federally to discuss this thing, surely in that context you must be making some kind of a contact in terms of the technology of gas production saying: hey, you know you can't sell everything in January, December, and February, and then nothing in the summer, sort of thing. I'm wondering if you can comment on it, without giving any trouble. The Q & M thing particularly would be seasonal, as I see it.

MR. GETTY: But it's up to them. They work it out. That's their business, to work their markets in an orderly manner so that they aren't buying and stopping, and buying and stopping. They store sometimes in the summer, and then deplete their storage reservoirs in the winter. I look on that as industry doing its job. That's really not our responsibility to hold their hand in that way.

MR. CHAIRMAN: Mr. Horsman.

MR. HORSMAN: I just wanted sort of a supplementary question on this question of use of natural gas for the generation of electrical power. You indicated that Edmonton Power had been given permission to continue with their operation; in addition of course the city of Medicine Hat -- as, I gather, a relatively small operation compared to Edmonton Power -- where, I've heard, electricity is being generated by natural gas. I take it that the same policy applies there, where that type of operation was in existence when the policy came into effect?

MR. GETTY: Yes. But did you question what the other ones are?

MR. HORSMAN: Yes. In addition to that, how many other generation plants do we have where natural gas is presently being used?

MR. GETTY: Dr. Warrack would know, but I don't know of another one. I know Calgary Power at Wabamun were natural gas and converted to coal. They built on the coal so they could as soon as the gas price went beyond the coal economics. I don't know of any other.

MR. HORSMAN: Just to follow up then, the same policy that applies to the city of Edmonton applies to the city of Medicine Hat. Is that correct, for clarification?

MR. GETTY: Yes.

MR. CHAIRMAN: Dr. Paproski.

DR. PAPROSKI: Just one supplementary on that particular question, Mr. Chairman. Is it not true that Edmonton Power was given an extension to use natural gas for their existing plants they are building, but in fact our policy was not that for the future plants?

MR. GETTY: That's right.

DR. PAPROSKI: So it's just the existing . . . Is it one plant, or two plants?

MR. GETTY: Yes, two units. But they had already ordered the units and had the planning all carried out, so we didn't force them to go back and cancel. We said no more, which is why they are going to Genesse now.

DR. PAPROSKI: Right. I just want to be sure I'm clear on that.
Okay, the question I had, Mr. Chairman, to the minister, is: I wonder if the minister could outline what is the special preferential treatment that Alberta-owned companies and industry regarding incentives and profit for natural gas? Could you outline that very briefly? Has that changed recently, or is it the same as with international companies that are drilling in Alberta?

MR. GETTY: The only place where there would be any natural gas incentives would be in the natural gas protection plan administered by Dr. Warrack, where industry would get up to one billion cubic feet protected by the natural gas protection plan. Over that they just pay the going rate.

DR. PAPROSKI: I'm sorry. You misunderstood me, Mr. Minister. I'm really referring to Alberta-owned companies that drill for natural gas, or explore. Do they have any special preferential treatment over large international companies?

MR. GETTY: No.

DR. PAPROSKI: Is there any decision or policy consideration in that regard, considering Alberta-owned companies, smaller companies?

MR. GETTY: No.

MR. CHAIRMAN: Mr. Notley.

MR. NOTLEY: Mr. Chairman. Mr. Getty, just following up from Mr. Planche's question about the move in the States to emphasize coal. I'd just like you to give us some indication, in your mind as minister, of just -- and this is going back to the pipeline again -- how feasible that pipeline in fact is, because I gather that the promoters are having some difficulty in the United States. I've heard it said by some that in fact it won't go ahead. Are we looking at something that has been exaggerated in the public mind? I understand that at the IPAC meeting last week, one of the major utility officials in the United States suggested that they won't need natural gas in the U.S. market until 1987-1988, I believe, 10 years down the road. So I guess it's really -- as opposed to a question to your officials -- a question I put to you as minister: where do we stand in terms of that pipeline now?

MR. GETTY: The pipeline is really something agreed to between the Canadian government and the United States Government. I think, personally, that it will go ahead. You're asking for a judgment. The person who took a shot at it last week was countered the next day by the proponent of the pipeline, Mr. Boyer. There are a lot of people who lost out in the fight for the pipeline who, frankly, are expressing sour grapes, I think, about it and whenever they get a chance are taking a shot at it. That kind of debate, I think, will go on until the finalization of the pipeline financing and the final approval to go ahead. But that's just sort of a normal competitiveness between the companies, I think. I don't think they will have trouble financing it.

MR. NOTLEY: You had indicated in the Legislature several weeks back that there had been a preliminary discussion, but nothing more than that, with the promoters. Was there any suggestion in those discussions that it might make it easier to get risk capital if there was some backstopping by government -- either the federal government or the provincial government -- in the form of not equity capital, but loan guarantees or loan capital?

MR. GETTY: It wasn't a suggestion of backstopping. At some stage, as I recall the conversation, it was that if the Alberta government were to lend money to the company on exactly the same basis -- no preferred basis over anyone else -- it might be an indication of Alberta's confidence. That was all it was. It was quite informal. It wasn't backing up anybody or guaranteeing anything.

MR. NOTLEY: Right. But the suggestion was made that it would then make it easier to complete, if you like, the financial package for the project.

MR. GETTY: Yes, it was sort of the sales job a person might make. For instance, if you did approach a money market and they said: well listen, the biggest pool of money in North America right now appears to be accumulating in Alberta. Are they putting any money into this? Are they lending any money? The argument was that it would be helpful if they were, but it was just so it would be Alberta showing their confidence in the pipeline, a large part of which would go through Alberta. Then there is the other part, I guess. Pipelines have traditionally been very good investments and there is a lot of money to invest.

MR. NOTLEY: Bearing in mind those three things: that there is a lot of money to invest, pipelines have been traditionally a good investment, and the fact that the promoters would see that as being a plus in assembling the rest of the capital -- particularly the risk

capital -- and, also, with a heritage watchdog committee recommendation, where does this proposal sit now?

MR. GETTY: There's no proposal.

MR. NOTLEY: I shouldn't say where does this proposal sit, but where does this proposition sit in terms of Alberta possibly making a debt investment? Is it being assessed by the department? Is it still something that will be in abeyance until there is a formal proposal from the consortium?

MR. GETTY: Well, it's within Mr. Leitch's overall responsibilies. But there is no approach that I know of that has been made. So there is no proposal to assess and, as far as I know, there is no work going on in trying to determine whether it should be. One of the problems is the economics are really not put together until the U.S. get the price of gas established up in Alaska.

MR. CHAIRMAN: Mr. Taylor.

MR. TAYLOR: Yes, there are just three items I'd like to pursue. The first one is: say Pan-Alberta gets their approval to export -- I think you said a billion cubic feet -- to the United States, is there some . . .

MR. GETTY: Approval, Mr. Taylor, from Alberta?

MR. TAYLOR: Yes. Is there some condition set there that at the end of that period, where they build up in order to use this, are we then under some obligation to continue to export? It seems to me that we enter into an arrangement and they build their industries and so on, on the basis of getting so much gas. Then we run into a shortage, can we cut it off? Are we morally bound to continue some of this gas even though it may hurt Canada?

MR. GETTY: I'm not sure about the moral . . . If we give a permit, then I think we're bound to live up to the terms of the permit. However, every export removal permit from our province carries within it the failsafe clause that if Alberta runs short, it can be terminated. So everybody takes an export permit from Alberta with that knowledge. The Pan-Alberta proposal -- and it hasn't been completely explained to the ERCB -- is a supply for six years; and then the option at that point, should it get through our cabinet and down through the National Energy Board, to start taking back a year's supply each year. I don't think, when they only have a six-year contract, that they will count on it for the future. What they really are looking for, I think, is six years' breathing time to get their gas down from the north, start some of this coal conversion, straighten their minds out on nuclear, perhaps even make some technical breakthroughs on solar and wind energy, coal gasification, and put their house in order, if you like. The six years gives them some time.

MR. TAYLOR: One other question. Does the National Energy Board have any jurisdiction inside Alberta, or just when it's crossing the line?

MR. GETTY: To the best of my limited legal knowledge, no they do not.

MR. TAYLOR: So it's the same in every other province. The only place the National Energy Board comes in is if it's crossing from one province to another, or from a province to another country?

MR. GETTY: Yes.

MR. TAYLOR: Then, just one other question, if I can switch to coal, Mr. Chairman. What are the prospects of Alberta supplying a reasonably large volume of coal to Ontario, say, in the next three to five years?

MR. GETTY: Well, the only one that's currently in existence is the contract from Luscar. We have, as you know, worked into that a small amount blended with that from the Drumheller area. But beyond that, there is not any contract I know of presently being negotiated for additional large amounts to Ontario. At some point we're going to hit the limit of unit trains, I imagine. When you look at the full needs of Ontario Hydro for coal, I think you would probably have a continuous train heading to the Lakehead, turning around, and . . . Obviously the country can't operate that way and so there may well have to be a breakthrough in coal slurry pipelining. But the sheer means of moving it will put some limitation. Ontario presently has a royal commission looking at the future use of coal and other forms of energy in their province. They are uneasy about their nuclear commitment; some of them are, I shouldn't make that a blanket statement.

MR. TAYLOR: Where is the blending done and how? Is it done at the Lakehead or . . . ?

MR. GETTY: I think it would be done at the plant, the Ontario Hydro plant.

MR. TAYLOR: So the coal will be shipped directly from say the East Coulee field or the Grande Cache field or the Mountain View field?

MR. GETTY: Yes.

MR. TAYLOR: That's all, thank you.

MR. CHAIRMAN: Mr. Mandeville.

MR. MANDEVILLE: In the southern part of the province where we've got the irrigation down there, during the summer there was a shortage of propane in several of the areas. What is the policy of the Alberta Energy Conservation Board as far as allocating to the independent producers? How do they determine who is going to do the marketing of the gas, or get the permits to market? For example at Chancellor they didn't have any markets for gas so they couldn't -- there was no propane available.

MR. GETTY: The ERCB has some power to restrict exports of propane and make the companies supply local markets. Other than that, I know of no particular process now. It is up to the people in the industry. If they've got propane and someone wants to buy it, they get together and make a deal. Dr. Warrack may have some additional comments on that in Utilities.

MR. CHAIRMAN: Mr. Notley.

MR. NOTLEY: I wonder if we could just move from natural gas and coal to oil sands for a moment. First of all, Mr. Minister, could you give us an updating on where things stand with respect to the Shell proposal and the Imperial Oil proposal and any other proposal, what stage in the various processes these proposals are at? Would you go over them one by one?

MR. CHAIRMAN: Excuse me, Mr. Minister, would that fall under Vote 8, Oil Sands Research?

MR. GETTY: That is really AOSTRA. I think on a general basis we could do it here, under the Minister's Office would be fine, Mr. Chairman.

MR. CHAIRMAN: Do you want to carry on?

MR. GETTY: Sure. There are really three or four proposals that are floating about, other than Syncrude and GCOS present. There is a possibility of GCOS expanding. They presently have the approval to expand from the board for an additional 15,000 barrels a day. They could go ahead as soon as they arrange their financing and get some decision to go ahead.

MR. NOTLEY: Could I ask you to give the figures, the projected cost as well or capital investments of these projects too, Mr. Minister?

MR. GETTY: GCOS have two pieces of capital investment they would have to do. One is the general upgrading of their plant, their present plant, over the next six years, maybe as high as 10 years. That would be to spend about $210 million and that is just the cost of staying in business. Then they have this 15,000 barrel a day expansion that could cost roughly another $160 million to $170 million.

Syncrude have been rumored to be considering expansion. However, they are working very hard on getting the current plant built and they haven't wanted to deflect the interests of their staff to any great degree to expansion. I understand that they would be thinking of going from possibly 125,000 barrels a day to as high as 200,000 barrels a day. Perhaps you could ask the question of Mr. Chambers in further detail, although it may be that this is something they want to keep within their company for the time being. The cost of that I am not sure, $600 million to $800 million, is that a rough figure?

MR. CHAMBERS: It's probably fairly ballpark, Don, but I don't think it has really got to that stage where we have done any final . . .

MR. GETTY: It's too speculative I guess at this stage.

MR. CHAMBERS: They would also like to see some operating experience from the existing . .

MR. GETTY: Yes. They'd like to see the present plant run for a while.

The next one is Shell who are talking of a roughly $3.5 billion to $4 billion plant. Now Shell would have to make an application to the ERCB and get it approved before the Executive Council. In the meantime, they are trying to solve as many other problems as possible. They are trying to establish the tax and other commercial terms. However, we've told them, though we might talk in general principles with them, we really need an ERCB approval before we are in a position to get into the details of royalties.

Now that is the oil sands plant as we know them in the Fort McMurray area. The other one is the Cold Lake area which is Imperial. Again they are talking about roughly $4

billion and that is for an in situ development in Cold Lake. I think you are all familiar with that. They have made an application to the ERCB. It was deficient, and they now need to make up the deficiencies and there would be a hearing. We would have to have a recommendation from the board to deal with that. They too, like Shell, are trying to get all the other matters as much as possible cleared up. They have met with the people in the area. They are meeting with the federal government about tax matters and they would like to understand the various principles that would be involved in our royalties.

I think that in terms of oil sands, Cold Lake style or Fort McMurray style, those are the four proposals. There are the heavy oil plants, the Lloydminster types that you have heard talked about. Husky I think are presently at a bit of a standstill with the Saskatchewan government. As far as their discussions with us, we have been willing to make sure that they aren't asking for something unreasonable from Alberta. If they aren't, we are prepared to support a Husky development. Pacific Petroleums is the same way. We want to make sure that it is not an unreasonable request or whatever they need from Alberta. Pacific Petroleums', though, being in Alberta as far as we know with any -- I think it's public that they will not build anywhere but in Alberta, would have to go through the ERCB process as well.

MR. NOTLEY: And the capital of these two latter: Husky and Pacific Petroleums?

MR. GETTY: I am really guessing on these, but I would say they're somewhere around the $600 million.

MR. NOTLEY: Six hundred million dollars each?

MR. GETTY: Yes.

MR. NOTLEY: Could I ask you then -- I realize in the case of the major projects , Shell and Cold Lake, that the cabinet is not in a position to make any decision until the ERCB reports, but I am sure there would have to be some sort of assessment of the long term in any event over the next several years. I am wondering whether you've arrived in your own mind as to whether it would be possible to see all these projects go ahead. In other words, the expansion of the Great Canadian Oil Sands, the smaller projects, Husky and Pacific Petroleums, Cold Lake and Shell, or whether there is at this stage a sort of order of priority in order to make sure that we don't get such a pressure on the Alberta economy that it costs everybody everywhere more to do anything than it should?

MR. GETTY: In terms of it being needed, I think in the mid 1980s they will all be needed by other Canadians, not in Alberta, but by other Canadians. In terms of the priorities, the only one that I feel has got a priority right now because they have an approval is the

GCOS plant. I don't even know whether Shell will get an approval from the ERCB or whether Imperial will, but I would say that Imperial are already into the ERCB, Shell is not yet. Therefore, Imperial may be ahead.

Also Imperial is a different demand on the services. It is a lot of drilling, while as you know Shell would be a mining operation. I think the Imperial one involves some 10,000 wells drilled, and then an upgrading plant. So it is very difficult for me to guess as to whether they are going to get approval or which one will come first.

MR. NOTLEY: And at this stage . . .

MR. GETTY: They might stack them. They could stack. They could be going on at once.

MR. NOTLEY: Could I just pursue that for a moment. Do you see that as being possible within the present economy of the province, to have all these major projects going ahead at once as well as an Alberta section of the Alcan pipeline?

MR. GETTY: Well, it's possible.

MR. NOTLEY: But not preferable from your point of view?

MR. GETTY: Not preferable because you would rather spread them out and companies will spread themselves out. If they can't get the employees, they will delay. There is a natural sorting that will go on amongst themselves, probably a better management sometimes than the government trying to superimpose it. People will only arrive at the door with $4 billion every now and then, and if you tell them to go away with it, they are liable to go away and spend it somewhere else.

MR. NOTLEY: Just one other question. Has the government ruled out any further equity participation in any of the major projects or is that something which will be subject to negotiation after the ERCB makes the appropriate recommendations? Along with that, because the equity participation is probably smaller than the infrastructure cost, would there be any policy at this stage or preliminary assessment of what share if any the province should assume of major infrastructure costs in these areas?

MR. GETTY: I haven't, no.

MR. CHAIRMAN: Mr. Gogo.

MR. GOGO: Yes, Mr. Chairman, I wonder if the minister would try to 'guesstimate' that if the GCOS expansion takes place, Syncrude is in full production for a time, then they expand, and Imperial goes through and then Shell goes through, by 1985 or so, what would you anticipate that production daily would be -- 800,000 barrels?

MR. GETTY: I guess it's about 500,000 to 600,000 barrels a day.

MR. CHAIRMAN: Mr. Kidd.

MR. KIDD: Again, number one I think we are pursuing a subject in great detail and we should be moving along on these estimates, and very quickly. However, I think some of the things again that have been brought up tonight I would just make one comment on. Again, the hon. Member for Spirit River-Fairview, I think he needs a little education in some things. And I think he brought up some pretty important points. What he has brought up are interesting things. That is this. We're a trading nation. We have traded with Japan, we're trading coal with them. Our lifeblood is trading, and we're going to trade again. I see nothing wrong with being involved in trading to the extent where they have some equity position in some of the things we are doing, in these great projects we are going to be involved in, and the great investment we will require to develop our resources

-- and by golly we are going to need them. So let's not be silly about it, let's go ahead. Thank you.

MR. CHAIRMAN: Okay, are you satisfied with questions on Vote 1?

MR. TAYLOR: Mr. Chairman, I'm very satisfied, but there is just one other thing I would like to hear the minister on. A few years ago, I think it was the hon. Mr. Yurko, in answering a question in the House, said that no consideration whatsoever would ever be given to nuclear use in trying to get oil from the oil sands. I was wondering if there has been any application for nuclear explosions and if the board has looked into the possibility. Is this a bet that we are simply throwing out before we really realize whether it will do any damage or if it has merit?

MR. GETTY: I don't think there is any position taken closing the door on possible nuclear, although nobody has made a proposal that I know of. Dr. Bowman is here, Chairman of the Alberta Oil Sands Technology and Research Authority and perhaps he could just review what was an application to consider, I think the implications of -- not actually a nuclear proposal but whether we could even take it and study how you might go about doing one. Dr. Bowman, would you want to respond to Mr. Taylor on that?

DR. BOWMAN: The application we had was for an environmental study of the impact of an atomic bomb in the tar sands. Of course, the applicant was hoping to take this to the next step which at some point would be the setting off of a device. We took a look at this and actually put a fair amount of assessment into it. We came to the conclusion that an atomic bomb is a very poor way of putting heat into the tar sand deposit. People think about an atomic bomb as having a lot of energy. It has a lot of energy for a very short period of time and then it is over, and a very little bit of heat. It is just not a very good idea. We rejected it on that basis.

MR. TAYLOR: Thank you.

MR. CHAIRMAN: Anything else on Vote 1?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: We move to Vote 2.

MR. HORSMAN: Just one question. I thought we were going to go through them individually.

MR. CHAIRMAN: Did you have something else on Vote 1?

MR. HORSMAN: Yes, I did. Under number 1.3.5 on page 123, Research Co-ordination, I just had a question as to if that's where the recent research funds were found to participate with the city of Medicine Hat in PanCanadian coal gasification agreement. If so, could I get a brief outline of what will be taking place with that agreement?

MR. GETTY: Mr. Horsman, I would like Dr. Mellon to respond to you on that because he has been in the last final throes of working out the details of the coal gasification project in Medicine Hat.

DR. MELLON: The contract was signed late last week and it is a contract between our department and a consortium composed of PanCanadian Petroleum, the city of Medicine Hat ant Fluor Canada Ltd., which is the operator for the group. The study really involves assessing the feasibility of using underground mined coal in the Medicine Hat .area to provide low BTU gas for possible petrochemical development down the road. That is the basic objective.

It doesn't involve the development of any new technology. It simply takes what is available in the way of existing mining, underground mining technology, coal gasification; it puts it together in what would appear to be the most logical form at this time using, existing costs to see how competitive this form of petrochemical feedstock would be with natural gas. The costs, Mr. Horsman, are not to exceed $200,000, of which our department is putting up $100,000 and the other three participants the other $100,000. Does this give you a general outline of what is going on?

MR. HORSMAN: Yes. I'll just follow up on that with a brief question. I think you really answered one of my questions with your answer and that is that this project is designed to utilize this natural resource for the purpose of petrochemical development and not for the use of this gas for any other, such as domestic heating or export or that type of thing we our doing with our natural gas at the present time.

DR. MELLON: No. I think they will come out with some data that will permit us to compare costs of this synthetic gas with alternative uses, but the main interest, as I understand it, is to look at the potential for petrochemical feedstock in the general Medicine Hat area. Again, it is not a study that involves developing any new hardware or any new technology. It is a paper study, basically a technical/economic feasibility study.

MR. HORSMAN: I see. So basically you will be working as you say with paper rather than actually any activity on site and that type of . . . ?

DR. MELLON: Exactly. The coal company that is involved, which has a separate contract with the PanCanadian, is Luscar, and they are going to provide the costs associated with the actual coal mining. Fluor Canada Ltd., the operator, will then take these costs and incorporate them into the overall technical/economic feasibility study.

MR. HORSMAN: Am I correct that this type of petrochemical development would, if found to be feasible, take place at site? It would have to because of the difficulty in moving this type of product. Is that correct?

DR. MELLON: Basically that is correct, Mr. Horsman. The cost of moving low BTU gas becomes prohibitive if you want to take it any distance. So you would have to pretty well utilize it within a few miles of the site of the mine or the actual gasification facility.

MR. TAYLOR: Is storage for any length of time also a problem?

DR. MELLON: Not to my knowledge, Mr. Taylor. It will be interesting of course to see the result and compare it with what we think will be possible alternative feedstock in five years' time, or thereabouts.

MR. PLANCHE: What do we get for our $100,000?

DR. MELLON: Well, I think, Mr. Planche, we will get a report from Fluor Canada that will give us their assessment of the technical and economic feasibility of going this route using coal as an alternative feedstock.

MR. PLANCHE: That backs us into a private study?

DR. MELLON: I guess I don't understand your question.

MR. PLANCHE: I mean it will be a study that will be private to those who are involved in it -- you will have access?

DR. MELLON: Yes, we will have access.

MR. PLANCHE: Then it won't be a public?

DR. MELLON: Not initially, but we have looked at the terms and conditions under which the results will be made available to other interested parties. I think it is only fair though that the participants would want some period of time initially to look at the results and see if they want to do anything with them before they are made available.

MR. PLANCHE: Is this a departure from common policy, Mr. Minister, to get involved in these things in other than AOSTRA?

MR. GETTY: No, it isn't. AOSTRA would only be in the heavy oil, and we amended the act to allow them into the heavy oil area of Lloydminster, and prior to that just in the oil sands, Cold Lake style, Peace River and Fort McMurray type. It is not a departure, no, and we have these research funds. You may or may not recall that the conservation board in giving an approval to a couple of industrial development permits down in the southern Alberta area, and I can't just pick which ones out of my mind, put the condition on that the companies had to show cause in the next 10 to 15 years as to why they shouldn't convert to coal as a feedstock from natural gas.

MR. PLANCHE: I'm not concerned with the merits of being involved in this study other than the philosophy of being involved.

MR. GETTY: Oh, you mean carrying out the research with a company?

MR. PLANCHE: Yes, I mean would this information not be available to us in any event as part of the permit approval?

MR. GETTY: Well, I guess we are being a catalyst in this case, and sometimes it is necessary.

MR. TAYLOR: Is this a follow-up on Forestburg?

DR. MELLON: No, Forestburg was an actual field, a modest pilot planned experiment to test in situ or underground coal gasification, Mr. Taylor.

MR. TAYLOR: This is separate entirely?

DR. MELLON: Entirely.

MR. CHAIRMAN: Mr. Horsman.

MR. HORSMAN: I just wondered if there was another project like this in the province. You mentioned the Forestburg situation. Could you refresh my memory on that?

DR. MELLON: The Forestburg study was carried out by the Alberta Research Council. We put up roughly one-half or slightly more than one-half of the funds, I can't remember the

exact cost breakdown. The B.C. Hydro and Sask Power also participated as did several private companies. They put in some money. Council provided the staff and some of the field facilities, and they sunk a series of shallow wells in the Forestburg area adjacent to a present coal mine. They attempted to ignite the coal seam, which is at a depth of roughly 60 feet, using I guess surface ignition techniques to see if they could generate low BTU gas by in situ combustion of coal. They had some very modest success, but it was very much an initial experiment. It was a field trial which this Medicine Hat definitely is not.

MR. CHAIRMAN: Mr. Gogo.

MR. GOGO: Dr. Mellon, in your judgment would this study have taken place without the participation of the department financially?

DR. MELLON: I couldn't say. My judgment is the participants probably would have approached the federal government for funding and my guess is, Mr. Gogo, they probably would have got it through that source. I felt, however, in part because of the activity that the minister mentioned in connection with the board's earlier applications, that we should get some information in this area, get some experience, because down the road I think we'll be looking much more seriously at this type of development. So I prefer that our department put up the other half of the funds rather than the federal government, which gives us access to information.

MR. GOGO: I think that's a very good policy, Mr. Minister, when you can operate in co-operation with the private sector like that.

MR. CHAIRMAN: Agreed on this?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: In the way of explanation to Mr. Horsman on the comment he made, I checked with the minister as to whether he wanted to go through line by line and he preferred to just go through each vote, and that is the reason for this approach. Vote 2?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Vote 3?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Mr. Gogo.

MR. GOGO: On the coal policy (inaudible), I just want to ask how the new formula for the royalties is working, based on that net return and if, in your opinion, it put any of the coal producing companies into difficulties, and is there a minimum royalty they pay regardless of the net profit?

MR. GETTY: There is a minimum royalty of 5 per cent unless it's waived as a result of an application proving hardship. The coal royalty is not putting anybody into a difficult position as far as I can presently see. We are assessing the Coleman Collieries situation now, as I mentioned in the House.

The royalty is set in a manner that when a company is making very little money, it pays a little amount of royalty. If they make a lot of money, they pay a substantial amount of royalty. That is the principle of the formula, and therefore it's flexible and reacts to the company's economic situation.

MR. GOGO: There's no way, Mr. Minister, they could organize the company for example where it would bear an unduly large share of the cost of affiliated companies to reduce the net profit. That's calculated in the . . .

MR. GETTY: Right, yes.

MR. MILLER: Supplementary to that, Mr. Chairman. I believe under the former administration of (inaudible) there is a royalty of 10 cents a ton. I would assume that it is substantially much more now and is there any royalty that is at the level of 10 cents a ton?

MR. GETTY: No. There is not. It is all substantially above it. In another part of the budget you will see the estimated revenues this year and I was looking at it in the budget speech. I think the revenues for coal have come from $800,000 under the old 10 cents a ton to estimated this year roughly $15 million, I believe the figure is. So they're dramatically up, without harming a company's economics.

MR. TAYLOR: I think the policy, Mr. Chairman, Mr. Minister, of having it flexible is a very excellent one because -- take the mine at East Coulee where the market has not been very high, to have increased the royalties substantially there would have meant closing the mine and shoving 60 or 70 men out of work. So I think the government has shown a very keen sense of responsibility in making this a progressive one based on what coal is being produced.

MR. CHAIRMAN: Mr. Thompson.

MR. THOMPSON: I'm just the opposite. Don't you believe that this policy more or less tends to have a company look for a long term and maybe a low cost contract because if the royalties are tied into how much money they make, basically all they are looking at then is they can make money and on a long-term basis they are more apt to stay in business?

MR. GETTY: There are no disincentives to making lots of money in it.

MR. THOMPSON: There isn't?

MR. GETTY: No.

MR. THOMPSON: But there's no real incentive to get every nickel you can out of the mine either.

MR. GETTY: Yes, I think so. Sure, they make more money. Every incremental dollar more they make, they make more than -- the royalty as a matter of fact finally stops, levels out.

MR. THOMPSON: There is a maximum?

MR. GETTY: Yes, there is a maximum.

MR. TAYLOR: You don't try to get all the gold eggs at once.

MR. CHAIRMAN: Anyone else on Vote 3?

MR. NOTLEY: Mr. Chairman, to the best of the department's ability to assess a situation, what is the outlook in the next five years for the coal market, particularly the metallurgical coal? Given to understand we are entering a period of softer markets, have we done any long-range forecasting in terms of the market situation, particularly in Japan?

MR. GETTY: No. Our estimate is that it is going to be depending on the way the world comes out of the current business cycle it's in: when a demand for steel is greater, the demand for metallurgical coal is greater. We just can't give you an accurate guess on when that will be.

MR. NOTLEY: In terms of other worldwide supplies, have there been any additional discoveries of coal elsewhere in the world that would tend to change the market situation. I understand the Japanese for example have been scouting around the world and, since their recovery has taken place, have put a great deal of emphasis on -- through trade arrangements and so on -- looking at potential supplies of resources.

MR. GETTY: Yes, they are. They are looking for a variety of suppliers to make sure they don't become captive to any one source, which is good business on their part. However, they are also good enough businessmen to know that if they take advantage of you while it is a buyer's market, they'll meet you coming the other way, when it becomes a seller's market. So I think they are good enough businessmen that they want to maintain a variety of stable and good supplies for their future.

MR. CHAIRMAN: Agreed on 3?

MR. HORSMAN: I have a question about procedure. You mentioned at the beginning that the Associate Minister would deal with the . . .

MR. CHAIRMAN: We're going past 4 and 5.

MR. HORSMAN: We're going past 4 and 5 then are we?

MR. GETTY: We're doing 4 but we are going past 5 and 7, Mr. Horsman, and they are coming at the end of Energy.

MR. PAPROSKI: A comment, Mr. Chairman, regarding coal. How does this policy tie in with land reclamation? Is it in here? Do you have any comments on that?

MR. GETTY: Well, just the general policy that the land must be returned to as good or better state.

MR. PAPROSKI: That's a responsibility of the company, of course.

MR. GETTY: The company, and it's administered by the Department of the Environment, and Energy and Natural Resources.

MR. PAPROSKI: That's in place now with every development?

MR. GETTY: To the best of our ability, yes.

MR. CHAIRMAN: Okay, Vote 4?

MR. APPLEBY: Mr. Chairman, Mr. Minister, last year we had an appropriation for updating the forestry inventory throughout the province. I wonder if we could have some information on how we are getting along in that?

MR. CHAIRMAN: Yes, that's 4.4, phase 3, inventory project. I'd like either Mr. Steele or our deputy minister of forestry, Mr. McDougall, to give you a quick status report on that.

MR. McDOUGALL: It's proceeding very well, Mr. Appleby. There have been about 3,000 square miles under way at various stages. You appreciate there is photography and there is mapping and field work to co-ordinate and check out the mapping results. There is a number of stages and it is proceeding at various speeds at different stages. But it beyond now the pilot scale trial and we still believe we will be able to complete the province at these funding levels by 1984.

MR. APPLEBY: With the appropriation that was allowed last year?

MR. McDOUGALL: No, at the current level, adjusted for dollar changes.

MR. APPLEBY: Oh, yes.

MR. STEELE: It was initiated last year at a lower level, and the additional funds were provided to us for this year and until 1984.

MR. APPLEBY: Oh, I see.

MR. STEELE: We received another $500,000 this coming year.

MR. APPLEBY: I notice, Mr. Minister, that when you started your remarks, you mentioned that in the area of forestry, there was some possible revision of the royalty structure. Where do we stand on that?

MR. GETTY: As you know, we have had a frozen royalty, when industry was in a rough position, and it has been the government's desire come up with a royalty formula which, rather than having to be frozen and imposing hardships at certain times, is somewhat along the lines -- of the principles in any event -- of the coal royalty system. Not necessarily like the coal royalty itself, but the coal royalty principles, that would be flexible enough to adjust to good and bad times. As you know, in our timber industry they fluctuate quite rapidly, depending on world markets and the market for housing in United States and so on. So this work that has been going on on a timber royalty recommendation, it hasn't been completed yet, but I'd anticipate that sometime within the next month or so it will get to cabinet committee and government review.

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MR. APPLEBY: One more question if I may, Mr. Chairman. The program for reforestation and reclamation: there is a fairly sizeable appropriation now. As I understand it, forest management areas and the quota operators have the option of doing their own reforestation or paying a fee, and that has been updated recently, hasn't it? The amount . . .

MR. STEELE: Seven dollars.

MR. GETTY: From $5 to $7.

MR. APPLEBY: Has there been any comparison made as to the efficiency of these two methods? Is there any thought of having it a compulsory fee and the department taking over, especially on the smaller operations?

MR. GETTY: Well, most of the small ones of course opt to pay the government. The large ones are able to plan their own reforestation operation with nurseries. I haven't noticed any change. Has there been any industry change on that option?

MR. McDOUGALL: There is an increasing trend for operators to opt to have the province do it and pay the $7. There has been an increase in trend that way. The larger companies still prefer to do their own because they have efficiencies of scale and they can utilize a lot of equipment that they would use logging in their normal operations.

MR. APPLEBY: Some of the larger management areas have been at it quite a while now. How is this reforestation working out?

MR. McDOUGALL: North Western Pulp and Power Ltd. has the longest record, and about 80 per cent of their cutover areas are successfully regenerated within 10 years. The remaining 20 per cent take longer, but no areas have been written off. That is to say there are some areas that North Western has planted as many as three times. The obligation of the company continues. Now there is undoubtedly going to be a need to write off occasional small areas, but to date we haven't -- it is a very, very small percentage of the cut area.

MR. APPLEBY: It's about 80 per cent efficiency estimated?

MR. McDOUGALL: Within 10 years.

MR. CHAIRMAN: Mr. Kidd.

MR. KIDD: A very quick one and I guess it is related to some of my constituents. The experience on clear cutting -- could I express it to Mr. McDougall? Could you give me a one-sentence answer on the experience in clear cutting with relationship to the grasses that come back and your total experience in reforestation?

MR. McDOUGALL: I don't think I could do it in one sentence. Very briefly, breeding is normally improved and we have done a study in the particular circumstance I believe you are referring to. We had the grasses analysed at the University and they are more palatable than the grasses that were there before logging, and the yield is much higher.

MR. GOGO: Mr. McDougall, I wonder if you could, under forestry, indicate whether the losses due to fire are fairly consistent, and roughly what they are each year, and what

you do for that $ 300,000 in fire prevention. What do you do in fire prevention in forestry?

MR. McDOUGALL: Fire prevention is mainly -- you probably have seen television advertisements to campers for example prior to holiday weekends, to be careful with fire; the poster program. It is a general public prevention program. In the early part of your question, the fire losses are very inconsistent, ranging from over a million acres in 1968 to last year's figure of only 25,000 acres, so they vary greatly from year to year. The long-term average depends on how many years you throw in your average. But if you take the last 10 years, including 1968, it is about 160,000 acres a year. If you exclude 1968 it comes down to an annual average loss of about 50,000 acres a year.

MR. GOGO: Was that film, The Vital Two-Thirds, or whatever it was, was that produced by your department?

MR. McDOUGALL: Yes.

MR. GOGO: That was an excellent film.

MR. TAYLOR: I wondered if the minister or the deputy minister could outline the major points of reforestation and reclamation. How much monitoring is done on companies like North Western Pulp and Power and is an allegation that I heard over the radio one morning that within 15 or 20 years there are not going to be any trees left at all, and secondly, is your program based on making sure we have trees every year over the next 100 years or 200 years? What isthe basis of your reforestation program?

MR. McDOUGALL: The obligation is that every acre cut is to be reforested. That's policed under the timber management regulations in as much as the seventh year after the cutting, the company is required to submit a survey showing the level of stocking of new growth on the cutover lands. Those survey results are checked by the department. We check approximately one-third of all reports that are submitted. The province maintains computer cut records of every cut block in the province, so that when each block is approved for cutting it is entered in the computer and then listed for recall for survey in seven years. The reason for the seven years is that it is only counted as stock when the new growth is three years old because of the mortality rate in one and two year old seedlings. We consider that a tree has to be on site for three years before we consider it established. So of the seven years, three years is allowed for growth, so there are really four years there in which they can get the growth established.

MR. TAYLOR: How many years before they can once again be harvested?

MR. McDOUGALL: Approximately 80 years depending on site and climate.

MR. NOTLEY: What's the policy with respect to green areas and yellow areas. Perhaps to illustrate what I mean, I will just bring to your attention a problem in my own constituency. A number of small operators had skidders and they were working in the green area last year. That was modified somewhat and they were then moved into the yellow area, and that is theoretically fine except that when you get into the yellow area you are also getting into timber which local farmers see as being valid timber for their own use and not timber which will be cut and sold to a firm like Canfor or what have you. I'm

wondering just where that matter sits now; whether the government is looking to any changes in the policies with respect to green areas and yellow areas.

MR. GETTY: I'm not familiar with the case.

MR. McDOUGALL: As a result of the meetings that were held -- Mr. Notley, I believe you attended at Hines Creek -- the yellow zones sales, the bulk of them were cancelled as a result of that public input. Those stands that were cancelled from commercial sale would be made available to the local residents on the local timber permit program.

MR. NOTLEY: Do you see a need to make modifications in the approach? I raise this because we had sort of the classic problem of two groups of people in one community. One group were young fellows that had got skidders, were making money doing useful work over the winter. But because they were working in the yellow area, they were also taking timber which local people quite properly felt was timber which they would have a right to use. So when the matter was reconciled -- that's fine, the yellow area will be kept for local use, but the skidder operators then found they had no timber. So there was the problem between the community on one hand and groups of people within the community. I pose that -- I know you're reviewing forestry policy, but I think this very vividly brought to my mind the question of what role the very small operator will have in future forestry policy in this province.

MR. McDOUGALL: I can only answer the question I guess by stating there are timber reserves set aside in the green area as well. The problem with them is they are more remote and more difficult for the small operator, for example, to develop roads into. So there is more demand of course for the more accessible timber. There has been provision made back in the green area for the small operators. In addition to that I think by cancelling those sales we did indicate that we're prepared to try to balance the accessible timber supply as well between the two competing demands in the community.

MR. NOTLEY: Can I pursue that one step further? In the area in question we find that Proctor & Gamble has a provisional reserve of approximately 8,000 square miles. Now this is almost 100 miles north of their plant in Grande Prairie. There is no question about the reserve south of Grande Prairie being necessary for the plant. To my knowledge P&G is not using their provisional reserve. My question really is: to what extent are we struck with these lease agreements? Because it would strike me that the most sensible thing to do would be to push back the boundaries of the larger leases for the big companies that have the money to put roads in when they need it, and make more timber available to the smaller operators in the areas where it is relatively accessible. It isn't, you know, practical to say to a skidder operator, you've got timber in the green area but it's 50 miles and you're going to have to build a road to get in there, because you know that's just a totally impossible proposition. On the other hand, to a large concern like P & G, when the time comes that they need that pulp they can put a road in. My question really is: to what extent can we modify these lease boundaries to make it possible for the legitimate, smaller operators to get a piece of the action?

MR. GETTY: That's a legal problem in a way. We've made an agreement; we're just like anyone else, we should live up to it.

MR. NOTLEY: This is a provisional reserves though that I'm talking about, Don. My question I guess really would come back: do we have any latitude in those boundaries?

MR. McDOUGALL: There is some latitude to make minor adjustments to these boundaries. The timber I mentioned being available further back in though is not extremely inaccessible as you describe. It's not 50 miles; it's more like about 25 and it is along a (inaudible).

MR. NOTLEY: I used that as a hypothetical example. But I'm really interested in the policy. I know the situation in this area, and I used that as an example. One could, I suppose, look at North Western Pulp & Power reserve as well. The question is whether we do have some latitude in order to modify the boundaries, particularly where we're talking about a provisional reserve that isn't being used.

MR. McDOUGALL: The boundary modification latitude is minor; although, until such time as Proctor & Gamble are operating in the provisional reserve, we have the right to issue short-term permits in there for up to 80 per cent of the total logs cut. At this time, there is really no shortage of timber for small operators in the green area even fairly close.

MR. APPLEBY: Following up along that: after the inventory is complete would it be possible there might be some adjustment in these allowable reserves that are being held by the companies?

MR. McDOUGALL: The Proctor & Gamble agreement is an area agreement so that presumably if this inventory showed more or less timber than the present inventory shows, they would gain or lose themselves because they have area rights under the 1968 contract. It's not a volume agreement like wood is.

MR. APPLEBY: Just a follow-up on what Grant was asking here: I know you say sales were cancelled in a certain area because of this conflict between the skidder operator and the local timber demand. You have set an allowable harvest for that area, I presume. Right?

MR. McDOUGALL: This is yellow zone timber so we don't have a sustainable cut. In other words, the policy in the yellow zone is if the land is agriculturally potential, when the timber is insured it's removed and the land then would be reverted or converted over to agricultural use. So we don't have a control cut in the yellow area the same as we do back in the green area.

MR. APPLEBY: What I was getting at is once these sales were cancelled, was this timber all picked up by the demand for local timber requirements?

MR. McDOUGALL: No, it's going to be set aside and scheduled out over a long period of time for local use, I think as Mr. Notley is recommending it should be.

MR. TAYLOR: Are there any provisions of the Proctor & Gamble original agreement that you're now finding very difficult to live with; or is that a fair question?

MR. GETTY: We're negotiating one right now on a legal interpretation. Two lawyers -- ours and theirs -- are working on our obligations under environmental payments for putting in environmental equipment, as to whether we have fulfilled our obligation or whether we have to continue to pay money for their environmental equipment. It could well go to court.

MR. CHAIRMAN: Any more on 4?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Agreed on Vote 6?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Vote 8?

MR. PLANCHE: Mr. Chairman, on Vote 8 if I may, I'm wondering if AOSTRA is taking any kind of position in terms of encouraging purchasing from Alberta manufacturers for the projects they're involved in.

MR. GETTY: It's a very strong postion. Dr. Bowman, would you respond to that?

DR. BOWMAN: Well we have a clause in our contracts with the companies that they have to buy here wherever possible. We're aiming for something over 90 per cent purchasing inside Canada, and the bulk of this will be in the province. Some of the initial figures we had were below that, mainly on some of the large projects where we had to purchase one or two major pieces of equipment that couldn't be acquired here. But from that time on substantially all the expenditures are within the province or within Canada.

MR. PLANCHE: Is that going to be monitored on an ongoing basis?

DR. BOWMAN: Yes, we have a man in each of the company offices and this is one of his jobs, to monitor this on a daily basis. We've been following this very closely.
There is sort of a limit to what you can do if you can't buy in the province. We push these companies a lot further than they would like to be pushed in these areas. But we're trying to take a reasonable approach here. But we're not trying to obstruct firms from carrying out what is making a good technical judgment. I think we're pushing to the . . .

MR. PLANCHE: What kind of agency will be set up for the manufacturer to appeal if he feels he has been overlooked? What kind of a way is he going to handle that -- how will he handle that? Purchasing will be done by the operating company on their purchase order or stationery and then some disgruntled manufacturer who is either overlooked or for whatever reason had his product -- misjudged or wants to write to -- some kind of a monitor?

DR. BOWMAN: I think they should come in and talk to me. We can ask to have companies put on the bid list; we've done that, but we have to know about it. I've had quite a number of people approach me and I think that's the fastest way of doing it. Now he can work with the company to the extent that it's possible. That is what most of them do at the start. Then if they feel they are not getting fair treatment they come and see us.

MR. PLANCHE: I'd just like to say I don't have any reason to ask the question in terms of -- I haven't had any complaints or there has been no indication that that isn't so. But the monitoring is a tricky part and as the thing develops, there is always someone who wants to know how it is being handled and I just wanted to know what recourse they had.

DR. BOWMAN: Well, if they have problems, come and see me personally and I will help them.

MR. PLANCHE: I have to also ask, if I may, what are we getting for this $1,200 for the MLA thing?

DR. BOWMAN: Well, it's worth every penny of it.

AN HON. MEMBER: Thanks.

MR. HORSMAN: A question on this -- I just wanted to be clear that most of the funds come from the Alberta heritage savings trust fund for AOSTRA and this is really the operational part that comes through the regular budget. That's correct, is it not?

DR. BOWMAN: Right.

MR. CHAIRMAN: Agreed on Vote 8?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Agreed on 9?

MR. CLARK: Mr. Chairman, just not quite so quickly as far as 9 is concerned.

AN HON. MEMBER: There's a fresh voice.

MR. CLARK: I'm afraid you were so busy applauding that vote for the MLA in the last section, you missed me going past!

Seriously, Mr. Chairman, for some reason we didn't get the object of expenditure breakdown for the Petroleum Marketing Commission. Could we get that? The number of staff -- as I recall last year we had the entertainment portion on the wrong line and they were going to spend $100,000 on entertainment.

MR. GETTY: The supplementary paper we put out. That's right.

MR. MINION: Yes, I have them here, Mr. Chairman, reflecting last year's . . .

MR. CLARK: Good, if we could just have a look at them.

MR. NOTLEY: How much are we spending on entertainment this year?

MR. MINION: Last year's?

MR. GETTY: They had a little debate over some issue last year.

MR. CLARK: Right, and we don't have the same information now to have the debate.

MR. MINION: This is just the simple breakdown in keeping the (inaudible) which applies to more than government departments.

MR. GETTY: Actually the only appreciable difference in the Marketing Commission's budget this year is a change in policy really of the government services to charge out computer services, which accounts for the 15.9 per cent increase or the majority of it. It was handled exactly the same as last year. You can see in the bottom of the sheet that is handed out. It would probably be about a 5 to 6 per cent increase.

MR. CLARK: Mr. Chairman, I wonder if we could get a list of the consultants that were used in '77-78, Mr. Minister, and the projects.

MR. GETTY: A list of . . .

MR. CLARK: A list of the consultants for the $98,000 and the names. Oh, I'm sorry, the actual -- 22? And also, could we get the number of employees that you've got on staff last year, and how many you project for this year, Mr. Minister?

MR. GETTY: There's no change. On page 139 it gives 51.

MR. CLARK: Oh, it does; very good.

MR. GETTY: But you'd like the names of the consultants?

MR. CLARK: Yes, and the project; the purpose for the contract.

MR. MINION: Do you want me to answer that now?

MR. GETTY: Can you, Wayne?

MR. MINION: Yes, I can answer the question now. We have two forms of consultants. We do not in the commission have personnel officers. We hire A. W. Fraser & Associates here in Edmonton. When we hire staff they do our advertising for us, they test our personnel, et cetera. During the last year we had two major technical studies; both of them carried out by Hydrocarb Consultants.

MR. CLARK: Who?

MR. MINION: Hydrocarb Consultants. One of them had to do with a pricing formula which the commission uses to determine the relative prices for crudes. That is the amount by which you adjust the price of crude for gravity and the amount by which you adjust the price of crude for sulfur.

The second major study was one that we carried out to examine the potential for markets for heavy crude in eastern Canada. That study is finished; it was finished in March. I forget the exact figure but it was in the order of $50,000.

MR. CLARK: How much to A. W. Fraser & Associates?

MR. MINION: I don't remember the exact figure. I probably have it in here -- $18,000, something like that.

MR. CLARK: Can I continue, Mr. Chairman? Mr. Minion, could you give us the highlights of the heavy crude prospects to eastern Canada?

MR. MINION: Yes. Do you want me to proceed with that question?

MR. GETTY: I'm just trying to recall if I read it myself yet.

MR. MINION: It had two basic . . .

MR. GETTY: Wayne, hold it. I can't even remember if I read it myself. Bob, I think it's on my desk. I prefer that either I check it and place it on the Order Paper or something, or I send it to you and make sure there are no problems regarding competitive position of people and things like that. I don't think I should send you the study before I read it.

MR. CLARK: No, I was just asking for a summery of the study.

MR. GETTY: I was just wondering why you looked surprised.

MR. CLARK: I recall very well the period ot time when I was sure the hon. minister would read everything.

AN HON. MEMBER: He had more time to read.

MR. NOTLEY: Too many consulting reports to read these days.

MR. HORSMAN: I have some questions about The Natural Gas Pricing Agreement Act fund. I wonder if I could be brought up to date on the prospects for this coming year's fund. I guess it doesn't go through the budget because it doesn't show up in here at any rate. But I would like to have an idea as to what it will be as opposed to the previous year's experience. Do you have any estimates or forecasts on that that you could let me in on?

MR. GETTY: Yes, go ahead, Wayne. I think it's 29 cents this month but I don't know about the coming months. The export flowback he's asking about is the difference at the U.S./Canada border which flows back to our producers.

MR. MINION: Yes, we sell the gas to the United States for more money than we sell it in Canada, the Canadian markets. The difference between those two figures is accumulated by the commission in a fund which it pays out every month. The fund currently is around 30 cents per thousand. It will stay that way until the next increase in gas prices which domestically could occur in August, and in the export market could occur in September. I can't guess beyond that point because I don't know what the increased prices in gas will be. But the export fund up to that point in time will be a little bit ahead of what it was last year.

DR. WALKER: When you're selling to the United States do you sell in U. S. dollars or Canadian dollars?

MR. MINION: Yes, we sell in U.S. dollars.

DR. WALKER: So we're not losing because of the drop?

MR. MINION: No, we're making our 11 per cent (inaudible).

MR. HORSMAN: That was fortuitous. There's a supplementary on that point -- that's even one of the few things that was anyway -- what . . .

MR. GETTY: That's really a federal responsibiltiy although we negotiated with them.

MR. HORSMAN: Has that figure stayed roughly at 30 cents per MCF since the institution of the program in the fall of 1975?

MR. MINION: No, it hasn't. It varies considerably. It was down in the 15 to 18 cent range. As recently as last November it was up around 35 cents. It does fluctuate considerably depending on the ratio of how much gas is sold into the United States compared to how much gas is sold into Canada.

MR. MILLER: Supplementary, Mr. Chairman. Those communities which own their own gas supply system -- I'm thinking of Medicine Hat and Smoky Lake -- do they obtain that subsidy to reduce the costs of the gas that they're providing to themselves and how expensive is that?

MR. MINION: Yes, Mr. Chairman, every producer of gas in the province of Alberta is entitled to that flowback. It applies to the city of Medicine Hat, Thorhild, anybody who produces gas.

MR. GOGO: Mr. Minister, periodically we receive members' correspondence from gas producers who are receiving 11 cents or 13 cents on old contracts we'll say. If their production is going to America or out of Alberta, they receive that flowback -- is that correct?

MR. MINION: Everybody gets it.

MR. GETTY: Everybody gets it. The agreement we've made is that all producers get the flowback, not just those who sell outside of Canada.

MR. GOGO: Let me put it another way then. If I receive a letter from a gas producer that tells me he signed a contract for 11 cents or 13 cents or 17 cents but he can't break it, in reality he is getting that price plus the flowback. Is that correct?

MR. GETTY: Yes.

MR. MINION: Yes, that's certain yes.

MR. GETTY: So it's 41 cents or 48 cents depending on what . . . Right this month it would be 30 cents plus that 11 or 18 or whatever the price is.

MR. CHAIRMAN: Anyone else?

MR. HORSMAN: Just a further supplementary on the volume that is being exported. Has that been declining significantly or is it going up, or staying about the same on the yearly average?

MR. MINION: No, the exports to the United States have been quite stable. The only difficulty has been the load factor in the United States market has been falling, and therefore the summer savings have been dipping a little bit. That will get worse as time goes by.

MR. HORSMAN: Do you have any projection as to the length of time that these flowback funds will be available to Alberta producers, or is that too hypothetical?

MR. GETTY: It will be as long as we're in a pricing agreement with the federal government.

MR. HORSMAN: Is there any time limit on this agreement, or is it an open-ended agreement?

MR. GETTY: We renewed it every year.

MR. HORSMAN: One other point for a matter of clarification. Producers are charged a royalty on this flowback are they not?

MR. GETTY: Right.

MR. HORSMAN: How is that structured? Could somebody outline that to me?

DR. MELLON: Mr. Horsman, the amount is simply added to the portion of the field price which they collect at the wellhead. The royalty is then taken on the combined price. So if the producer is getting 11 cents plus his 30 cents, then the royalty would be on the 41 cents. So if he is getting $1.25 or whatever the regular field price is, it would be that plus the flowback.

MR. HORSMAN: What does that come to? About a quarter of the . . .

DR. MELLON: It varies according to the price. There are two gas royalty formula; one for what we call "old" gas and the other for "new" gas. On old gas it would average -- what is it Wayne, about 42 per cent or thereabouts right now. On new gas it would be somewhere in the order of 29 to 30 per cent.

MR. CLARK: Mr. Chairman, can I just ask Mr. Minion or the minister: what is the situation with regard to the recent oil finds in Mexico and more specifically gas?

MR. GETTY: Well, Mr. Minion does carry out an energy intelligence program for us so he may have it, at least at a preliminary basis. Go ahead.

MR. MINION: Yes, the oil finds in Mexico are reasonably significant. It could run to 30 billion barrels or thereabouts. They're currently producing a million and a half barrels a day and probably in three or four years they can get that up to 3 million barrels a day, something of that order. On the gas side the difficulty is that most of the gas that they have is associated gas with the oil -- gas associated with the oil. So in order to get the quantities of gas which they need to sell to the Americans, they've been talking about, they have to get their production of oil up. Now I guess it was three or four months ago they made a strike in the bay of California on the Mexico side. I don't have any information on that. It is just a simple well strike. It will probably be three or four years before that is fully evaluated. But the prospects for additional production of oil in Mexico are quite good. It's not a superior grade of oil; it's a fairly waxy type of oil so it doesn't command premium value or anything like that.

MR. APPLEBY: Are they exporting that to the U.S.?

MR. MINION: Well, they did for a while but quite a bit of it gets exported around to different countries like Brazil and so forth. But they tried to sell some of it into the strategic reserve in the United States and the United States wouldn't take it.

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Back to 5.

MR. SCHMIDT: Thank you, Mr. Chairman. Vote 5 and Vote 7 are two basic votes which we are responsible for. Vote 5 itself: the basic change from this year over last year is an increase basically because of the servicing, the amounts in growth being in both manpower in the increase of three permanent positions, and the allocation of funds for the services that are provided -- the increase in services directly proportional to the increase in the demands on Crown land both for disposition by the individuals, and also by the industry in the disposition of surplus leases in regard to the oil and gas, the demands that are made in regard to surface investigation of various leases, and also the follow-up on the basic reclamation and completion.

A change from last year in the basic supply and services is a block of surveying that will be done in the La Crete area; it is a basic area that has good sound agricultural potential. At the present time access is rather difficult; but it is in an unsurveyed area. Then to complete the total inventory we're going to carry out the basic survey of parts of four townships to check first of all the numbers and the amounts and the availability of good, sound, prime agricultural land. It's dependent upon a very narrowbased agricultural industry in an area of the province that can only grow as we, the government, bring Crown land that has some capability of production on stream. So the economic viability of the agricultural communities in that area is dependent upon the type of survey that is carried out.

The other activities in regards to the capital aspect that differ from the operation last year would be the concentrated grazing that will be done through the department in Hays and Lost River, and of course the irrigation type of grazing we hope to carry on in Hays. (Inaudible) the land that at the present time is mostly tax-recovery land will be picked up and brought under irrigation for a sheep grazing reserve in the Hays area. The three basic areas of increased activity over and above last year with regard to grazing land management, other than the continuation of course of the grazing reserve program which is beyond Vote 5, and also the administering and perhaps the increased activity within the Eastern Slopes itself.

Mr. Chairman, if there are any questions on Vote 5, I'd be happy to answer them.

MR. MILLER: Yes, thank you, Mr. Chairman. Mr. Minister, in view of the fact that it's generally considered that those who have grazing leases on Crown land are in a better competitive position as far as the cost of grass is concerned as compared to the freeholder, those who have to use community pastures; is any consideration being given to equalizing that spread and the cost in the cattle industry? In other words, are you giving any consideration either to raising the cost of grazing fees or else lowering the cost of taxation on grazing lands that are freehold?

MR. SCHMIDT: Mr. Chairman, the problems that are mentioned are indeed part and parcel of the survey that we have been looking at over the period of the last year. The input that we've had from various individuals and collectively across the province has indicated that perhaps the review should go much deeper than it has at the present time. There are disparities that are showing up, not only in the use of Crown land by individual lessees because of the province and the various regions that make up the province, the difference in grazing seasons. It all has to be taken into consideration in trying to arrive at a price, whether it be on a permit basic or a grazing rate per head, or whether it is done through a lease through the lessee itself. I suppose that one would have to go further and assess the responsibilities of an individual who holds a lease in total, as to first of all his responsibilities and those areas of responsibility that go further, of which he really has no control -- access, trespass, this type of thing. So, we've basically, I suppose, come to the solution that the use of Crown land in some ways, whether it be

subsidization through a financial gain -- one way has to be balanced I suppose with the obligations that a lessee holds. That's one of the main reasons I suppose that we should continue with a total review, to make sure that we look into every aspect of the use of Crown land, whether it be by an individual on long-term lease or by an individual or collectively by individuals on a day to day, pay-as-you-go basis. I suppose we, as government, have an obligation to see that, first of all, land that has a productive capacity is available to those in the agricultural industry; but available on a fair and equitable base so that we're not in direct competition with those who are in the business on straight deeded land. I think there has to be some semblance of equality financially between the two. That may not be as easy as it sounds in looking at the total review. But I think that is one of the objectives we should try and strive for.

MR. NOTLEY: Mr. Chairman, on the question of development of new homestead potential in the province: Mr. Minister, what is the latest compilation of figures as to the number of arable lands -- the best judgment of the department -- the number of arable acres that could in fact be opened up in this province?

MR. SCHMIDT: I don't have that figure. Have you any . . .

MR. STEELE: There are various figures. I think the most recent one is about 7 million acres. But that of course depends on the type of use you would put it to. Part of that area would be for grazing only, and not for (inaudible) cultivation.

MR. NOTLEY: What is the philosophy of the department now with respect to opening up new land? Is there a definite objective of, let's say, opening up this 7 million acres over the next decade, or are we tying opening up land to the market situation? Are we tying it to a long-term program of access roads? What are we looking at in terms of a strategy, if you like, for the 7 million acres?

MR. SCHMIDT: Well, I guess we can't ignore the 7 million figure. But I think basically, policy and philosophywise, one would have to look at an agricultural community, dependent upon its need for growth, and growth for the sake of enhancing its economic viability, not growth just for growth's sake -- recognizing the responsibility that I suppose we should safeguard production, safeguard that agricultural land because the balance of the Crown is limited in its amount -- stays in agriculture. I would think that first of all a community would have to establish a need; we would have to discover first of all whether there was sufficient land within the bounds of that community that could enhance that need. And secondly, that we wouldn't be placing any undue responsibilities on whatever local government it fell within by bringing that land on stream. In other words, it should be a co-ordinated effort with Transportation, Municipal Affairs, to meet the requirements of Agriculture, Recreation, Parks and Wildlife -- the environmental aspects. In other words, it would be a very controlled flow of on stream land to a community. I don't think we should set a goal and say that within three years we're going to open up 7 million acres, because we may not have people who are willing or want to use 7 million acres.

MR. NOTLEY: Fair enough. I can appreciate that, Mr. Minister, but what would be -- for example, how many acres would have been opened up last year of this 7 million? What are we averaging each year in terms of new land that is opened up?

MR. SCHMIDT: Basic land I suppose that we could say in block that was opened up was in a very similar area there were 55 parcels of approximately . . .

MR. STEELE: Six hundred or 700 acres.

MR. NOTLEY: We're looking at about 30,000 acres?

MR. SCHMIDT: It would be about . . . That was one basic area that met a criterion.

MR. NOTLEY: So it would take us approximately 200 years to reach the objective of 7 million -- but I don't say that cynically. My question really is twofold. It's the pace of opening it up. I'm not suggesting we open up all 7 million over three or four years. I think that would create chaos. I have some concern we're not moving fast enough. I think there is a range between what we are doing now and going too fast.
The other part of the question is the charge for homestead land. I really wonder if we aren't in fact overpricing it, considering the fact that in some cases brushing has to take place and breaking and what have you. We've gone a long way from the principle of the homestead 50 years ago where you had $10 and you got a quarter section of land. I raise this because of the problem of getting young people on parcels of land. It seems to me it would allow some people to get into the business.

MR. SCHMIDT: It's an interesting . . . I guess it defies the fundamental principles which The Public Lands Act states that first of all any disposition of Crown land must be at fair market value. So I suppose that Albertans in total have set the pace. It's unfortunate that within certain areas even trying to establish the low end of fair market value brings a reasonably high return per acre on Crown land, if you're trying to justify that to an individual starting in agriculture -- of which he expects to pay that price for the land and establish a living out of it at the same time. Of course, that is a problem not only to Crown land but to all agricultural land across the province. We recognize that there are some areas in which it's difficult financially to establish beginning farmers. It is a problem. Perhaps Crown land may be one of the last saving areas in which beginning farmers can get some type of initial start to make it easier than out in the general areas. It's something I think we have to look at. It's something that is very difficult; that in establishing that type of philosophy and policy that the land gets and stays in the right hands after it's there. The question is to transfer the land with the type of longevity which we would like to achieve. In other words, productivity in an agricultural field; subsidized if you wish, in other words, at a fair market price that an individual could live with from an agricultural point of view. It's something that I think we have to look at its long-term review, for two reasons. Because I don't think we have the availability or the amounts of land left really in Crown ownership that have that type of productivity that could go into cultivation side by side with our better agricultural lands in the province.

MR. NOTLEY: The reason I raise the whole pricing policy is that particularly in the new areas -- we mentioned La Crete -- we're talking about an area of the province that has some considerable agricultural potential, but is a long way from markets and there are a lot of impediments to successfully establishing a farm operation there. When you add to that the price of the land, using the present formula -- and I just ask the government to look at it. It seems to me we're maybe asking too much and we should take a second look at it.

The other question arose from your statement about the surveying of four townships around La Crete. As you look at the 7 million acres, how much of that 7 million acres -- and I guess I can only ask for ballpark figures here -- would be adjacent to established communities and how much would be in new areas? I'm thinking of the north side of Peace River, north of Fort Vermilion. There are certainly parcels of land there. How much of that 7 million acres would require in fact the establishment of new communities?

MR. STEELE: None of the 7 million I don't think would require new communities. It depends on how far you want to go from an existing one. I think we should qualify that 7 million acres. That was an old figure that was derived from the soil surveys that were done many, many years ago. I think the important factor that was omitted in arriving at a figure was that they did not consider the climatic conditions that might adversely affect agricultural development in many of the areas that they surveyed. I would guess that the arable areas are much, much, much less than 7 million acres, when you take in climate as a governing factor to development.

MR. NOTLEY: Do you have any figures that would indicate . . .

MR. STEELE: No, we don't really have a good accurate survey of the agricultural land. One other thing we're doing -- at least we've started this past year and will continue -- is to access individual small parcels within the existing developed area and find out which ones of those can be turned into agricultural development.

MR. WOLSTENHOLME: What is the purpose or the philosophy behind the idea of putting ordinary Crown land that hasn't been leased and putting it back into forestry now so that there is only a -- instead of a lease it's a permit which is one year, so that those ranchers who have in the past had possibly a 10 or 15-year lease, they now have a one-year permit. It creates a lack of tenure and I was just wondering what the thought or philosophy behind it is.

MR. STEELE: Those are only issued in what we call forest management agreement areas. They are a grazing licence; I believe there are only 21 of them, there are not too many; something like 21 of them altogether. The reason for it is that the area was assigned for timber production under an agreement. If they want to go into that area to graze, then they are only given a short-term permit to allow them to move. If the area is cut open for timber and the timber area is being regenerated the cattle could not graze in that area while the regeneration is developing.

MR. WOLSTENHOLME: As I understand it the cattle are already in there and are grazing, but now their concern is the lack of tenure.

DEPARTMENT OFFICIAL: Mr. Steele, I think he is referring to the forest reserves where the forest reserves . . .

MR. STEELE: Oh, the grazing allotments in the south.

DEPARTMENT OFFICIAL: . . . where they had a grazing lease in this forest reserve after -- they had obtained the grazing lease before the policy was changed. (Inaudible) if it fell within the forest reserve, they will not be renewed as a grazing lease, but they will be allowed to continue to use them on an annual basis.

MR. WOLSTENHOLME: The length of tenure seems to be the problem. They hesitate to put any improvements when it is only a yearly tenure.

MR. STEELE: The situation in the grazing reserve is quite different than outside. All the grazing in the past has been on an annual permit basis under the allotment system. Improvements are very, very limited in that area because it is more of a multiple-use area and not primarily a grazing area. It is still allowed to continue; we haven't reduced any grazing because of that system at all. They are still allowed to continue at the same level of grazing.

MR. WOLSTENHOLME: This seems like kind of a localized thing, so rather than take up the committee's time I can discuss it with you some other time.

MR. KIDD: I think that a lot of my questions have been answered. I think it revolves around this matter of leases. I have complete confidence in the very good judgment and I'm very pleased we have a man of the judgement we have in the Associate Minister of Energy and Natural Resources. The aspect I'm bringing up is this: the historical aspect and historical -- I don't think he can possess Crown land, but you have had Crown leases for many years and if you treated them as though they were your own, maybe incorrectly, and if you treated rightly, and I speak of the special areas where people have over the years taken the country -- if you take Hanna and that country was farmed at one time. It was completely a dustbowl, and then went to lease and special area and people took out a lease and treated them very well and brought them back to some point where they're now of real value. The same thing can happen in the foothills where people have them and have had tenure and by having that tenure have treated them well. I would ask the minister to consider very carefully that historical aspect of owning the leases, treating them well, and also having some tenure leasehold, because if you only have it for one year, or two years, or five years even, you may say, what the heck we'll just take the best out of it. I know it is very difficult. That's the positive element of what I say. I ask you to recognize that. On the other side of the coin, I do not believe -- this is plus for the associate minister and I will go along with the minister -- I do not believe -- my personal belief is that people should make capital appreciation out of sale of those leases. So I would say on one side tenure, on the other side no reason to have capital appreciation out of the sale of those leases. Thank you.

MR. APPLEBY: Mr. Chairman, I wonder if I could interject. I think we're going to have considerable discussion on Vote 5 yet and we still have foreign ownership and land administration. I wonder if we could consider adjournment.

HON. MEMBERS: Agreed.

DR. WALKER: On a point of procedure, Mr. Chairman, can we set a finishing time for other nights? I think we should sit 8 to 10 and just cut it off there unless we're very near the end.

HON. MEMBERS: Agreed.

MR. CHAMBERS: Mr. Chairman, I wonder for Mr. Getty's sake next time we meet if we just have Mr. Schmidt (inaudible).

HON. MEMBERS: Agreed.

(The meeting adjourned at 10:27 p.m.) MR. GETTY: I'd appreciate it.

HON. MEMBERS: Agreed.

(The meeting adjourned at 10:27 p.m.)

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