

Legislative Assembly of Alberta

Title: **Monday, April 23, 1990 8:00 p.m.**

Date: 90/04/23

[The Committee of Supply met at 8 p.m.]

head: **Committee of Supply**

[Mr. Schumacher in the Chair]

MR. CHAIRMAN: Order please. The committee will please come to order. I see a quorum.

head: **Main Estimates 1990-91**

Energy

MR. CHAIRMAN: This evening's business consists of examining the estimates of the Department of Energy. Those estimates are to be found commencing at page 125 of the main book, with the elements at page 49 of the element book.

The hon. Minister of Energy.

MR. ORMAN: Thank you, Mr. Chairman. It gives me a great deal of pleasure today to present the estimates for the Department of Energy. I should point out to hon. members that the Department of Energy includes along with its estimates the Alberta Petroleum Marketing Commission, the Alberta Oil Sands Equity, the Public Utilities Board, the Alberta Oil Sands Technology and Research Authority, and the Electric Energy Marketing Agency. I will speak about the recent additions to the portfolio later on in my remarks, Mr. Chairman.

It's just a little over a year since I was appointed Minister of Energy. One of my first priorities was to meet with the industry and determine where government policy relates to the industry, where there are some rough spots in areas we can work together to improve that relationship. I had some 40 meetings over a period of a couple of months, and we certainly were able to discuss many of the important issues relative to energy development in the province of Alberta. At that time and with the input of industry leaders and industry associations, I set out seven priorities, and I'd like to review those priorities with the Assembly this evening.

The first was a commitment to the conventional industry, Mr. Chairman, and that commitment was directly related to the desperate need for new equity into the industry. As you know, the industry is heavily debt oriented – two, three times their earnings in terms of debt – and it was important, in my view, that the government of Alberta support initiatives that assist in the raising of capital participation in the energy industry. The first speech I had was to the Independent Petroleum Association of Canada. That was an investment symposium where investment dealers and analysts from around the world convened in Calgary, wherein they perused the various investment opportunities in the industry. It gave me an opportunity to express the close working relationship this government has had historically with the energy industry.

Since then I have had the opportunity to travel extensively, and in those travels to New York, Washington, Toronto, and other areas we discussed the potential for investment in this industry, the opportunities that lay ahead, particularly in the area of natural gas. Mr. Chairman, in my view it certainly is paying off. I had a number of discussions with local distribution

companies and users of natural gas in the United States, and I tried to point out to them the importance of investing upstream in the industry because it gave them the opportunity to hedge against higher prices. If there was a price spike, for instance, the end user would be able to offset those price spikes at the burner tip by having an upstream investment, and the leverage at the wellhead vis-à-vis their investment certainly would offset any significant price increases in terms of the earnings. So we've underscored that, and my view is that there is tremendous confidence in investing in the energy business in the province of Alberta.

My second agenda item was relative to the issue of gas market expansion. We wanted to make sure that every new market opportunity was uncovered not only in Canada – not only in other parts of Ontario, Quebec, possibly the maritimes – but the northeast United States and California. Certainly it is a challenge, Mr. Chairman, because notwithstanding the free trade agreement we are seen as a threat or a competitor to domestic U.S. natural gas production, and certainly we are head-to-head in competition with states like New Mexico, Wyoming, Oklahoma, and Texas. I did take the opportunity to meet with the governor of Wyoming, Mike Sullivan, and Senators Domenici and Bingaman from New Mexico when I was in New York and pointing out to them that we are in the business of selling gas into the United States to share with their domestic producers natural gas opportunities by way of expansion of markets. We are not there to take away their existing markets. Certainly the Clean-Air Bill that is proceeding through the United States administration underlines the importance of natural gas and the opportunities that clean-burning fuel provides for the future. We also met with the Federal Energy Regulatory Commission, which is the regulatory body in the United States that deals with interstate transportation of natural gas, and had a number of meetings with the Public Utilities Commission in California.

Mr. Chairman, my focus has been to draw to the two markets, California and the U.S. northeast, draw in those markets as early opportunities for expansion. Now, I should not say that there are not other opportunities for expansion. I previously indicated to the Assembly that expansion into Ontario, Quebec, other eastern provinces in Canada is a real potential. Into the midwest United States has been a very good traditional market for Alberta gas, and there are expansion proposals occurring there, but we are focusing in on the U.S. northeast and California.

Last summer the industry along with the provincial government and their agencies, the Department of Energy and the Alberta Petroleum Marketing Commission, worked to analyze the potential of the northeast market vis-à-vis the Iroquois project and the Champlain project. It was a tough-fought battle by those two proponents, Mr. Chairman, but I can tell you that in the end the right decision was made by the producers. We do believe the producers should make the ultimate decision as to where new markets expand to. It is a decision that they make essentially on economic bases, and generally if it is good, sound economic analysis and it is good for the companies, for the business, in the end it's good for the province's royalty ownership share and the cash flow attained through the royalties.

Since the Iroquois project was approved by the producers, we have been pressing for pipeline expansion before the National Energy Board. As members know and as we have indicated previously in this House, Mr. Chairman, we must see timely expansion of our pipeline facilities beyond our traditional market of Ontario. This is very important because we have many

trillions of cubic feet of natural gas in reserve in this province, and certainly with the opportunity to move that inventory off the shelf, if you will, into our new expanding markets, it then provides the incentive for the industry to reinvest in the province, to go out and find new reserves to replace the ones that have moved through new pipeline expansion. We are working very diligently to impress upon the National Energy Board the importance of the pipeline facilities expansion and the tolling methodology that is being considered today.

With regard to California, Mr. Chairman, we are facing some issues there, some challenges I did not anticipate when I set my agenda with the industry early on, in April of 1989. That challenge is really an attempt by the California Public Utilities Commission to, in a regulatory way, control the expansion, the sale, the procurement of natural gas into that market. It is our view that the market should make those decisions; that the price, the contract arrangements, the volumes related thereto – the relationship between the producer and the consumer is a fairly pure relationship. It determines the lowest price the consumer can negotiate and the highest price the producer can negotiate. Unfortunately, in California the Public Utilities Commission is orchestrating, through their regulatory process, expansion that works solely to the benefit of the consumer, and we have spent a great deal of time impressing upon the CPUC that this is not in their long-term interests any more than it is in our long-term interests. We have had a 25-year relationship with the California market. It has worked very well, and we want to be sure it continues to work in the best possible fashion. The bottom line is that substantial progress has occurred – this second item, as I indicated, this expansion of natural gas markets – and it remains a priority. I can tell you, Mr. Chairman, that the battle is not over, but we continue to work with the CPUC and point out the importance of allowing the marketplace to determine supply/demand balance.

The third agenda item related to barriers that exist today to moving further towards a deregulated market and allowing our natural gas to find its own high-water market in the marketplace both in the rest of Canada and the United States. As I've indicated, these regulatory issues that we're facing both in Canada and in the United States create an unforeseen challenge, unforeseen in the context of our setting of our agenda in the early part of last year.

We have achieved one major goal, Mr. Chairman, and it was a very important one. That was the encouraging and the success of the National Energy Board dropping the benefit/cost analysis. That was a very positive step, and it was an example of the government working with industry to do away with an insidious test that really perverted the market arrangement. It was invalid in many ways, and it was a way that worked against supply/demand market relationships. We're very pleased that the benefit/cost analysis is no longer a feature of the National Energy Board's hearing process.

As I've touched on briefly previously in my remarks, we are now faced with a second challenge, and that is pipeline expansion, trans-Canada facilities expansion. The hearing is GH-5-89, before the National Energy Board, and the issue is rolled-in tolling versus incremental tolling. Just briefly, Mr. Chairman, this province and many of our industry partners support a tolling methodology that is called "rolled in." The issue is basically this: the new facilities that are proposed beyond the existing facilities into California are proposed by many of the gas users in Ontario to be incremental; that is, the costs of construction of the facilities beyond Ontario are to be borne by the new producers

beyond that traditional market. That's the incremental tolling. What they're saying is that the existing tolling between Alberta and Ontario would not be affected; it would not increase. Our view is that the whole facilities – expansion and existing facilities – should be rolled in so that the cost of incremental expansion would be rolled into the rate base for all producers to pay.

It's not unlike traveling on the airlines, Mr. Chairman. If you are able to get on a new DC-9 with Air Canada, you do not pay a higher tariff or a higher fare because that is new facilities on their system. The cost of the new aircraft is rolled in with all of their existing inventory of transportation, and the cost is the same for everyone no matter what portion or whether it's new or whether it's old, in terms of the type of aircraft that you travel on. It's the same in just about all transportation areas, and we believe it makes the most sense. It is the least administratively difficult. That's another thing we wanted to achieve with rolled-in tolling. I was pleased to indicate in this House during question period that I was successful in obtaining the support of the provinces of Quebec and New Brunswick in the tolling methodology to support rolled-in tolling. That is very important, to have allies in other provinces that see the wisdom of this type of tolling methodology.

The fourth issue is the COR market issue. This is a very difficult issue, and it's been ongoing with my predecessor Dr. Neil Webber. The issue basically is with the COR market – the small consumers, the institutional consumers in the province of Ontario who wish to take advantage of the short-term contracts, six-month contracts, on the spot market, the lowest price for natural gas. Now, Mr. Chairman, I have no problem. I am market oriented in my own personal philosophy, and I believe that the marketplace should operate. Unfortunately, we are talking about hospitals, we're talking about universities, school districts that want to take advantage of the short-term contracts for natural gas. My message is that that's fine; you can take advantage of the spot market in the COR market in Ontario. However, if there are price spikes up or if there are curtailments in terms of supply because of a winter cold snap or you run short of supply or have to pay a higher price, which is a more realistic scenario, I do not want you to proceed to Queen's Park or Ottawa to look for a political solution to the fact that you have imprudently contracted for long-term supply. Institutions such as hospitals, universities, and school districts should contract long term. They should not be faced with the prospects of supply curtailment, and we cannot get that guarantee from the government of Ontario that they will not intervene in the event that this situation occurs. So this is why we are on an impasse in the COR market, Mr. Chairman. I do not want other markets backed out because the institutional consumers in Ontario have made the imprudent decision to exploit the short-term market opportunities.

The fifth issue, Mr. Chairman, had to do with our royalty system. We are looking at ways of streamlining the calculation of the royalty. It has evolved over a number of years in this province. There have been add-ons and deletions and unfortunately it is a complicated calculation, particularly when you take into account gas cost allowance. So we are working with the industry in hopes of coming up with a solution to the calculation of the royalty system. I've indicated that it in no way implies we are open to a reduction in royalties. That is absolutely not the case.

I have been working with the industry recently, Mr. Chairman, with regard to the issue of custom processing. That's the issue of producers processing their gas through existing facilities.

Unfortunately, to this date it has created, I guess, a desire by producers to build their own natural gas plants and process their own natural gas when there are other existing plants in place that are running at less than capacity. We had hoped that for environmental reasons we do not have to proceed with approval of a proliferation of gas plants when in fact there are existing plants that are running at less than capacity. So we are trying to encourage plant owners to move up to capacity and be reasonable in their negotiations with their producers. The CPA, IPAC, and the small producers are working on this issue. They have come up with some proposals we are reviewing, including a dispute settlement procedure, and we are hoping to avoid this issue being settled on a regular basis by the Public Utilities Board. I would prefer that the industry come up with a solution that is satisfactory to everyone involved.

The sixth issue was oil sands tenure, Mr. Chairman. In our oil sands area we are wanting to come up with a tenure system that facilitates new technologies, gives them the opportunity to try their technologies in oil sands development, and we want to avoid industry that has inventoried oil sands leases over the years and not having the best intentions of oil sands development along with the holding of those leases. So we are working towards resolution in that particular area.

Mr. Chairman, the last issue, and certainly not the least important, is the issue of the environment. I have been spending a great deal of my time on the issue of global warming. At our last two energy ministers' meetings, in August 1989 and in Kananaskis April 1 in this province, we dealt with this very important issue of global warming. Each province has gone away and made a decision that they will look within the bounds of their own province at this issue, consult with the user groups, the environmental groups, the producers – the industry – to determine the extent to which global warming is happening, analyze all the data that is there, and then make recommendations to government as to how far we should go. We are moving on the issue of reducing carbon dioxide in the atmosphere, Mr. Chairman. We are just not going to move in a draconian way or in a precipitous way until we are absolutely convinced of the impact that global warming is having on the planet. We know it is happening, but it is very important that we have this dialogue with the public so they know that levels that are set by governments are achievable and are necessary to address this issue. I am pleased that through our clean air strategy that Ralph Klein, Minister of the Environment, and I announced, we'll work with the industry and user groups, and we look forward to some meaningful recommendations from those groups.

Mr. Chairman, another issue that is current with regard to the environment is the environmental assessment and review process. As you know – it's been indicated in this Legislature on many occasions – this process is unfortunately not in legislation. They are guidelines. They are not regulation, and they are not legislation; therefore, they are highly interpretive. Unfortunately, when you have poor guidelines or poor directions set out by government, they then become highly interpretive, and when they're bad, they end up in the courts. So today in environmental assessment in this country we have the courts making the decision, interpreting the guidelines, and that to me is unacceptable. It should be the government that brings in legislation we as provinces can follow.

We don't want to avoid the scrutiny of environmental assessment, Mr. Chairman. To the contrary, we want to avoid duplication, we want to avoid renegeing on previous commitments

made under those guidelines, and avoid the chaos we have here today in this province and in other provinces. The energy ministers at Kananaskis all indicated projects in their provinces that are in peril simply because the process is highly interpretive and not well understood. It is difficult to move forward with some of the economic initiatives in these provinces, much like our forestry initiatives and other areas. So it is my hope that the federal government will move quickly and avoid court decisions running environmental assessment rather than government legislation.

The very important issue with regard to environmental assessment is the issue of extraterritorial screening of environmental impact. In a nutshell, Mr. Chairman, what these guidelines say is that the federal government must assess the impact of pipeline expansion beyond the borders of Canada into the United States so that if there is a pipeline to be built from, say, the border of the province of Ontario and the state of New York, the National Energy Board must consider the environmental impact on the United States: extraterritorial assessment. Quite frankly, that's ridiculous, but that's the nature of these guidelines that are there. Nobody understands them, they have the government spooked, and all of these irrational decisions are being made in the absence of meaningful legislation. So we're very insistent that the federal government move very quickly with this very important legislation.

We talked briefly about some of my new responsibilities earlier on, Mr. Chairman. I'd like to point out to members that I will be introducing in this Legislature this session the natural resources conservation board Act, and I bring that as my responsibility as chairman of the economic planning cabinet committee. That process hopefully – as a matter of fact, I'm insistent that that legislation reflect the same quality of legislation that we have with the Energy Resources Conservation Act and the board that administers that legislation. If we do, we will avoid some of this ambiguity foisted on us with regard to assessment of renewable energy resources in this particular province.

Effective the beginning of January I have assumed responsibility for the electricity and utilities policy, which was transferred to Energy from the Department of Transportation and Utilities. This does mean new challenges for the department and, I daresay, for myself, Mr. Chairman. It is a very important area to this province, and I'm looking forward to those challenges and opportunities. I'd like to point out to the Legislature that that is contained in vote 8 in my department's estimates.

On April 1 I assumed the responsibilities of the Public Utilities Board. Considering the role of the board in regulating natural gas and electrical utilities, this move reflects a consolidation of energy forms and energy management under one portfolio. This is contained in vote 9 of my department estimates.

Also in my estimates, I have worked with the Minister of Technology, Research and Telecommunications to provide funding, \$1.4 million of support, for the Alberta geological survey. The survey is supported through the Alberta Research Council, and it is a very important tool to the industry for exploration of new opportunities in the province of Alberta and certainly will facilitate attracting new investment to this province.

I should point out that there has been additional funding to my energy communications branch. This is now under the direct aegis of the deputy minister, and it will put us in a position to keep all Albertans informed about energy and energy/environment issues.

Alberta Oil Sands Equity is also getting a budget increase, and this is contained in vote 7. The funds recognize the increasing demands placed on this group with regard to their responsibility for the OSLO project and the biprovincial Upgrader in Lloydminster.

In conclusion, Mr. Chairman, I believe our budget reflects our fiscal responsibility that is the cornerstone of our provincial budget in our movement to a balanced budget in the next budget year. Our boards, agencies, and commissions and the department reflect an overall reduction in expenditures of some 15 percent, and we are certainly looking at ways of improving our revenue collection.

Mr. Chairman, I should say that in my last year with the department I've been very pleased with the quality of the staff in the department. They've been very responsive. They're committed public servants, and they have the best interests of the province of Alberta at heart, and it is a pleasure to work with them.

Having said that, Mr. Chairman, I'd be pleased to hear the remarks of my colleagues in the Legislature.

Thank you.

MR. CHAIRMAN: Thank you, Mr. Minister. The hon. Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you, Mr. Chairman. Where the minister's remarks tended to focus on promoting the sale and distribution of Alberta's nonrenewable energy outside the province by looking at expanding gas markets, incremental versus rolled-in tolling in the case of the Iroquois pipeline, looking at core market issues in Ontario, and that sort of thing, my remarks will probably focus more on situations internal to the province of Alberta.

I'd like to begin by looking at the revenue side of what's happening with respect to nonrenewable resource revenue. I think I am justified in doing that because in vote 1 there is money appropriated for the operation of the department, and I assume the department probably makes recommendations to the Treasurer with respect to what the likelihood is for oil and gas pricing during the fiscal year we're now in. The government's revenue estimate for this year from nonrenewable resource revenue is approximately \$2.954 billion. Now, that's up considerably from last year. It's \$534 million more than the forecasted revenue from those sources in the '89-90 year. I must also point out that that forecast revenue for '89-90 of \$2.42 billion was down from their estimate. So they were off some \$200 million in terms of their expectations last year. The real question for this year is: how close is the Treasurer going to be with his revenue estimates for this financial year we're currently in? I'd like to point out that the crude oil estimates last year were down some \$146 million – at least the forecast figure shows that we're down \$146 million – yet we're showing an increase this year in our projections from crude oil revenue. The sale of natural gas is up somewhat this year over what it was last year, and there's a differential of \$120 million in the sale of Crown leases, where we're estimating we'll receive \$120 million more this year than we did last year.

I find these figures a little difficult to understand. We know the price of oil is fluctuating rather wildly. It's been down as low as \$16 a barrel U.S. We also know that the Treasurer's estimate was based on \$21-a-barrel oil. I find even that figure that's contained in the budget a little hard to understand – and perhaps the minister could enlighten us with respect to it –

because there are a number of other factors, of course, that effect the total amount of revenue we're going to get on the oil side. One is the value of the Canadian dollar. We know the federal Tories are doing everything they can to keep the Canadian dollar as high as they can, which lowers the rate of return to our own producers. We also know that more significantly and seriously there was quite a decline in production last year from our conventional oil sources. So putting these together, it seems to me the forecast of revenue from the nonrenewable resource sector has to be somewhere between \$300 million and \$500 million higher than what we can reasonably expect to get from that sector at this point in time.

What we've been doing over the years, by the way ... I mean, we're in a difficult situation when it comes to drafting a budget in this province, precisely because we can't predict with any reasonable expectation how much oil and gas revenue we're going to take in in a given year. I think there are other ways we could handle that problem. What we've done in this province is created an Alberta Heritage Savings Trust Fund. We've pumped all kinds of money into that and used that fund, I think, most inappropriately in a lot of circumstances. We've certainly created a lot of expectations on the part of the citizens of Alberta with respect to the kinds of services we can provide. We have in some respects an excellent system of hospitals and universities and colleges, and perhaps it was understandable that we built those when we had that huge flow of income coming into our Treasury, but now that that's beginning to dwindle, we're left with the problem of how we operate those services. I think it's pretty clear, if you look at the operation of this province, that we've really overextended ourselves.

Well, what could we have done differently? For one thing, we could have looked at something like a price stabilization fund and maybe just argued that only so much oil revenue could go into a budget in a given year, perhaps 20 percent or whatever. Then our expenditures would be based on what we could reasonably expect to take in by way of revenue. Anyway, that's just a suggestion that I think the government should seriously take a look at.

On the oil side of the nonrenewable resource industry, it's clear that it's characterized, as I suggested a few minutes ago, by declines in production from conventional sources. So to compensate for that, it seems to me rather obvious that we have to increase supply from our heavy oil resources in this province. With respect to the decline from the conventional sector, Mr. Chairman, in part as that begins to happen the majors show more interest in heavy oil development, show more interest in larger sources of supply from offshore and that sort of thing. What this means is that in a way the remaining development of the conventional sector will probably fall more and more in the junior and smaller Canadian companies. In that respect, I think it's really important that the government begin to address its policies to that sector of the industry and target them with programs so they're able to continue to function so that we're able to develop the remaining conventional oil and gas reserves in some kind of reasonable and responsible way. To that end I'd like to commend the government for changes it introduced to the Alberta royalty tax credit program. They were long overdue, but I think they'll go a long way to meeting concerns the industry expressed. They're going to be targeted over a five-year period for one thing, so that will allow companies to do a little more long-range planning. And double dipping, of course, was eliminated in the measures that were proposed, so there are some positive measures. I'm still somewhat concerned that the

major companies that really don't need the benefit will derive a disproportionate benefit that, if we had to make choices and introduce savings, could be targeted more at smaller companies, smaller producers.

I also think there are other measures the government could be taking to help small producers. Without any consultation with the industry, for example, Mr. Chairman, the government announced in this year's budget a land rental hike of approximately 40 percent. As I say, this was done without consultation, and it has a particular impact again on small producers. For the larger companies, it's a relatively insignificant hike; they can handle it without any difficulty. So I think there should have been perhaps some offsetting aspect to the way in which it was introduced.

Now, a major issue I'd like to raise with the minister has to do with surface rights. With his background as a petroleum landman, I'm sure he probably understands this issue as well as anyone in the Legislature, or maybe as well as anybody in the industry as far as I know. But what I'm concerned about is given that the minister probably has this understanding, why is it that a situation that seems to me to be quite unfair and unjust to the taxpayers of this province has continued to persist?

Here are some points that I think are really quite essential to understanding this issue. Land values themselves have been declining in the province, but compensation to people who own these surface rights has climbed significantly since 1981. In fact, I've been made aware of some instances in which landholders make more money in surface rights during a given year than the actual value of the land they own. So something is obviously wrong. The situation, as I understand it, was that at one time there was really very little protection for farmers and some segments of the industry tended to ride willy-nilly over small landholders and farmers. This was a situation that was unfair. What I perceive has happened is that surface rights Acts were introduced that have now thrown the pendulum the other way, so landholders have gained a disproportionate benefit with respect to oil producers and oil explorers. So the situation seems to be clearly weighted on the side of the surface rights owner as opposed to the industry.

It seems to me there's an unfairness with the forced-entry fee which was introduced in 1983. It's estimated by the industry itself that that has cost the industry some \$118 million as of 1987. I don't know what it's cost them since then. I was looking at an older industry report, but I think you could probably safely double that. And you can anticipate, Mr. Chairman, that if there's that much additional expense being borne by the industry, it's going to have the impact of reducing drilling and exploration activities.

A major problem, as I understand it, with the Surface Rights Act is that it sets up an unfortunate and unnecessary antagonism between the energy industry and the agricultural industry in this province. The forced-entry fee provides more compensation to the owner than compensation for losses as a result of activity, and this seems to me basically unjust. I don't think anyone would object to a company going in and paying some reasonable price to a landholder for any disruption to his farming or agricultural activity, and maybe pay something beyond that as well as an extra kind of compensation, but when it becomes excessive, it really is unfair.

Another factor that seems to be of concern to the industry here is that the Land Compensation Board set up under the Act awards costs to the landowner in virtually all instances. Because of this, of course, it makes the industry reluctant to take cases

before the board, because if they know they've got an odds-on chance of losing and they're going to have to wind up paying for the cost, it means they're basically or essentially held up to ransom. So rather than pay legal costs and get involved in that, they'll settle for sums that are essentially unfair. The system, it seems to me, encourages landholders, with the encouragement of their lawyers, to appeal board decisions, any decisions especially that favour oil companies. That, of course, again is because the way the Act is written, the landholders don't have to pay for those legal costs. So everything seems to be stacked in favour of the landholder. The landholders use the Energy Resources Conservation Board and their hearings as a tactic to delay an operator. That again puts pressure on an operator, who has a very limited drilling season in some instances, to settle at costs that really are essentially unfair.

For these reasons and others, Mr. Chairman, I think it would be reasonable to amend the Surface Rights Act. To begin with, I think the Act should be administered by a more neutral authority, perhaps the Attorney General, as has been suggested by the industry. There should also be representatives on this board who can speak knowledgeably for the industry and who are able to present an industry perspective on oil and gas issues. The restriction that's placed on the courts with respect to awarding costs against one party in these disputes must be removed. The forced-entry provisions should be removed in their entirety. In addition, the Energy Resources Conservation Board hearings should be modified to reduce delays and unnecessary expenses.

That's only part of the problem. There's also a significant problem with respect to grazing lease lands in Alberta, and there's a significant shortfall of revenue to the Alberta Treasury as a result of Alberta government policies. Just quickly going through those, government agencies do lease lands, and there are four different ways they do this. They're through special areas boards, which lease approximately some two and a half million acres of land. This is done under Municipal Affairs. The public lands division of Forestry, Lands and Wildlife also leases another 5.2 million acres of land. There are 32 grazing reserves, 11 of which are financed and put through the Heritage Savings Trust Fund, that the government leases. As well, the Alberta Forest Service supervises grazing in the Rocky Mountains, and Recreation and Parks administers grazing in the Alberta provincial parks.

But what's the interest here to Alberta and to our revenue stream? Well, one would think that on these lands the cattlemen's primary purpose for using grazing land would be to raise cattle, to make a profit from the operation of the cattle industry. The cattleman doesn't own these lands; they belong to the citizens. Now, if another use such as oil development should occur on these lands and you begin to get a kind of competition between oil and agriculture and cattle raising interests, it's clear that any grazing leaseholder should be compensated for any reasonable interference with his operation. But again, because of the way the laws operate, especially the Surface Rights Board, some of these owners or associations of owners have as their primary business the subleasing of land to oil companies, not the business of beef production. In a way this is a form of theft from all the citizens of Alberta. In special areas, for example, the minister receives \$90 for a mineral rights surface lease on Crown land in the first year of operation, then gets \$50 in the second year, as I understand it. Meanwhile, the leaseholder for that same right gets over \$2,000 the first year and over \$1,000 every subsequent year. That's for well site leases that were

negotiated in 1989. For those areas that are administered by the ministry of Forestry, Lands and Wildlife, the ministry doesn't even get the \$100 or the \$50. The leaseholders get the same return, though, that they do in the special area lands. It's estimated that this has cost the Alberta Treasury at least some \$20 million. Well, I'd like to find out from the minister if he can begin to put a tag on how much money is actually paid out in these situations.

I'll just provide a few examples, Mr. Chairman. One stock grazing association subleases 287 of its 15,500 or so acres to one oil and gas company. The company pays the association \$36,600 for the 287 acres, while the association pays the government only \$8,300 for its entire 15,000-plus acres. Here are some other examples. Pipeline Grazing Association, 47 sections: its annual income from the rental of well sites is \$284,000-plus, and the annual cost of lease and taxes is only \$21,000. The Drowning Ford Grazing Association; size, 70 sections: their annual profit from oil and gas leases is \$175,000. XYZ Livestock Ltd., one lessor; size, 27 sections: the profit per annum on a lease is over \$100,000. One block of 17 separate leases in southern Alberta: the total annual revenue from oil and gas operations is \$402,000. Now, this is really unfair, because don't forget the people of the province really own this land.

Now, there are similar problems in the forest management areas that have been brought to my attention. Seismic crews are required to cut and stack all the timber on access roads; they have to pay the forestry companies to access this land. So the forestry companies derive all the benefit from the sale of the timber. Seismic exploration pays up to \$1,000 a mile in public lands under a grazing lease. Why is this money not paid to the Crown? That's another question I would like to put to the minister.

So from an industry perspective, I think the industry's position is that they're quite well prepared to pay fair and reasonable compensation for any disturbance they cause to a stockholder's land or operation. But we can't forget that the Crown is the custodian and payments made by the oil and gas industry should reflect, first of all, the interest of the Crown and then any reasonable compensation due to any disturbance by any energy-related activity such as the building of roads or providing public access on those roads.

Now, another consideration in this area that the government should take a look at is that the leases get converted to licences on production. This means that in addition to those costs I've indicated above, the Crown's royalty is reduced because the costs are fully deductible from the revenue screen. So the Crown loses again in that way as well.

Just to shift focus here, Mr. Chairman, I'd like to make a few comments on the OSLO project. From our point of view, that's a highly essential project and one we support most enthusiastically. We think it's necessary for Canadian self-sufficiency, because Canada's conventional crude is declining at an alarming rate. The federal decision to pull back flies in the face of an Energy, Mines and Resources report which actually calls for two projects such as OSLO. If OSLO goes ahead, it would produce some 77,000 barrels per day. I think that's the projected expectation for production. In its construction it should provide up to 6,500 jobs, and it'll provide some 2,000 permanent jobs upon completion. The EMR also estimates that after the year 2000, we could use two such plants like this every two years if we're going to maintain our current levels of production.

AN HON. MEMBER: Let Ontario pay for it, Barry.

MR. PASHAK: Well, that's just about what I was going to get to, if you give me a moment. Okay? I don't think Alberta should pay for it.

I want to say with respect to this project that I'm impressed by the environmental considerations that have been shown by the OSLO team. They're working toward a situation of zero harmful emissions; that's the goal of the project. They're using advanced burner technology to remove nitrous oxides. They're going to eliminate virtually all H₂S emissions, and they're concerned that they have the CO₂ intake and output in some kind of balance so they don't add to the greenhouse effect. I think all of these are very commendable. In addition to all that, they've really set up a model or exemplary environmental review process. They've involved all the people from the area in looking at the environmental issues, and they've got teams out investigating every possible consequence to the environment. I think the people in the area and even professional environmentalists are quite pleased with what they see going on in terms of the planning for this project.

But we do have some concerns. As the Member for Calgary-Buffalo indicated a moment ago, I think if we're looking at energy self-sufficiency for Canada – and I think the Canadian government should be looking at energy self-sufficiency – even if we can buy oil for a cheaper price abroad, buying that foreign oil in vast quantities really exacerbates our balance of payments problems. It's important for this country as a nation to get its balance of payments into line so they're manageable, and if we're paying huge sums of money offshore, it's very difficult to do that. The Canadian government, the Canadian people, generally have a vested interest in having a secure supply of energy from Canada, so when it comes to the OSLO project, I don't think Alberta money should go into that project by way of grants and loans and that kind of thing other than to pay for certain infrastructural necessities for projects like this. I think Alberta should take an equity position, and that's the general position of our party.

With respect to gas questions, Mr. Chairman, these are particularly significant, again as we experience declining revenues on the oil side. I don't like to see what's happening. Of course, we were always opposed to deregulation; we really thought the border price should have remained in place. But it's led to a tremendous gas on gas competition. Many companies are still in a state of acute crisis because of falling prices. If you look at the trends over the last few years, gas prices are not going up; they've been falling. Some companies are in such a situation that they have to market their gas at any price. Of course, as they do that and as they're driven to put their gas on market, that has the impact of driving the price even lower. But the government's and the industry's solution to this, or at least not the whole industry but a good segment of the industry, is to expand production by increasing our ex-Alberta markets, by selling more gas into eastern Canada if we can do that – although we're running into competition now from American suppliers – certainly into California and the American northeast, into the state of Massachusetts through the Iroquois project, as we've heard the minister mention.

Mentioning the Iroquois project, I think that is critical. It raises a number of issues that are important to Albertans – and not just to Albertans; to all Canadians. The minister just spent some time talking about the issue here of incremental versus rolled-in tolling and who should pay for this pipelined expansion. As I understand it, the extremely large producers such as CPA argue that new customers on the line, the Americans, should pay

for the cost of pipeline expansion. This would obviously get the support of consumer groups in eastern Canada such as the Industrial Gas Users Association. It's pretty clear why they would support that position. On the other hand, I think a majority of the other producers in Alberta, certainly IPAC, have come out in support of rolled-in tolling; they think all customers should pay for any pipeline expansion.

I'm personally of two minds on this issue, because as a Canadian it bothers me that Canadians should be asked in effect to subsidize U.S. consumers, and that's what we're asking them to do in this case. Also, I think gas is such an important commodity, and it'll become increasingly important in the future because of its importance to the environment. It doesn't do as much damage to the environment per unit of fuel consumed as coal and oil and other fuels do. Yet we're selling this really ultradesirable commodity, as they say, at ridiculously low prices. Now, as an Albertan I'd like to see higher prices for that gas. It would not only benefit our producers, but it would also benefit the Alberta Treasury. I've got a suggestion to make for the government. I think all they should do is work at driving down the amount of deliverable gas. One way to do that might be to consider taking its Crown share off the market to the extent it can, conserve it in existing pools where possible, step in as an owner and bargain with other gas owners in a given pool, and let the other owners sell off whatever gas they want. But let's conserve the part of that gas that belongs to Albertans. We could at least get our Crown share that way, and if we have that residual gas, we could probably drive some pretty good bargains and increase our share of that gas in a given pool.

MR. CHUMIR: Dick Johnston just went face down.

MR. PASHAK: Well, let him go face down, but it would certainly remove a lot of the deliverable gas from the market, it should put an upward pressure on prices, and Alberta in the long run would get a much better rate of return on its gas. I know there'd be some problems with respect to all producers having access to market, but you could get around that through proportionality and that sort of thing. I think there are other ways we could actually increase Alberta's revenues, and it wouldn't be long before we started getting a much healthier return on our gas.

Last year I raised the question of gas processing, particularly in relation to comments that were made by the Auditor General in his report and also with respect to whether or not an unacceptable degree of gouging was taking place in these plants. Companies in a monopoly position as far as processing is concerned were virtually able to set their own rates for the processing of custom gas; that is, gas brought to the plant by producers other than the owners of the plant. In some cases – and I have a letter here – some producers were actually required to wind up paying more money for the gas they were getting processed than what they were getting in return, so they experienced a net loss, especially the freehold leaseholders, in bringing their gas into the plants. Now, a situation like this can't go on. I know that the minister has been meeting with the industry with respect to this issue. I understand their report is being presented to him, and he's indicated that he's going to get back to them. I'd like to hear from the minister when he intends to do that and if he can give us any indication at this point as to the direction he's likely to go. When is the minister going to act on whatever recommendations are before him?

Another recommendation with respect to that is that it probably would be in the public interest for the province of Alberta to get involved in an ownership position in gas processing plants themselves. There's so much profit made out of the operation of these facilities, and when you have a major find like Caroline and you're looking at building a gas plant in that area, I think the province of Alberta could really expand its revenue income by being a partner in that gas plant to the extent that its share of gas is going to be processed in that facility. So I'd like the Minister of Energy to consider that as a possibility. One small step the government could take that would help the small leaseholders would be just to let them know what their rights are, and I'd advocate that he do something like that.

I note just quickly, turning to the last two votes, that the minister is now responsible for electric energy marketing. By the way, I'm impressed by a letter I got a copy of that was addressed to him from Lionhead Power Producers Ltd. Now, this company proposes to use gas currently flared from battery sites to supply power to TransAlta Utilities and Alberta Power Limited. It seemed like an interesting and meritorious proposal. I'd like to get the minister's reaction to that. If this proposal is accepted, it would significantly reduce sulphur dioxide and nitrogen oxide emissions, and we all know what the consequence of those emissions are for the production of acid rain. It would also significantly reduce CO₂ emissions. Currently Alberta produces about 20 percent of Canada's CO₂ and globally we produce about 2 percent of the world's production of carbon dioxide, which most scientists believe contribute significantly to greenhouse effect.

Vote 9 . . .

MR. CHAIRMAN: Thank you, hon. member.

The hon. Member for Calgary-*Buffalo*.

MR. CHUMIR: Thank you, sole applauder. Thank you, Mr. Chairman. I'm pleased to participate in this debate. I note that last year the minister stated that he pays a great deal of attention to the conventional industry. I missed the first few moments of the minister's comments today and I don't know whether he repeated that comment, but I would say that I must take exception to the comment insofar as it relates to oil. The reality is that the policy of this government, at least from 1986 on, at which time it published a pamphlet entitled *Canada's Energy Future: Action Today for a Secure Tomorrow*, has been focused on megaprojects at the expense of the conventional industry. The focus in that particular pamphlet is the predicted decline in conventional oil production with a tremendous amount of focus on tar sands and upgraders. The result has been very clear to see in terms of government policy, in terms of where financial resources have been allocated. The result has been a total de-emphasis on the conventional oil industry and the pouring of multi-resources into megaprojects, particularly the Husky Upgrader and the OSLO project. Now, let's be clear that the general thrust of this policy makes sense over the long, long term, Mr. Chairman, but the timing in fact appears to be very poor, and some extremely questionable decisions, very costly decisions are being made by this government.

I'd like to talk briefly about the issue of conventional oil reserves, because that is a fundamental determinant of what the direction of our policy should be. Now, it is true that conventional reserves are declining, but in recent years studies by agencies such as the Energy Resources Conservation Board and the Geological Survey of Canada have made it clear that our

reserves of conventional oil are much greater than was ever anticipated. A very interesting statistic arises from the 1986 Alberta government report that I just referred to a moment ago, in which it's predicted that Alberta's conventional oil production in 1990 would be 700,000 barrels a day. The reality is that at the present time we have production of 780,000 to 790,000 barrels of conventional oil, the extra 80,000 to 90,000 barrels a day being equivalent to about one and a quarter OSLO projects in additional production. So there is a tremendous amount of conventional oil that can be recovered in this province if we go after it, and there are tremendous benefits to the province from going after that conventional oil.

In terms of basic economics it's cheaper to produce than our tar sands or heavy oil. On a per barrel basis it provides greater revenues to the provincial government. In terms of drilling and servicing jobs, there are more jobs per dollar provided by more economic operations. The reality is that the conventional oil industry is and has been the engine of the Alberta economy, all of Alberta, particularly rural Alberta. Now, the drilling and servicing industry has been, of course, almost totally dependent on the activity in the conventional area. The result of the decline in activity is that this segment of our economy has been in virtual depression, and drilling and servicing companies and employees and owners are suffering from severe economic difficulties.

Now, the clear conclusion from all of these many potential benefits of further enhancement of the conventional industry is that we would be well served by more activity in this area and that it is wrong for the government to have philosophically abandoned this sector. Let's be clear. There is in fact great future potential for the megaprojects. We, like any sensible Albertans who want to see economic activity, would ideally like to see projects like the Husky Upgrader and OSLO go ahead. We also happen to have our business heads screwed on in the right direction, and we believe that there has to be some true economic and marketplace discipline in making decisions as to which resources should be developed. In that regard, we feel that there has to be a pre-eminent role played by the private sector, which makes those hard economic judgments that governments can't make.

Now, instead of following the private sector, as should be the case, and enhancing and facilitating and making private-sector desires and decisions feasible, we find the provincial government leading and pulling the private sector along. We're putting huge amounts of public money into projects that are not well supported by the private sector at all and which in fact require the provincial government to establish deals in which the private-sector funding is treated on a much more financially viable basis than is the money which is put in by the provincial government.

Now, let's look for example, Mr. Chairman, at the Husky Upgrader, in which the total investment is projected to be \$1.267 billion. Of that, the Alberta government is to put up 24.17 percent, or \$305 million. When we look at the return on investment, we find that Husky is to get 48.3 percent of the return from the operations of the project for its 26.67 percent of the investment until it achieves what is defined as payout, and it gets credit for \$100 million in apparent design costs. Now, I would also note that if one looks at the contract very closely, Husky also gets a very potentially lucrative return as marketer of all the oil for the collective group.

The OSLO project is a much more spectacular example of the government leading on a project where the private sector is reluctant to come to the party. We find in that project that the

province of Alberta has committed no less than \$1,450,000,000 of Alberta taxpayers' money; that's Alberta alone. That consists of a \$425 million out-and-out grant, there's a \$600 million loan guarantee, there's an undertaking to pay up to \$125 million of preproduction interest, there's another \$125 million of post-production interest, there's \$112 million of potential subsidy in the event that there are low prices, and then there is what's known as the additional guarantee, which is the trifling sum of \$62.5 million: \$1,450,000,000.

MR. ORMAN: At a 16 percent rate of return.

MR. CHUMIR: We have the minister here telling us we're going to get a 16 percent rate of return, which is sure going to be a surprise to all those companies who have failed to flock to this project or to support it without any government largess, and it's certainly at odds with the views of some of the more knowledgeable participants that I'm going to be talking about momentarily.

Let me first note that that's not all. In fact, the people who may be getting the 16 percent return may be the few companies who put their money in and are piggybacking on the province, but on top of this, on top of \$1,450,000,000 of Alberta money, we've got another \$1.3 billion of federal funding. So this year what do we have? Two point seven billion dollars of government financial support for a \$4.1 billion project.

What are the economic merits of the project? Well, the minister would have us believe that they're just lined up for this assured, no doubt, 16 percent return. Instead of that, what do we find? We find the president of Petro-Canada, Mr. Hopper, calling the project a dog. Well, I think I understand what he means that it's a dog. Maybe the minister has a different interpretation. Maybe in his view a dog is something that returns 16 percent. Well, I don't think so. Mr. Hopper says that it's a poor investment on any reasonable price forecast. Even the federal minister, who is the minister responsible for looking after Canada's interests with respect to security of supply, calls it an uneconomic project. So what does the minister do when he hears this? What does he do? Does he say: "Well, let's hear more. These are knowledgeable people. Mr. Hopper knows what's going on. Maybe we'd better hear him more." Does he say that? No. What he says is: "We're going to take your leases away if you don't keep quiet. You'd better shut up. We're going to put a muzzle on you."

Well, the reality is that that's very poor public policy. What we should be doing is encouraging other executives and other knowledgeable people, civil servants in the minister's department, to speak out publicly on this issue. We should be having hearings, like the House of Commons energy committee has indicated it will be holding on this matter. Instead what we see are decisions continuing to be made with hundreds of millions and billions of our dollars in the back rooms of the Tory caucus by the same people who gave all that money to Peter Pocklington, and they tell us there's nothing to worry about. Well, who are you going to believe? The minister or your own eyes. So I would like to ask the minister whether he is prepared to agree to a review of this matter by a committee of the Legislature. Let's get Mr. Hopper and some of these other presidents and knowledgeable executives in front of it.

On top of this I understand from comments by Mr. Epp that the final cost of the project has not been determined because they're still working on the technology. That may or may not be the case, but if that is the case, then how is it that the minister

is able to tell us that we will achieve a 16 percent return on a project for which the cost has not yet been firmed up? Sounds pretty strange to me.

Now, let me emphasize, Mr. Chairman, that we would like the OSLO project to go ahead, but we don't think it's right to stick taxpayers with an unlimited future financial burden. So I think the route to go is to see if we can get more private-sector funding. The route to go would be to try and get Ontario to come to the party. Now, the minister and the Premier have said that Ontario is interested. Well, my understanding is that the government called up Ontario and asked whether or not they'd be prepared to talk. Well, of course they're prepared to talk. But my view, based on a project that's been called a dog by the president of one of the participants, is that the likelihood of the province of Ontario participating in any meaningful way is four-fifths of five-ninths of zero. That is unless of course the minister and the current government of this province have in mind the idea that this province should be providing a sweetheart, piggyback deal for Ontario's investment as well, that we put up grants and loans and guarantees and subsidies to Ontario so that we can secure supply for them in the future. I wouldn't be surprised to see the government enter into that kind of a deal, because that's the kind of negotiating it did for us in the past, particularly under the Western Accord, where we got fleeced in terms of the deregulation of the prices of oil and gas.

Now, the biggest problem we have of course, Mr. Chairman, is that there's only a limited amount of capital available. There's no free lunch. Once you stick money into a megaproject, that money is no longer available for other projects, such as those in the conventional area. What we see is that the government is pushing and pushing and pushing for these megaprojects, and by virtue of that, it is drawing money out of the conventional area.

The minister likes to talk about Syncrude. He says: "Well, we did it in Syncrude. Boy, that's turned out to be a great investment. We're going to be all right." Well, the fact is that the Syncrude transaction was totally different in its terms and it was totally different in terms of the times. In that instance, Mr. Chairman, we find that the governments of Canada, Alberta, and Ontario participated even up as equity participants with the private sector. There was a very limited degree of public largess, unlike the OSLO project. In fact, the governments came in that circumstance to fill the shoes of Atlantic Richfield on a project that was going ahead, that was desired, was planned, was pushed totally by the private sector but became imperiled by the energy crisis of 1973-1974. That is a totally different situation from the OSLO situation, in which the governments are forcing the issue virtually to the point of twisting arms and bullying presidents of national oil companies not to tell it as it is.

Now, having talked briefly about the concept of taking money out of the oil industry for megaprojects, I'd like to talk briefly about the proposed sale of the Syncrude project by this government. It is the view of our caucus, Mr. Chairman, that the proposed sale of Syncrude is something that we do not object to philosophically, but we are opposed to the sale of it at this point of time. We believe such a sale to be shortsighted and an example of extremely bad timing. The reason why we say that is that the ultimate result of the sale under normal circumstances, normal being the sale taking place to the normal range of purchasers, would merely serve to take money again out of the conventional oil industry which would be used for other projects or, indeed, used for some of the other megaprojects that we would like to induce them to invest in. On the other hand, what we have is a so-called plum which is not usually on the market

being dangled by the government in front of other participants in the Syncrude project, and if one or more of these companies decide that they want to pick this up, we'll find perhaps up to \$750 million, perhaps more, perhaps somewhat less, will be taken out of the companies' budgets and will not be available for other types of investments.

Now, anybody who is following the energy sector at this particular time knows that one of the reasons for the decline in activity, for the doldrums, certainly far from the only reason but one of the reasons, is that too much money and attention is being paid by the industry to the transfer of properties at the present time. Money is being taken out of this sector for purposes of conducting property transactions. So I'm wondering whether the minister would comment on this particular issue, whether he recognizes the poor timing of the proposed sale, and whether he'll assure the House that if he does go ahead with the sale, it will be carried out in such a form as to not take money out of the energy industry only to park it in the heritage fund, as he said is intended.

Now, in terms of the . . . [interjection] I hear bells. Is it time to eat? Is the pizza out back already?

In terms of the philosophy I've been espousing, that we need to pay more attention to the conventional sector, I would like to briefly quote a portion from a recent study by the Canadian Energy Research Institute entitled *Canadian Crude Oil Supply/Demand Balances*, which came out in August of 1989. At page 112 there's an assessment of conventional sources of oil. The statement is made, and I quote:

It is likely that there are substantial quantities of conventional oil available from this basin at lower costs than either OSLO or Hibernia.

The reference there is to the western sedimentary basin. I carry on at the same page, and quote as follows:

It is a recommendation of this study that conventional sources of light and heavy crude oil, including EOR, be reviewed to determine optimal levels of incentives; that these incentives be designed to promote the extraction of less expensive sources of crude oil before more expensive sources; and that these incentives be designed to maintain the productive capacity of the Western Sedimentary Basin as much as economically possible. Further, such incentives should be based upon a consistent long-term policy rather than a series of short-term band-aid programs.

So this then raises the question of what can and should be done to help restore activity in the conventional oil industry, where drilling declined 58 percent in western Canada last year. The question is: what can be done aside from not diverting investment moneys to economic megaprojects?

Now, let's be clear that insofar as natural gas drilling is concerned, that is basically a function of markets and pipelines and prices. Insofar as subsidies are concerned, the industry has made it clear that it does not want to see a repeat of the stop-and-go subsidy programs of the last four or five years. So this then leaves the structural aspects of the industry, and the one area that needs to be reviewed is the royalty structure. In particular it needs to be reviewed with respect to the impact of rates on drilling. How are these rates imparting the decisions of the industry to move ahead with drilling projects?

Now, last year the minister said that he would review the royalties structure for complexity only, but don't bother him about rates. He repeated this tonight. Well, he's right; there is a need for simplification. Some companies spend more money on accountants than geologists, but I believe that his rigid attitude with respect to rates is reflective of the blinkers this government has had for the past four years with respect to the

potential of conventional oil. I believe we need to consider whether royalties for new drilling should be made more price sensitive, for example, to protect against price declines; no reference to Ralph. We need to consider royalties in special circumstances such as horizontal drilling, an issue raised by the Independent Petroleum Association of Canada. In this area, costs are higher, but production rates are up as well so that the highest royalty rate prevails in these circumstances without considering the increased costs of drilling. We need to consider whether we have a proper regime for in-field drilling for low-producing wells and other special situations.

I'm also concerned and the industry is concerned, Mr. Chairman, with respect to the government's proposal to increase royalties with respect to EOR operations. Concern has been expressed to me that this will further reduce activity. It's important that rates be kept at a level where the activity is not cut from its current depression levels. On the other hand, let's also be clear that if the deals are too fat – and this is something where the onus is on the minister and his department – the royalty rate should be adjusted.

I would like to say a few words about the environment concerns raised by the minister. This is, of course, becoming a justifiably more important focus of our society. The energy industry, of course, recognizes this and, I believe, is working hard to respond to the crisis. The province of Alberta has a great deal at stake. There's also a major role for the federal government, and the reality is that many of the decisions are not under the control of Alberta. We have to live with this reality, Mr. Chairman. The minister is right that the process is becoming very rigid, that the complexity is becoming a very serious problem. But I have some concerns that when the minister says that we're not going to be taking any action with respect to CO₂ until he's absolutely sure, it's really a form of Russian roulette, and what he may in fact be saying is that we're not going to stop until we're absolutely sure the next chamber doesn't contain a bullet.

So I would express, I think, widely felt concern about the decision at the recent energy ministers' conference, where they met and abandoned the target of the 20 percent reduction of CO₂ emissions by the year 2005. I have concern about the way the minister addressed the issue, as I've just indicated, and I urge the minister to make it very clear, to get busy and develop a meaningful strategy whereby we do respond to the issue of pollutants and don't delay everything until the definitive package has been developed. I know, for example, that we're doing a very poor show with respect to energy conservation programs, and vote 2 of this budget has eliminated what were previously expenditures of \$537,550 with respect to renewable energy and conservation. That has totally been eliminated.

I'd like to also say a few words about the free trade arrangement in the few minutes that are available to me, Mr. Chairman. I've been hearing concern in the past year from the industry about increasing problems with respect to United States regulation under the Federal Energy Regulatory Commission and otherwise. Now, I never could understand why we would agree to energy provisions giving the United States unlimited access to our energy, virtually, in the free trade agreement yet not negotiate protection from FERC and other regulatory impediments. That hardly seems to be free trade. The government has continued to say that we got guaranteed access to the United States markets, but the reality is that we didn't. Now we see that there are problems again, and we heard earlier this evening the minister lamenting about regulatory problems in

California. Well, where is the free trade agreement? How could it be that we're having these problems? The fact is the government did not negotiate well.

MR. CHAIRMAN: I'd like to advise the hon. member that his time has expired.

The hon. Minister of Energy.

MR. ORMAN: Mr. Chairman, in that the Batman and Robin of the opposition ranks have spoken, I thought it was important that I get up and respond to some of the comments they've made. The first thing I'd like to address is oil prices. You know, it's great for the opposition critics and their leaders to sit there and criticize a prediction on price long before the prediction comes true. They know it's an imperfect science, and I think that, you know, it's offensive, Mr. Chairman. Let's go back and see what they predicted for prices. I'll tell you that the price averaged about \$20.20 for last year. So here they are, criticizing the government for making their estimate. We need a number to base our budgets on. So what would they do if they formed the government? Here's what they would do.

On Friday June 9, my birthday, Mr. Chairman, the leader of the Liberal opposition said this: "What's my number? It's a lot less than \$19." That's what the Liberals would do if they were over here and predicting. The price was well over \$20. We took \$19.50, which we found was a fairly reasonable number, and I can tell you that we were conservative in our predictions. I see that the hon. Member for Edmonton-Glengarry also lamented the fact, as I indicated, that . . . He's quoting such illustrious sources as the *Globe and Mail* in terms of their predictions when he landed on a price much less than \$19.

I look at the Member for Edmonton-Norwood. What does he say? I see him quoting a source that says: "In fact, some of them are predicting \$10 a barrel. Ten dollars a barrel." So if the socialists were to form the government, they'd be listening to people that predict \$10 a barrel. Mr. Chairman, the price was over \$20 U.S.

Do you know what's happening in the last week? They're all spooked, Mr. Chairman. The price softens, well within the parameters that were predicted. Everybody knows that when spring rolls around, April comes along, we have a softening in oil prices. It's been historical. It was an anomaly last year because we had the *Valdez* spill. We had the platform shut-downs in the North Sea, and the Japanese had some problems with their nuclear reactors, so it broke the pattern. But traditionally the prices soften this time of year. Have you seen the media? Have you seen the opposition spooked by a softening in price for seven or eight days out of 365? That's what they would be doing if they were in government. They'd be running around bumping heads trying to figure out what to do. The price went down for a week: the sky is falling, Mr. Chairman. I think if Albertans knew what these characters were up to, they would be appalled.

Now, the Member for Calgary-Mountain View happens to be in the Legislature. He said on June 12: "It would have been the better part of prudence for the Provincial Treasurer to have included a much lower figure in his estimates." Lower than \$19.50. Well, the price was well over \$20, Mr. Chairman. There are their experts on their side.

Now, I must admit that the Member for Calgary-Forest Lawn is knowledgeable when it comes to some of these issues. It's painful for me to admit that, Mr. Chairman, but let's look at what he said. Talk about unanimity in their caucus. The

Member for Calgary-Forest Lawn, July 18: "But what is actually, happening? Now, I agree with the minister that \$19 a barrel perhaps isn't an unrealistic estimate." We have someone on that side who has some understanding of what is happening. It's not the leader of his party. It's not the Member for Calgary-Mountain View, and it's not the Member for Edmonton-Norwood. They're predicting the end of the known world today, Mr. Chairman. So that's a little bit of histrionics with regard to how the opposition reacts to the day-to-day price that happens to occur. You have to be patient; you have to have staying power, Mr. Chairman. You have to have faith, and you have to believe in the information that you receive from the best experts and land on a price.

The Member for Calgary-Forest Lawn waxed eloquent with regard to surface rights, and as he knows, surface rights are the responsibility of the Associate Minister of Agriculture. His concerns with forest management agreements: I would assume, in that the Minister of Forestry, Lands and Wildlife had his estimates today, that the member brought it up. I was not here for those estimates, but I would just naturally assume they were part of the discussions in his estimates this afternoon. I'm sure the Minister of Forestry, Lands and Wildlife adequately responded to his questions, so I won't bother today, Mr. Chairman.

I should say, though, on a serious note, that the Minister of Forestry, Lands and Wildlife and I have had a discussion with regard to forest management agreements. We recognize that in some ways there is a potential for conflict in development of the pillars of our economy. We've been able to overcome it with regard to agriculture and energy, two areas of potentially direct conflict that over the last 40 years have worked fairly well, respecting each other's day in the sun with regard to their role in this Alberta economy. With the advent of forestry development in this province, Mr. Chairman, I am of the belief that the forestry industry will have the same capabilities of working with the industry. We must work our way through this new relationship with forestry and energy development, but the Minister of Forestry, Lands and Wildlife and I have had this discussion, and we will satisfy this issue, the concerns, to the satisfaction of everyone involved, I'm sure.

Mr. Chairman, again I refer to my hon. colleague who is the critic for the NDP with regard to Energy. He made some very important comments with regard to OSLO, much unlike the Member for Calgary-*Buffalo*. We must understand that at the present time in Canada we are in a supply/demand balance: about 1.4 million barrels a day are produced; 1.4 million barrels a day are consumed. By the year 2010, if there is no further oil sands development, we will see that Quebec and Ontario, the major consumers in this country, will be importing about 927,000 barrels a day. That is a major swing in supply/demand balance. It points to the importance of oil sands development in this province. There's a clear need for it, and it's a desirable need. I appreciate the hon. Member for Calgary-Forest Lawn sharing in that particular vision.

With regard to custom processing, we are in the middle of discussions, and I don't think it would be appropriate to discuss it at this particular time. I have been heavily involved in this particular issue. It was an issue that I was aware of as a concern prior to coming into government, and I'm hopeful that there will be an industry-based resolution to this most important issue. If there's not a resolution, we have the Public Utilities Board, which is perfectly capable of adjudicating in the absence of an industry-based solution.

Mr. Chairman, the Member for Calgary-*Buffalo* made some comments about our ignoring the conventional oil industry, and that is not true. The Alberta royalty tax credit program, its redesign and our five-year commitment to that program, is reflective of our concern for the conventional industry and the fact that it's important to be able to go to the bank, use the term of that program to finance exploration and production. That was recognized by the Member for Calgary-Forest Lawn, not the Member for Calgary-*Buffalo*. You'd think that a guy that's drilled as many dry holes as he has would understand that. Mr. Chairman, I find this member's comments astounding. I was in a state of shock for a moment with regard to his comments on OSLO.

You know, when we were looking at the sale of Syncrude, I happened to look back to – the leader of the Liberal Party at that particular time was the Member for Westlock-Sturgeon. Now I admit, I have to quote a newspaper article; it's the only research we could use. He wasn't in the Legislature, so there was no *Hansard*. He was pointing to the fact that Syncrude was a terrible investment for the province of Alberta: it should not have occurred, the timing was not right, it wasn't important to the long-term economic development of this province. He was knocking it, Mr. Chairman. Let me pass a message to the Member for Westlock-Sturgeon through the Member for Calgary-*Buffalo*: Syncrude has delivered to the people of the province of Alberta in excess of \$1 billion in royalties. Now, Mr. Chairman, if the Liberals happened to be in government at that particular time, they'd be looking for another \$1 billion of resource revenue to run this province, and you know where they'd get it? Personal income tax, sales tax: the same type of thing that their ilk does in all the other provinces in this country. I think it's a shameful display of ignorance, and I'm surprised that a member of this Legislature from the city of Calgary would display that level of ignorance on this very important issue.

You know, Mr. Chairman, there's another thing that was galling to me, and it is classic Liberal. He stood there in his place for 15 or 20 minutes on the OSLO issue, and there was not one suggestion, not one idea, not one glimmer of idea that came from him as to how we should proceed with development of our oil sands in this province. It *seems* to me that they have adopted the former leader of that party's view on oil sands development: "Let's forget it. It doesn't make sense. Let's forgo all of the revenue and ignore the importance of development of oil sands in this province." I think it's a shameful display, and I hope that the people of Calgary-*Buffalo* bring him to bear on this particular issue at the next election.

Speaking of the next election, Mr. Chairman, I kind of like the fact that he sits there without any ideas. You know, Albertans know it. I appreciate it because it makes it easier for me to get elected when the next election rolls around, because they have no ideas – they're bankrupt – and the thought in Albertans' minds of them forming the government with some of the ideas displayed today by that member I think is hammering another nail in their particular coffin. I'm almost lost for words.

Mr. Chairman, on his last point about global warming, he knows the truth, and I'm surprised that he distorted it in his comments. I said in my opening comments, and I've said publicly many times, that we will move forward to reduce the level of CO₂ into the atmosphere. That is a commitment that I have made, it's a commitment that the Minister of the Environment made, and it will occur through our consultative process on clean air strategy.

Now, Mr. Chairman, they talk about a 20 percent reduction by the year 2005. That is a 50 percent reduction when you roll in demand between the '88 level, the takeoff date, and 2005, a 50 percent reduction in CO₂. The Minister of Energy, Mines and Resources for the government of Canada said recently that for us to achieve the levels which that member would like us to commit to would mean that there would be no cars allowed in cities larger than 250,000 people. That is how the Liberals operate: you don't bother talking about it; you don't monitor the impact; you don't discuss it with the electorate or the citizenry; you just go out and do it, and then let the chips fall where they may.

Well, that is not our view, Mr. Chairman. If we are going to move on environment and particularly on the global warming issue, Albertans will know the impact and the life-style modification that they must be subject to, and they will know the impact on their pocketbooks. Now, it doesn't mean to say that we won't move on these measures because it's too expensive or because the public doesn't want it; I'm not saying that. But if we are going to be precipitous, I think it actually ignores the intelligence of the public to make decisions and to input in a meaningful way on this important issue. That's how we will deal with the global warming issue, Mr. Chairman, and I believe it is the most responsible way.

MR. CHAIRMAN: The hon. Member for Lloydminster.

MR. CHERRY: Thank you, Mr. Chairman. I want to speak for a few moments on heavy oil and the Upgrader project in Lloydminster. But before I do that, I want to congratulate the minister for the job that he is doing and has done to this point.

I guess that after listening to the comments about heavy oil, there certainly seems to be a lot to be desired in it. Well, coming from the heavy oil area, I can assure you that when we look at heavy oil in our area, we look at approximately 30 billion barrels there sitting in the ground. This is what I call a supply that hasn't been tapped today yet, but in time, I'm sure, as the energy diminishes in the light crude, we're going to have to set our sights on the heavy oil.

[Mr. Jonson in the Chair]

On September 2, 1988, the announcement was made that the Upgrader would be built through the three levels of government and the private-sector partner, being Husky. Now, if that wasn't what I would call a positive move towards self-sufficiency, then I don't know what is. Certainly the governments have taken an active part in it, but as Premier Devine indicated at the opening ceremonies, when the Upgrader was up and running, his province would certainly be issuing shares and be getting out of the project altogether. So although the dollars are coming from the provincial governments and the federal government, I am sure that in time to come those dollars will be bought up by the private sector.

The Upgrader at this point, which, for the benefit of all in the Assembly, is located, of course, on the Saskatchewan side some five miles east of Lloydminster, is now starting construction. Visiting the site just last week, I see that there will be approximately 400 people by the middle of May working on that project out there, and it's very gratifying to see that. There was a lot of skepticism by all that this was another announcement of an Upgrader going ahead and nothing was going to happen. I believe this was probably the fifth or sixth attempt to get it

going, but I can assure all in the Assembly that it is moving now.

The cost of the project, which is approximately \$1.3 billion, and Alberta's share, which is a little over \$300 million – when I look at it and look at what it will produce in the future, I think it's a very, very good investment, a very cheap investment. The Upgrader itself is managed by a biprovincial Upgrader board which has three members from each of the four participating bodies. They are the overseers of the total project. Husky is the contractor, but as time goes on and we look into 1991, we will see a work force there of between 4,500 and 5,500 men, something that is certainly going to help not only the two provinces, our sister province Saskatchewan and Alberta, but all of Canada, because you must remember that the equipment needed for the Upgrader is being built throughout Canada. I'm just very proud to say that even now some of the local firms in Lloydminster have been able to pick up some of the contracts that have been awarded to this date.

I guess a question to the minister for myself would be: is this construction going to be totally unionized, or is there also going to be an open workplace? I'm sure the people in my area have been asking me about that, and I know that there have been some negotiations going on to that extent. When the project is completed, and I believe we're looking at the latter part of 1992, the effects of it will spread out not only from the Upgrader site itself but throughout the whole area. When I say the whole area, I mean even into the Cold Lake area; we'll find that the product will be coming out of Cold Lake also and down to the Upgrader site. So there's going to be a spin-off. I'm sure that more wells are needed, and they're going to be drilled. A question to the minister also: is there any anticipation of these wells being drilled in '91-92? Of course, there again it brings back a work force to the servicing sector.

As I said earlier, I'm only too happy, and I say it sincerely, that this government was certainly a spearheader in making that announcement, in getting that Upgrader announcement on track. I know that in our area there, which has a very high unemployment rate at this time, I would say that roughly 2,500 people moved out of the city of Lloydminster and surrounding area. A lot of them will be back, and the jobs will be secure in years to come.

So I think that, Mr. Chairman, is all I have to say, and I know that the minister is very gratified also. He went to an annual meeting of the Upgrader board, and I know that he certainly would have got a lot of information from it.

Thank you.

MR. DEPUTY CHAIRMAN: The Member for West Yellowhead.

MR. DOYLE: Thank you, Mr. Chairman. I wanted to begin by congratulating the minister on the initiatives he took last year in sending \$2.4 million to Smoky River Coal in Grande Cache. The benefits of that funding have certainly increased employment in Grande Cache and assisted that community, which was devastated over the years by cutbacks in sales of coal and by the poor production rate that they had prior to that time.

Also, Mr. Chairman, I was quite surprised to see that the Coal Research budget was cut by 34.4 percent in vote 2.4.3; also, with the initiatives that the minister took in the last year by supplying funding to Coal for Ontario and further study at Leduc. I had the opportunity to go to Leduc to look at that project. The government had put approximately one-third of the money in there, and the coal company, Unocal, the federal government,

and the Ontario government, an expenditure of approximately a million dollars. The demonstration project looked very successful for the movement of western coal to the eastern markets by slurry pipeline. I was surprised because I was the only MLA, after a million dollar expenditure, who went to look at it the day before they were going to dismantle it. The sale of western coal to the eastern markets, Mr. Chairman, would not only stabilize the communities of the coal producing parts of our province, but it would stabilize the total economy in the province of Alberta. We have in Grande Cache in the riding of West Yellowhead some 540 employees at the coal mine. Hinton and Edson have in excess of 1,400 employees in the coal industry. The spin-offs in those industries certainly help the tax base of all those communities and, in fact, the tax base of the province of Alberta.

Coal for Ontario has been cut by 45.7 percent. This problem with the transportation of western coal to Ontario has been proposed, considered, dismissed, and studied since Confederation. I was just curious to know if it now has been resolved and if further movement of coal to the eastern markets will begin shortly.

On renewable energy, the renewable energy budget was completely eliminated by \$539,850 last year. There is no money whatsoever for renewable energy. I would think that at this date in time, with the problems we have in the environment, the minister should play his role and the government should play their role in developing renewable sources of energy, such as the geothermal energy that is located in many parts of our province. Geothermal energy is used in the U.S., in Alaska, and around the world for the production of vegetables in greenhouses, for the treatment of arthritic problems in seniors and people of all ages. It is used for fish rearing, aquaculture, and for several spas throughout the world. I have one in my riding of West Yellowhead at Miette that I'm sure many of the members have visited. There was some \$18 million put into Miette hot springs by the federal government, and some 350,000 people visited Miette last year. Surely, with kick-start funding from Energy, we could develop some of those enormous geothermal resources that would be much closer to the highway, and they could be used for such things as greenhouses, aquaculture, and for strict tourism development. I would hope that the minister would seriously consider putting more money back into these renewable resources and, in fact, start developing these rather than putting every dollar towards oil and gas.

I do realize that in the department there is a person there who seems to cause a little fly in the ointment every time geothermal is mentioned, because his responsibility seems to be to move gas and oil. But I think if he would open his mind to the benefits of the development of such an environmentally safe and renewable resource that would have a potential of years far past our lifetimes, the taxpayers of Alberta would reap the benefits.

Also, now that the PUB is under the minister's shield, I would hope that he would take some steps to curtail the charges that were put upon the taxpayers of Alberta in 1988 and '89 in rates from TransAlta Utilities and Alberta Power, where they overcharged the ratepayers of Alberta over a hundred million dollars. I would hope that he would take some steps to see that those overcharges are returned and that this would not be allowed to happen again under his department.

That was my conclusion, Mr. Chairman.

MR. DEPUTY CHAIRMAN: The Member for Drayton Valley.

MR. THURBER: Thank you, Mr. Chairman. First of all, I would like to commend the minister on his ability, with this government, to bring us from some boom times down through some bad times in the energy industry. This industry is particularly important to my constituency. I have oil, I have coal, and I have virtually everything connected with energy in my constituency. I think it's been a good job by this government to average it out and provide a modicum of economy that has allowed it to survive in a manner so that it hasn't gone broke in my constituency. I think it's just strictly government policy that has allowed that to happen. We do know that a policy of this government and a wish of the major oil companies is to get rid of a lot of the incentives, and I'm very happy to see that the minister has proceeded along that line. It created more hardship, in a lot of ways, than it did good because a lot of the smaller oil companies would take advantage of the incentives to drill a well and then they no longer had the resources or the income to produce that well or to hook it into the pipelines or the batteries. So it caused them some problems. They had to turn around and go back to the marketplace to do the developments.

The other thing that enters into this from the opposition point of view: they have said, "We don't want to see the tar sands thing go because it may not be environmentally sound, and we've got to look at a zero pollution area." I think that a few years ago we did a lot of things in the oil patch that were not acceptable on an environmental level, but the balance has swung the other way. They're talking about zero this and zero that, but if you measure the zero, one part in a trillion or one part in a quadrillion for pollution effects, that's like saying 16 inches between here and the moon. So somewhere along the line we have to reach some kind of a standard that will allow progress to take place and still achieve a healthy environment for our society. If it's safe to drink and it's not hurting the people or the water or the land or the fish, well then maybe we'd better look at it and allow the industry to go ahead and perform in the economy. We need the jobs. We need the economy to keep diversifying and building up, and I think these types of policies allow that to happen.

I'm very concerned that when you talk about the environment and the pollution that is supposedly coming from the oil patch and from the pulp mills and all the rest of it — and I realize I'm getting away from the energy just a little bit, but the same thing applies, because the pendulum has swung so far now that the members of the opposition and certain friends of whoever have pretty well tried to start to shut down Alberta totally in the interests of environment. It's a gimmick, and they're trying to make political hay, and I don't think it's a reasonable approach to take. I think there has to be a balance achieved there, and I think we'll continue as good government policies to achieve that balance, to allow the economy to go ahead and that diversification to take place.

The oil industry recognized some time ago the value in getting out of the incentive area and doing a lot of things other than that to allow the marketplace to indicate the price level and the amount of production that is necessary. We have to have our oil sands projects. We have to go on with the tar sands projects somehow. Just because the federal government pulled out of it, I don't think that's any reason to stop it. We need the jobs. In six to 10 years we're going to need the oil. There's a lot of controversy right now about the downturn in the price of oil, but as the minister has stated quite truthfully, it's a seasonal thing; it'll go away. The prices are fairly accurate, I believe in our

predictions, and I'd just like to see the minister keep up the good work.

Thank you.

MR. MITCHELL: Mr. Chairman, I would like to comment briefly on the global warming issue and the minister's reaction to it. Believe it or not, I'm not trying to make a cheap political point about this issue, but I am very concerned, and I am in particular concerned about the level of commitment expressed by this minister, or in fact reflected in this minister, to conservation and to addressing the issue of global warming aggressively and with the intensity that it deserves.

My concern has arisen in recent weeks from the statements of two very senior officials in this government: one, the Minister of Energy; and two, the former Deputy Minister of Energy, Barry Mellon, who is now the deputy minister to the Premier. Clearly he has a significant position, and as the Premier more and more takes on the environmental portfolio, we have to become concerned about the advice that he might be getting on an important environmental matter from somebody like his own deputy minister.

But first, I refer to a statement made by the Minister of Energy on March 30 in response to a question from the Member for Calgary-Fish Creek concerning a carbon tax proposal. In that response the minister says:

We see that the George Marshall institute has advised the U.S. government that it doesn't appear as though there is any action necessary on global warming.

Now, I appreciate that when asked a question, it isn't always easy to stand on your feet at a moment's notice – although I can't imagine that he only had a moment's notice from the Member for Calgary-Fish Creek – and as carefully choose words as one might want to. I also appreciate that it may well be that the minister had a briefing from a staff member, and it's difficult to get the details or the precise nuance of a document from a second-party or third-party briefing.

But I have the George C. Marshall institute study, called *Scientific Perspectives on the Greenhouse Problem*, referred to by the minister. I would like to draw the minister's attention, personally, to that study and ask that he reassess his evaluation of that study, because I believe sincerely that it does not advise "that it doesn't appear as though there is any action necessary on global warming." Quite the contrary; what the Marshall study says is this: the methodology that has been involved in studies assessing and predicting global warming is a methodology that needs perfection. That is different from saying that that methodology is wrong. That is different from saying that the conclusions of that methodology are definitively wrong. That is different from saying that there is no global warming effect. What it is saying is that we should refine the studies to reduce the uncertainty and increase the certainty about predictions on global warming.

This study certainly doesn't conclude that no action is necessary. Quite the contrary; it says, for example:

The total cost of supercomputing facilities for major climate forecasting groups would be no more than \$100 million.

This investment it encourages and says that it would cost effective. It says that

Augmentation of the pitifully small force of scientists attempting to make progress on this important problem is as vital as improved observations and computing power.

Definitive answers must be achieved and can be achieved within three to five years. Mr. Chairman, that is not a call for no

action. Quite the contrary; that is a call for very, very significant action.

My fears about this issue are considerably enhanced when I hear a very significant leader within this government stating that uncertainty about predictions equals no global warming. I would feel much more secure about certainty, because then we would act. This attitude expressed in this minister's statement is somewhat like pulling into the oncoming lane before you go around a blind S curve, assuming that there's a good chance there won't be another vehicle coming head on. If you make it, great; you're perfect. And if you don't make it, it is terminal. If you are wrong, it is terminal. The frustration I feel is that there are steps and initiatives, one of them simply leadership. One of them is simply establishing in the minds of Alberta businesses, of Albertans individually, that steps to be taken to conserve energy, steps to be taken to reduce carbon dioxide emission, methane emission, are steps that are not only good for our environment but can also be good for our economy and that in fact our economy is one economy in the world that is particularly vulnerable to a restructuring of world market demands for fossil fuels. If we are to provide leadership for our economy, leadership for the people of this province and for their environmental health, there can be no equivocation. It isn't as though we hurt ourselves if we take steps to reduce CO₂ emissions. Quite the contrary; you can't hurt yourself by doing that, and you can terminate yourself by not doing it.

Mr. Chairman, my concerns about that attitude as expressed by this minister were enhanced considerably when I read a speech by the deputy minister to the Premier of this province and the former Deputy Minister Energy. I should say the same deputy minister – well, I'll get to that in a minute. But he states here, and very cynically, very cynically in an old boys' "let's be buddies, wink, wink, nod, nod; we know better than everybody else, don't we?" attitude when he spoke to his peers in the energy industry:

Lack of concrete evidence for global warming or its causes, however, will not deter the zealots from trying to save us from ourselves.

A highly cynical position to take and a position that should be beneath somebody who is in the kind of leadership position that the deputy minister of the Premier of this province is. And one of the arguments that he makes to support the lack of evidence is:

I note, for example, that analysis of fossil air trapped in the deeper layers of the Antarctic ice cap indicates that carbon dioxide contents of the Earth's atmosphere have fluctuated dramatically over the past 200,000 years . . . [and] during the interglacial period 140,000 years ago, CO₂ levels were significantly higher than now.

Great. So CO₂ levels were significantly higher 140,000 years ago when this planet was uninhabitable, and that's justification for saying that we don't have to worry about CO₂ in the atmosphere today. Mr. Chairman, while I'm willing to accept that the minister's statement was not given frivolously but could in fact have been a statement of the moment – jumping to your feet having to answer a question, could in fact have been the result of third-party, second-party briefing – I am not willing to accept that this statement by the deputy minister, Barry Mellon, of the Premier's office is anything but frivolous, is anything but currying favour amongst his compatriots and his peers, is anything but fundamentally irresponsible.

Mr. Chairman, I have searched for studies that defend the position that no action is required or that there is no greenhouse, global warming effect, and I have found another study that's received . . . [interjections] You know, this is such an

important matter. This is not a frivolous matter. This is a matter where we require leadership from government. I'm not trying to make some cheap political point with this. What I'm trying to say is that the costs and the stakes involved in this issue are so high that some backbench member leaning back late at night, laughing and joking with his buddies, is not a response that can be acceptable in any way, shape, or form.

I have searched for studies that would support any indication that we shouldn't proceed with conservation that is environmentally and economically sound, with conservation initiatives to anticipate the potential global warming effect. The only other one that's had any popular kind of exposure and that I've been able to discover that could be construed in that respect is one that's in the March 1990 issue of *Science*. It's by Roy Spencer and John Christy. Again, they raise questions about the methodology, and again they argue that that methodology can be improved. But one of their conclusions is as follows, and this is an important conclusion:

What should be the national response to the above uncertainties? Even were there to be a negligible greenhouse effect, we should be taking actions. For example, we should induce conservation and enhanced energy efficiency by increasing taxes on fuels . . .

That may or may not be a solution, I would argue.

. . . especially gasoline. We should greatly expand efforts to develop renewable resources, including biomass. But whatever we should do should be based on well-thought-out long-range goals. It should not result from a half-baked political response.

Mr. Chairman, any response that says no action is needed, any response that is cynical about people who are concerned about global warming is a half-baked political response, and it cannot be tolerated now. The consequences, the stakes, the results are just far too . . . We cannot afford to be wrong on this particular issue.

Having said that, Mr. Chairman, I believe that there simply isn't sufficient commitment on the part of this government, if you look where it counts, at the numbers: to conservation, to research into global warming, to taking steps that can do something about the future of this province's environment and its economy and its relationship and contribution to the global environment.

Mr. Chairman, energy conservation has been reduced by 1.7 percent to \$1.3 million. The minister has said that they have done 2,000 audits across the province over the last 10 years, audits into energy conservation. Well, what are we doing about saying to people, "Maybe we shouldn't be driving eight-cylinder cars" at some point? What are we doing about widespread, broadly based initiatives to look at how you reduce electricity consumption, when it produces a huge proportion of the CO₂ that's produced in this province? How do you do all of those kinds of initiatives with \$1.3 million? Mr. Chairman, you don't. This is lip service. It is nothing but lip service to a much broader problem that requires a much more in-depth commitment.

Hydrogen technology research has been increased to \$1.7 million. If it is that we're looking for fuels in that research, good. It's good that it's been increased. I would argue that \$1.7 million is almost negligible given the task at hand and the amount of research and development that would be required into that kind of fuel.

Small power research and development remains unchanged at \$160,000. Certainly that policy, as we've already discovered, doesn't address drawing a distinction between those kinds of

alternative energy sources that produce CO₂ and those kinds of alternative energy sources that don't produce CO₂.

Mr. Chairman, I think one of the problems may be that there is a conflict of interest. I would feel much, much more secure if I saw conservation initiatives and research into alternative energy sources not within a department whose *raison d'être* is fossil fuels; rather, it should be, at the very minimum, in the Department of the Environment. It is a concern that we find so many other departments doing the job of the Department of the Environment, dissipating the focus that department could bring to a broad range of environmental issues that are confronting this province. So I simply encourage the minister not by way of criticism, because I know that this is a very, very difficult issue area for him and for this government and for all of us in this House. I know that it is sensitive, and I know the costs either way can incur huge risks. But I would ask that the minister at the very minimum simply reassess his analysis of the Marshall study, look at the study that has been reported in *Science* in the March 30, 1990, issue, reassess the idea that in fact things can be done to confront the global warming issue that are environmentally sound and that in the long run are very economically sound as well.

MR. DEPUTY CHAIRMAN: The hon. Member for Calgary-Millican.

MR. SHRAKE: Thank you, Mr. Chairman. I'll make mine very brief. The hour is getting very late. The first thing I'd like to say: it's a real shame. It's really too bad that so many of these experts that know so much about the oil industry are wasting their time sitting over here in the Liberal seats instead of out there doing these wonderful things that they know so much about. But I just want to say the minister made a good presentation, and a lot of things he mentioned there.

But I just want to comment very briefly on AOSTRA. I'll make this very short. In this province we often hear people talk about the high-tech industry, and they usually think of computers and so on. In this province we are the high-tech people of the world for heavy oil and the oil sands. As the hour is late, I'll be very short on this. One of the processes we developed here is a . . . [interjections] Sorry; the expert is leaving now. Sorry about that.

MR. DEPUTY CHAIRMAN: Order please. Let's get on with it.

MR. SHRAKE: But out of one of the projects that we came out with is one we've developed that may be too late, or maybe it's on time now with the slowing down of the OSLO process. It's a process called the cold water extraction process. The Syncrude plant and most plants in this province use a heavy oil or they use steam, and we've found out it's 30 percent cheaper using just straight cold water and you recover more of your oil and more of your gas. Maybe that will be the technology developed in time for the OSLO plant. The province of Alberta: now we are probably the world's experts on directional drilling. They used to call it whipstocking, but we now have — you can drill down in this spot and drill over a mile away, and you've actually got a smart-head drill that can drill over there, and we came through with some quite heavy-duty things on the heavy oil. Normally you can recover something like 10 to 15 barrels out of a lot of these wells, but with the processes developed, you can bring out up to 50 barrels. I won't go into

the long technical details, but these are things developed by your provincial AOSTRA. From a lot of the wells you only recover 30 percent of the oil; 70 percent stays down there. More oil stays down than you ever get out. With the processes developed with private industry and AOSTRA, we can go back and get another 30 percent.

There are a lot of things. I hope some of the members here will take the time to read some of the material on AOSTRA, and I hope that the minister there does recognize the good things that AOSTRA is doing. On that point, I'll sit down.

Thank you.

MR. DEPUTY CHAIRMAN: Hon. Deputy Government House Leader.

MR. STEWART: Mr. Chairman, I move that the . . . [interjections]

MR. DEPUTY CHAIRMAN: Just a moment.
Order, please, in the House.

MR. STEWART: I move that the committee now rise, report progress, and request leave to sit again.

[Motion carried]

[Mr. Deputy Speaker in the Chair]

MR. JONSON: Mr. Speaker, the Committee of Supply has had under consideration certain resolutions of the Department of Energy, reports progress thereon, and requests leave to sit again.

MR. DEPUTY SPEAKER: Does the Assembly agree with the report?

HON. MEMBERS: Agreed.

MR. DEPUTY SPEAKER: Opposed? Carried.

[At 10:23 p.m. the House adjourned to Tuesday at 2:30 p.m.]