

Title: Estimates of Resource Development, Monday, March 13, 2000

Date: 00/03/13

8:06 p.m.

[Mr. Renner in the chair]

Subcommittee D – Resource Development

Gordon, Judy, Chairman
Renner, Rob, Deputy Chairman
Amery, Moe
Broda, Dave
Carlson, Debby
Coutts, David
Havelock, Jon

Herard, Denis
Hlady, Mark
Langevin, Paul
Magnus, Richard
Pannu, Raj
Paul, Pamela

Pham, Hung
Sapers, Howard
Shariff, Shiraz
Taylor, Lorne
West, Steve
White, Lance

THE DEPUTY CHAIRMAN: Can I call the meeting to order.

We are in subcommittee D, and we are considering the estimates of the Department of Resource Development.

For those of you who haven't had the opportunity to have a meeting in this room – and I suspect that's none, but just in case – we've had a good experience in dealing with estimates in this room whereby rather than having the full 20 minutes allocated to an individual member followed by 20 minutes of answers from a minister, we've had the unanimous consent of those around the table to change the rules so the order would be 20 minutes in opening comments for the minister, and in this case that would include both ministers for a total of 20 minutes. Then the members around the table would have an opportunity to ask questions and the minister would answer and the total period would be 20 minutes. Then we would move on to the next person. It just gives a little bit more back and forth. But it would require the agreement of everyone concerned. So are we agreed?

HON. MEMBERS: Agreed.

THE DEPUTY CHAIRMAN: Opposed? I take that to be unanimous.

Then, minister and associate minister, you will have up to 20 minutes for opening comments, and that will be for both of you.

DR. WEST: All right. We'll get started, then, Mr. Chairman. We're going to be looking at Resource Development tonight. As well, the Associate Minister of Forestry will be addressing his side of the forestry development area when he gets to his talk.

Now I'd like to also introduce some staff members that are with me tonight. We have Deputy Minister Ken Smith; Neil McCrank, chairman of the Energy and Utilities Board; Earle Shirley, the chief operating officer of the EUB; Don Keech, assistant deputy minister of corporate services and acting ADM of mineral operations – maybe he can keep both those positions – Harvey Walker, the executive director of financial services; Douglas Borland, director of financial services; Linda White, the department issues manager; and Joanne Rosnau, the director of communications. So we're well represented there.

Now I'd like to start by saying that we've been through many changes in all departments with the reorganization of government back in May of 1999. This ministry has also done some notable changes in that period of time. The department still holds many of the same responsibilities and still works with the Alberta Energy and Utilities Board to ensure that resource development in this province is safe, sustainable, and fair to industry, which develops the resource, and to Albertans, who own the resource, lest we ever forget.

The department received some new responsibilities in the last year for the forest industry development and the Northern Alberta Development Council, which the Hon. Mike Cardinal will discuss later. Some of the other responsibilities were transferred from Resource Development to other departments, including climate change, which is now with Environment, and John Donner the ADM of mineral resources and 11 staff went over to Environment when that took place.

The 2000-2001 business plan lists three core businesses for the department: revenue management, industry development, and resource stewardship. The Energy and Utilities Board core businesses are adjudication and regulation of applications, surveillance and enforcement, and information and knowledge. Before moving to the meat of the budget and the business plan for Resource Development, I would like to begin by putting today's energy sector in context.

Last week oil prices reached a new post Gulf war high of \$34 a barrel. On the consumer side we saw a corresponding increase in gasoline prices, which hit 64.9 cents. If you compare natural gas prices from last month with prices a year ago, you can see a substantial increase there too. Therefore, the socioeconomics of these commodities, the impact of those is quite tremendous. Remember that in January 1999 the average price per barrel of oil was \$12.38, and the average price of a litre of gas was 44.9 cents. If you track a penny per dollar per gallon, it's right bang on from \$12.38 to \$32.38, plus or minus, which it is today, and the price of gasoline went up 20 cents from 44 cents to 64.9 cents. It is a marketplace-driven issue.

Given these high commodity prices, we're forecasting a significant increase in exploration and drilling this year with a corresponding increase in royalties to be collected. It's important to note, however, that we don't expect prices to stay as high as they are now, and with the OPEC meeting at the end of this month we would like to see increased productions there in the world market, which might bring supply and demand more in line with our forecast. Our prediction is that oil prices will average \$19 U.S. a barrel in 2000-2001 and that natural gas will average about \$2.50 Canadian per thousand cubic feet. These forecasts are lower than prices are now, but they reflect the best economic analysis we have, and those change every quarter.

Our estimates are that resource royalties in 2000-2001 will total \$4 billion, up from the \$2.4 billion we collected in '98-99 and down from the \$4.3 billion we expect to collect this fiscal year. This is predicted to include \$2.3 billion in natural gas and gas by-products and royalties, \$632 million in crude oil royalties, and \$469 million in synthetic crude oil in bitumen royalties from Alberta oil sands. That's \$469 million from oil sands, \$14 million from coal, and \$650 million from bonuses and sale of Crown leases.

I would like to move now to the highlights of the Resource Development business plan. In terms of the bottom line, I'm requesting a total of \$87 million. That's \$5 million more than was voted in the '99-2000 estimates. Aside from general provisions and

manpower cost pressures from Budget 2000 and Budget '99, there are three main items that contribute to this increase.

The human and animal health study, the first item, is a multiprovincial research program to study the effects of solution gas flaring on animal and human health. The study will involve active monitoring of cattle herd health and ambient air quality by the Western College of Veterinary Medicine at sites ranging from southern Manitoba to northeast British Columbia. This also includes other fugitive emissions from all sources. We are still developing a formula for allocating the costs of the research across departments and jurisdictions, which is estimated at a total of \$17 million.

The bulk of these costs, around \$11 million, will come in the first stage of the research, which is expected to take up to five years. I expect that Alberta will fund a substantial portion of the cost. I am proposing that Resource Development make an initial contribution of \$948,000 towards the study, with further contributions coming from Alberta Environment, Alberta Health and Wellness, and several other provinces. I anticipate making a request for additional funding in the next several budget years or reallocating existing budgets to maintain research funding through to the completion of the project.

The second area is coal-bed methane. I'm requesting additional funding in the order of \$1 million for the development of coal-bed methane and other initiatives to use this untapped resource in Alberta, estimated to be around 2,400 trillion cubic feet. Coal-bed methane has the potential to become a major new source of natural gas in this province. We have little information and knowledge about the geological characteristics of Alberta's coal-bed methane. By allocating resources to develop a knowledge base about this resource, we can determine the viability of developing coal-bed methane, establish long-range economic policy, develop exploration and developmental strategies, and support coal-bed methane as an alternative to meet our targets for reducing greenhouse gas emissions.

The third area: increase in EUB grants. I'm requesting a \$3.3 million increase to address spending pressures at the EUB. Most of these pressures are related to an increase in landowner concern about the oil and gas industry. This has many causes, including high levels of industrial activity, animal health concerns, an increased focus on sour gas drilling and development, and closer proximity of such activity to populated areas.

Some of the activities the board will be implementing to address this issue are the development of alternative dispute-resolution mechanisms for resolving application and operational issues early in the energy development process. The board is also seeking to improve landowner/industry relations by expanding its field staff's facilitative role and focusing its surveillance efforts on higher risk operations, problem operators, and areas of intense development. An expanded field surveillance role will improve the public's confidence in the EUB's inspection strategy and increase public comfort with resource development. It also will be looking at the great development applications that are coming forth; example, the \$33 billion that's being invested in the oil sands, \$25 billion to \$26 billion of which is already in application.

These initiatives call for the EUB to build a greater staff presence in the community, so much of the additional funding I'm seeking here will be used to increase the board's staff complement from 650 in 1999-2000 to 715 in the year 2000-2001, an increase of 65 full-time equivalent positions. The core frontline people, the inspectors, are going up 13 this year, 12 next year, and we hope to look at a component of 18 new geologists, engineers, and technologists in the field.

8:16

Another area which I'll touch on quickly is the PPA option and electrical deregulation. Another major initiative this year will be continuing work to restructure the electrical industry, and this will be done through existing allocations. No new money is being requested. The electrical restructuring began several years ago and will largely be completed by January 1, 2001. That's when Albertans will have a choice about who supplies their electricity.

One of the most significant steps will be an auction held in July of power purchase agreements. Power purchase arrangements, or PPAs, are long-term contracts that convey the right to sell the output of the power plants built in Alberta under regulation. The proceeds from the sale of the PPAs will be used to ensure that Albertans receive the gains created by deregulation residual value. The sale of the PPAs also eliminates the need for future regulatory hearings on plant costs and ensures that the deregulation will result in a competitive market.

These are the highlights. I'll now turn it over to the Associate Minister of Forestry.

MR. CARDINAL: Thank you very much, Steve. I'm also pleased to present the 2000-2001 budget estimates for the forest industry development branch and also the Northern Alberta Development Council. Before I get into that, I'd like to introduce Howard Gray, the executive director of the forest industry development branch, and Donna Ballard, my executive assistant.

The forest industry development branch of Alberta Resource Development is responsible for advocating on behalf of the forest industry and for formulating policy relating to forest industry development, forest product exports, and forestry revenues. In the near future we will present a long-term strategy to government to provide a direction on forest industry development policies for the next decade or so. That's something to look forward to.

The responsibility for timber allocation and tenure moved to Resource Development from Environment, and we now lead the negotiations and development of new forest management agreements. The Minister of Environment continues to have - and this is a very important area - responsibility for overall land management and protection of Alberta forests, including fire suppression. Alberta Environment ensures compliance with legislation and collects Crown timber revenues.

The Resource Development forest industry development branch promotes the value-adding, upgrading, of commodities. The branch is working with Economic Development and the industry advisory committee to undertake a major review that will ensure that Alberta's secondary wood products continue to benefit from the Alberta advantage.

Government and industry are working collaboratively together to deal with the expiry of the softwood lumber agreement, which is on March 31, 2001. The Canadian government has initiated a consultative strategy to the development of a process with the provinces in the forest industry. The intergovernmental and aboriginal affairs department is leading this process in Alberta, and it's a very, very important process.

Another important part of my mandate as minister is communicating the socioeconomic impact of the forest industry. One of my first activities was requesting an overview and an update on the economic impact of forestry on Alberta communities. Using the most recent statistics that were available from industry, we developed a document outlining these statistics. No doubt you've seen this document. It is very impressive. The figures were used from 1997-98. The total industry revenues were over \$8.4 billion. Direct expenditures

were \$3.4 billion. Taxes, stumpage, protection charges totaled \$564 million a year. The value of exported shipments totaled \$2.44 billion. The forest industry provided direct employment for over 25,000 employees and indirect employment of another 27,700. So it's a major, major economic producer. Many people are not aware of the contribution the forest industry makes in our economy, but we are working very hard to ensure that the public out there has in their hands the information outlining this project, and that is why we developed this pamphlet.

The forest industry development budget itself for 2000-2001 is \$1,347,000, which reflects a 9 percent increase over last year's budget. This will cover off employee salary increases and increases in the contracting budget to undertake studies related to the branch's mandate.

Northern development is another area I'm responsible for. As you are aware, the area of the northern development boundary has a lot of the resource development taking place. One hundred percent of all the heavy oil production, 90 percent of the forests, 40 percent of conventional oil and gas, and about 20 percent of agriculture is within the northern development area. Yet only 250,000 people live more or less in the area, which is less than 10 percent of the population.

Billions of dollars of economic investments have taken place in northern Alberta, but because of geography and sometimes lack of training and lack of proper education a lot of northerners are prevented from taking advantage of the job opportunities that are there. We are working hard to change that. Family incomes, in fact, and educational attainment are well below the provincial average. For aboriginal communities the old way of living off the land is ending. Many northern aboriginal people want to participate in resource development opportunities but lack the training and expertise and sometimes the financial backing to be able to do that. People are definitely ready to move forward. The old traditional lifestyle is gone. Everybody up north realizes that, and it's time to participate in the economic activity that takes place. We're doing everything as a government to make sure that happens.

The Northern Alberta Development Council carries out the important work of advancing its business plan's objectives for 2000-2001. They are, one, receiving input into priority northern development opportunities and issues; secondly, promoting emerging opportunities and addressing barriers to northern development; and thirdly, increasing northern skills. It is requesting \$1,843,000 for 2000-2001, a 2 percent increase over last year, to cover off employee salary increases. It will look for ways to enhance the consultative processes with northern stakeholders, including the hosting of community leadership roundtable meetings. In the past year we implemented the Northern Links program, which will help northern high school students access postsecondary education, including technical institutions.

The northern development council will continue to focus on infrastructure development by reviewing the future of northern airports, continuing discussions on rail transportation, and implementing the integrated road network plans for northwestern Canada, which was part of the western Premiers' economic action plan.

Finally, I invite you to mark your calendars for the Challenge North conference which is happening from March 29 to 31 in Grande Prairie. It will provide an opportunity for northern community industry, education, and government leaders to discuss key northern development challenges and opportunities. I would like to invite all of you to that conference.

That is my presentation. I guess we are ready now for questions.

THE DEPUTY CHAIRMAN: Thank you, associate minister.

Traditionally it's the opposition critic that would go first. Is that Edmonton-Calder? All right; Edmonton-Calder, the floor is yours for 20 minutes. Just a caution. It works best if we have short questions. They usually lead to short answers. We'll just keep the clock running.

8:26

MR. WHITE: Mr. Minister, first of all, it's good to see the estimates in full and complete form, although we'd always like to have them much more in depth than they are. But such as they are, they're here.

There's one particular area I'd like to highlight, and it deals with the regulatory agency the EUB. You'll recall that this member was quite vocal the last two times we gathered with regards to the cutting of the budget and going through phase 1 of the implementation of the recommendations that were brought forward with the framework and the human resources plan of the EUB. I'd like you to comment on then and now. What has changed in the business scene and/or what has changed in the need for the many more field workers required and, in conjunction with that, the turnaround time from completion of hearings to publication of report?

DR. WEST: Well, you're quite right. The restructuring of the EUB didn't start until probably a little over a year ago. Although there was much said about it in the early running, we pulled back from it because it was under such stress because of the high pressures that were put on by the private sector to take many of its staff out to work in the private sector. So we have started now with a program where we will be adding, like I said in the statement, 65 full-time equivalents on the front lines for inspection, for landowner grievances, and for other hearings that go on plus public forums. We'll be putting 13 and 12 next year – that's 25 – and as I said, we'll also be looking at 18 new geologists, technical people in that. To get them, we're going to go – and people will think it's not enough, but we will be looking at 90 percent of the median of industry as paying in salaries. Some of the new moneys that are going in there are 80 percent funded by the industry. We'll put 3.3 in and they'll put 10. It will allow us to add to the structure of the EUB.

On top of that, the EUB has been going through removing the silos that are in there with the new chief operating officer that we have in place and the new chairman. They are looking at getting a more flexible operation. We've also brought on many temporary board members that can take certain files and speed up the application timing and have put in a minimum of 90 days, after the initial hearing, for the results to come out. We also added to the bench strength of the board and continue to look at the cross section of people on that board, whether they be in environmental issues or whether they be with industry background or general background as it relates to municipalities.

MR. WHITE: The hearing to report time, the turnaround time?

DR. WEST: It has been picking up. There are certainly some hearings that take a long time. We've had some sour gas well hearings that have been up to a year. We're going to tighten that up considerably and try to work on that. I mean, a year ago we had 22,000 applications and 22 went to appeal. I think the turnaround time is getting better. It's one that industry constantly hammers us on.

MR. WHITE: Good. Thank you, sir. That's all in that area. Perhaps you want to go back and forth.

THE DEPUTY CHAIRMAN: No. Keep going.

MR. WHITE: Keep on going? You want me to go completely for 20 minutes?

THE DEPUTY CHAIRMAN: Yes.

MR. WHITE: Okay. The EUB's alternative service delivery plan. Can you expand a little on that plan?

DR. WEST: The disputes resolution mechanism?

MR. WHITE: Yes. In the Corporate Service Centre I gather they're going to do something different in dealing with quick turnaround times for applications. It's a new model of some description, I understand.

DR. WEST: Well, I think I would have to get that answer, all the nuts and bolts of those changes, directly to you. But the idea of it is to put enough manpower in place at the various levels and with the research of the materials that are needed to make those decisions to have it speeded up to the best ability that we can. One of the challenges, of course, is on a timely basis and having the information and the parties meeting at the same time. But I'm going to leave that, and I'll get back to you with that answer from the EUB itself.

MR. WHITE: Okay. Could you elaborate on the streamlining of the applications required in reservoir development and minable oil sands? Traditionally it was an awfully long process, and I gather that what you're trying to do is collapse that process.

DR. WEST: Well, we have worked with Environment and some of the other areas and the municipalities to speed up the process. If it's oil sands you're talking about, we have a much better template now to put against any applications. We've done all the groundwork as it relates to the aboriginal issues, the land use issues, the environmental issues, and the municipal issues as they relate to Fort McMurray. I would say that having more people that we can call in on a temporary basis to look at the new applications, a larger size for the board, will speed up that application process. There's one thing about it that I've always said. Once you've taken a site and mitigated all the application issues, then for the next site that comes in the same area, you should be able to cover off a lot of the technical aspects of it faster. I think that certainly will be there. Of course, the city of Fort McMurray has agreed not to be an intervenor in these because they have agreed with the process. It speeds it up considerably if the municipality involved has mitigated the process.

MR. WHITE: You mentioned in your opening remarks coal-bed methane and the research that had to go on to estimate its recovery value and all that sort of thing. Is there any regulatory process that has been worked upon thus far in recognition of it being a different . . .

DR. WEST: I won't be able to answer that, hon. member. I'll get an answer to that. I am not a geologist, and I haven't been involved in the coal-bed methane evolution.

Just to give you an idea. In the States they've done some work on coal-bed methane development. This million dollars to go in is to research that, and I'm sure that as that comes forward, the EUB would then look at whatever regulations have to be put in place. But if there are any, I'll get those to you. I don't think there are any applications before the EUB at the present time.

MR. WHITE: I wouldn't think so.

DR. WEST: No.

MR. WHITE: You said a million dollars in research funds. Are those research funds going to a special project with AOSTRA?

DR. WEST: It will be work with industry players, consultants, and probably through ARC, Alberta Research Council. All those projects are vetted through there now and the AOSTRA component that we send over.

MR. WHITE: The anticipated level of applications this year over last. I didn't see it, but I suspect it would be in about the same range. The sour wells will be up, I suspect. Has anything developed in the way of a hearing procedure to run more of them at the same time so that they can run concurrently?

DR. WEST: Well, with the increased staff components and the way the committee structures are set up, I'm sure they'll be able to facilitate that, but that's again the internal workings of the EUB on each and every application. These answers will be brought forward to you by the chairman. You have to understand that this is an arm's-length regulatory body, and I do not get involved in the day-to-day workings of the EUB.

MR. WHITE: Agreed.

DR. WEST: And you wouldn't want me to.

MR. WHITE: Well, heck no.

DR. WEST: That's the right answer.

MR. WHITE: It's the right answer. That's true. Not involved. But there's a difference between being involved and being aware, but we won't go there. There's no reason to do that.

It seems to us that the environmental reviews are increasing in number and complexity. Is there any provision for the increase in complexity of the reviews?

8:36

DR. WEST: Well, as I said, we are working on hiring 65 people. At the present time 18 of those are technical people that will be dealing with certain aspects of those applications. As well, 650 people in the restructuring will be directed in I hope the most professional of manners to deal with the complexities of the new applications. That's as good an answer as I can give to you, because many of them are very professional people that have been dealing a long time with this industry and have set the best standards that I know of in the world, actually, here in Alberta.

MR. WHITE: One of the complexities is the proximity to developed residential areas. The output of the \$17 million study that you were talking about with flared and solution gas – and part of that would be sour gas. You will be having all these hearings without having the results of this study. How are you going to . . .

DR. WEST: The study is an ongoing challenge that we have. We put it at arm's length to us, with the other provinces involved to ensure its authenticity. That is an ongoing study that will be reporting back at certain periods of time. I think some of it will come back in 18 months, some in two or three years. That does not

mean that the EUB doesn't function with the standards they have set in place using present day scientific values.

They have certain policies and structures that enforce distances from urban centres or residences, and they constantly monitor the safety of these areas. They have one gas well that was outside Calgary. There were some 18 special requirements on that well alone that didn't apply to other wells when it was approved. So I have no concerns whatsoever that the EUB won't continue while this study goes on and that if there are any findings from these studies, they'll be implemented by the EUB into their standards.

MR. WHITE: As you are aware, it has been a long-standing criticism of this side of the House with regards to the number of monitoring staff, field staff. I see you are addressing that situation at least in part, but it would still be our contention that there simply is not enough staff to adequately monitor a great deal of the situations the oil and gas business find themselves in. While monitoring themselves does have its upside, that it cuts down the cost of the EUB through the ministry, the downside is that it's darn difficult for any firm to say they are and have been totally compliant. Would it not be reasonable to rely on a local municipality to assist those people by bylaw to do at least part of the monitoring, the initial monitoring, to be able to verify or audit the veracity of the reports coming out of the companies?

DR. WEST: I would think you would have to enlarge the staffing components at all levels. It would be duplicating an overlap that you wouldn't need. The EUB does an excellent job, and with the new funding formulas and the increase in staff they are hiring – plus that will be an ongoing analysis – I think they will address these concerns up front. I would take issue with you insinuating at all that the EUB to a stress point isn't inspecting or keeping a good enough hand on industry and on these developments. I find that a bit of an insult to the EUB and to this province's record. I don't know why you would spend a massive amount of money on duplication where we're already having a stress on professionals that should be in one centre, not spread throughout 398 municipalities.

MR. WHITE: Turning to older pipelines, it's agreed pretty well in the industry that . . . [interjection] Oh, my colleague wants to cover pipelines, so let's move from gas and oil to electricity. Well, no. Before we do that . . . Sorry, sir.

THE DEPUTY CHAIRMAN: Hon. member, just so you know, you've got four minutes left.

MR. WHITE: Four minutes. I don't have to move very far then, do I?

To move to an area that is prevalent and that you touched on in your chat, could you give the committee some rationale as to why you'd maintain your position on fuel tax? You know, last week I wrote you a letter that suggested that with the estimated crude price in the budget being \$19, anything above that is a net bonus to your department and then through to the general revenue. From some albeit relatively simple calculations I did through pulling quarterly reports and annual reports of your department and the previous budgets of '98, '99, and 2000, it's clear that if the fuel tax is reduced a penny at the pump for every dollar that the world price of crude, the WTI, is up, it's still a net benefit. If you drop it, at \$19 the Treasury would be entitled to and receive the full 9 cents tax applied, and anything above \$28, on a graduated scale of course, would be free.

AN HON. MEMBER: What about when it hits \$12?

MR. WHITE: It's still 9 cents. Anything below that it's flat, absolutely flat. They can't go beyond the bottom limit. The Treasury does need some of it. I haven't heard a reply from your note, and quite frankly I expected one earlier than this actually.

DR. WEST: Well, you sent me your philosophy as it relates to what you think should be done. When OPEC and the rest of the world has an undersupply, that may not be agreed across Canada, and we have to deal with the social economics of all provinces, some, such as Newfoundland, that have 85 cents a litre gas. We have asked the federal government to look at one of the taxes. It does move. Ours is a fixed 9 percent, but their GST of 7 percent moves with the price of gasoline. If you were in an 85 cents per litre area, it would be nearly 6 cents, the price of the GST on that gasoline, or part of the 15 cents that they have.

MR. WHITE: I wouldn't ask you to do something to axe the feds. I've already communicated to the feds what I think of their . . .

DR. WEST: What I'm trying to answer to you is that you can't sit in isolation on an issue like this.

AN HON. MEMBER: What did they say to you last?

MR. WHITE: They're as bad as him. They haven't got back to me yet.

THE DEPUTY CHAIRMAN: One member at a time.

DR. WEST: I mean, your federal Liberal counterparts are mad enough at us as it is for having high oil prices once in about a quarter and a half, but they didn't come here when it was \$12.38 a year ago. Of course, because we have this, they don't transfer the agricultural grants to us; they don't transfer any health wealth to us.

MR. WHITE: I'm talking about the relationship, sir, between the custodians of the resource and the owners of the resource. The owners of the resource are the people of Alberta.

DR. WEST: We can't in isolation, without the country, do that.

MR. WHITE: Sure you can. It's your tax.

DR. WEST: You mean to say that we could just throw in the face of Saskatchewan residents and B.C. residents an island of cutback? In agriculture that's what the federal Liberals did. They drew the line at the Saskatchewan border and they gave us zero, and you know the emotion that we have here.

8:46

THE DEPUTY CHAIRMAN: Well, on that positive note we'll move on to the next person. The next member who has indicated a wish to participate is Edmonton-Ellerslie.

MS CARLSON: Thank you, Mr. Chairman, and I would like to thank both of the ministers this evening and all their staff. It would be my wish that this budget process were a little less formal so that staff could participate in answers, because I think it would be beneficial to everyone involved if that were the process.

DR. WEST: I'd like that, actually, if you'd make the announcements.

MS CARLSON: I'd need a little help here, Steve.

My first set of questions are questions that are very important to me and to my constituents. They have to do with the Gulf gas processing plant at Rimbey and the butane/ethylene pipeline to Edmonton through Mill Woods. I have a series of questions here that I will ask and then ask you to respond. I'm hoping you can give some responses today and perhaps some more detail in writing at a future date within a quick time line, because those answers I will be distributing throughout the constituency as this is quite a serious issue in Mill Woods at this time.

First of all, to do with the processing plant itself, it has requested an upgrade in its sulphur recovery system from 92 to 99 percent. We fully support this application they have made, and we're hoping it will be approved soon. In fact, this evening I just finished meeting with one of the environmentalists that was a key partner in pursuing the upgrade for this plant. We're hoping a public hearing won't be required in that regard, but there are some serious repercussions that are going to fall out of the plant upgrade as it continues its operation. With the upgrade the plant hopes to increase its throughput. We've had some discussion with the plant on this. It's currently underutilized, and in fact we would support an increase in throughput there if they are increasing their recovery of sulphur. That would be an excellent objective.

But if we take a look at this plant back in history, it was originally thought that this plant would cease to operate by this time, and this raises some concerns for us in terms of the pipeline that's carrying the propane and butane condensate from Rimbey to Edmonton. That pipeline is nearly 40 years old, and as we know, the older pipelines are more liable to corrosion and failure.

Now, I understand that this company is checking this pipeline yearly, but if we take a look at the EUB field surveillance reports, the '98-99 report shows 65 percent of pipeline failures caused by corrosion as compared to 51 percent for the period of '80 to '98. So as their age increases, regardless of what they do, there are more failures. In terms of this pipeline that runs through my constituency, which passes a Sikh temple, two junior high/elementary schools, a Mormon church, a strip mall, and many residences, the people are very concerned that a 40-year-old pipeline is liable to see some sort of failure problems in the future.

So our first question is: what is being done to ensure the safety of old pipelines in general and this one specifically? Another question we would like to ask is: what is the EUB requirement for reviewing pipelines when circumstances change? This pipeline had an explosion in 1979, and at that time as part of the review process it was indicated that the pipeline was expected to close down by the year 2000. Now it's going to continue in operation and will be carrying an increased load if there is an increased volume from the Rimbey plant. Are there any requirements to review the findings of that report? Would the board consider moving the pipeline to the pipeline corridor, where there are adequate setbacks? This pipeline was grandfathered when the new regulations came in, so in some cases it's only 7.5 metres away from buildings. Our understanding is that the setback requirements are more in the 100 to 200 metre range. So that's an issue for us.

Another question is: are there any requirements that setbacks have to be met on old lines if there's an increased throughput? We would request that both the board and the department review the findings of the 1979 explosion report to determine what actions are needed at this time in terms of that very old pipeline.

Also we're requesting that a review of the pipeline be done in accordance with I believe it's section 42, where you can request an inquiry in existing operations. We would like a review of the integrity of the lines, a review of the setbacks in terms of their

proximity to residences and other buildings in the area. For us this is a very serious issue. We believe that a review of this pipeline is required as a starting point. There are many pipelines in the province that are facing the same problem. This will be a serious issue that is currently building in the constituency that I don't think will be solved until some sort of review process is put in place.

I'm hoping you could address some of those questions now and get back to me as soon as possible on the rest of them.

DR. WEST: What I heard from you is a concern on behalf of your constituents, and in there was a group of questions and queries as it relates to this pipeline. I can assure you that the EUB has an ongoing provincial interest in older pipelines and will continue to regulate them in the strongest of manners to ensure the safety of the public.

I'll take all the other parts of your concerns as a matter of notice and have the EUB, which is present here tonight, respond to you. I just know that as we go throughout the province, with the level of pipelines we have, 270,000 kilometres in the NOVA system and pipe gathering systems, our track record is excellent, but that does not deny the fact that we must look at the older pipelines to ensure safety. If they are safe pipelines – some of them are grandfathered. The setback rules, you know, are considered.

As I said, I'll take your concerns. I know that as you go throughout your constituency those people who bring these concerns to you are very serious about the impact they have on the social structure of their communities. I understand that.

MS CARLSON: Thank you. I appreciate that, and I look forward to circulating those answers within the community.

Next I would like to talk about the alternative disputes resolution mechanisms, which you briefly touched on with my colleague. You know, we have a real contradiction here in my opinion in terms of what was said by the Premier back in February of '99 in the Legislature and then in the letter from the EUB that says that the alternative disputes resolution mechanisms are working on what the Premier said. It doesn't look to me like there's a direct correlation there. As I see it, the EUB's focus is on the application dispute problems, but they are not addressing the disputes that arise after approval has been granted.

What we hear is that the EUB is saying they don't have any jurisdiction in that area, that there's no process in place for them to put an alternative disputes resolution in place at that stage, and we get a whole raft of answers in terms of whose responsibility it is: your department, Environment, and so on. So my question is: who is going to solve this problem? We think that if the EUB has jurisdiction before, at the application stage, then they should also have jurisdiction after there is approval and there are problems. We're not satisfied that they're only focusing on the application process and, in a very minor role, the issues skirting around the edges of that.

8:56

I thank you for the letter that you sent to me on this issue. We know about the terms of reference for the process. It's going to be a good tool where there's an application for development or where problems arise, but we really want them to broaden the issues addressed in there. So if you could address that.

DR. WEST: Well, we don't disagree with you. I think we will be broadening this to look at the postapproval situations that you talk about. There's no doubt that with the growing population in the province of Alberta and the impact this industry has on the urban

fringes, as well as those areas where people live, we will have to be looking at many tools, not just this one, in mitigating some of the conflicts.

I know that the EUB will be traveling around. They will be going to Wainwright and other places. They're going to try public hearings and meetings to expand upon the information people should have as it relates to these areas of disputes as well as a better understanding of the role of the EUB, both in the initial phase as well as postapproval time.

They also want to bring forth a better understanding of the responsibility of industry and the public's rights as far as the first phase of any oil and gas development that takes place. So I think that you're on a good area. I'm not criticizing the question. We have to do a better job in the postapproval process as well as getting out there, and we're going to use many of these frontline people to get there with information and a better understanding before a dispute grows in a fashion where it might cause larger confrontations such as we may have seen in the past in the province.

MS CARLSON: Good. Thanks.

Next, I would like to address the field staff concerns that we have had for a long time with EUB. It's nice to see that there are going to be more people in the field, as you've said. I don't believe that my colleague had any intent to insult the EUB, as you indicated. He was addressing a very real concern that we hear time and time again, in fact every time we're out in the country. The majority of the phone calls I get certainly have to do with understaffing in the field. So it's good to see that you're going to be doing that.

[Mr. Coutts in the chair]

One of the issues that we think needs to be addressed in that regard is improving the landowner public relations through the field staff's facilitative role. It's more than, we think, just a public relations job. It is part of industry doing a good job. There hasn't been enough monitoring going in the past few years. Even in the short term with the new numbers of staff you're going to have, we would like to see a significant increase in the number of unannounced spot checks and audits, if for nothing else than to increase the security of people in the community. They feel that this has not been done adequately in the last few years.

We also think it would be a good idea to require that the oil and gas companies notify the municipality so that their operations can be monitored. This was proposed with a county of Strathcona bylaw. Here I'm specifically talking about seismic crews. More than just the county of Strathcona have introduced this bylaw. It's come forward from a number of other counties. We understand that there's been some pressure from yourself to rescind this bylaw, so we're wondering why. Now, I understand that the ownership of roads and road allowances belongs to you, but the maintenance of them and the monitoring of them belongs to the counties.

It would seem to me that in that instance it would be well within the county's mandate to be able to pass a bylaw that would require oil and gas companies to notify the municipalities when they are in the area and when they are drilling. So when you are such a proponent of—I'd say downloading; sharing responsibility maybe is a term you would prefer. I'm wondering why you're not encouraging local supervision in this regard, given the list of duties that you've given for the additional staff. The EUB, no matter what, is not going to have enough staff to adequately monitor this kind of situation.

I'll stop there. I've got some more questions in terms of drilling, but if you could address that part of it.

DR. WEST: Well, I think the issue with the municipalities is that they should work with the province and the EUB if they have access problems. Rather than setting up punitive fees and regulations within the municipalities, they should work with the province. After all, the orderly development of the oil and gas reserves in this province is a benefit not only to the municipalities but to the province and to all people of the province of Alberta.

I know that frustration drives some municipalities to set up these seismic fees or access fees, but we have said: just wait a minute. You don't want to send a message to this industry, that's under a lot of stress from federal legislation, endangered species, the Canadian environmental act, as well as access problems as it relates to traditional lands, natural areas, special places, and on and on and on. So work with us on this to mitigate these areas rather than bringing in punitive fees that in many cases generate a minuscule amount of money for the effort put into them but are there because of a frustration in the municipality.

We just put a billion dollars into infrastructure, and municipalities will share in those moneys in everything from roads to bridges. They should know that those moneys come from a very healthy resource industry and that we shouldn't be penalizing them unfairly. So, yes, there's frustration, but my point is: work with us on solutions rather than on a knee-jerk, ad hoc basis throughout the province, where one municipality versus another puts up barriers. I think we've had agreement with some of them. Using my name in vain with certain local landowners and that sort of thing isn't the solution to good communication, and I've heard that said by some frustrated landowners. I would hope that you the loyal opposition don't just fan that for political reasons. We're all here to work in a collaborative position for the benefit of Albertans.

MS CARLSON: We're very well behaved, I think, in terms of our questions here this evening and the approach we're taking.

DR. WEST: I'm talking about the activities outside this room.

MS CARLSON: We will pursue the issues where they present themselves.

Are you saying, then, Mr. Minister, that you would entertain the notion of counties bringing in a bylaw that requires notification for the oil and gas companies when they come onto those lands as opposed to them putting in a bylaw that would require a fee? If they scrap the fee and just ask for notification, would you support that?

DR. WEST: Well, we have a task force in place at the present time that's ongoing, and I want to look at all those issues. We're not saying that we aren't open to any suggestions. Each municipality is different. We have not just the county of Strathcona but northern municipalities as well as those in the corridor area. So the answer to your question is yes. We're going to continue to communicate. To find the proper answer to notification will be left to those discussions.

MS CARLSON: If you could tell me who is on that task force, if there are any counties that have withdrawn their participation in that task force, and at what points in time you expect reports, be they interim or final reports.

DR. WEST: Well, it's an ongoing task force. I suppose you could say that it will report and continue to report. I don't know of any that have withdrawn, but the counties and the AAMDC are part of that and the AUMA. As well, directly we invited five or six of them—in the beginning I can remember having meetings with them at the

Coast Terrace Inn, the Edmonton Inn, and a few other places, discussions with specifically five or six that were charging those fees to start with. We asked the general body to also assess input as it relates to their members.

9:06

Who's on the task force? Those people as well as the Minister of Environment, the minister of agriculture, the Minister of Resource Development, and, before that, forestry. Now the Hon. Mike Cardinal will be on that task force as well as the Minister of Municipal Affairs. Again, we will have ongoing discussions as it relates to these issues.

THE ACTING CHAIRMAN: Thank you. The time is up for that series of questions.

The next person on the list is the hon. Member for Edmonton-Glenora.

MR. SAPERS: Thank you, Mr. Chairman. Mr. Minister, I want to ask you some questions flowing from your business plan and the consolidated statement.

What I'd like to start off with is a general question about the performance measures first for your department, then for the EUB, and then for the Northern Alberta Development Council. The general question is this. When I look at the three areas that you're responsible for under this Ministry of Resource Development, I see three very different forms of performance measure. For example, the performance measures attached to your Resource Development business plan give us figures for either 1998 or 1999 and in one case, I believe, a projection for the year 2001 but no targets or very few targets for the year 2000 set out in the performance measure.

Then if we look at the performance measures for the NADC, we see 1998-1999 actual measures, 1999-2000 targets, and then targets throughout the business planning cycle to the end of 2000-2003. Again, if you take a look at the Alberta Energy and Utilities Board, their performance measures are in a third, very different form. What they do is give us what I believe are all targets for the years 1999-2000 to the end of the business cycle.

[Mr. Renner in the chair]

Now, I understand that the cross-government reference is to have performance measures set out to the end of the planning cycle. I'm wondering if you can explain the difference and why it is that in what I'll call the departmental business plan we don't see them extrapolated out to the end of the business cycle at all. Why are there three different forms of performance measures within your department when we're trying to get some consistency across government, at least according to the documents supplied by Treasury and the Executive Council?

The other question I have is specific to goal 1 under the performance measures: "sharing the profits from resource development." First of all, the target range is between 20 to 30 percent, which is fairly broad. I'm just curious as to why we go from about a fifth to a third in terms of expected range. More particularly, I note that in 1993 it was 25 percent. It troubles me if we don't have an estimate for 1999, but the 1998 estimate is down 4 percent to 21 percent. In fact, it's been going down steadily since '93, and I'm wondering if being at the bottom end of that target range is acceptable. If you set such a broad range, 20 to 30 percent, and you're going down, is that acceptable? If it's really what you're trying to do, then why isn't the target range a little bit more narrow and focused?

Also, I have a question when it comes to the Northern Alberta

Development Council performance measures. First of all, when I look at the performance measures, I see that there are really just three of them. I'm particularly interested in the goal 3 performance measure, which is "to increase northern skill levels." I'm curious as to why there are no performance measures that would look at the percentage of those northern Alberta residents who are in need versus those who qualify for bursary or other support. Also, why isn't there a measure that looks at the percentage of those who apply for support versus those who are approved? Finally, why is there no measure of course completion or graduation rate or at least of years involved in programing that's supported through the council? It seems to me that those would all be measures that would be more helpful in understanding the success of the strategies that are outlined in the business plan.

I'm going to use my 10 minutes and then leave the minister 10 minutes, because I think this process is – anyway, it doesn't matter what I think about this process. So I'll use my time, and then you can respond.

Back to the business plans for energy. I'm wondering if the minister can tell me if he's planning anything that's different in how we handle ethylene in this province and whether or not we're going to be allowing more export to the United States, if there's going to be any relaxation in terms of what we do. If so, what is the rationale? If a change in policy is being contemplated, have you looked at what impact that may have on lost opportunities for employment and value-added processing here in Alberta?

I guess the final question for now – and then I'll allow the two ministers a chance to respond – is a general question about the income statement. I'm just wondering whether it's folks who crunch numbers in the Department of Resource Development or folks who crunch numbers in Treasury who set the expected revenue figures for natural gas and by-products royalty, crude oil royalty, and synthetic crude and bitumen royalty? Who is primarily responsible for producing those numbers?

That's my opening round of questions.

DR. WEST: The answer to your last question is they both do work there, plus they also work on forecasting. They also work using different forecasters, banks, and what have you throughout the world. Internally, of course, they go by the information that's produced on an ongoing basis by the oil sands, whether it's gas or whether it's land sales, and they do it from year to year on certain evaluations. It's both that work together on that.

I don't see any great change in policy from the export point of view. We know that right now we're about 15 percent of the United States' consumption of natural gas. We don't see any effect except the fact that our pipeline capacities are probably not – we can't achieve filling some of the gas pipelines at the present time, but that's not a great disconnect. It's probably helpful to us. Exploration will have to continue, and I think that as we see the companies move into the Mackenzie Delta north, you'll see lots of jobs and that here. I trust that was your question as to whether there was a change in policy coming on exports. No, not that we know of, not unless the federal Liberals decide to step in.

MR. SAPERS: They would only do the right thing.

DR. WEST: Like they did under the national energy policy. I'll just have to mention that once again.

Of course, what might affect export here and jobs here is a change to the oil and gas industry's tax position which just came out in the last budget. If you want to open up the door on the economics of this . . .

MR. SAPERS: Maybe you can just answer my questions.

9:16

DR. WEST: Well, when you kick the door open, you allow me to expand on the answer.

We just noticed that in an appendix to the budget – and the Treasurer is here – they kind of snuck in. A little bit of an agreement that they made in 1975 was on the resource allowances as it related to the oil and gas industry, and I would think you'd be writing your counterparts along with us with the strongest of objections. That will change the capital markets. Two years down the road we'll see quite a struggle for companies that are already struggling in competition with the high-tech markets at the present time. So those are the policies that will affect our export, not the ones that we're doing here.

At any rate, the other one on key performance measurements. If there's an answer to all your queries because they went back and forth – I didn't understand why you would ask questions like that when you know that performance measurements in certain areas for certain departments are two- to three-year moving targets. Therefore, to have them all indicated in one year, 2000, and some of them in 2003 would be redundant as far as the practicability of it.

I also might say, with the Treasurer sitting here, that performance measurements sometimes are questionable in certain areas because they're not as clear a measurement as it might be in the number of births or the number of deaths or the statistics that may be analyzed in certain other departments. Maybe the minister of forestry development could certainly answer in the areas of the Northern Alberta Development Council.

MR. CARDINAL: Okay. Thanks, Steve. Just briefly, because he only touched on the way the performance measures are set up. The main reason for that inconsistency at the time was that the transfer of the Northern Alberta Development Council took place after the budgets were set up for each department, and there was a split that took place in the Northern Alberta Development Council. It was under Executive Council, reporting to the Premier, and was transferred to Resource Development along with the performance measures that were set up. So for this year they have to show up the way they were originally laid out, and it may not be exactly consistent with the way Resource Development has done their performance measures. As we move forward in the next budget year, you will no doubt see a change, and they'll be consistent with the department.

The other area I believe you inquired about is the percentage of applications and percentage approved. I'll give you an example. In 1999 out of 359 applications, 126 were awarded, and this continues to be improved. Our targets are high, and they're being achieved as far as commitment, which is another important issue. You didn't really directly ask about that, but it's part of the process of providing bursaries for our northern students. Seventy-two percent of all the applicants that received bursaries through the Northern Alberta Development Council fulfilled their obligations in return. Our target was 75 percent, so it has gone very well.

For the other couple of questions you've asked, we will do that in writing. I see the staff taking notes, and we will get that to you in writing. They are quite important issues, and it needs more information beyond what I can provide today.

MR. SAPERS: Thank you for that. I appreciate it.

I'd like to go back to a couple of the answers. First of all, one of the specific questions I asked in my first round was the performance measure for goal 1, which is the target range of 20 to 30 percent for "sharing the profits from resource development." I note that it's

gone down from 25 percent in '93 to the '98 estimate of 21 percent. I'm wondering why, and I'm wondering why the range is so big. I'm wondering if you're satisfied that it has gone down by 4 percent. Is that the direction that is supported by government policy? The response, as I understood you to say it, is that you don't have a lot of faith in performance measures and don't think they accurately reflect government business. That may be, but as I understand it, it is the policy of this government to produce performance measures as part of the three-year business plans. So unless there's been some special order in council, which of course we wouldn't know about, that has exempted Resource Development from getting on board with the government policy, I guess I would expect that your performance measures would have to get into line.

MR. HAVELOCK: Orders in council are published.

MR. SAPERS: And I won't be distracted by the Minister of Economic Development.

MR. HAVELOCK: By the truth.

MR. SAPERS: Oh, I'll be distracted by the truth. It would be nice to hear that actually.

MR. HAVELOCK: I hope that got into the *Hansard*.

MR. SAPERS: We can make sure it gets into *Hansard*. The Minister of Economic Development reminded me that OCs are published. Of course, we wouldn't know about the discussion, because that happens in secret, and that was really my reference. Of course, we can always FOIP it and get blank pages back too, but that's another question.

For example, Mr. Minister, I would note that under goal 5 for forest industry development, the target is to "reduce the gap between the harvest and the annual allowable cut cap." I notice there that you've got historical data going over 10 years, from 1990 to 1999. It shows what the gap and harvest is of course. Now, that seems to me to be exactly the kind of performance measure you could extrapolate over the business cycle, and you haven't. I could pick other examples in your business plan as well.

I was wondering if you could provide me with perhaps a little more complete response to the question about the business plans and specifically the question I have about the performance measure for goal 1.

DR. WEST: Mr. Chairman, I will take his question as a matter of notice so we can get a complete answer for the hon. member rather than having him retort like he did.

MR. SAPERS: It's called debate. I know you're not used to it, but it is called debate. It's not a retort.

THE DEPUTY CHAIRMAN: Hon. member, you have four minutes left. Do you want an answer?

MR. CARDINAL: In the forestry section I could just give some information on that as far as the gap between the annual allowable cut and the cap. We have a sustained yield policy, which means that the government does not and will not allow harvesting to occur beyond the ability of the forests to grow the timber, and it's very well managed. In fact, Alberta Environment at this time estimates that the annual growth of all inventoried forested public lands in the province is approximately 44,500,000 cubic metres. We at this time

are harvesting annually approximately half, 23.3 million cubic metres. We'll have to keep working on that process, but one thing we have to watch is external forces that we have no control over in relation to the inventory out there; that is, forest fires as an example.

We have to always keep in mind that we could have a major forest fire that changes what is out there in relation to the gap between what's available annually and what is being cut. It is critical. We need to maintain our industries operating, and we don't dare overallocate what is available. So it is a touchy area, but you can be assured that we'll try to manage it.

MR. SAPERS: Thanks.

I'll pass the torch, Mr. Chairman.

THE DEPUTY CHAIRMAN: All right. Edmonton-Calder, do you have more questions?

MR. WHITE: I do, sir.

THE DEPUTY CHAIRMAN: Be my guest.

MR. WHITE: Thank you. I would like to direct these questions to the associate minister if you don't mind.

MR. CARDINAL: Sure.

MR. WHITE: Goal 5: "Sustain growth opportunities in the forest sector through maximization of the wood fibre opportunity, secondary processing and export of forest products." The goal, while admirable unto itself, deals only with the forest as a business opportunity in the way of harvest. The difficulty I have is that a great deal of forest is of value to other industries, and this goal doesn't seem to take into account any value for the other industries. The goal may have just been stated in brief and left those things out. I would like to think that the evaluation of forests is not just for harvest and harvest alone, and with your heritage, I'm sure you'd agree.

9:26

MR. CARDINAL: The only areas that we are allowing harvesting to take place for that particular resource are areas where – for example, there are thousands of square miles of muskeg which is generally forested. It's in place. We don't harvest it. It's there. There are special places. There are other areas that are set aside now: parks, Indian reserves. Traditional land areas at this time are not totally developed. So there are a lot of forested areas that we do not develop as part of the overall forest management. But areas where timber can be harvested, is the right size and so on, of course become part of the plan.

We can get the staff to put some of that in writing if you want.

MR. WHITE: No, no. That part of it is okay. Just so long as there's an understanding that aside from all the lands that are set aside for all those other purposes, not forest related – I'm talking about the harvestable forest that is out there. There are a lot of other uses. Recreational is one, and there's lots of trapping and hunting that are of economic value to society. So long as the adherence to this goal is not so strong that it overrides all those others.

MR. CARDINAL: No. The inventoried portion from Environment is estimated at 44.5 million cubic metres of harvestable timber, but we're only harvesting 23.3 million, which is about 50 percent of what can actually be harvested.

MR. WHITE: That 44.5 million cubic metres includes the tree in my front yard. That covers all the trees in the province of Alberta.

MR. CARDINAL: That are harvestable.

MR. WHITE: Right. Sure.

MR. CARDINAL: The green area.

MR. WHITE: But let's not get dissuaded and believe that we're only harvesting half of that which is harvestable. Truly harvestable is not harvesting the city of Edmonton's trees out in the lot here.

MR. CARDINAL: The other thing that's not mentioned too often is that a percentage of the annual allowable cut of both coniferous and deciduous comes from private woodlot operations. I think it could even be 20 percent.

MR. WHITE: I wouldn't think it would ever be that high.

MR. CARDINAL: I didn't think so either, but that seems to be the indication.

MR. WHITE: I can leave that for now.

Can you enlighten me as to the long-term sustainable needs of the forestry industry, the compensation for major losses in the way of fire or infestation – I don't recall anything that has devastated a forest, but it has set it back some – and in particular the nonallocation of forest lands that are taken out of any kind of harvestable production by reason of oil and gas operations and lost to the land base, cut lines and the like? There's no calculation I'm aware of that nets that out of the annual allowable cut. Can you enlighten me in some of those areas, sir?

MR. CARDINAL: Yeah, we tried to. If an FMA holder has a certain amount of land that they manage – for an example, if an oil and gas development takes place – a lot of the FMA holders now are starting to jointly plan between the oil and gas developments and other developments of that nature to make sure that when they do want to build some roads and drill their wells, they try and co-ordinate with the logging activities of the FMA holder. That seems to be working very well. The plans have just been initiated a number of years ago, and it seems like it's something that will no doubt go across the board in the future.

MR. WHITE: Is there anything in the works in the way of a change in revenue strategy, anything that is being worked upon to return a fair share of revenue to the industry as well as to the owner of the resource? I know there is a varying rate in stumpage.

MR. CARDINAL: In the last number of years there have been changes made along with the industry and also the government in relation to stumpage. They are now market driven. We can get you a copy of those rates. In fact, I think it would be good for you to have. It shows that, you know, if the market goes up, then the companies can afford to pay more, but when the market goes down, then they can pay less stumpage. So it's a good package. It's fully supported by the industry at this time.

MR. WHITE: It's stable. You're not working on any other . . . [interjection] No, no. The plan is market driven; I know that. There aren't any changes in the works? There aren't any modifications?

MR. CARDINAL: In fact, there has been a timber quota review committee in place. They've been working in the last three years reviewing all the phases of the forest industry and the quota system. We'll be coming forward both to environmental protection and also our department in the very near future with a report and some major recommendations. No doubt, as time moves on, in the next two years they could become part of the 10-year forest strategy we're going to announce.

There are some proposed changes. They haven't been adopted. They haven't gone through the process yet, but there are some good ones coming forward.

MR. WHITE: Could you perhaps in some return communication explain what is meant by balancing a fair share of revenue with sector competitiveness? I don't really understand that term.

MR. CARDINAL: Well, you always have to look at the economic viability of the industry. One of the problems with the forest industry is that a lot of times we have no control over commodity prices to the point where it could cost more for the person to manufacture the timber or the wood than they could get if they sold it even in the States. So we have to always have that flexibility to deal with these situations as they change. So it's there. It's well protected.

MR. WHITE: What does the department intend to do in the next fiscal period to foster value-added development or facilitate market access? Do you have any plans in that area that you can share with us?

MR. CARDINAL: Part of our strategy, part of our economic diversification plan in Alberta, of course, you know, is concentrating on some of the major areas like the oil and gas industry, agriculture, tourism, forestry, and science and technology. Specifically in forestry itself we are definitely promoting not only diversification in that sector but also diversification in the value adding of that particular area. A good example is the recent allocation of timber through the north-central timber allocation process, which approved a project adjacent to the Al-Pac site, the abcore project.

One part of the project is situated in one of the northern native communities of Wabasca, and the other one will be situated in Janvier-Conklin, which is another native community with very, very high unemployment.

9:36

What they will be doing there, actually, is something that's never really been done before: taking the best-quality aspen – that's the white aspen – and making dimensional lumber out of the aspen and chipping the balance of the wood into chips which will be sold to Alberta-Pacific to be turned into pulp. The bark will also be sold to Alberta-Pacific to be used for electrical generation.

After creating 100 jobs in each of these isolated communities with very high unemployment, the dimensional lumber will then be shipped to the Al-Pac site and dried using steam, which is the only way you can really afford to dry aspen, because it is very heavy and wet. What that will produce after it's dried is dimensional lumber, and it'll be remanufactured at the site and then delivered from there to Calgary. In Calgary the product will be finished for door framing, window trimming, and furniture components.

That is the type of value adding we are looking at at this time, and it's working very well. It is a complicated area, and it needs a lot of work to make sure that we can be competitive, economically viable for the companies, yet move toward that area rather than shipping raw product out of the province.

MR. WHITE: The last area we are interested in is the Senate forestry report chaired by a former colleague here, the Hon. Nicholas W. Taylor. Two of the recommendations that have some interest and application in Alberta are extending the tenure of an FMA holder from 25 years. The public may think it is an awfully long time, but when the regeneration of growth is a minimum 65 years to 100 years, it is a relatively short time. The recommendation is to extend those periods for that length of time but to review them every five years in a very, very open and public process that speaks to sustainability of their next five-year cut and the plan they have for sustaining and regrowth and replanting of their areas and the tending of those stands so that it's beyond merely plant and forget. It's plant. Three to five years hence it's brush. In seven to 10 years it's cull. The rest grows to harvest. That's one area of recommendation.

The second recommendation is to encourage the federal government and municipal governments to modify the tax structures on marginal farmland to encourage reforestation into woodlot operations to sustain the industry for longer periods of time. Those are the two comments and remarks.

MR. CARDINAL: Okay. The tenure you mentioned is a critical area. It's part of our long-term management of the forestry. It's critical that it be there. Presently under the quotas we have a five-year quadrant already in place, which is a public process in relation to business operating plans for the forestry sector. The public is definitely involved in FMAs and also the quotas in that particular area. The tenure from 20 to 80 years is also one that's been recommended by the timber quota review committee. Similar reasons are given in that it takes 130 years to grow a spruce or pine and maybe 60 to 70 years for an aspen. There's strong support from the industry to try and look at increasing the tenure.

The last issue you mentioned is modifying the tax structure. There is some activity already in northern Alberta where private woodlot operators are buying some land in areas where there's marginal farmland and planting spruce and pine trees. I think it's a good process, but there is some conflict because the agriculture industry in some of the areas feel that they cannot compete with large industries in relation to maintaining the farmland that comes up for sale, that they can't compete when it comes to purchasing. So it's a very touchy issue.

What we'll have to do, no doubt, is that each municipality may have to in the future identify what land is suitable for farming in relation to agriculture and what can be used for woodlot operation and other uses. There is some potential conflict, but I think it's workable as long as we can manage it.

MR. WHITE: Thank you, Mr. Minister.

If I might turn the questions now to the ministry responsible for management of the supply of electrical energy in the province. Here you're quoted as saying that the residual value of payback to Albertans for their regulated payment in the system – by that I assume that you mean the residual value in the existing power plants that have been supported by the regulated utility rates today. You further said, a rhetorical question I guess: well, say, how much is that? Your answer to your own question there is: hundreds and hundreds of millions of dollars. Do you have an approximate value for that coming out of the PPAs in the balancing pool? Do you have a number where you'd say, well, that's a successful bid price or successful balancing pool?

DR. WEST: Unfortunately, due to the process, which is a public auction that will take place in July, it would be irresponsible for the Crown in the public interest to state any specific expectations of that.

We do have a position in the public interest as it relates to the auction, but nobody would go to an auction where they expected buyers to come into town and be presumptuous enough to tell the buyers what the value of this is before the auction took place. So I did say that there would be hundreds of millions, and I think that's because we have done certain prorated estimates of what these auctions should bring. But that's as far as I would go or else I would jeopardize the people of Alberta's position in this public auction.

MR. WHITE: You pose another question. What happens if they don't bid and it doesn't sell? That's the power purchase arrangements. Your answer then is: then we will take a third party and create a financial instrument and bid it into the pool ourselves. Would that not be just another form of government-regulated rate then?

DR. WEST: No, because we already have the evaluation of the PPAs, which by the independent assessment team have evaluated the individual output of each plant and have placed a value on that plant, so we have that fact to work with as well as the expectation of the market value of these plants as related to other sales throughout the known world. There's been a lot of electrical deregulation going on. So putting those two together, we could come up with a value of these plants that would return a good portion back to the people of Alberta.

It's a fallback position, but with the interest that we've had, Charles River Associates, which are going to run the public auction, have been out and had bidder sessions in Calgary and New York and London, England, and Toronto. This hon. member was at one of the bidder information sessions and asked a lot of questions, but you know that there are a considerable number of very good companies interested in that. We have 30 to 40 at the present time, and they will be asked at a certain point in time to meet certain specifications as far as bonding and interest and intent before we go to the auction in July.

I see the chairman has given me the end of this, and that's a good time to quit.

9:46

THE DEPUTY CHAIRMAN: Thank you, Mr. Minister. We do have a little bit of time left.

Edmonton-Ellerslie, you had a couple more questions you wanted to ask?

MS CARLSON: I do, sir. I would appreciate the opportunity.

Mr. Minister, earlier in your comments you talked about the EUB staff additions, where you said that 80 percent of them would be paid by industry. Now, I don't want you to flip out on this, but tell us why you think there'll be no conflict of interest in terms of their independence when 80 percent of their salaries are paid by industry.

DR. WEST: All right. In arm's-length legislated regulatory bodies the payment of the moneys has not been a conflict of interest. I'll give you one example. The National Energy Board, which you wouldn't question because they have been instrumental in many tough regulatory decisions, is 100 percent funded by industry, 100 percent. Therefore at the time that we set this up, we funded more of it as the Crown but have gone to an 80 percent level at the present time. We believe that most of that money that the industry puts forward is the day-to-day operations of the EUB in their vested position as far as licensing requirements, and therefore they should pay it, not the individual citizens of the province of Alberta. We are in the process of evaluating what is in the Crown's interest and what

is in the public interest as far as the various operations on a day-to-day basis of the EUB.

Let me put it this way. They have put forth a proposal to fund it 50-50 rather than 80-20, but that would be on the side of the operation that's involved in protection of the public interest, such as inspections, the dispute mechanisms, and other areas that we put in to ensure that their standards are met and that certain requirements are met as stated by policy and by legislation.

Now, on a day-to-day application of 22,000 licences, like we had a year ago, many of those are for wells, for routine gas plants, batteries, routine connecting pipelines and that. The industry would still be required to pay that portion. I think that in the new formula we're looking at one portion would be almost 100 percent; the other portion might be met by 50-50. I've asked the EUB to bring forth a proposal that would address that. Once again, understand that the National Energy Board is 100 percent funded by industry.

MS CARLSON: Good. Thank you.

I would like to go back to the sour gas well issue in Calgary for a moment. You made some reference to the task force that was put together there in terms of decisions to review the safety regulations with respect to sour gas. That's excellent. We're very happy to see that happening. Can you tell us when that task force will report and what opportunities there will be for public input?

In addition to that, you talked about the 18 special requirements that were put in place around that gas well that is in close proximity to acreages, and we think that's very good, but once again the concern for those in the community is the monitoring process. Is there anything being put in place whereby the EUB will come up with a report card or something of a similar nature on an annual basis telling the residents that are in close proximity how well the company has done in terms of meeting the special requirements?

DR. WEST: Well, the task force should report in October, for the answer to that.

Now, all I can say on your second question is that I have before me and I had stated that there are conditions set out by the EUB as it relates to certain wells, and some of them are very intense conditions. In those it states that in this case

Cdn 88 shall develop a casing bowl welding procedure by a qualified professional engineer to be included in the detailed drilling plan [and submit that to the EUB].

Cdn 88 shall submit a report respecting the review of steel mill heat certificates for the casing and drill pipe to be used in the construction of the 10-35 well.

Cdn 88 shall satisfy the Board that ARP 1.2.5 New Grade E Specifications and/or ARP 1.2.6 SS-95 Drill Pipe Specifications or better will be used for the drilling of the 10-35 well.

There are 18 of these, and each well that's proposed in these areas carries a condition set out by the EUB, and in this case it's 18, and, yes, there are reporting procedures and, as well, inspection procedures by the EUB that must be met. This one is the most intensified set of conditions that I have ever seen in the province of Alberta. It goes on:

Cdn 88 shall commit to detailed EUB drilling rig inspections prior to spud, and drill out of intermediate casing, including blowout prevention drills.

Drilling and testing in the critical zone shall not take place other than during the summer months, in particular, not before April nor after October.

Cdn 88 shall demonstrate and implement immediate ignition within one minute of the ignition criteria being met.

Cdn 88 shall test all key components of its ERP, including the computerized telephone call out system, communications equip-

ment, communication linkages including outside services, evacuation procedures, and ignition procedures and satisfy the Board that the systems are in order for immediate implementation, prior to drilling into the critical sour zone.

Mr. Chairman, I need not go on, but these are excellent conditions. Would you like to hear a few more of them?

THE DEPUTY CHAIRMAN: I would suggest that you just table the document.

MS CARLSON: Thank you.

I wasn't questioning how excellent those conditions were, because we think the special requirements are excellent. My question was with regard to the monitoring of those requirements and then the reporting back to the people who live in that area. So I'm hoping that you'll address that.

DR. WEST: Well, I was reading this because these are the conditions, and the EUB will be monitoring this.

MS CARLSON: No, no. I do not see in that document the reporting-back process to constituents, which is the essence of my question.

DR. WEST: Well, I'll have to read on if she didn't get it.

MS CARLSON: If you table the document, we will see if that is specifically in there, but if it is not, then I would specifically hope that you will answer that question.

Now the review of standards for sweet gas wells. I must receive 15 or 20 letters a week in my office in terms of the problems around standards. People do not feel that the setback of only 200 metres is sufficient. They think there should be a much wider area of notification. There are water quality and air pollution issues, soil contamination. I'm hoping that the task force that you talked about with the county of Strathcona is going to address these issues. If not, can you tell me what process will?

These questions are: will the government review standards for drilling sweet gas wells and oil wells and setbacks? Will the government consider a policy be put forward that no drilling be allowed above a certain population density? Will you require that existing operators in an area be required to provide evidence about the standards on their existing wells, specifically things like supply reports on cement casings? People are very worried that their water supplies will be contaminated and that problems will remain long after the gas or oil is extracted. Over the past year I've listened to several scientific reviews where there is some scientific evidence that in fact water supplies can be contaminated as a result of drilling and blasting. So those are issues that I would like addressed.

I'll just carry on with some more questions. I've a couple of other issues, and perhaps you can get back in writing, Mr. Minister. My final questions are with regard to forestry. When I've been out taking a look at the landscape over the past year, I saw some areas that I've been told are test areas where they've applied chemical treatment to retard aspen growth in some of the FMAs, and it literally looks like chemicals have been poured on the ground and disintegrated everything within sight. It doesn't look like a very

good practice to me, and I am hoping that you can comment on that.

My other question is with regard to oxidation levels in the water downstream of pulp and paper mills. Now, I know you've got standards and the standards are pretty good, but it seems to me that as the water flows down the stream, it doesn't completely recuperate naturally in terms of oxidization, so some pulp and paper mills closer to the headwaters have an advantage in terms of the amount of work and costs they have to incur in order to ensure that the oxidation output for their pulp and paper plant meets the standards as compared to those downstream. So if you could give me some answers to any of those questions, preferably in writing, at some point, I would appreciate that.

I think my colleague has just a couple of questions. Did you want to run through those quickly?

9:56

DR. WEST: Just in the format here I'd like to answer the questions. I think that if I understood four of the questions, the answer is yes, yes, yes, and yes. On the water quality and that: absolutely, we will ensure the utmost security of water quality in the drilling in this province. We do ongoing hydrology tests, and the EUB is very stringent in their policies as it relates to that.

MR. CARDINAL: On the forestry side, both of those questions – and this is what makes it tough, because the split between environmental protection and the forestry development side took place, you know, less than a year ago. It's taking time for the public to generally understand who's responsible for what, and both of those questions would be under the jurisdiction of Gary Mar, the Minister of Environment. Either we could pass those on to Gary, or when you do his estimates, you could ask those same questions. No doubt he can answer them. Both of them are definitely under Environment.

MS CARLSON: If you could pass them on, I would appreciate it, because we won't have much time on those. I'm hoping that I'll get a little more detail in terms of those other questions I asked. Yeses are nice but a little detail would be preferred.

Thank you.

THE DEPUTY CHAIRMAN: I'm sorry. In fairness to the committee, we did have agreement around the table about what the process was going to be, and I have a request from Calgary-Egmont. Calgary-Egmont.

MR. HERARD: Yeah. Thank you very much, Mr. Chairman. I had a couple of questions for the minister, but I've decided to spare him tonight. So I'm just going to move that we rise and report.

THE DEPUTY CHAIRMAN: It is actually an appropriate motion, so the motion is on the floor. All in favour?

HON. MEMBERS: Agreed.

THE DEPUTY CHAIRMAN: It's carried.

[The subcommittee adjourned at 9:59 p.m.]

