

Mark Lisac's

# Insight into Government

Alberta's independent newsletter on government & politics

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## THE WEEK QUICKLY ...

- The Alberta government's commitment to stay "out of the business of business" has been eroding and will erode more once a new premier takes over
- Ottawa's carbon-friendly plans for the environment put Alberta squarely on the world stage as a prime source of greenhouse gases
- Insight presents Part 2 of its survey of public-sector executive salaries
- An oil spill near Slave Lake prompts questions about pipelines; disasters are rare but failures occur at the rate of more than two a day
- Liberal Leader Kevin Taft test drives what may become a major theme in the next election campaign
- The Conservative leadership contest loses its only woman candidate
- The government is slowly moving toward improved surface rights payments for landowners, but the agriculture minister firmly opposes controls on the conversion of farmland to other uses
- Alliance support for Ted Morton remains qualified
- Another mysterious delay for provincewide ambulance services

## ECONOMIC POLICY

### THE HANDS-OFF THEORY OF DEVELOPMENT IS FADING

The Ralph Klein era was characterized by a promise to keep the Alberta government out of business; the story was never fully true but now it's visibly eroding; several PC leadership candidates still back the theory but are looking for loopholes

**T**he Alberta government sold a handful of key concepts to voters in the great political upheaval of 1993. One was "the Alberta Advantage." Another was keeping government out "out of the business of business."

Signs are piling up that politicians with billions of dollars at their disposal are gradually reworking the interpretation of staying out of "the business of business."

The determination to stay on the sidelines was always flexible. When Union Carbide wanted the old machinery and equipment tax cut before it invested in a petrochemical plant at Joffre, the government obliged. The liquor store privatization was lubricated by tax changes that made higher-priced products more affordable. Agriculture has continued to depend on bailouts that reach hundreds of millions of dollars a year and millions more in investments.

## POLITICAL PULSE

### ENVIRONMENT

#### ALBERTA WINS — BUT WINS WHAT EXACTLY?

**P**rime Minister Stephen Harper has clarified the rules on greenhouse gases in Canada. There won't be any for at least a year. Any that do come into place will be acceptable to the oilsands industry.

Harper's announcement this week signalled that the federal government will not take action on greenhouse gases without Alberta government co-operation. Environment Minister Guy Boutilier said in turn that Alberta's own pending standards on greenhouse gases will be held off to next year to allow joint planning.

It's also a good bet that Alberta and federal standards will be harmonized on non-greenhouse gas pollutants like nitrogen oxides and sulphur oxides.

Any federal action on greenhouse gases (primarily carbon dioxide) — and on other air pollutants — now seems destined to target urban areas and individual consumers.

The political balance is obvious but still not straightforward.

The Calgary and Edmonton areas are both home to about a million people now. If there's any urban pain, they will share it. The Alberta government also has to deal with the fact that Calgary has become home to some of the country's strongest support for the Green party.

Political considerations extend beyond Canada's borders, however.

The delay and the resort to reducing "emissions intensity" — a code for letting overall emissions of carbon dioxide go up while emissions per barrel of oil produced go down — will play well in Washington. What Europe and an increasing number of U.S. states and cities will think is another issue. They will know Canada's policy is driven from Alberta.

On Sept. 27, California Gov. Arnold Schwarzenegger signed a law requiring a 25% cut in the state's greenhouse gas emissions by 2020.

It's just words for now, but the state has set a standard against which others will be measured.

There are ripple effects on Alberta in other ways, too. The new law requires public notice and opportunity for comment on all actions undertaken by the California

Turn to POLITICAL PULSE on Page 5

The massive expansion of the oilsands industry was kickstarted by a generic regime that combined generous federal tax breaks with a 1% provincial royalty in effect until project capital costs were paid off. The list could continue.

**The government did generally try to stick to an overall low-tax regime** in place of targeted aid. It also lived up to its commitment in another way. Senior cabinet ministers repeatedly said they would no longer “pick winners and losers.” The government has in fact stopped offering individual loans and loan guarantees.

The days of \$100-million or \$250-million loans and guarantees to magnesium smelters and pulp mills are probably gone for good. But the government has been drifting toward a far more pliable approach than was contemplated in the original hands-off policy of 1993.

Statements from the Progressive Conservative party leadership candidates suggest policy may become even more flexible as early as next spring’s budget.

**Why? Things have not been going to plan** and there are always niches that can demand special treatment.

Energy Minister **Greg Melchin** worked all year on a new integrated energy vision designed to emphasize secondary manufacturing as well as primary production. He put out the paper but got smacked by Dow Chemical’s shutdown of chlor-alkali and ethylene dichloride production in Fort Saskatchewan at a cost of 170 jobs.

Some leadership candidates talked bravely last month about making bitumen producers do all their upgrading in Alberta. Within days, **EnCana Corp.** announced an \$11-billion deal that will see 275,000 barrels a day of bitumen

## **AUSTERE THEORIES CAN BE WORN DOWN BY YEARS OF LOBBYING AND THE LURE OF LOOKING DYNAMIC**

upgraded at ConocoPhillips plants in Illinois and Texas. The tough talk disappeared as fast as George Bush’s tough talk on a North Korean nuclear test.

**The government has recently branched out in significant new directions** in order to guide growth.

Melchin announced an “incremental ethane extraction policy” on Sept. 29. Details won’t be released until January but the plan aims at increasing ethane extraction in Alberta. The government will provide consumption credits to petrochemical producers who use more ethane (a raw chemical feedstock) than they do now. Credits can go as high as the \$35 million a year the province currently collects in ethane royalties.

On Oct. 3, Agriculture Minister **Doug Horner** announced a five-year, \$239-million plan aimed at nurturing biodiesel and ethanol production in Alberta. It will offer \$209 million in credits to “renewable energy” producers starting next April — and \$30 million in grants for research and infrastructure development.

The producer credits fit the intent never to “pick winners and losers” because they will be available to any commercial producer. But the province is leaning toward a particular industry. Ethanol production isn’t discouraged but its environmental value and local economics have been questioned. Alberta Agriculture sees a bigger future for biodiesel and will officially encourage its development.

The bioenergy plan includes some important associated initiatives: regulatory approvals will be streamlined; the province will require 5% renewable fuels by 2010; investment support will be available through provincial lending agencies and co-ops; the province will work with Ottawa to “investigate options to improve capital flow to bioenergy industry.”

### **The last point sounds like targeted tax breaks.**

Several of the men who want to become premier have proposed similar ideas.

**Jim Dinning** had said he wants to assess the pros and cons of a scientific research and experimental development tax credit. He also wants to use government money to set up a foundation that would pay for “clean energy research.”

**Lyle Oberg** has proposed tax credits for priorities like the biofuels market and more help for the film industry.

**Dave Hancock’s** policy papers say: “We should move away from our policy against tax credits and allow the tax system to create activity which rewards personal initiative or supports our economy.” Like Oberg, he targets the film industry for more help, through bigger grants or the creation of tax credits.

**Mark Norris** is supporting the hands-off policy, but also says he wants to “creatively use royalty and tax tools” to achieve more processing of oil and gas. He also wants to “improve access to capital” for technology and biotechnology firms and the film industry. In agriculture, he wants “support for new products and new generation co-operatives.”

### **The trend directly contradicts the September 2000 report**

of the government’s business tax review committee. It said the province should depend on a low tax rate and stay away from tax credits.

Another committee on personal income taxes also recommended staying away from tax credits.

Setting low tax rates and then standing back is a fine theory. Practice has changed. U.S. states bought industries with massive concessions through the last decade. The Alberta government watched as Ontario reacted with a \$500-million auto industry fund that successfully helped attract billions of dollars in investment.

Fine sentiments tend to break down after years of lobbying. Multibillion-dollar surpluses and the desire of political leaders to look active add more pressure. The theory will break down even faster if the oil and gas industry stumbles, reviving the calls for economic diversification that led to government investments in business in the 1980s.

## DATA bank ...

### **'Rare' pipeline spills aren't infrequent ...**

● This week's spill of 1,260 barrels of oil from the Rainbow pipeline near Slave Lake led to a release from the Energy and Utilities Board saying, "Pipeline failures in Alberta are rare."

The EUB said the **pipeline failure rate "was at a record low 2.3 failures per 1,000 km of pipeline"** in 2005, down from 3.3 per 1,000 km in 2000."

But the EUB reported **875 pipeline failures in 2005**, 420 of them caused by internal corrosion, 115 by external corrosion and 32 by failure of the pipe body. There were also 13 ruptures, of which eight resulted from pipes being hit. That translates into **2.4 leaks a day**. And 15% were rated as causing serious environmental concern — 32 were in the most serious category.

Disasters are rare. Does more than two a day of all types of failure qualify as rare?

### **Pipeline inspection issues ...**

● Operating **inspections** of pipelines in Alberta were **reduced** in 2005 but **the number of unsatisfactory results stayed about the same**.

In 2004, EUB staff inspected 285 licensed pipeline systems operated by 86 licensees. The result: 188 satisfactory inspections, 69 minor unsatisfactory and 28 major unsatisfactory.

In 2005, staff inspected 208 systems operated by 68 licensees. The result: 103 satisfactory inspections, 78 minor unsatisfactory and 27 major unsatisfactory.

There were no "serious unsatisfactory" inspections in either year — a worse category than "major unsatisfactory." All problems were cleared up.

### **EUB staff turnover is up ...**

● Voluntary **departures from the Energy and Utilities Board hit 9.1%** of staff in the year ended March 31 — well above both the 6.5% target and the 2004-05 level of 5.4%.

The Energy Department's annual report says the EUB recognizes it has to keep more of its nearly 800 staff in order to maintain its core commitments. It has "implemented leadership process plans and staffing and compensation strategies."

How successful those strategies are won't be public information. Alberta Energy also said the **voluntary departure measure will not appear in future annual reports** "as it is not included in the 2006-09 ministry of energy business plan."

## MUNICIPAL AFFAIRS

### ANOTHER MYSTERIOUS DELAY IN THE AMBULANCE PLAN

**L**ocal government leaders received two big shocks at the Alberta Urban Municipalities Association convention last week, and delivered one of their own.

The first was Finance Minister **Shirley McClellan's** warning that sharply rising construction costs will put many capital projects on hold. That was a shock but should not have been a surprise. More bad budget news will likely follow in the next two years.

The second shock was surprising. Health Minister **Iris Evans** said the long-promised provincial ambulance plan is on hold yet again — because of unexplained "governance issues." An ambulance governance advisory council was supposed to be studying these issues and finish work by March 31. Its conclusions have not been published and a pilot project in the Peace region has worked out well. But Insight can point to probable obstacles elsewhere.

There was always concern about training and service standards. How does a provincewide service allow for regional differences?

Neighbouring areas may want different levels of service with differing costs — a guarantee of political problems.

Appropriate boundaries for ambulance service may not exactly match regional health boundaries.

Some municipal officials believe Evans will never agree to full provincial funding. So they want a say in how the services operate. Evans, in turn, is likely not happy about proposals to let municipalities run a system for which her department pays most of the bills.

The **clash between Edmonton and more than 20 surrounding municipalities** that are leery about entering shared-service arrangements with the city has spilled over into the ambulance discussion. A deadlock in the Edmonton area puts a big hole in any provincial plan. It's also a tough political problem for Evans, who represents Sherwood Park, one of the suburbs that's suspicious of Edmonton.

**The municipalities' shock: delegates seriously considered a resolution** calling for a freeze on all residential and commercial development within eight kilometres of urban boundaries. They did call on the province to allow immediate expansion of urban boundaries once development space is used up.

Municipal Affairs Minister **Rob Renner** said immediate expansions are probably impossible, but was relieved the call for a development freeze was defeated. He wasn't happy, but he told delegates the government understood it had received a serious message. He still thinks his council on municipal funding and responsibilities is the way to go. But PC leadership candidate **Jim Dinning** may have been sending a message on that exercise when he told the convention that "the endless seminar" on municipal planning and financing has to be concluded.

## PAY &amp; PERKS, Part 2

**SALARIES IN HEALTH, POST-SECONDARY AND CHILD SERVICES**

Last week we reported on executive pay in the civil service. This week we look at executive pay in three sets of semi-autonomous institutions — regional health authorities, universities and colleges, and regional child service authorities. Pay in these institutions has been somewhat obscured by the proliferation last year of “supplemental executive retirement plans.”

The auditor general criticized some health regions recently for not including this deferred compensation in annual salary figures. There’s been resistance, especially from the Calgary and Edmonton regions. Some other regions have such plans but show the cost in benefits. Insight takes the auditor’s word as authoritative and has included accrued pension entitlements in benefits wherever they are noted. Many individuals below the CEO level also earn sizable salaries. Pay for the executive vice-president (chief clinical officer) and executive vice-president (chief financial officer) for the Calgary health region are included as examples.

Not all numbers are equivalent. For example, Alberta Health’s report on the Calgary health region does not mention car allowances; the Chinook health region includes car allowances in benefits; the Edmonton and Northern Lights health regions give executives a car but do not record the cost.

*Source: Annual Reports*

<u>POSITION &amp; ORGANIZATION</u>	<u>BASE PAY</u>	<u>BENEFITS</u>	<u>2006 TOTAL</u>	<u>2005 TOTAL</u>
<b>Regional Health Authorities</b>				
CEO, Calgary health region	403,000	603,000	1,006,000	862,000
CEO, Edmonton health region	601,000	192,000	793,000	684,000
CEO, Alberta Cancer Board	392,000	166,000	558,000	518,000
Chief Clinical Officer, Calgary region	251,000	239,000	490,000	391,000
Chief Financial Officer, Calgary region	289,000	186,000	475,000	391,000
CEO, David Thompson health region	277,000	94,000	371,000	278,000
CEO, Northern Lights health region	267,000	100,000	367,000	422,000
CEO, Peace health region	269,000	93,000	362,000	302,000
CEO, Palliser health region	221,000	108,000	329,000	253,000
CEO, East Central health region	275,000	42,000	317,000	259,000
CEO, Chinook health region	243,000	72,000	315,000	N/A
CEO, Aspen health region (part-year)	257,000	46,000	303,000	285,000
CEO, Alberta Mental Health Board	214,000	22,000	236,000	213,000
<b>Presidents of Universities and Colleges (more than \$200,000 in 2006)</b>				
University of Alberta	366,000	190,000	556,000	727,000
University of Calgary	309,000	140,000	449,000	418,000
University of Lethbridge	271,000	111,000	382,000	341,000
Southern Alberta Institute of Technology	183,000	129,000	312,000	245,000
Athabasca University	259,000	47,000	306,000	254,000
Northern Alberta Institute of Technology	207,000	92,000	299,000	286,000
Mount Royal College	210,000	88,609	298,609	255,825
Banff Centre for Continuing Education	235,000	33,000	268,000	248,000
Lethbridge Community College	151,352	96,942	248,294	184,015
Grant MacEwan College	202,784	39,839	242,623	235,007
Lakeland College	166,004	40,649	206,653	179,037
Bow Valley College	160,383	43,457	203,840	167,583
<b>CEOs of Child and Family Services Authorities</b>				
Calgary and area	176,000	30,000	206,000	178,000
Edmonton and area (3 part-years)	128,000	43,000	171,000	175,000
Southwest Alberta	127,000	44,000	171,000	167,000
Northwest Alberta	117,000	51,000	168,000	163,000
Central Alberta	115,000	53,000	168,000	151,000
Southeast Alberta	121,000	45,000	166,000	141,000
East Central Alberta	112,000	50,000	162,000	118,000
Northeast Alberta	145,000	16,000	161,000	116,000
North Central Alberta	138,000	23,000	161,000	114,000
CEO, Metis Settlements	116,000	41,000	157,000	141,000

## TALK ... from Page 6

clashes with the team culture of Conservative MLAs. It also led to a few wrinkles in procedure.

One example cited for Insight: MLAs used to go directly to senior departmental managers when they needed something related to construction in their constituencies; it usually took just a brief conversation. When Oberg became infrastructure minister he announced MLAs would have to work through his office, a move that not only made it clear who was in charge but created two- and three-week delays in getting action.

### SURFACE RIGHTS

#### Horner will push for changes next year

● The push for higher surface rights payments for landowners who provide access to well sites and electricity transmission lines has made an impression in cabinet. Action isn't imminent but seems likely after the government puts together a land-use strategy next year.

Agriculture Minister **Doug Horner** told municipal councillors at the AUMA convention last week there needs to be a better understanding of what constitutes fair and equitable compensation for access to farmland, and said he will push for that.

But he will **not push for any controls on conversion of agricultural land** to other uses.

It's not the government's role to tell producers they cannot sell land to a willing buyer, he said.

He also said the total number of arable acres in Alberta has remained surprisingly stable, despite the rapid growth of urban and suburban areas in the last several years.

Not every acre is equivalent, of course. One of the most sensitive cases is the market garden area at the northeast corner of Edmonton — the site of a unique combination of rich soils and benign microclimate.

Horner isn't willing to write special rules for specific regions. He does say that the farm community is sometimes split; older farmers often like the idea of preserving farmland while younger ones argue they should have a right to convert their land into cash, especially when they have a chance to start a new operation farther away from cities.

Despite Horner's views, a debate over preservation of farmland is likely as part of the overall rethink of land use in Alberta.

## POLITICAL PULSE ... from Page 1

**Air Resources Board. Some Albertans may point to that in demanding similar levels of engagement.**

**Less noticed but significant: a companion law prohibits the import of electricity from any coal-fired plants that do not meet California's air-quality standards. For now, that means no imports from any coal plants outside the state.**

**Alberta plans major improvements to coal-fired plants here. But with exports part of the province's long-term electricity strategy, new questions will be bound to come up about whether Alberta's standards, stringent as they may be, will meet whatever standards U.S. states develop.**

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# Talk ...

## ... in the corridors

### ELECTION PREVIEW

#### The nameplate is 'Albertan'

● Liberal Leader **Kevin Taft's** quietly hardheaded political sense had quite a workout in the last few weeks.

The party's annual pasta dinner at the Italian Cultural Centre in north Edmonton drew a full house of about 500 last month. Taft set aside the usual morale-building and got straight to business. He told the crowd the party's Defeat the Debt campaign — built around people signing up for automatic monthly contributions — has been a success and he asked for an even bigger sign-up.

The Liberals came out of the 2001 election owing about \$1 million. They ran their 2004 campaign without adding more but were still dragging the old debt load. Last year, Taft invited leading party officials into a room and told them they weren't leaving until they agreed on a plan to wipe it out. Now prospects look good to cut the debt to \$600,000 by year-end and Taft is looking at being debt-free in three years. He's made it a high priority.

Next, his address to several hundred delegates at the annual convention of the Alberta Urban Municipalities Association last week featured what sounded like a preview of his next election campaign.

He offered municipal councillors "a true partnership" with the provincial government; a rollback of the provincial education property tax to 2001 levels and a land use plan are keys.

More interesting, because it applies to every voter in the province, was the way Taft tried to create a general image of himself and his party.

**"I'm an Albertan," he said. "Just like you."**

He said it a number of times. Then he reinforced it with similar constructions such as, "You're also Albertans. We're all in this together."

Every party communication uses the phrase "Alberta Liberal."

The goal is clear: end the Progressive Conservatives' monopoly on identity politics. The Conservative party has benefited for decades from a vague sense that all Albertans are somehow big-C or small-c conservatives — or at least that no Albertan is a Liberal.

Instead of trying to sell Liberal policies, Taft wants first to get to the psychological foundation and expand Alberta voters' sense of who they are.

That's why he's also taken to reminding people that Alberta's first premier, **Alexander Rutherford**, was a Liberal. Expect to see and hear more of this as the party sets the groundwork for the next election.

### ALLIES

#### Hinman likes Morton, with reservations

● There's little doubt that Progressive Conservative leadership candidate **Ted Morton** has had access to lists of potential supporters from the Alliance party.

But a Morton win would not necessarily bring Alliance Leader **Paul Hinman** and the approximately 77,000 people who voted Alliance in 2004 into the Conservative fold.

Hinman says he'd be interested in a Conservative party led by Morton. He would also hold off any decisions for several months until he saw whether Morton could translate a leadership win into support from MLAs. Conservative caucus support is the wild card for all the plans and promises being hatched by leadership candidates.

It's easy to say a mandate from a popular election would override MLAs' opinions. In practice, one of the keys to **Ralph Klein's** political strength was his willingness to involve all MLAs in decision making. Removing some of their influence could create fractures in the government.

Hinman's support for Morton made headlines this week and drew criticism from former party leader **Randy Thorsteinson**. But **Frank Bruseker**, president of the Alberta Teachers' Association and a former Liberal MLA, drew an angrier reaction from his members for saying he'd vote in the PC leadership election.

Hinman and party president **John Murdoch** are also setting up a nice exercise in having their cake and eating it. If Morton wins or does very well, Alliance supporters become the strongest influence in the Conservative party. If Morton is rejected, then Hinman can tell his audience, "See? They'll never listen to you. Vote Alliance."

### PC LEADERSHIP

#### The field gets thinner

● **Alana DeLong's** departure from the Conservative leadership campaign this week was no surprise. She said she was "on schedule" to collect the required 500 supporting signatures — which means she hadn't done it — but had to decide whether to put up the \$15,000 fee. The deadline for official entries is Oct. 16.

The only woman in the race had some interesting ideas. She was also politically naïve enough that she appeared at the Alberta Urban Municipalities Association last week and talked almost exclusively about education. All the other candidates were focusing on municipal issues.

DeLong will support **Jim Dinning**. That adds a negligible number of votes but burnishes his reputation as the front-runner and gives him the backing of 34 MLAs.

Now Conservative voters have to consider whether anyone other than Dinning could work with the caucus. The answer is yes, although **Ed Stelmach** and **David Hancock** likely have the inside track. MLAs can live with **Lyle Oberg** despite having voted him temporarily out of the caucus this year; their question is whether he can live with them. Oberg's tendency to like doing things his way

Turn to TALK on Page 5