

Mark Lisac's

Insight

into Government

Alberta's independent newsletter on government & politics

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INSIDE THIS WEEK

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ENERGY RESOURCES

THE YEAR THAT OILSANDS PRODUCTION TOOK OVER

Environment Minister Rob Renner will spend June 13-17 in the eastern U.S. talking to state politicians about Alberta's "clean energy" policies ... it's one of many recent trips prompted by the fact the province's future depends now on the oilsands

Alberta is about halfway through a massive resource transition that will affect its finances, its infrastructure, its social structure and its political life.

Ever since the first Leduc well came in on Feb. 13, 1947, people have thought of this as an oil province. From about 1980 to 2008 it was really a natural gas province. Now it's crossing into a future as an oilsands (or bitumen) province.

The general direction has been clear for some time (see Insight, June 11, 2004).

The latest Energy Resources Conservation Board report on energy reserves provides a more certain fix on where we are in that transition. It also offers new numbers that show the change is speeding up — going faster than forecast in last year's report.

The number that most new stories picked out from *Alberta's Energy Reserves 2009 and Supply/Demand Outlook 2010-2019* was last year's 14% increase in bitumen production.

That growth was remarkable and there's plenty more to come. The report looks ahead to bitumen production slightly more than doubling in the next decade — from an average 1.5 million barrels a day in 2009 to 3.2 million barrels a day in 2019.

However, the rise of bitumen is being matched by the decline of natural gas. Production of conventional marketable gas fell by 7.5% from 2008 to 2009. The ERCB expects total annual gas

POLITICAL PULSE

PARTY FINANCES

LIMITED ADMISSION TO THE CLUBHOUSE

How sensitive is the subject of party leadership campaign financing? It's so sensitive that government MLAs have put unexpected limits on a legislature committee's public consultations.

Studies of issues like minimum wage policy and a proposed Alberta Health Act are being done according to the usual wide-open procedures.

But the standing committee on public safety and services, which is looking into leadership campaign rules, has decided it will hear oral presentations only from registered political parties (on July 8).

That follows its April 13 decision not to advertise publicly for written submissions. Instead, submissions were invited from "stakeholders" whose names were put forward by MLAs on the committee.

Only committee members were asked to draw up lists. New Democrat MLA Rachel Notley, sitting in on the committee's meeting this week, said she had not heard about it. (The submissions are to be available on the committee's website.)

Notley and Hugh MacDonald (Lib—Edmonton-Gold Bar) unsuccessfully urged other MLAs to revisit the April decision. They didn't get far.

The committee approved a motion from George Rogers (PC—Leduc-Beaumont-Devon) to talk to presidents of political parties. He said the issue was germane only to parties and he did not want to hear from other groups.

That position echoed what happened in April, when the committee decided not to advertise its work. Neil Brown (PC—Calgary-Nose Hill) argued then that ads are costly, and that experience has shown they do not generate much response.

Limiting input could set a precedent that all five standing committees of the legislature may end up following.

Or it could be that this is a special case — government MLAs keeping a narrow boundary around a discussion that has embarrassed the premier. They had support from Wildrose Alliance MLA Heather Forsyth (Calgary-Fish Creek).

The Wildrose party also faces a decision here. Party leader Danielle Smith justified keeping all donations to WA leadership campaigns secret last year. She said contributors are afraid of the government. It will be tough to turn around and say that rationale no longer applies.

production in 2019 to be 40% lower than in 2009 — even after allowing for development of coalbed methane and shale gas.

The downward curve is getting steeper. The 10-year outlook in last year's report was for a 30% decline in conventional gas production.

From now on, bitumen will be produced in progressively greater volumes in Alberta than natural gas. The crossover point was reached this year. The value of bitumen production has been higher for two years.

The shift from one resource base to another has several potential consequences.

Provincial government revenues will be difficult to forecast but may come under pressure. Not only will gas production decline, but the royalty changes announced this spring will yield less revenue from gas.

Bitumen revenues are rising but there's always been some question about whether they will be as lucrative as gas royalties.

They also tend to be offset more by associated spending — like roads and hospitals in the Fort McMurray region, and the \$2-billion carbon capture fund that's part of the government's effort to improve the oilsands' environmental image.

Oilsands production and unconventional gas production tend to produce a more crowded, industrial landscape than the oil and gas wells of the 20th century. The result is environmental issues, land use issues and urban concentration.

Exports will change significantly. The ERCB says more and more of Alberta's gas production will be used inside the province. Domestic consumption is expected to rise to 71% by 2019 — driven largely by the needs of oilsands plants — compared with 36% in 2009.

Bitumen exports will keep expanding as natural gas exports dwindle to 29% of total gas production. That means a partial shift from price to Alberta's environmental image as an important market factor.

Conventional oil remains a multibillion-dollar industry, but production of conventional crude will be equivalent to less than 10% of bitumen production by 2019.

Two wild cards will affect future prospects. The first is in-province industrial demand for natural gas.

The ERCB expects demand at oilsands plants to drive a big move toward in-province sales of gas. But it notes some potential for oilsands plants to produce their own synthetic gas. The Nexen-Opti Long Lake project began doing that early in 2009. The report says that if other projects follow, then "natural gas requirements for this sector could decrease substantially."

That would put more Alberta gas into market

competition with U.S. gas.

The other wild card is shale gas. The new report is something of a landmark because it's the first of these annual assessments to include consideration of Alberta's reserves of shale gas. (The term is used in this province to cover gas in a variety of different kinds of fine-grained rocks, and even in silt or sandbeds.)

The report says shale gas could add many trillions of cubic feet to Alberta's gas resource base. By the ERCB's definition, there are already about 250 shale gas wells in the province, mostly in a small east-central location.

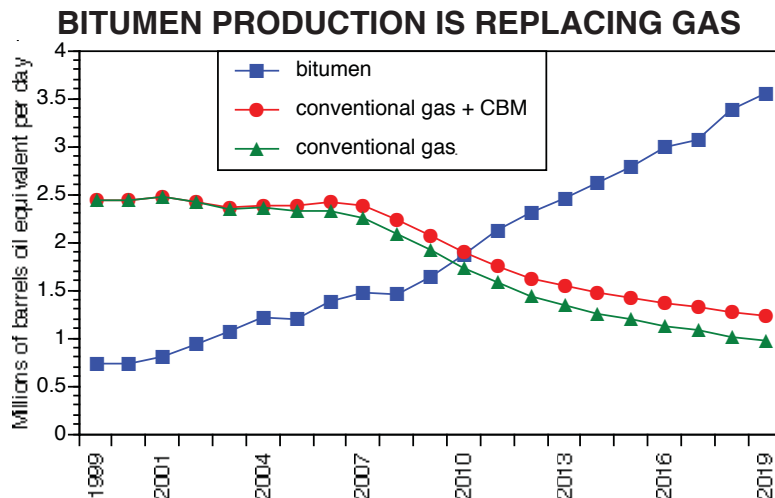


Chart shows the historical and forecast volumes of bitumen, conventional natural gas, and all natural gas (including coalbed methane) produced in Alberta. (Adapted from the ERCB reserves and supply report.)

However, the board's outlook remains very cautious, although open to change: "(T)he ERCB believes that based on existing technology and the current price forecast, shale gas development is not anticipated to contribute significantly to Alberta's natural gas supply over the forecast period."

The value of all this resource production is projected to be a little higher than forecast a year ago. Last year's report estimated an average value of energy production at \$107.9 billion for the period 2011 to 2018. This year's report forecasts the average value of energy production from 2012 to 2019 at \$118.3 billion a year.

That's on the basis of export prices for crude bitumen moving up from last year and the value of gas production going down. It's about 26% more than would be needed to keep up with the 2.4% annual inflation that the board's economists expect for Alberta in the next decade.

Value of production (\$ billions, nominal dollars)

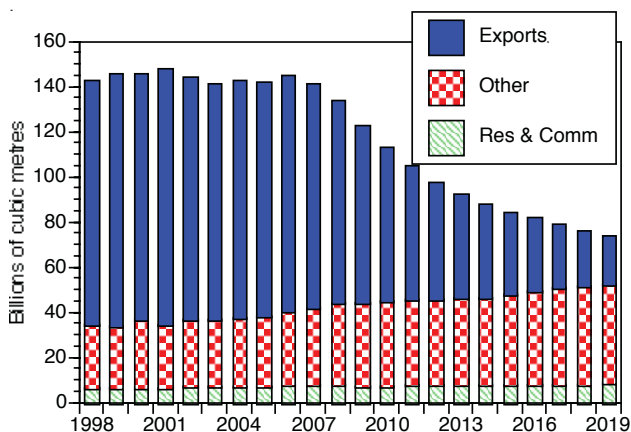
	2009	2012-2019 avg.
Crude oil	\$10.19	\$11.84
Crude bitumen	\$11.29	\$36.11
Synthetic crude	\$17.64	\$44.98
Marketable gas	\$16.89	\$18.57

ENERGY RESERVES AND 10-YEAR OUTLOOK

ERCB REPORT PROJECTS CALM, STEADY DEVELOPMENT

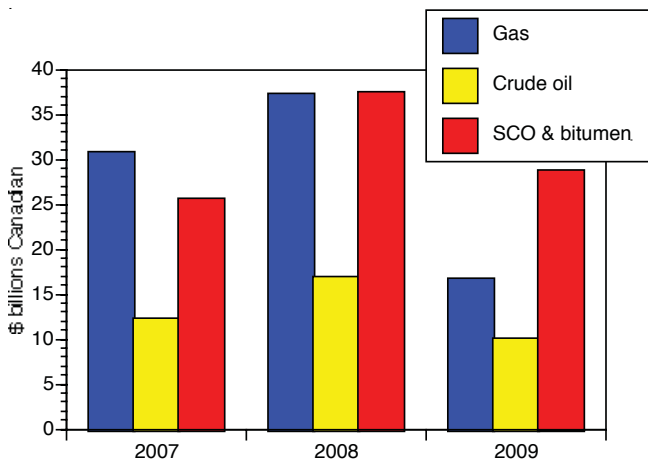
The outlook: decent levels of activity, no repeat of the recent boom, a simple extrapolation for the oilsands

GAS PRODUCTION & DEMAND



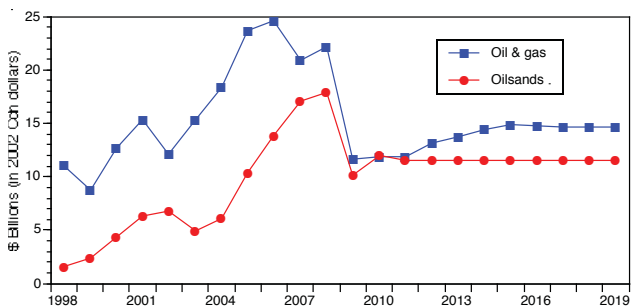
Natural gas production is dropping rapidly. "Res & comm" demand is Alberta residential and commercial demand. "Other" demand is basically industrial, much of it from the oilsands. "Exports" go to other provinces and to the U.S.

VALUE OF PRODUCTION



Natural gas was Alberta's most valuable produced resource until 2007. Synthetic crude oil and bitumen from the oilsands pulled slightly ahead in 2008. Now they're ahead for good.

INVESTMENT OUTLOOK



Investment collapsed last year, with activity in conventional oil and gas hit hardest. The ERCB does not foresee a return to levels reached in the boom of 2003-08. Graph measures billions of "real" dollars, adjusted for inflation.

REPORT HIGHLIGHTS

Oil & gas exploration down for good ...

There were 3,768 conventional gas well connections in 2009, 50% fewer than in 2008. The ERCB forecasts 2,800 connections in 2010, rising gradually to 5,000 in 2015 and remaining at that level to 2019.

Gas production peaked in 2001. Additions to reserves have failed to keep pace with production since 1983. Conventional oil production has fallen since 1973. However, drilling for both commodities has had to increase in the face of lower well productivity. Since 1973, production of crude oil has fallen by two-thirds but the number of active oil wells has quadrupled to nearly 40,000.

Gas production has been dropping since 2001, even though the number of gas well connections has nearly doubled to about 116,000.

Electricity demand slows ...

The economic slowdown since 2008 has led to a reduction in forecast electricity generation in the next decade. Total electricity consumption fell by 1.4% in 2009, after rising by nearly 4% a year from 1998 to 2006.

Oilsands move to in-situ production ...

The board expects bitumen production from mines to grow more slowly than forecast last year but production from in-situ projects to grow more quickly. In-situ projects are expected to account for 53% of production by 2019.

Synthetic crude off slightly ...

Prospects for upgrading bitumen in the province are slightly less optimistic than in last year's reserves and outlook report, owing to project deferrals and price factors. The board expects production of synthetic crude oil to nearly double over the coming decade. But its forecast of SCO production by 2019 is 12% lower than its forecast last year for 2018.

Crude oil in its twilight, though lucrative ...

Oil production will continue to be worth about \$11 billion a year. New techniques are increasing production from old pools. However, the board thinks only 11% of Alberta's ultimate potential crude oil reserves remain to be discovered. That leaves an estimated 3.5 billion barrels of conventional crude available for production.

Coalbed methane still being assessed ...

The board is still reluctant to say how much of the province's coalbed methane may be economically recoverable. But it expects CBM to account for 20% of total Alberta marketable gas production by 2019.

PERSONAL SAFETY

ALBERTA'S CULTURE OF RISK LEADS TO HIGH INJURY RATES

The toll on families and the economy is so high that regulation is tempting even those hesitant about it

A meeting to review the work of Alberta's leading centre for injury control slipped sideways into reflections on the province's culture, and on the pros and cons of government regulation.

The legislature's standing committee on public safety and services heard a general update from **Kathy Belton**, associate director of the Alberta Centre for Injury Control and Research. The centre is part of the University of Alberta's School of Public Health.

Belton told MLAs its long-term vision is to make Alberta "the safest place in the world."

The province is a long way from being even the safest place in Canada. Belton told the committee that 1,700 people in the province died in 2008 as a result of injuries, including suicides. Some 54,000 people were admitted to hospital as a result of injuries, and 436,000 visited hospital emergency departments.

The provincial rate of admission to hospital because of injuries was 736 per 100,000 population — second only to Saskatchewan and well above the Canadian rate of 534 per 100,000 population.

The resulting economic loss in 2008 was estimated at \$2.9 billion, or \$918 per person.

The centre's priority for the next three years is to reduce falls among older people. But age is not central to its explanation for Alberta's unusually high injury rate.

Belton said, "Albertans have a different perspective when it comes to taking risks." It's part of the provincial psyche to take chances. It's also part of the attitude of young males, who account for about two-thirds of injuries.

She said people in Ontario have "a different mindset" and are readier to accept government taking a lead in injury prevention.

Because of that, Belton said she was not suggesting that Alberta impose heavy new safety regulations. She said education and training could achieve the same effects.

But when MLAs asked about specific safety issues, regulation turned out to be attractive to both them and officials from the injury research centre.

Pearl Calahasen (PC—Lesser Slave Lake) asked about aboriginal issues. Belton said suicide is a major problem and the centre has co-ordinators working on the social issues often embedded in the causes.

Peter Sandhu (PC—Edmonton-Manning) asked about workplace safety. He suggested looking at measures such as pulling permits from homebuilders with bad safety records (Sandhu is a homebuilder himself): "At the end of the day, if we need to regulate, we need to regulate."

Belton said many Albertans practise safety at work, but

"that goes out the window" when they go home. She noted one large Edmonton-area employer rigged his cellphone or Blackberry to receive a notification every time one of his company vehicles was being driven faster than the local speed limit.

Darshan Kang (Lib—Calgary-McCall) asked about ways to improve road safety. Belton said the government could have an effect by following some other provinces in creating driver's licence demerit points for anyone caught not wearing a seatbelt.

Rachel Notley (NDP—Edmonton-Strathcona) asked about children dying on all-terrain vehicles. **Hugh MacDonald (Lib—Edmonton-Gold Bar)** said children and youth account for 38% of deaths on ATVs in Alberta, compared with 25% across the country.

Belton said she would like to see legislation requiring helmets for anyone under 18 years of age on an ATV, as well as more emphasis on eye protection and gloves. She also thought mandatory use of helmets by skiers and snowboarders would be "a wonderful idea."

MacDonald asked about the effects of Quebec's regulation requiring use of snow tires in winter. Belton said the centre is looking at that but has not seen enough data yet.

She told **Heather Forsyth (WA—Calgary-Fish Creek)** that the government's proposed distracted driver legislation is "very good," and that cellphones and driving do not mix, even with hands-free cellphones.

PROPERTY ISSUES ALSO TEMPT RELUCTANT REGULATORS

Alberta's land titles system does an astonishing amount of work. It handles about one million document registration requests and 3.6 million title and document search requests per year.

Some want it to do far more. Land titles records are the crossing point for various kinds of important information.

The auditor general noted in April that a more robust data mining capacity could let investigators do better searches for possible mortgage fraud.

Supporters of freehold mineral rights want deep mineral reversion rights registered as caveats on land titles.

Now there's trouble over the discovery of gas wells beside homes in Calmar, just southwest of Edmonton.

Five homes had to be purchased from families in a recently built neighbourhood to allow remediation work on a well that had been reclaimed in the 1960s but had recently started leaking gas. The homeowners didn't know it was there.

The old well and others nearby were deleted from land titles after reclamation. With tens of thousands of old wells around Alberta and urban areas expanding, the situation could be repeated. The Calmar discovery put a new light on an MLA motion that was defeated in the legislature after a short debate in April.

Ken Allred (PC—St. Albert) suggested that all

future underground utilities be buried at least one metre underground, and that accurate locations be added to “a comprehensive underground facilities registry.”

Allred was thinking mostly about electrical lines and gas pipelines. He and other MLAs noted a history of accidents, some fatal.

His motion died after Energy Minister **Ron Liepert** expressed concern about the prospect of more regulation and about the lack of a cost-benefit study.

Allred pointed out there is not only no comprehensive record for about one million kilometres of buried pipeline and electrical conduit in Alberta, but no registry of accidents involving them.

Allred is one of the MLAs vocally opposed to unnecessary regulation. His support for a buried utilities registry is a sign that information requirements may grow rather than shrink as the province becomes more crowded.

People ...

Recent government appointments

Safety Codes Council ...

● **Robert Blakely**, an Edmonton lawyer, appointed chairman of the Safety Codes Council. Blakely worked his way through university as a journeyman plumber and pipefitter before entering law. He has served as vice-chair of the council and been a member of other provincial bodies, including the Alberta Economic Authority.

Blakely currently practises law with Blakely and Dushenski, and is director of Canadian affairs for the building and construction trades department of the AFL-CIO. He also serves with the Naval Reserve; he was commander of the reserve from 2004 through 2007, and led the team that developed its distance learning command and staff program. Former council chair **Ken Sauer** voluntarily stepped down after 16 years.

Information and Privacy ...

● **Jill Clayton** appointed assistant information and privacy commissioner for private sector privacy. Clayton has been director of the Personal Information Protection Act. Her new role adds responsibility for development and oversight of recent changes to the act. It is the first in Canada to require notification by organizations when personal information has been exposed inadvertently.

Provincial Court of Alberta ...

● Judge **Justina Filice** named assistant chief judge for the Edmonton court's family and youth division. She was appointed to the court in 2007 after practising law at Corbett Smith Bresee LLP, and after helping found Collaborative Family Lawyers of Alberta. She replaces Judge **Jack Easton**, who moves to part-time duties.

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Talk in the Corridors

POLITICS

Premier declares success ...

● The spring cabinet tour is over. Premier **Ed Stelmach** talked to the media this week for the purpose of declaring it a success. He said ministers and MLAs had learned a lot and reconnected with voters.

His summary of the May cross-province ramble: Albertans want the government to listen more, but they also support the government's current priorities in fiscal policy, health care, infrastructure spending and the new competitiveness policy. If voters see eye to eye with the government on main policy lines, why are they telling it to listen better?

The tour was a huge departure. It required shutting down the spring legislature sitting about a month early. And it stretched over five weeks; the original cabinet tours of years past saw ministers travelling for a few days.

The scale of the venture indicates the government saw an urgent need to fix a serious political problem. Meeting local movers and shakers isn't the sole answer but it's better than nothing.

Now the talking is over. The politicians have to return to grappling with practical issues — like the fact that Calgary's two school boards are planning to meet budget pressures with a combined reduction of about 270 teaching staff, and like the fact that staff shortages in cancer clinics have led to care being denied to terminally ill patients.

However, the opposition parties are not visibly persuading most voters that they can do a better job handling such situations.

ENVIRONMENT

A dim view of public's need to know ...

● The Swan Hills hazardous waste treatment plant has been an environmental asset and a sporadic political embarrassment for a quarter-century.

The latest embarrassment stems from the government's decision not to tell local residents that a fire at the plant last July burned about 1,000 litres of waste full of PCBs — or to investigate the fire. The fire also led to a 10-month plant shutdown; it reopened last month.

Hazardous material sent smoke into the air from a place designed specifically to keep such materials from escaping. And a plant that routinely requires about \$25 million to \$29 million a year in provincial operating subsidies shut down for 10 months.

Yet no one in the government thought any of this warranted a statement. Information was released only after a local resident filed a formal access to information

request. (The town and some provincial agencies had been notified at the time.)

The fire was also not mentioned during review of the Infrastructure Department budget in February. The budget included about \$26 million for plant operations and about \$6 million for equipment purchases. There was no mention of a fire or a shutdown as **Paul Hinman (WA-Calgary-Glenmore)**, **Ken Allred (PC—St. Albert)** and New Democrat Leader **Brian Mason** asked questions.

Infrastructure Minister **Ray Danyluk** did tell them that the plant undergoes a comprehensive strategic review every five years. A review was done in 2008 and apparently completed last year. Its recommendations were being assessed in February and are still being assessed now.

Danyluk also said the plant has eliminated most PCBs in the province. Its future operations and size depend on factors like remaining needs, and operating costs.

The only upside: the province is doing a little better than the U.S. government, which has denied some reporters access to plane flights and to public beaches as they try to cover BP's oil spill in the Gulf of Mexico.

CIVIL SERVICE

Going to their reward ...

● Insight is happy to report that some of the approximately **400 Service Alberta employees** whose jobs have been eliminated are receiving a service or retirement award. We noted last week that some staff were unhappy about the lack of recognition at going-away events.

However, the department says all the people who left are eligible to receive a token of recognition at their request. At last count, more than 170 awards had been given out and more were in process. It's part of the government's official recognition and rewards program.

This is not a small matter in a government expecting to have to recruit many new staff in the face of a wave of retirements in the next few years.

The 2009 survey of staff attitudes found some departments where employees were feeling less valued. The bigger weakness, widespread across the government, was a perception of fewer career opportunities. That may have been tied to the general government hiring freeze.

PUBLIC RELATIONS

It doesn't have to be rocket science ...

● Sometimes the right public messaging is simple. The Energy Resources Conservation Board ran into trouble when it emerged that plainclothes Alberta sheriffs tasked with security at a public hearing on a proposed bitumen upgrader east of Edmonton were carrying guns.

The story left a bad taste reminding many of the "spy scandal" that sank the former Energy and Utilities Board's hearings on power transmission lines.

The weapons were quickly removed. The controversy disappeared just as quickly. Lesson one: if your reputation is in trouble, act fast. Lesson two: be flexible when possible, and inflexible only when essential.