



House of Commons
CANADA

Standing Committee on Industry, Natural Resources, Science and Technology

INDU • NUMBER 019 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Monday, February 14, 2005

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Chair

Mr. Brent St. Denis

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Standing Committee on Industry, Natural Resources, Science and Technology

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• (1530)

[English]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): I'd like to call to order this February 14 meeting of the Standing Committee on Industry, Natural Resources, Science and Technology. We have a very auspicious delegation today from the Canadian Gas Association; the Canadian Petroleum Products Institute; the Canadian Electricity Association; and the Northern Gas Project Secretariat.

Thank you for being here. You can introduce yourselves when you're speaking. You've come to help us as we continue our industrial strategy study, which includes, very importantly, the energy sector, among others. It includes the textile sector, automotive, and beyond as well, but certainly the energy sector is a key component in any industrial strategy that this country would have.

I would like to just take a moment to point out that Lalita, our researcher, had her baby, so I've passed on good wishes from all of us in tangible form. She's apparently doing quite well. She had a baby girl, and everything apparently went well. She said thank you to everybody for the expression of good wishes.

We'll talk a little bit about Bill C-9 later on, before we finish today.

With that, we're going to invite Mr. Michael Cleland to speak on behalf of the Canadian Gas Association—although I understand that you, Mr. Baily, and Mr. Konow are sharing your time, is that correct?

We're going to ask you to try to keep the remarks for both groups to roughly ten minutes each. If you miss saying something in your remarks, you'll get a chance to add anything in the question period.

Mr. Cleland, we invite you to start. Thank you for being here.

Mr. Michael Cleland (President and Chief Executive Officer, Canadian Gas Association): Thank you very much, Mr. Chairman and members, for agreeing to hear from us.

In point of fact, just to correct the record, I'm going to speak on behalf of a group called the Energy Dialogue Group. Unavoidably, as the three of us answer questions, we'll also be speaking from the perspective of our respective associations, but our intention was to bring to you this rather broader perspective.

There's a document that was sent ahead, and I'm assuming that members have it. It's a deck called "Energy in the Canadian Economy".

Very briefly, the Energy Dialogue Group is a group of 18 associations that we formed ourselves about a year ago, mainly to work with the Council of Energy Ministers—the federal, provincial, and territorial energy ministers. Our core message and our core purpose is to encourage the development of a dialogue on energy in Canada and, ultimately, a framework for energy development in Canada at the federal, provincial, and territorial levels.

What I'm going to do is step through this pretty quickly. There are a number of snapshots here in essence that we can come back to for reference, but I will go through them pretty quickly, looking at energy as an industry in Canada, looking at energy use and its effect on consumers, looking a little bit at energy prices, and then from there giving a very brief statement about where we think energy policy, or Canada, needs to go with an energy framework.

If I may, on page 3 of the presentation, there's a slide on comparative Canadian energy production. In a nutshell, what that tells you is what Canada's energy industry looks like in BTUs per person produced and how that looks compared to the G-7 or other NAFTA countries. In terms of the size of the industry and the importance of energy production to the economy, in Canada it outstrips any of the other countries with which we're being compared here. The simple message, as we think about Canadian industrial policy, or environmental policy for that matter, is that this is a key factor we need to take into account.

The next slide breaks that up a little bit and looks at the energy GDP, the major components. The other characteristic of the Canadian energy system, or the Canadian energy economy, is that it is among the most diverse in the world. Canada produces, and indeed is a net exporter of, pretty much every energy commodity. You can see that reflected in the pie chart on page 4. I might add that what isn't shown on that pie chart is uranium. Canada is a very large producer of uranium, but that would be captured under mining statistics. In any event, it is a diverse industry, and one that is also distributed very widely across Canada.

The next slide on page 5 looks briefly at investment in energy by subsector. A big part of Canada's overall investment picture is made up by energy, particularly oil and gas. Again, it's also distributed fairly widely among other parts of the energy sector.

An important consideration here is that as a big destination for investment, the energy sector is also a big consumer of goods and services that are produced in virtually all parts of Canada. It's an important market for other parts of the Canadian economy.

The next slide on page 6, another snapshot, is on exports and imports. Again, a big part of Canada's export picture, energy is the largest single factor in Canada's positive balance of trade. There's been a lot of growth in value since the year 2000. Some of that is reflecting volume, and a lot of it is reflecting what's happened to energy prices in that time.

Also note, though, that we are a fairly sizable energy importer of petroleum, crude oil, petroleum products, and indeed electricity. I think the key point there is the degree to which Canada's interconnectedness, not only in North America but to the rest of the world, needs to be a key part of how we think about energy.

• (1535)

In the next section I was going to talk about energy use in Canada. Page 8 shows you what has been happening with energy demand, going back to 1990. It is growing steadily. It has been growing somewhat more slowly since the mid-nineties than it did in the early part of the decade, but still the outlook—and I correct that, it's not a forecast by the National Energy Board, but rather an outlook—in one scenario in which they see growth is at around 1.5% a year. It might end up being a little less than that. It's unlikely to be a great deal more, but neither is it likely to be a great deal less.

This is simply a reality that is deeply embedded in the Canadian economy, and again, one we need to take into account as we think about our overall industrial strategy and other aspects of Canadian policy.

Mirroring the fact that we are a big energy producer, we are also a big energy consumer, the most energy-intensive economy in the G-7 and NAFTA. That isn't the same as saying we're wasteful. We're a big resource producer. Our economic structure makes us energy intensive. Our geography, our climate, our habits, including our habit of living in big houses, all tend to make us big users of energy. None of them per se means that we are wasteful of energy.

At the same time, we're seeing steady gains, steady reductions in energy intensity, actually somewhat faster than the G-7 average, and it is very likely that we'll continue to make good progress on that front, albeit there are probably some arguments for needing to push it harder.

The next slide gives you a quick look at energy from the perspective of the individual consumer. We haven't looked at the picture here for industrial consumers. You've had other industries here meeting with you, and I know they have talked to you about energy and their overall cost structure. For many of them it is a very important part of their cost structure, and they have provided you with their views. This is the individual consumer.

There are a couple of points to note. One is just how much we spend on getting around with gasoline. Natural gas and fuel oil are for heating our houses, and then electricity is for everything else, for a total of about 9% of the overall bundle that consumers buy each month.

Page 11 gives you another perspective on it for the consumer. What you see there, if you look at the highest quintile—in other words, the 20% of the population that has the highest income—and compare it with the lowest, which is the 20% with the lowest income, is that for the people in the highest income quintile, energy

is a pretty good deal, and in fact for most of the rest that's also true. That slowly climbs from about 5% of household spending to a few percentage points higher. Who it really hits, though, when you have higher energy prices, is the lowest-income consumers.

Our point here is that as we adapt to the world of higher energy prices that we think is in front of us, the question for policy will be how to make sure the vulnerable part of society doesn't get hurt at the same time as we ensure that consumers as a whole are seeing the real prices that underpin the marketplace.

Speaking of energy prices, there are a couple of interesting things here. Up to about 2000, the energy prices generally track the consumer price index with very little variation. Since 2000 we've seen a departure, particularly with natural gas, and to a lesser degree with fuel oil and other fuel. Gasoline, interestingly enough, has stayed very close to the consumer price index, as has electricity. In the case of electricity, Mr. Konow can talk about this. For the most part, those are regulated prices. Some might argue that those are prices that are regulated at an unsustainable level in the long run, because the input costs for electricity, looking forward, are probably growing somewhere ahead of the consumer price index.

Speaking of input costs, there are two key factors. Page 14 deals with one of them, which is crude oil. World oil prices over 2004 essentially set the five-year high. They've stayed in the over-\$40-per-barrel range, and the futures markets, as of right now, still see them in that range over the coming year.

• (1540)

We might see oil prices come down, but I would say we're unlikely in the extreme to see them get back down to the levels that are shown under the five-year lows. Those levels look like something we're certainly not going to see again in a hurry.

Similarly, with natural gas we're looking at North American prices, which are quite different from world prices. Again, natural gas prices have been, in a sense, setting the five-year maximum through most of the past year, except that we haven't seen the big price spikes that we get from time to time. The reason is that we went into winter with lots of storage and we've had a relatively mild winter. But the fundamental underlying price is over six dollars. The futures markets again seem to think it's going to stay there, and that's what they're betting on.

I'll just wrap this up with the last slide, on where we go from here. Our point is very simply that Canada needs a new energy framework to respond to today's needs. We need to ensure secure and reliable supply. We've been taking that for granted for many years. To a degree, we can continue to take it for granted because the market will deliver, but we also believe there are some important policy conditions that need to be in place to do that.

On adapting to higher prices, some of that is consumer understanding and information, and some of it is helping consumers to improve their energy efficiency. The latter is a win-win from both an environmental perspective and an economic perspective, but it needs coherent policy to make it happen.

Finally, we do have to meet a whole bunch of growing environmental imperatives—not only climate change, but other environmental factors as well. That is a big part of how we manage our energy future going forward.

We've been talking to energy ministers about several priority tracks. One is smart regulation, and I'd like to talk a little bit more about that in the course of the conversation. Another one is energy efficiency and what we can do realistically on that. The third is how we invest in the long-term future and what we are doing to ensure that we invest in technology in Canada. Finally, public understanding is going to be key to our success going forward. We need to engage in dialogue with the public and ensure that their expectations are consistent with the range of Canada's needs.

Mr. Chairman, thank you very much for your time. I'll leave it at that.

• (1545)

The Chair: Are we going to hear from Brian Chambers next?

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): Maybe you could ask Mr. Cleland to review those four things that he just talked about, because I think they're pretty key.

The Chair: Could we get him to do that during the response to a question, maybe?

Mr. Werner Schmidt: I'd just like to have note of the four—

The Chair: Okay.

Go ahead, please.

Mr. Michael Cleland: I'll be very brief, Mr. Chairman.

Smart regulation is the key to getting investment, energy efficiency, energy technology development, and energy information and public understanding.

The Chair: Thank you, Werner.

Mr. Chambers, please.

Mr. Brian Chambers (Executive Director, Northern Gas Project Secretariat): Thank you very much, Mr. Chair, and thank you for the opportunity and invitation to speak to you and your committee today about the regulatory regime in the Northwest Territories, specifically the role of the Northern Gas Project Secretariat in working with that regulatory regime in the context of the proposed Mackenzie gas project.

I'll be reading excerpts from the brief that I believe was distributed to committee members and I'll be highlighting some of the issues that I've raised in that short brief.

First, with respect to the historical and statutory context, the Northwest Territories is a young and emergent regulatory regime that is characterized by a number of historical and contemporary developments that collectively provide the foundation for the existing environmental assessment and regulatory framework. These include long-standing treaties between the Crown and the first nations of the north, as well as more recently concluded land claim agreements. The constitutional recognition and affirmation of aboriginal and treaty rights comprise an important element of the NWT regulatory regime. Aboriginal land claims organizations and

emerging self-government arrangements are integral to defining and effectively managing this regime.

With respect to the rationale for the cooperation plan and the Northern Gas Project Secretariat, the Northwest Territories has experienced unprecedented levels of resource development and private capital investment over the last decade. Continued robust investment in natural resource exploration and development are forecast for this coming decade. The magnitude and pace of investment in exploration and natural resource development have challenged the emerging environmental management and regulatory regime; and the scope, scale and transboundary extent of some projects have been without precedent with respect to the positioning and capacity of this regime.

While no formal project existed prior to the Mackenzie gas project submission by Imperial Oil Resources Ventures Limited in October of last year, the responsible agencies had already established a flexible framework to guide their examination of opportunities and options for coordination. The framework included key assumptions regarding development scenarios and principles to inform dialogue, cooperation, and coordination. A primary focus of this framework was enhancing efficiency and effectiveness and improving certainty and clarity in the environmental impact assessment and regulatory processes. These objectives would be achieved through the establishment of a joint environmental impact assessment panel and separate, but coordinated, regulatory processes.

Moving on to the cooperation plan itself, the *Cooperation Plan for the Environmental Impact Assessment and Regulatory Review of a Northern Gas Pipeline Project through the Northwest Territories*, otherwise known as the cooperation plan, was released in June 2002. Fourteen parties, representing the full range of federal and territorial agencies with competent jurisdiction in the area of the proposed Mackenzie gas project, contributed to this agreement. In the cooperation plan, the parties describe how they will coordinate the response to any proposals to build a major natural gas pipeline through the Northwest Territories.

The plan is characterized by a number of features that are of interest and relevance to this committee. The cooperation plan did not create or change the regulatory regime in the Northwest Territories. While the cooperation plan focuses on working within the boundaries of the constitutional, legal, and policy framework, it is committed to identifying, creating, and maximizing opportunities to achieve greater regulatory efficiencies and effectiveness for all parties concerned. The fundamental approach to the development and implementation of the cooperation plan was founded on principles consistent with recent federal regulatory reform initiatives and the proposal for a regulatory strategy for Canada, with the goal of modernizing regulation to enhance conditions for an innovative economy while finding improved ways to meet high standards of social and environmental protection.

The cooperation plan represents the consensus-based exploration by the agencies of potential methods, practices, and arrangements for cooperation to avoid and reduce duplication to the greatest extent possible, which contributes clarity and certainty of process for the public and the project's proponents.

• (1550)

There were a number of key factors and considerations that converged to provide the rationale and momentum for the development and implementation of the cooperation plan. The specific objectives of the cooperation plan are to enhance regulatory efficiency and effectiveness; improve certainty and clarity of the environmental impact assessment and regulatory processes; provide for public participation in an open and accessible manner; develop a process that ensures the appropriate consideration of possible environmental, socio-economic, and cultural effects; address the importance of traditional knowledge in the environmental assessment and regulatory processes; and ensure compliance with existing legislation in comprehensive land claim agreements.

There is additional effect provided through a number of specific provisions and anticipated outcomes resulting from the cooperative approach. These include a plan for public involvement, coordination of resources and procedures, creation of the Northern Gas Project Secretariat, joint environmental impact assessment, and coordinated regulatory processes.

The cooperation plan in no way prejudices or pre-approves any potential project, nor does the cooperation approach prejudice the decisions to be made by any regulatory authority, or bind any authority to a certain course of action. The goal is to identify ways and means to strengthen regulatory cooperation to maximize responsiveness and effectiveness.

On specific performance measures and accountability, the cooperation plan has been given full meaning and effect through three agreements that add specific details to the cooperative framework and further outline the roles and responsibilities of each agency in the processes. In addition, the following milestones and operational steps have been achieved: the establishment of the secretariat; the referral of the Mackenzie gas project to a Joint Review Panel; the appointment of a Joint Review Panel itself; the implementation of the plan for public involvement; the creation of a common public registry; and the co-location of our secretariat, the Joint Review Panel, and the NWT Water Board offices in Inuvik.

Speaking briefly about the secretariat, the parties to the cooperation plan early on determined that their goals could be most effectively achieved through the establishment of a secretariat to support and coordinate the public hearing processes, including all aspects related to public involvement. Established in 2003, the Northern Gas Project Secretariat, as the cornerstone of the cooperation plan, aims to serve Canadians by supporting and contributing toward a process that strengthens the efficiency and effectiveness of the environmental impact assessment and regulatory processes, facilitates opportunities to maximize public understanding of these processes, and supports the development and maintenance of positive working relationships among the participating organizations. The secretariat coordinates a robust and transparent review process that is both effective and efficient, while meeting the needs and expectations of all Canadians.

The secretariat is accountable to a chairs' executive committee comprising the chairs of the four panels that have public hearing mandates associated with the review of the Mackenzie gas project. These are the Joint Review Panel, the National Energy Board, the

NWT Water Board, and the Mackenzie Valley Land and Water Board. Supported by the secretariat, the chairs' executive committee provides the forum through which all involved parties can implement cooperative, efficient, and harmonized approaches that reduce duplication.

The chairs' executive committee meets regularly to exchange information on process-related matters and ensure that decisions within their control and mandate are made, where appropriate and feasible, in a coordinated manner. Under the general direction of the executive committee, the secretariat provides administrative, logistical, communication, and information management support for the environmental assessment and regulatory review process.

Under the leadership and guidance of the secretariat, the environmental impact assessment and regulatory working group coordinates the various EA and regulatory processes at the technical working level. This working group supports the chairs' executive committee by developing work plans and building consensus on outstanding issues.

In addition, the common public registry is administered by the secretariat. It is an official record of all the documents filed with the panels that are reviewing the proposed Mackenzie gas project. This common public registry is a tangible example of the secretariat's mandate to minimize duplication and facilitate easy public access to the review process being undertaken.

• (1555)

The secretariat's website provides the single largest source of information concerning the review of the Mackenzie gas project. The website is a valuable information tool, not only for the public seeking information on the review but also for government departments and agencies involved in a review process.

To summarize, Mr. Chair, with respect to the contributions and utility of the cooperation plan and our role in it, the cooperation plan is not intended as a panacea to fix the areas of perceived regulatory gaps and/or deficiencies as identified by stakeholders and agencies, but rather as a pragmatic step toward appropriate and responsible adaptation to a major resource development proposal and the associated regulatory challenges and opportunities.

The cooperation plan in its implementation has given and continues to give focus and guidance to the relevant processes through the establishment of specific provisions and outcomes that contribute to the protection of the health, safety, and socio-economic well-being of Canadians in the natural environment. The utility and contribution of the cooperation plan and the role of the secretariat in implementing that plan are being recognized in terms of a contribution as evidenced by the degree to which cooperation arrangements, internal operational protocols of participating agencies, and significantly strengthened communications among and across agencies, the proponent, and the public are occurring.

The plan is consistent with recent federal regulatory reform initiatives and the proposal for a regulatory strategy for Canada. The External Advisory Committee on Smart Regulation's September 2004 report identified that the harshest criticism of current regulatory practice is the "lack of cooperation and coordination between federal government departments and among federal, provincial, and territorial government". In the context of the review of the proposed Mackenzie gas project, the Northern Gas Project Secretariat continues to play a key role in filling this gap and contributing to the identification of possibilities and mechanisms for enhanced effectiveness of regulatory processes.

Further, the smart regulation report made two recommendations that I believe may be of interest to the committee in the context of my presentation.

On the environmental assessment process, they said, "To address significant coordination challenges in this area, the federal government should begin discussions with provincial and territorial governments to develop a national integrated environmental assessment process for Canada".

Secondly, on oil and gas exploration and development, they said, "The federal government should build upon the Mackenzie Gas Pipeline Cooperation Plan in order to create a broader, long-term regulatory cooperation framework among northern regulators that offers timeliness, transparency, predictability, clarity, and certainty".

Finally, Mr. Chair, the Northern Gas Project Secretariat will continue to work with federal and territorial regulators to promote and implement these cooperative objectives.

I would just like to add one final comment, if I may, Mr. Chair. The chair's executive committee most recently met in Calgary last Friday, and today they are issuing an update on their progress in cooperatively reviewing the documents that have been submitted by the Mackenzie gas project proponents.

I'll read briefly from it. It's dated today, February 14, 2004. It says:

The Environmental Impact Assessment and Regulatory Chairs' Executive Committee remains committed to a timely and transparent review of the proposed Mackenzie Gas Project. The Chairs' Committee, composed of the chairs of the Joint Review Panel, the National Energy Board, Mackenzie Valley Land and Water Board and Northwest Territories Water Board discussed the coordination of timelines and scheduling, as set out in the cooperation plan... [...] The Joint Review Panel and the National Energy Board are currently waiting for the Applicants to file additional information before they can set out a public hearing schedule. The Chairs agreed to support a pre-hearing planning conference to be held in June 2005, to coordinate with participants [including the proponents] their involvement in the public hearing processes. Coordinated public hearings could begin late this summer.

That concludes my presentation, Mr. Chair. Thank you and your committee again for the invitation to speak to you today.

• (1600)

The Chair: Thank you, Dr. Chambers.

Mr. Duncan.

Mr. John Duncan (Vancouver Island North, CPC): I'll start with Michael Cleland because he started.

We have Kyoto obviously coming into effect this week. You're a proponent of the energy framework, and that's what this committee

said it was going to look at, among other things. As a part of that energy framework, we obviously want to look at environmental measures, and you certainly talked about that as well.

We have seen from the federal government announcements on conversion to natural gas with no words about propane. We've seen wind power incentives with no relationship to other renewable sources that are maybe more appropriate in some jurisdictions in Canada. Is this the kind of thing that you are thinking an energy framework would address, so that we don't have ad hoc announcements coming from government dealing with the energy industry?

Mr. Michael Cleland: In a word, yes, but let me expand a little on that. I'd take it back a little farther and suggest to you that if we had an energy framework in the first instance, I think we would have a clearer sense of what is a realistic set of environmental objectives for Canada, including climate change objectives. If we were starting from a better understanding of how important energy is in the Canadian economy, what the underlying pressures are that are leading to both demand growth and to the changing energy mix—that is, had we had more of a framework in place—I think we would have come to some very different conclusions over the last decade.

Looking forward, I agree with you. I think the absence of a framework does mean that you're doing one-offs that may or may not be the smartest things to do. Sometimes supporting particular parts of the emerging energy sources can be not a bad thing to do. But out of context, whether it's exactly the right thing to do, whether you're doing the most cost-effective thing, it's very difficult to really have a sense of that and also very difficult to have a sense of what the best instruments are for doing it. A lot of this really does need federal and provincial cooperation to be cost-effective, and we need a framework to do that as well.

• (1605)

Mr. C. Dane Baily (Vice-President, Business and Communications, Canadian Petroleum Products Institute): Building on what Mike was saying, I think what's really important is the cost competitiveness of the mix that we come up with, and that's what's generally missing in these one-offs. What we don't have is a conversation on the cost structure of the new energy source or whatever plan we're proposing. What does that mean for consumers? What does it mean for industry? The strength of our industrial framework is built around a very cost-efficient energy industry, and many other industries, I'm sure, have come in and said, if we lose that, we're going to lose a significant competitive advantage.

I think what we've seen is that we've certainly moved to an open market energy, but the reliable supply that we spoke about has to be put in a framework. If we look at adding a lot of new energy sources without looking at the cost and how they're going to affect the bottom line, whether it be the wind into electricity grids or additional natural gas displacing coal, in the framework you have to get an understanding of what the bottom line is—what it's going to mean to consumers, both household consumers and industrial consumers. That cost competitiveness is essential in an industrial strategy.

The Chair: Mr. Konow.

Mr. Hans Konow (President and Chief Executive Officer, Canadian Electricity Association): I'd just add a word to what my colleagues have said. We've been talking about a way forward on global warming gases for a decade now, and obviously more actively over the last five years or so. I think it's quite clear to anybody who has been seriously engaged in this discussion that there's no silver bullet and there are no easy answers.

When we find ourselves trying to come up with a viable plan in a short timeframe, you can be certain that either some very hard decisions will have to be made or there will be a lot of window dressing that a year, two years, or three years from now, when we all look back at it, we will consider to have been inadequately thought through and disappointing in terms of what's delivered.

To give you a concrete example, for instance, when we in the electricity business looked at Kyoto at its inception, our companies were in a world of two-dollar natural gas and thought it was cost-effective to look at fuel substitution, moving from coal to natural gas. In a world of six-dollar natural gas, that's just not on anybody's horizon in the electricity industry.

We will still do cogen facilities. Very good specific local examples of opportunities to combine heat and power still may make sense, but as base load, we won't be building natural gas base load generation. In fact, the two most recent announcements were both coal in Alberta, working with relatively low-cost and abundant fuel. If you think about the longer-term issues, then looking at how you deal with coal in making it Kyoto-compliant talks about investing in technology that, a decade from now, can perhaps deliver a clean coal option in regions where there are good opportunities for sequestration. So the western dependency on carbon-intensive fuels makes sense if we can simply get the technologies commercialized at a reasonably attractive rate.

The other reality for electricity is that something like 80% of our capital stock is non-emitting. We're working essentially with the 20%, that is. That 20% is located in specific jurisdictions, so there is a very large potential for disproportionate impacts in different regions in this country.

So it's not an easy subject, and we're all going to have to work very hard to come up with a sensible answer.

Mr. John Duncan: Okay, thank you.

I have another topic, which is smart regulations. I know Michael wanted to talk more about smart regulations, and that was certainly another part of our focus that we wanted to run to.

In order to give you as much latitude as possible, I would just say the energy industry was the largest proponent of our looking at that subject. You possibly have the greatest need for movement on smart regulations. I wonder if you could comment on progress since the committee report came out in September.

•(1610)

Mr. Michael Cleland: The good news is that there are signs of progress. I think there are signs of commitment from various government departments. We see it in a variety of places. The Department of Fisheries and Oceans is a good case in point. It's a department that seems to have the right end of the stick and is working cooperatively with industry.

There are other areas where we think we can make progress, and make it more quickly. One in particular that we've put in place or put in play is the idea of substitution of the National Energy Board for the Canadian Environmental Assessment Agency. In other words, any time the National Energy Board is regulating a project, it becomes the agency for handling the environmental assessment. It doesn't look like that's going anywhere. Part of the reason for that may be that the government is looking at a much bigger picture of reform.

One of the things we should think about, with deference to my colleague Mr. Chambers, who talked about an integrated environmental assessment process, is that it's a good idea in principle if you can get there, but a bad idea if it holds up a bunch of incremental reforms that can be made in the meantime.

Our sense of it is that smart regulation is about a lot of hard work. It's a lot of detailed work, getting down to the basement, if you will, of the regulatory system. It takes real commitment to keep it moving forward. The key is to keep it moving forward, and that means not letting the topic drop and making sure that all those small bits of progress add up to big bits.

Mr. John Duncan: Would it be fair to say it's still the same priority for the energy industry as it was last September?

Mr. Michael Cleland: Absolutely. As I say, when we came forward initially to the Council of Energy Ministers, our number one priority was creating the right conditions for investment in energy, and within that, the number one priority is the regulatory framework. It is far and away the most important way that government affects us. We're talking about regulation that is effective at protecting the environment, health, safety, and consumers, but is more efficient, more timely, and has a lower risk and a lower cost in order to achieve those objectives. Yes, it is absolutely the number one priority. I think it will stay that way for quite some time.

The Chair: Thank you, Mr. Cleland.

Thank you, John.

Serge, and then Andy.

[Translation]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chairman.

Good morning, ladies and gentlemen.

There are two ways you can look at the energy industry. You can look at it in the context of a review of the industrial strategy or in the equally important context of energy consumption by industry in general. As for the list of participants to the Energy Dialogue Group, it includes groups and individuals from the oil and gas, the electricity and the wind energy sectors. Wind energy is good since it's renewable.

However, we're talking about dialogue here. At a time when people are being told to get used to higher prices, consumers and industry, which also consumes energy, should be involved in that dialogue. It should also extend to environmental matters.

The bottom line is that people are less and less inclined to believe the energy industry. As we all know, oil prices are up. Each time that happens, we're told that it's due to an increase in the international price of a barrel of crude. But oil companies have all made billions of dollars in profits last year. It's obvious on pages 13 and 14 that there were sharp increases and decreases. As to the credibility of all that, people's perceptions are definitely affected. People tend to think that the government should encourage renewable forms of energy rather than traditional ones like oil and gas.

What does your group think of the development of traditional energy sources like oil and gas as compared to renewable sources? This a broad question but it's open.

● (1615)

Mr. C. Dane Baily: What's important for oil companies—I represent the upstream industry—is to better acquaint consumers with prices. As for renewable energy sources, when looking at media reports, I can see that they seldom talk about cost in terms of cents per BTU or per barrel. In general, consumers understandably favour green energy sources. In order to make an informed choice, they should have all the available information, but this is rather uncommon in the case of new technology.

We find out day after day that customers are ready to cross the street to go to another service station in order to save one tenth of a cent per litre. Price is very important to consumers but this issue is often missing in the debate. I think government and producers of various sources of energy should offer these choices to consumers and let them make their own decisions.

The same behaviour is apparent in the case of cars. I always found the following statistics to be very interesting. From 1988 to 2002, the energy efficiency of the average fleet of cars and small trucks increased by 6%. So there was an improvement. However, vehicle weights increased by 26% and engine horsepower by 76%. Had consumers purchased cars of the same size with the same engines as they did in 1988, fuel economy would have gone up by 58%. Obviously, while oil is thought to be costly, people still choose to consume more. I think NRCan is trying to educate Canadians but we still have a long way to go.

Mr. Serge Cardin: What you're presently saying goes against your goal, which is to sell more oil. It's often said that car makers sort of conspire with the oil industry. Gas didn't cost much and it was possible to sell huge quantities to these big consumers. It's refreshing to hear someone from the oil industry say that people and car makers should start to do something about energy efficiency, but this does not necessarily impact prices. People are ready to go across the street in order to save one tenth of a cent per litre. However, when the gas industry launched a huge campaign to promote natural gas heating in houses and even in industry—although most of the time it was dual energy—prices went through the roof overnight.

How can people and consumers in general trust proposals coming from the energy industry?

Mr. C. Dane Baily: Recent volatility is directly linked to the growth of demand relative to production. I believe we made a recommendation favouring the development of all sources of energy. We're not trying here to compare gas, oil, natural gas, electricity and other sources of renewable energy. All sources must be developed

because demand continues to increase. The best way to ensure that prices are as stable and competitive as possible is to increase the supply. To be able to continue development and to ensure projects are going ahead as fast as possible, we have turned, among other things, to smart regulation. Many were surprised by the rate of demand growth, including in industry and elsewhere, both in Canada and in the rest of the world.

● (1620)

Mr. Serge Cardin: You're talking about competition and supply. I can see on page 6 that Canada's energy exports were \$60 billion and energy imports \$20 billion, but I didn't find any figures about Canada's oil consumption. How large is it?

Mr. C. Dane Baily: I think it's around 100 billion litres.

Mr. Serge Cardin: This is difficult to compare to exports of \$60 billion. How much oil does Canada consume? As much as we export or as much as we import?

Mr. Michael Cleland: I'm not sure of the exact number of barrels. Canada consumes a little less than half of its total production, i.e. less than 2 million barrels a day. Exports are a little higher.

Mr. Serge Cardin: So we are importing as much as we consume and we are exporting as much as we produce. It is said in general that industry needs the energy but we still have to pay international prices.

Had we not exported as much, maybe we wouldn't need to produce so much. I'm only talking about energy and energy reserves. It's an idea that's passing through my mind. Of course, exports mean more revenues...

[English]

The Chair: Merci, Serge.

Is there a comment? Then we'll go to Andy.

Mr. Michael Cleland: I'll comment in English. It's probably easier for the translator as well.

It's a question of geography. The oil is produced in the west. As it turns out, it's more economic to import oil into eastern Canada, in fact, all the way to Sarnia since the reversal of the Sarnia-Montreal pipeline. Canada is better off on balance by virtue of the fact that Quebecers and a lot of Ontarians use North Sea oil. We ship much of our production to the U.S. As I say, that's a function of geography.

The Chair: Do you have a short comment, Mr. Baily? Then we'll go to Andy.

Mr. C. Dane Baily: The other thing that's not clearly understood is the quality of crude oil that we export. Most of it is heavy oil and the eastern Canada refineries can't use it. There's a quality mix.

We'd have to put in considerably more upgraders in western Canada to be able to use the oil that's produced in western Canada in the eastern Canadian refineries, which is another question of investment. The U.S. refineries have put the investment into GHG-intensive units to be able to use that heavy oil.

The Chair: Thank you.

Thank you, Serge.

Andy Savoy, please.

Mr. Andy Savoy (Tobique—Mactaquac, Lib.): Thank you very much, Mr. Chair.

Thank you, ladies and gentlemen.

In looking at challenges in industrial strategy, Mr. Cleland, you'd mentioned that smart regulation, energy efficiency, tech development, and energy and public information were four key areas for you.

In my riding, it's a resource-based sector, primarily forestry and agriculture. When value adding within those sectors, one of the crunches that we're facing right now is in human capital, specifically in the area of tradespeople. The shortage is evident now, and five or ten years from now we see it getting almost to a crisis point in terms of the trades.

How much of an issue is that across the energy sector? Do you face similar challenges in terms of the trades? You could speak to each sector. I assume that you do, but I only want to reinforce it. Could you expand on it in terms of how we may be able to play a role in helping you to deal with it?

• (1625)

Mr. Michael Cleland: Briefly, we do. It's a growing issue for us and one that we're going to be focusing on. I think that Mr. Konow is probably well placed to talk about that because he has been doing a lot of work in his sectors.

Mr. Hans Konow: Yes, it's hit the desks of the CEOs at this point. When we look at the electricity industry, we see something in the order of 50% of our manpower retiring over the next 15 years. As you point out, many of our skilled trades and engineering people are in their fifties, and most of them hope to retire. They've seen too many of those ads on TV. "Freedom 55" sounds really good to them. Now we're offering up "Freedom 85". This is a great new program to keep them from being bored between 55 and 85.

It is a real problem. It's one on which we've done a study for our sector, and we're looking at creating mechanisms in conjunction with government, with labour, with our companies, to try to design programs to stimulate the educational facilities to put programming in place for young Canadians to choose our sector as a viable destination for their careers. But the reality is that we haven't been hiring people for the last 10 or 15 years. We've been downsizing and making our companies more efficient, but suddenly we don't have a pipeline full of young apprentices and young people beginning their careers in skilled trades.

We are going to hit a crunch. It's going to take more than just mobilizing young Canadians. We're going to have to balance it also with immigration, with some of the challenges we've faced in the past, such as the recognition of credentials from other settings. It's not going to be easily solved. It's going to require as well the application of technology to reduce the number of people required per unit of output.

All of us will face a challenge in making sure the entire system for training and retraining is capable of dealing with this challenge. It's one that is not sector specific; it's across all sectors, across virtually all of the developed economies. It's not so in the developing economies, and this may mean that they will be a source of some immigration to help us fill key slots, but we'll be competing with every other major developed country and sector.

It's a real challenge.

Mr. Andy Savoy: On another note, looking at the challenges to moving forward, obviously innovation and R and D are going to be big issues—also in terms of our human resources, because as you mentioned, we have to become more efficient and rely less on our tradespeople. On that front, looking at our R and D climate, our innovation climate, I've spoken previously about the need to look at innovation on two fronts, one on the academic side of innovation and the other on the shop floor side of innovation.

In looking at the innovation climate that exists within Canada and how we can foster it, do you have any suggestions for us as a committee in terms of reporting? What are we doing right? What's the Government of Canada doing wrong? Should there be more incentives? Should there be more focus on something like the CCA? People certainly talk about that as a focus in terms of depreciation. Do you have any suggestions on that front in terms of innovation and technology development?

Mr. Hans Konow: If I may, I'll offer a couple of quick thoughts, and then I'll turn it over to our colleagues.

On the capital stock side of it, we think CCA rates are extremely important. Many of our assets are trapped in a 40-year turnover for their useful life. That's simply not realistic going forward. We're going to have to climb up the technology curve and be able to turn over capital much more in the 10 to 15 year cycle. We know how fast technology is moving.

In terms of the electricity system, we're looking at digitizing the distribution and transmission systems, making them much more flexible, much more able to diagnose their problems and reroute energy as required for what they call self-healing—it's nice, but it doesn't really work that way. The notion is that the system can diagnose in real time and reprofile how the energy is flowing.

We think capital cost allowances have to reflect tomorrow's capital stock turnover rates. Those should be, for both environmental and economic reasons, much shorter than they are today. But that's only part of the problem.

I think in terms of trying to have the right environment for R and D investments, we need to create one that is attractive to public-private partnerships, because there's a lot the government and the public sector can do and be partners in doing. I think you want to make sure that we don't create extremely ponderous processes through which public funds are made available through third-party independent agencies with complex boards of directors, processes, and procedures.

There's an impatience today in trying to move capital into being more productive and to address the technology needs. What we don't need are more hoops to jump through and long, lengthy, ponderous processes. That will not attract your best options, I don't think.

On that note, others may have more specifics they'd like to add.

• (1630)

Mr. Michael Cleland: I'm going to add something that is actually in Mr. Konow's sector, but I used to work with Mr. Konow, so I feel some latitude to talk about it.

It's the specific example of the development of Canadian clean coal technology, where the electricity industry brought forward a proposal about four years ago to move forward on clean coal. It was a proposal brought forward by all of the coal-based power generators, and it has taken a very, very long time to move forward, in part because we didn't have a framework—which goes back to Mr. Duncan's question. What we had were a lot of funny attitudes about coal and, I think, unrealistic attitudes about coal, and therefore an inability of the government to come to grips with the issue. And we didn't apparently have the institutional mechanisms in place to be able to move that decision process forward.

Well, that was four years ago; we could probably have made more progress on it than we have, which reinforces the virtue of having a framework. But also, I agree with Hans's point about the institutional structures; if they are too ponderous, it's very, very difficult to keep people patiently at the table.

Mr. Andy Savoy: Mr. Chambers, I know that the Mackenzie Valley pipeline project management framework was recently implemented. Do you see that as a model for future public evaluation or input, and what was your experience?

Mr. Brian Chambers: It's a good question, because it has been identified, if not as a model, as something to look at closely in terms of how to approach the coordination of various regulatory authorities, whether they be federal or territorial, as in the case of the Northwest Territories, where northern environmental assessment and regulatory authorities have been established as institutions of public government pursuant to land claim agreements. The approach the cooperation plan outlines is very general, providing a general framework for the various territorial and federal regulators in the northern boards.

But to answer your question, I have to make reference to a comment Mr. Cleland made, in that it takes a lot of hard work at the technical level, working with the individuals in those regulatory authorities who are actually responsible for reviewing, considering, evaluating and, ultimately, if a project is approved, issuing land use permits, water licences, or stream crossing authorizations.

So my recommendation would be that if the cooperation plan is used as a model in other approaches to streamline regulation, it's important at the outset to have people at the staff level who are actually implementing aspects of the cooperation plan engaged early on in the process. That's part of the work we have been doing. Our work of course is not finished, and will not be until the review of the Mackenzie gas project is completed. But it's very important to have the individuals or front-line officers who are involved in actually reviewing application documents engaged very early, so they appreciate and understand the volume of information and the necessity of entering into protocols and agreements with their colleagues and other federal and territorial regulatory authorities. When it comes time, if a project like the Mackenzie Gas project receives approval from the National Energy Board following the environmental assessment of the Joint Review Panel, they will then have the proper procedures and protocols in place in a very detailed way to allow them to process those applications very quickly.

So early engagement of those staff members within the regulatory authorities is very, very important, and key to the success of the implementation of a plan like the cooperation plan.

• (1635)

The Chair: Thank you, Mr. Chambers.

Werner, please.

Mr. Werner Schmidt: Thank you, Mr. Chairman, and thank you, gentlemen and ma'am, for your presence here this afternoon. I'm very impressed with the presentation.

I'd like to really get into this cooperation plan in a little more detail if we could. Dr. Chambers, you mentioned in the initiation that this is a summary of summaries, and I think that's probably right. I wonder if we could ask you to explore a little further.

I'm not sure whether I detected this correctly or not, but it seems to me that the integration of environmental assessment authorities is probably a dream that may never happen. I'm also just wondering about the National Energy Board, because I think the advisory committee on smart regulation, which came up with that concept, suggested that the National Energy Board and the environmental impact assessment body come together under one umbrella and that integration could take place.

I notice that a point under "Accountability and Status of the Cooperation Plan" suggests there has been an agreement between the Minister of the Environment and the Inuvialuit, an agreement between the environmental assessment authorities, and an agreement among the regulatory authorities—three classes. I wonder if you could perhaps explain a little more clearly what the difference is between those agreements, what the common elements are in those agreements, and whether there can in fact be an integration of that with those three kinds of agreements.

Mr. Brian Chambers: I'll do my best to answer that question in a succinct way.

I'll come back to some of the comments I made in my presentation about how the settlement of comprehensive land claims have informed and provided the general framework for the environmental assessment and regulatory regime that's in place in the Northwest Territories. It is one that is evolving.

Let's take as a starting point environmental assessment. There are essentially three areas of jurisdiction across which the proposed Mackenzie gas pipeline will traverse. The first is the Inuvialuit Settlement Region. The Inuvialuit Settlement Region encompasses the Mackenzie Delta, where the anchor gas fields are located, as well as the area where the collector lines that would feed into the main processing facility in the Inuvik area will be located. The Inuvialuit settled a comprehensive land claim agreement with Canada in 1984, and pursuant to that land claim agreement, they established environmental assessment regimes and protocols. There is an existing process, and has been for many years, for the conduct of environmental assessments within the Inuvialuit Settlement Region. That's the first area of jurisdiction.

The second area of jurisdiction is the Mackenzie Valley itself. The Mackenzie Valley was and has been the subject of land claim negotiations for almost 30 years now. The first land claim to be settled in Mackenzie Valley proper, as opposed to the delta where the Inuvialuit reside, is the Gwich'in land claim settlement agreement. It was concluded in 1992, followed very quickly by the Sahtu land claim agreement in 1993. Originally, there was intended to be a comprehensive land claim agreement that would apply to the entire Northwest Territories—the Mackenzie Valley, that is. That did not unfold as was originally anticipated, and there was a series of regional land claims settled. Suffice it to say, in any event, that for the Mackenzie Valley there is a separate environmental assessment regime established that flows from those land claim agreements, and that's the Mackenzie Valley Environmental Impact Review Board that was established when the Mackenzie Valley Resource Management Act was promulgated in 1998.

For the Mackenzie Valley proper, you have the Mackenzie Valley Environmental Impact Review Board as the body of competence with respect to environmental assessments. Of course, the project itself is planned to extend into Alberta. Because it is transboundary, that triggers the CEAA, or the Canadian Environmental Assessment Act, so the Canadian Environmental Assessment Agency has jurisdiction over that small portion of the project where it extends to Alberta.

You have three environmental assessment jurisdictions: the Inuvialuit, the Mackenzie Valley, and northwestern Alberta. Among those parties, it didn't make sense to have three separate environmental assessments for the Mackenzie gas project. Through one of the agreements that you mentioned and that I alluded to in my presentation, there was an agreement among the Inuvialuit, the Minister of the Environment, and the Mackenzie Valley Environmental Impact Review Board to conduct one environmental assessment for the Mackenzie gas project. That has resulted in the creation of what's referred to as the Joint Review Panel. That Joint Review Panel is composed of nominees from those three bodies.

On the regulatory side, of course, you have the northern boards that were established similar to the environmental assessment authorities that look at the issuing and consideration of land use permits and water licences. Because the Inuvialuit Final Agreement was concluded in 1984, long before the Mackenzie Valley Resource Management Act was ever contemplated, or at least concluded, they have as their water regulatory authority the Northwest Territories Water Board. As a matter of fact, the only area of jurisdiction within

the Northwest Territories for the Northwest Territories Water Board is the Inuvialuit Settlement Region. With the subsequent settlement of the land claims in a portion of the Mackenzie Valley, you had established the Mackenzie Valley Land and Water Board, which is the regulatory authority for the issuing and consideration of land use permits and water licences in the Mackenzie Valley.

• (1640)

So the regulators' agreement is another one of those agreements to which you alluded. It was concluded almost a year ago among the various northern boards, as well as the federal and territorial regulatory departments that have, in one way or another, some role to play in the review of the project.

Specifically, those include departments at the federal level like DFO and Environment Canada. Because the project is primarily north of 60, it includes the Department of Indian Affairs and Northern Development and Transport Canada. From the northern boards' perspective, the signatories include the NWT Water Board and the Mackenzie Valley Land and Water Board. At the national level, the National Energy Board is one of the signatories as well.

The purpose of that agreement is to work as closely as possible among the regulators to avoid duplication and ensure there's efficiency and effectiveness in the consideration of land use permits and water licences that are submitted to them, or any other authorizations that are submitted to them; and to coordinate as much as possible the regulatory hearings that will be taking place to review the project. For example, the Mackenzie Valley Land and Water Board has jurisdiction in the Mackenzie Valley. They won't be holding hearings in the Inuvialuit Settlement Region or in northern Alberta. The National Energy Board will be holding hearings in all jurisdictions. Their jurisdiction applies to the Inuvialuit Settlement Region, the Mackenzie Valley, and northwestern Alberta in the context of this project, so they'll be holding hearings in each of those jurisdictions.

Some of those other boards, like the Inuvialuit Land Administration, may hold hearings in conjunction with the NEB. Our role is to coordinate those hearings so there's no duplication of the hearing processes, and so it will be easier for the public to participate.

On the matter of the NEB assuming authority for environmental assessment, that has not been contemplated for this project. It was discussed at some level, but in order to maintain the important role that northern boards and agencies have in the review of the project, the decision was made for a joint review panel to enter into this agreement to minimize duplication in the environmental assessment process. So instead of three there'll be one, and that will be conducted by the Joint Review Panel.

• (1645)

Mr. Werner Schmidt: Thank you for that explanation.

I just want to clarify. Is the National Energy Board part of the Joint Review Panel?

Mr. Brian Chambers: No. That being said, under the Canadian Environmental Act there is an opportunity for what's referred to as a section 15 appointee. In this case there is a section 15 appointee from the National Energy Board, who will sit as a member of the Joint Review Panel for the purposes of the environmental assessment. He will submit a report to the National Energy Board based on his findings, because the National Energy Board will be using the work of the Joint Review Panel to satisfy their requirements to address environmental issues associated with the proposed project. The National Energy Board member who sits on the Joint Review Panel will bring a level of knowledge, experience, and expertise in the area of pipeline construction that the other members of the Joint Review Panel—it's a seven-member panel—will find quite useful.

The Chair: Do you want another short question?

Mr. Werner Schmidt: The last one is a very short question. I don't know how quick the answer will be, but the question will be very short.

Given all of this, I understand that construction of the project will begin in 2007, and it is suggested that gas will be flowing in 2009. Are those realistic goals?

Mr. Brian Chambers: Those are the timeframes that the proponents have indicated to the National Energy Board and the other regulators, as well as the Joint Review Panel. As I mentioned, the Joint Review Panel and the chairs' executive committee are committed to reviewing the project in a timely fashion. They have requested additional information to support, clarify, or flesh out the environmental impact statement that has been submitted by the proponents. The Joint Review Panel and the other panels charged with reviewing the project will adhere to the timeframes identified in the cooperation plan for them to review the information submitted to them.

To a large extent, the pace of the review will be determined by the ability of the proponents to submit the information in as detailed a package as possible that is acceptable to the panels themselves. The panels, of course, are independent. They have to feel comfortable that the information they are reviewing is adequate for them to conduct their work, which has been identified for them in the terms of reference that were provided to them.

Mr. Werner Schmidt: Given your experience, does that mean yes or no?

Mr. Brian Chambers: Again, I think the end of March is when the proponents have indicated they will have the additional information. If the additional information that's provided is adequate and is as detailed as has been requested, the panellists who have been charged with the review will move forward in accordance with the timelines identified in the cooperation plan.

Mr. Werner Schmidt: Thank you very much, Mr. Chairman.

The Chair: We can come back to you, Werner, if you want.

Mr. Werner Schmidt: That's only one side of the question.

The Chair: I'm going to go to James, unless you have a question, Serge. You do? Okay, and then it will be James.

[Translation]

Mr. Serge Cardin: R&D leads to the development of increasingly sophisticated technologies that are essentially more profitable for

industry. We presently have government R&D programs in the energy field. What's your assessment of these programs?

Mr. C. Dane Bailly: I personally have no knowledge of these programs.

• (1650)

[English]

Mr. Michael Cleland: I can give you some sense of it, but I should actually point out that I used to be responsible for several of them, so I may have some biases.

Yes, NRCan has program responsibilities in the area of energy R and D. Industry Canada and the National Research Council have programs, some of which touch on energy. And of course there is an agency called Sustainable Development Technologies Canada, which was created in the 2000 budget and was set up to support energy R and D.

I think there are a number of questions. There are some good programs there. I'm not sure anyone has a very good fix on whether the program structure is the most efficient or whether the programs are necessarily aimed at the areas of greatest need. I certainly haven't seen anything from the federal government that indicates that it has been fully thought through. That would probably be necessary in order to give you a good answer to your question.

But as I say, there are some good programs, and there are some very good people working in some of those program areas, but it's not perfectly obvious that it's being pursued as efficiently as it might be.

[Translation]

Mr. Serge Cardin: Along the same line, obviously the purpose of R&D is to increase industry's competitiveness. What do you think of Canada's present competitiveness in the energy industry? How do you rate it?

[English]

Mr. Michael Cleland: That's a broad question. I'm not sure I would feel entirely comfortable answering it. It may be one thing on which to make a distinction. Most of the technological innovation that goes on in the Canadian industrial sector is the adoption or the adaptation of technology that we purchase from elsewhere. There isn't actually a lot that's necessarily developed in Canada, at least not originally. But that's not a bad thing. Ours is a small economy. We necessarily have to import a lot of technology and, as I say, adapt it to Canadian circumstances.

Our resource sector and our energy sector are very highly productive by world standards, and I would say we are probably adopters, if you will, of technology at approximately the level you'd find in other parts of the oil and gas sector, for example, and probably in electricity and other parts of the industry.

Could it be faster? Does it need to be faster? Are there pressures, for example, to manage environmental issues? Absolutely. Some of that management needs to be based on Canadian technology, but a lot of it will continue to be based on imported technology.

Mr. Hans Konow: I have one quick comment that I'd add.

I think that in judging how well we do in terms of the energy technologies that we deploy, we have to recognize that we have been the beneficiaries of relatively low-cost energy, comparatively speaking. In terms of both electricity and natural gas prices, they've been relatively low until the recent up-spike. Any good businessperson would optimize towards a higher component of energy and a lower component of capital in terms of technology.

I think that we're in the process of a fundamental change, where North American natural gas prices are in fact amongst the highest in the developing world. We must learn to use it more efficiently.

Our electricity prices are rising because our input costs are becoming more expensive. I think we will continue to be very successful developers and vendors of electricity. But if you look at the import-export figures, you'll see that our exports have gone down quite dramatically over the last couple of years. We see a lean period where we have a fairly tight balance in electricity. That means we will need to look at how we deploy technologies for the consumption and use of electricity, as well as more advanced technologies in our electricity infrastructure.

The long and the short of it is simply that we will spend more on technology and capital than we used to. It's no longer an easy choice to simply use more energy in a relatively less efficient way to get the optimum mix in terms of our costs of production. I think that you'll see us moving towards the head of the pack over time in terms of the technologies that we deploy around our energy commodities.

• (1655)

[Translation]

Mr. Serge Cardin: If I understand you well, from a technological point of view, we're trailing behind others. You say that in the future, we should be more proactive on the innovation front, given our methods of oil and gas exploration, which are different from those used elsewhere in the world. If we want to be competitive, we should improve these exploration and development technologies, right?

[English]

Mr. Hans Konow: I'm certainly not an expert in oil and gas, so I'll allow my colleagues to answer that, but in terms of electricity, I think absolutely. As I said earlier, I think our distribution systems, both transmission to some extent and certainly the distribution of the lower voltage side, are based on technologies of the 1950s and 1960s. We're now looking at technologies for the next decade.

There are exciting opportunities in combining the advanced power of computers with our distribution systems to optimize it. As you are aware, we can also transmit communications over our power line systems. There are a lot of ways in which we can be directly interactive with the consumer and help that entity or person optimize the way in which they consume electricity to the benefit of all concerned. As far as electricity is concerned, I'm absolutely certain that tomorrow's electricity system will be far more technologically deep than was yesterday's.

Mr. Michael Cleland: I think the same point would apply in other parts of the energy system. If you'll permit me, looking at it from the perspective of my own association, where the downstream end of the gas industry is something that Mr. Konow and I have been working together on with governments, there is the end-use part of it and finding ways to improve the technology that we use for energy. I

don't think it's something that governments are necessarily sufficiently focused on.

People talk a lot about energy efficiency, but then it's interesting to look at the production side. We do need to do that, that's part of it, but so is the end-use side. Whether it's information technology, combustion technology or other things, there are lots of things that Canada could do to become more competitive by focusing more on that part of it as well.

The Chair: Merci, Serge.

James Rajotte, please.

Mr. James Rajotte (Edmonton—Leduc, CPC): Thank you very much, Mr. Chairman.

I want to touch on the call by the Energy Dialogue Group for a new energy framework. Last week, as I'm sure you're aware, the Canadian Manufacturers and Exporters group was in town. One of the things they talked about—which was not surprising, but the emphasis they put on it was, I think, surprising—was the need for a stable, reliable, efficient energy supply. Jayson Myers showed the impact of the power outage in Ontario on the manufacturing sector to really drive home that point.

Mr. Konow, outline for us the input costs for the present sources of electricity—coal, natural gas, hydro, nuclear, and renewable—and how you think this will change in the foreseeable future. Obviously we're not sure what will happen 20 years down the road, but give us your perspective on five years, particularly with regard to renewable and non-renewable, and some guidance as to what the Government of Canada should be looking at. It's one thing to talk about using renewable fuels, but I think we also need to be practical in the sense of what percentage of electricity will use renewable fuel. If you could do that for us, it would be very helpful.

Mr. Hans Konow: Sure, I'll try.

Basically, today hydro power accounts for about 60% of electricity production. It's important, though, to note that hydro power is predominant in Quebec, in Manitoba, and in British Columbia. There is a significant chunk in Ontario and some in the other provinces, but it's predominantly in the big three. Nuclear power accounts for a little over 12%, but again, in Ontario that's about 40%. It could rise to 50% if most of the nukes come back. Thermal power is about 24%, 25%. Those are the major components. Then there's gas at somewhere in the order of 3% to 4%. Wind is probably around 1%, and hopefully...I don't know if the math works precisely, but those are roughly the components.

When we talk about renewables, it's become a loaded word. It means small hydro, wind, solar. But that's just not the fact. Our biggest renewable, by far, is conventional hydro. There are still opportunities to further develop our conventional hydro resources. Those need to be developed. Much of what you've heard today impacts on that. Efficient regulation is vital in helping us bring forth the next suite of hydro projects.

If you look out 20 years or so, again the regional dispersion of your fuel options is very important to understand. Alberta, Saskatchewan, New Brunswick, and Nova Scotia simply aren't going to build a lot of hydro projects because they don't have the potential. They're going to have to rely on either what they have indigenously or they're going to import.

Ontario is probably the most diverse portfolio. There are some hydro projects that they could build. It's more remote and northern. They have talked a great deal about sharing in the development of the Conawapa project in Manitoba. It requires a long transmission line.

Over the next 10 to 20 years you'll see all of the above, including, as we talked about earlier, trying to commercialize clean coal technology, so where there is a lot of relatively cost-effective coal, we can utilize that in a manner compliant with our environmental objectives.

If you ask me which way the mix is going to go, I think it's a little cyclical. As some big projects are built, there'll be a bounce back for hydro. I have to tell you, at the moment hydro is declining in terms of its total share in Canada. Gas has been increasing, both conventional and non-conventional.

The decision that Ontario makes in terms of its coal facilities will tilt the short-term balance in terms of coal. If you take Ontario out of the equation, then certainly in the western provinces coal remains the fuel of choice. As I mentioned earlier, those are where we see some future growth.

On technology, fuel choice, using all the options, wind is at perhaps 5%. Their aim, I guess, is something like 10%, somewhere in that range. It's unlikely to be more than that. The one problem with wind is that you have to have a back-stop for it. Its best availability is 30% to 40%. The operating experience is lower than that, but by optimizing your choice of sites, you may be able to get into the 30% to 40% range. This still means that 60% to 70% of the time you need something else providing the energy.

So it works very well with hydro systems, where you can store electricity as water behind your dams when the wind's blowing, and then use the stored water for electricity delivery when the wind isn't blowing.

● (1700)

The same is said in terms of how North America works. We're advocates of large regional interconnected markets simply because that way you can have a large mix of different sources, optimizing that to the benefit of all concerned. That happens to be a pretty good deal for Canada simply because in some regions we have hydro that can play that arbitrage role and in others we have an absolute need for reliability. Being interconnected with our neighbours is actually a great advantage in that regard.

● (1705)

Mr. James Rajotte: Thank you very much for that.

In terms of energy efficiency, could you give us some sense of the state of the grid across Canada? When I was last up in northern Alberta touring some of the oil sands facilities, one of the arguments they made was that they produce a lot of energy. They have cogeneration facilities; I think all of the facilities do there. They could actually put a lot more back into the grid than they take out, but they said the problem is that the level of the grid is such that as electricity travels on it for quite a while, it loses its effectiveness.

Is that an accurate statement? What is the state of the grid as you go across it?

Mr. Hans Konow: Well, in fairness, I'd say the grid is organized today to link supply to consumption. It's tended to be the case that the market is in southern Canada or in the U.S., so if you look at the large transmission lines, you'll see they basically all run north-south out of Quebec, Manitoba, and British Columbia. Alberta is a relatively weak north-south connection; the only real way is through B.C. I understand, from talking to people in Alberta, they've made a determination to build transmission more aggressively than was the case in the past, to fill in the north-south path within Alberta, and to look at a pathway south to markets in California and Oregon.

The reality is that large populations or large load sources directly south of Alberta in Montana are very thin on the ground. You need the interconnections strengthened in the United States as well as in Canada in order to fully optimize a large regional market in that area, and they're working on it.

In general, the transmission system works pretty well. I know there's been a lot of conversation about east-west transmission reinforcement. What we really should be talking about is support for facilitating the construction of transmission where it makes good economic sense. If that's east-west or north-south, I don't think it matters. In Canada's interest, it should simply be built, and that will help mobilize the sources that are more remote from load.

Mr. James Rajotte: I have two more questions, Mr. Chair, and perhaps I'll state both now.

One is about responding to environmental initiatives; that's one of the focuses of the dialogue group. Kyoto is obviously focusing on greenhouse gas emissions, and I take it your group is asking us to expand beyond the focus on GHG emissions and focus on SO₂ and NO₂, looking at it in a more holistic sense.

Perhaps you could also address this. People present hydro as a clean energy and they present, say, coal as a dirty energy. Can you perhaps give us some sense of the nature of building a hydro facility? I know they're looking at building one in the Northwest Territories. How much GHG emissions are actually released in the building of a large hydro dam? Is it a minuscule or sizable amount, one we should be concerned about, and where we should factor in things such as Kyoto?

The last question I wanted to ask was about investment in new technology, and a number of you have mentioned that. What are some specific things the Canadian government should be doing? Canadian Manufacturers and Exporters is promoting using the capital cost allowance to allow companies to turn over their machinery for their manufacturing processes more quickly. Also, the auto sector raised with us the whole issue of the disposable income gap between the U.S. and Canada, saying it's actually an environmental issue in the sense that people in Canada, by driving their cars a lot longer, are driving less environmentally efficient cars. So if there's anything specific you want to advise us on about investing in new technology, I encourage you to do so.

The Chair: Thank you, James.

Are there any takers?

Mr. Hans Konow: Well, just very quickly, on the capital cost allowance, we've been quite specific in what we'd like to see for generation, transmission, and distribution assets. We'd like to see the generation assets improved to a 12% write-off, our transmission and distribution from 4% to 8%. The reason for that is quite simple. We've deposited all the necessary information with the finance department, we've done the justification analysis, and there seems to be no doubt that it's not an unreasonable request, given the standard test of useful life.

As I explained earlier, the useful life of transmission and distribution assets will no longer be 40 years. The technology rollover has to be much faster than that. We have to get concepts like super conductivity in there to reduce the losses in our lines. We have to digitize and improve the IT support systems for transmission. On the generation side, if we want to try to keep up with our Kyoto obligations, we have to be able to write off our capital in much shorter periods than the 40 years that traditionally was the case. So all of this will contribute, then, to a much more efficient system overall.

On the GHG implications of hydro versus fossil, there's no question fossil is far more GHG intensive. The actual construction of dams...if you want to track it all back, full life cycle, there's the cement that goes into the dams and everything else. The studies done on emissions from impoundments are obviously very specific. If you have relatively deep impoundments behind the dams, then there's relatively little emission, and over time the cycle is such that there's a certain decay level, which stabilizes over a period of about 8 to 10 years, as I understand it.

I think it's a bit of a red herring to look for high GHG intensity out of hydro systems. There can be some in very shallow impoundments, which present more of a challenge, but not compared to the traditional, say, coal combustion technologies. We're not talking about a future world of traditional coal technology. We're talking about a future world of gasified coal with all of the environmental pickoffs that come from that, including commercial byproducts, and CO₂ is going to be one of those. CO₂ will be used for enhanced oil recovery, creating a win-win opportunity in settings like Alberta and Saskatchewan.

So I think we'll want to look at the whole picture carefully. There's no one answer that's good for the situation across Canada, certainly in electricity, because we're dependent in terms of the unique

endowments in different regions. There are no villains out there; there really aren't. It's simply a matter of making the right choices in terms of both the economics and the environmental options.

•(1710)

The Chair: Are there any final comments? I want to make sure to get John and Michael in the last little bit.

Mr. Baily.

Mr. C. Dane Baily: Very briefly, in terms of the refining industry, the competitiveness really is a North American market, so from a CCA rate we look to be competitive with the U.S. Ultimately, in building new refineries or even maintaining the new ones and investing in pollution improvements like the recent investments in sulphur and gasoline and the upcoming ones in diesel fuel to take the sulphur virtually out of those products, if we're not competitive with the U.S. refineries, ultimately you could build them in the States and we'd import the product.

I think in the U.S., it being a net importer of refined products, consumers realize the difficulties they get into when they are not self-sufficient and they have to rely on imports from Canada, for one, but also from the Caribbean and Europe. They get volatility in their prices distinct from crude, and the refined product markets start bouncing up and down as the supplies get very tight.

We're fortunate in Canada that we have self-sufficiency in refining, but that's always an issue out there. Actually, the progress we've made with Environment Canada to at least harmonize fuel quality from an environmental standpoint, let's say sulphur regulations, is a huge step forward in terms of how we deal with those issues.

The Chair: Thank you.

John, then Michael.

Mr. John Duncan: I have a question for Brian Chambers dealing with the cost of the process in the Mackenzie Valley that we're now engaged in.

The project proponents for the northern pipeline, the Alaska route, are suggesting that their costs to include all of the environmental approvals to get to the approval stage, plus all the engineering work...in other words, to get to the construction phase will be about \$1 billion.

Do you have a comparable guesstimate for Mackenzie Valley?

● (1715)

Mr. Brian Chambers: The figure—and I can't speak for the proponents, of course—the proponents have mentioned publicly is that they've expended \$250 million to date on the necessary pre-planning work, including consultation with the first nations in the Mackenzie Valley and in the Mackenzie Delta over the last three to four years in preparation for submitting their documents. And I should mention that the documents they have submitted to date are those required by the National Energy Board. They have submitted their certificate of public convenience and necessity application to the National Energy Board before the development of the gas fields in the delta, the collector system in the delta as well, the main processing facility in Inuvik, and the pipeline itself. They have also submitted to the Joint Review Panel the environmental impact statement. The remaining PPAs, or project permit applications, will be submitted to the various other regulators, whether they're federal, territorial or northern board in nature.

In any event, the proponents, Imperial Oil Resources Ventures Limited, on behalf of the other partners, have indicated that they have spent approximately \$250 million to date.

Mr. John Duncan: You wouldn't have any guess as to how far through the process they would be in terms of engineering and environmental at this point? Would they be halfway there?

Mr. Brian Chambers: I'd be reluctant to guess to what stage they have prepared all of their documents. I might have a better idea once they submit their project permit applications to the other regulators. And they have indicated that they would be submitting those commencing the first quarter of 2005. So northern regulators and federal and territorial departments expect to receive those applications very soon.

Mr. John Duncan: I want to go back to a statement that Michael Cleland made, but the question is addressed to Mr. Chambers—or to both of you, I suppose. And the question relates to your statement that the government has given no clear delineation or definition of whether NEB displaces CEAA in terms of any process that NEB is master of. Despite all that was said in what you said about the Mackenzie Valley, I don't think we ever pinned down exactly whether it is absolutely 100% clear that CEAA is displaced by this process or that CEAA never kicks in later.

Mr. Brian Chambers: With respect to the Mackenzie gas project, the CEAA, the Canadian Environmental Assessment Act, with the promulgation of the Mackenzie Valley Resource Management Act in 1998, no longer applies in the Mackenzie Valley. So the CEAA process, in terms of environmental assessment, is replaced by the Mackenzie Valley process. But CEAA does have an application both in the Inuvialuit Settlement Region for transboundary developments as well as in northwestern Alberta, because of course it is a project that is of a transboundary nature. So CEAA does apply for portions of the project, but not for all of it.

Mr. John Duncan: So if I understood the intent of what you were saying, Michael, it is that you would like to see any bid fall, in this case, under NEB, and that CEAA would not kick in. And that would streamline the process further than it appears to be from your description, right?

● (1720)

Mr. Michael Cleland: Just to clarify that, my comment was a more general one. It wasn't necessarily applying to the case of Mackenzie Valley, where there is a process that's been painstakingly put together.

Mr. John Duncan: I assumed that, but I'm trying to pin down Mackenzie Valley at the same time.

So as a generic statement, what you're suggesting could only be achieved through statutory authority. Is that correct?

Mr. Michael Cleland: The statutory authority already existed under the Environmental Assessment Act when it was promulgated in 1995, I believe. In fact, a provision was explicitly included that was intended to allow this substitution process to take place. Subsequent to that, there were discussions back and forth between the NEB and the Minister of the Environment. There were some questions raised at the time as to whether the NEB had the capability to do the environmental assessment portion of the work. I think those questions have been essentially answered. The view of the majority of us in the Energy Dialogue Group is that the conditions are ripe for that provision to be used. As I said, it already exists in the statute.

Mr. John Duncan: What would it require for industry to feel they had the security of knowing that was the government's intent?

Mr. Michael Cleland: I'd hope for a statement from the government that it was their intent, and presumably some agreement by the Minister of the Environment conveyed to the chair of the National Energy Board.

Mr. John Duncan: One of the things that the smart regulations stated—I think I'm correct in this—is that the Mackenzie Valley process could be a useful model for other processes. I have heard of enough significant complexities to the Mackenzie Valley process today to really question that as a recommendation. To me it's quite a complex process, because there are so many competing agreements already in place in the NWT. It would really not be very useful to try to translate that as a model for anywhere else as a consequence, particularly where we had a province involved.

Would you subscribe to that thought process as well? I guess I'm asking the Energy Dialogue Group that question.

Mr. Michael Cleland: You'd probably have to go back to where it all began. In all likelihood, you wouldn't want to replicate anywhere else in Canada the underlying institutional structure we have in the territories and along the valley. Dr. Chambers can speak to this, but you had a very complex underlying institutional structure, and that process was constructed to try to deal with it.

There are other examples. One that I've had some familiarity with is the Sable offshore energy project. It had a somewhat less complicated institutional structure, but it still had the Government of Nova Scotia and its various authorities, the National Energy Board, and the Canada-Nova Scotia Offshore Petroleum Board. Basically, an arrangement was struck to provide coordination there.

There is probably more than one model around, and it might be of interest for the committee to look at that. If we find these complex institutional arrangements, the idea of getting them to work together is probably where the model begins.

The Chair: Thank you.

Michael Chong, please.

Mr. Michael Chong (Wellington—Halton Hills, CPC): Thank you, Mr. Chair.

I want to address my question to Mr. Konow. You mentioned that there was plenty of conventional hydro left. What rivers, if any, in northern Ontario would be considered viable for potential hydro projects?

• (1725)

Mr. Hans Konow: I don't think I said "plenty". I think I said that in some regions there are significant resources that can be developed, particularly in Quebec and Manitoba.

In Ontario, I'm not familiar with all their northern projects. I gather there are some in the north they've looked at that to date have not been economical, largely because of distance. I don't know the specific site issues involved.

Any major hydraulic development is unique, by definition. It has specific topography to deal with, local inhabitants, and local conditions, so each one has to be weighed on its own merits. I wouldn't want to make a broad-brush statement. Certainly Ontario does not have the undeveloped wealth of hydro that Quebec and Manitoba have.

Mr. Michael Chong: So you don't know of any particular rivers that would be considered for potential hydro projects in northern Ontario?

Mr. Hans Konow: I am not aware of which ones are on the long-term planning cycle of OPG or other developers, no.

Mr. Michael Chong: One of the things you mentioned was that we need to develop the grid in terms of long-distance transmission lines. I've read other accounts that suggest the opposite, that those kinds of large-scale generation projects and large-scale transmission projects remain in the past era and that the future lies with small-scale generation, locally produced, that would not require large-scale generation projects and large-scale transmission projects. Maybe you could comment on that.

Mr. Hans Konow: Certainly five or six years ago there was the school of thought that distributed generation was tomorrow's model and that the traditional transmission link large project was yesterday's dinosaur model. I think the move of natural gas prices from \$2 to \$6 has caused that to recede into the future substantially, because the notion was that we would put up small combined cycle gas plants, scatter them through the consuming environment, and in that way not require nearly as much transmission.

I don't think there's any one model. I think there is truly a trend toward far more integrated—and far more of—distributed resources over time. But the horizon has changed, and it may be that the inputs have changed as a result. In other words, where natural gas made it a near-term prospect, I think the pricing of natural gas and its alternate uses probably make it a much longer-term process. One day, however, we will in all likelihood see everything that's on the horizon, from solar to wind to, potentially, fuel cells, beginning to kick in their contributions, but it's just far less predictable.

If you were to ask industry—and we did actually; we asked industry leaders in North America about what vision they had for the electricity model tomorrow, and nobody is quite certain. The

certainty of yesterday has receded with the experiences of the last three or four years, and everyone now is at another crossing point of trying to determine where the electricity industry goes next, over the next three to five years. It's not entirely clear.

The Chair: Mr. Cleland.

Mr. Michael Cleland: Maybe I could add something that is a bit more general than the electricity system, but it has application there.

If you were stepping back and looking at the energy system overall, even as you go toward more distributed options, at the end of it all a reliable, robust system is going to rely on dense, interconnected networks of pipe and wires. And if anything, I think, you're going to want to deepen the density of that in order to have multiple pathways, so that if you do have your own generating capacity and it goes down, you can tie into the grid to optimize the system.

I think it's some of that kind of conversation that we need to have. It isn't either/or, I don't think, in that sense.

• (1730)

Mr. Michael Chong: My last area of questions has to do with nuclear power. Why is it, especially in Ontario, that we can't seem to do nuclear power properly? Is it the nature of the technology? If you look at other countries such as France, 70% of their electricity is generated by nuclear. I guess I have two questions. They don't seem to be pursuing a policy that there isn't one good answer. Their one good answer has been nuclear power and their strategy wasn't to diversify among numerous different types of generation. They decided that they were going to go nuclear, they did it, and it's been very successful.

We as a government spend millions of dollars a year on research and development, whether at AECL or at other government agencies that are run by Industry Canada. Why can't we seem to do this properly when we supposedly have all this wonderful technology and we're exporting it? It just seems to me that the government on the one hand is promoting nuclear technology, spending millions to do it, touts its technology of CANDU reactors as being world class, yet on the other hand we can't put in one reactor without having it go billions over budget, or it just doesn't work. I'd be interested to hear your views on this, as head of the electricity association.

The Chair: Feel free to comment, Mr. Konow. If it's in your purview to try that, go ahead.

Mr. Hans Konow: If I had the absolute answer, I'd be working elsewhere and be a lot better off than I am today. And if I answer your question, I may be working elsewhere—that's what my colleague was saying.

I have a couple of points to make, though. First of all, I think France didn't have any other palatable options when it selected nuclear power. It made one very intelligent decision; it went with a cookie-cutter design. That's a risk, a loaded-dice risk, because if the cookie-cutter design—a design that isn't changed and just keeps being replicated—turns out to be a good, solid design with no inherent flaws, then you've won your bet. If on the other hand it turns out to have a buried flaw, such as the one we found with the aging of the pipes inside the CANDU system, then it can be a very expensive decision.

It turned out well for them. Quite frankly, in Canada we probably shouldn't have tried to be so smart. We kept changing and fine-tuning the designs of the CANDUs we were building in Ontario, and this turned into an expensive proposition. Also, in fairness, there was some element of bad luck. When most of the early CANDUs were built, they were largely on budget and on time. The one you referred to, Darlington, was a disaster. It was a disaster for reasons partly outside the company's ability to control in terms of the drawing out of the scheduled construction period at a period of time where you may recall we had double-digit interest rates.

If there's one thing true of nuclear facilities, it's really that you need to put money into the ground until it's piled up high enough to generate electricity. This is a very, very capital-intensive business up front. If your building costs run beyond what was predicted, then the output costs from it are going to be very painful.

Canada also has a relatively small economy. The size of the market compared to the French market is small. We perhaps made a mistake in not deciding that we would make it available to, say, a partner in the United States, to try to build the scale of the facility. We've been relatively successful in our construction experience abroad. Again, those were more cookie-cutter designs. They weren't fiddled with. We made our mistakes.

Inherently, nuclear power makes a lot of sense if you get it right in terms of the environmental implications of the technology. It's an extremely demanding technology. Canada has to make a strategic decision about whether we wish to be master of our own unique nuclear capacity, nuclear technology.

From what I've seen of the latest CANDU designs, I think they're extremely interesting, but we have to have the scale of deployment option to carry them. Just waiting for the next opportunity in Canada isn't going to be good enough.

• (1735)

The Chair: Thank you, Mr. Konow.

Thank you, Michael.

Now, with the indulgence of our witnesses, maybe we have time for a very short question.

Mr. John Duncan: I do.

The Chair: Then we'll leave it with that.

Thank you, John.

Mr. John Duncan: I wanted to ask a question that I'm sure would be very difficult to answer, a short question for a long answer.

Mr. Michael Chong: All the questions have been easy until now.

The Chair: We're keeping you here beyond the time. We appreciate your indulgence.

Mr. John Duncan: What I wanted to ask is, the Atlantic Accord is now taking non-renewable resource revenues out of the equalization formula. This should provide more incentive to the local authority, to the province, to develop. Obviously one could look at expanding that to all provinces and territories, because we're

talking about an energy framework here, something that's crucial for the nation. A lot of the non-renewable resource revenues fall into the energy category.

I guess my question is, would the Energy Dialogue Group subscribe to the fact that this would be a useful component of the energy framework?

The Chair: Thank you, John.

Mr. Michael Cleland: That's a good question. I'm not sure you're going to get an answer, though.

The Chair: Please make it reasonably short.

Mr. Michael Cleland: I think the short answer is that this has to do with fiscal federalism and the structure of the equalization system, which would certainly be well beyond the competence of anybody I know in the energy business. Fundamentally, it's energy. It's also other non-renewable resources. I'm not 100% convinced that my energy colleagues and I could add a great deal to that debate. We'll see how it plays out. I suspect that would be at best a second-order issue for us.

Mr. C. Dane Bailly: It really hasn't impacted the business view of an investment or the opportunity. After benefits accrue to various governments, there is the issue of how they're distributed. That is the role of government, as distinct from the role of industry. There may be those second-order effects, where it cascades down such that a province may see more revenues and change their fiscal structure to make a particular project more attractive. But it's far too early to tell what might happen there.

The Chair: Dr. Chambers.

Mr. Brian Chambers: In the context of the Mackenzie gas project, resource revenue sharing is a very important issue, particularly to the Government of the Northwest Territories. As members may know, the Government of the Northwest Territories currently does not have a resource revenue sharing agreement with the federal government, and it receives absolutely nothing. For example, for the diamond mines that are currently under way and operating, the Government of the Northwest Territories receives no portion of those royalties.

In the context of those who are supportive of the Mackenzie gas project, a very important issue is the support of northern people. The Premier of the Northwest Territories indicated in the legislature that the government will not support development of the Mackenzie gas project until such time as there's a resource revenue sharing agreement in place that's acceptable to the people of the north. So I think that's important to remember for the development of this project.

The Chair: Thanks to all of you. Those were excellent questions and excellent answers. We appreciate your staying overtime to help us out.

We will meet on Wednesday afternoon, colleagues, on Bill C-9.

Have a safe trip home, those of you from out of town.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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