



Legislative Assembly of Alberta

The 29th Legislature
First Session

Standing Committee
on
Public Accounts

Alberta Grazing Leaseholders Association,
Northern Alberta Grazing Association, Environment and Parks

Thursday, February 4, 2016
8:30 a.m.

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Standing Committee on Public Accounts

Fildebrandt, Derek Gerhard, Strathmore-Brooks (W), Chair
Gray, Christina, Edmonton-Mill Woods (ND), Deputy Chair
Sweet, Heather, Edmonton-Manning (ND),* Acting Deputy Chair

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Cyr, Scott J., Bonnyville-Cold Lake (W)
Dach, Lorne, Edmonton-McClung (ND)
Drysdale, Wayne, Grande Prairie-Wapiti (PC)**
Goehring, Nicole, Edmonton-Castle Downs (ND)***
Gotfried, Richard, Calgary-Fish Creek (PC)
Hunter, Grant R., Cardston-Taber-Warner (W)
Loyola, Rod, Edmonton-Ellerslie (ND)
Malkinson, Brian, Calgary-Currie (ND)
Miller, Barb, Red Deer-South (ND)
Payne, Brandy, Calgary-Acadia (ND)
Renaud, Marie F., St. Albert (ND)
Turner, Dr. A. Robert, Edmonton-Whitemud (ND)
Westhead, Cameron, Banff-Cochrane (ND)
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* substitution for Christina Gray

** substitution for Calgary-Greenway

*** substitution for Brandy Payne

Also in Attendance

Anderson, Wayne, Highwood (W)
Stier, Pat, Livingstone-Macleod (W)

Office of the Auditor General Participants

Merwan Saher
Eric Leonty

Auditor General
Assistant Auditor General

Support Staff

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Janet Schwegel	Managing Editor of <i>Alberta Hansard</i>

Standing Committee on Public Accounts

Participants

Ministry of Environment and Parks

Colin Blair, Acting Assistant Deputy Minister, Operations
Tom Davis, Assistant Deputy Minister, Corporate Services
Sandra Locke, Assistant Deputy Minister, Climate Change Strategy
Andy Ridge, Acting Assistant Deputy Minister, Policy and Planning
Bill Werry, Deputy Minister

Alberta Grazing Leaseholders Association

James Hargrave, Director
Bill Newton, Member
Larry Sears, Chair

Northern Alberta Grazing Association

Barbara Gaultier, Director
Larry Gaultier, Director

8:30 a.m.

Thursday, February 4, 2016

[Mr. Fildebrandt in the chair]

The Chair: All right. Good morning, everyone. I'll call this meeting of the Public Accounts Committee to order, and we'll get everyone in attendance.

I'm Derek Fildebrandt, the MLA for Strathmore-Brooks and chair of the committee. I will ask that members joining the committee at the table introduce themselves for the record, starting to my right with the deputy chair.

Ms Sweet: Good morning. Heather Sweet, MLA for Edmonton-Manning.

Ms Goehring: Good morning. Nicole Goehring, MLA for Edmonton-Castle Downs.

Loyola: Rod Loyola, Edmonton-Ellerslie.

Dr. Turner: Bob Turner, Edmonton-Whitemud.

Mr. Dach: Lorne Dach, Edmonton-McClung.

Ms Miller: Barb Miller, Red Deer-South.

Mr. Malkinson: Brian Malkinson, Calgary-Currie.

Mr. Westhead: Cameron Westhead, MLA for Banff-Cochrane.

Ms Renaud: Marie Renaud, St. Albert.

Mr. Gotfried: Richard Gotfried, Calgary-Fish Creek.

Mr. Ridge: Andy Ridge, Department of Environment and Parks.

Mr. Davis: Tom Davis, ADM, corporate, Environment and Parks.

Mr. Blair: Good morning. Colin Blair, acting ADM, operations division, Environment and Parks.

Mr. Werry: Good morning. Bill Werry, deputy minister, Environment and Parks.

Mrs. Gaultier: Good morning. Barbara Gaultier, Northern Alberta Grazing Association secretary, treasurer, and director.

Mr. Gaultier: Good morning. Larry Gaultier, Northern Alberta Grazing Association.

Mr. Hargrave: Good morning. James Hargrave, executive of Western Stock Growers' and Alberta Grazing Leaseholders Association.

Mr. Newton: Hi. I'm Bill Newton, here representing Alberta Grazing Leaseholders and Western Stock Growers' Association.

Mr. Sears: Good morning. I'm Larry Sears from Alberta Grazing Leaseholders Association.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Leonty: Eric Leonty, Assistant Auditor General.

Mr. Barnes: Drew Barnes, MLA, Cypress-Medicine Hat. I'm going to recuse myself for the first part of today's meeting because I own a grazing lease in special areas.

Mr. Hunter: Grant Hunter, Cardston-Taber-Warner.

Mr. Cyr: Scott Cyr, MLA, Bonnyville-Cold Lake.

Mr. W. Anderson: Wayne Anderson, MLA, Highwood.

Mr. Stier: Pat Stier, MLA, Livingstone-Macleod.

Dr. Massolin: Good morning. Philip Massolin, manager of research services.

Mrs. Dacyshyn: Corrine Dacyshyn, committee clerk.

The Chair: Thank you very much.

The following substitutions were received for this meeting: Heather Sweet to substitute for Christina Gray, Nicole Goehring to substitute for Brandy Payne, and Wayne Drysdale to substitute for Manmeet Bhullar.

Is there anyone joining us over the phone? [An electronic device sounded] Well, thank you, Siri.

A few housekeeping items to address before we turn to the business at hand. The microphone consoles are operated by *Hansard* staff, so there's no need for members to touch them. Audio of the committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts are obtainable via the legislative website. Please keep your cellphones muted as they may interfere with the audio system or participate in the meeting.

Are there any additions or changes to the agenda as distributed?

Seeing none, would a member move that the agenda for the February 4, 2016, meeting be approved as distributed?

Ms Sweet: I so move.

The Chair: Moved by Ms Sweet. Any discussion? All in favour? Opposed? Carried.

Before we officially welcome the guests joining us for this meeting, I will just remind members of the agenda for the rest of the day. From 8:30 to 10:15 a.m. we are meeting with Alberta Environment and Parks and the Alberta Grazing Leaseholders Association and the Northern Alberta Grazing Association on the topic of grazing leases. After the meeting we will adjourn for 15 minutes, and then from 10:30 a.m. to 12 we will continue to meet with Alberta Environment and Parks to discuss systems to ensure sufficient financial security for land disturbances from mining. That meeting will be followed by a lunch break, and after that we will be back here at 1 to meet with Alberta Environment and Parks again in order to talk about three additional topics: managing Water Act partnerships and regulatory activities, systems to manage the specified gas emitters regulation, and management of sand and gravel resources.

Back to the meeting at hand. Members should have a copy of the briefing documents prepared by committee research services and the office of the Auditor General on grazing leases. A status report on outstanding recommendations for Alberta Environment and Parks from the Auditor General was also made available to members.

I will now officially welcome our guests, who are here with us to discuss the issues related to grazing leases raised in the report of the Auditor General of July 2015. We will start by asking Mr. Werry to please make an opening statement of no more than eight minutes on behalf of Alberta Environment and Parks, and then the same length of time will be offered to the two associations present here today, the Alberta Grazing Leaseholders Association and the Northern Alberta Grazing Association.

Mr. Werry, please proceed with your remarks.

Mr. Werry: Thank you, Mr. Chairman. I just want to introduce one other staff member who's with us. We do have several staff in the back. I would ask Darin Stepaniuk, our environmental legal director, to raise his hand so you're aware that he's with us. If any specific legal matters come up, I'll ask him to the microphone.

First of all, I am pleased to be asked to be here today to discuss the Auditor General's recommendations to my department on grazing leases. Environment and Parks is a department that is dedicated to serving Albertans. We work hand in hand with communities to protect and manage our province's air, water, land, and biodiversity, and we are committed to ensuring that our public lands, including our working lands leased for farming or ranching, are managed safely and sustainably while respecting environmental, industrial, and recreational objectives.

I would like to acknowledge the Alberta Grazing Leaseholders Association and the Northern Alberta Grazing Association. These leaseholders have been stewards of the landscape, employing sustainable grazing practices. These practices help to ensure that healthy, functional, rangeland ecosystems are maintained on public lands for the benefit of current and future generations. Going forward, they will continue to play a valuable role in maintaining our ecological integrity.

That brings us to some of the items in the July Auditor General's report, that you asked us here to discuss. Environment and Parks has a number of outstanding recommendations, but we've initiated a very aggressive plan to address them. We take our responsibilities seriously and have a very good dialogue with the Auditor General's office about his recommendations to our department and what our plans are. We've set a clear path forward to reduce the number of recommendations and implement action at a much brisker pace.

I would now like to speak to you about the July 2015 report recommendations related to grazing leases. The Auditor's recommendations were to identify objectives for grazing leases as well as the benefits that should be derived from this type of land use, ensure that all Albertans benefit from the department's management of grazing leases, and ensure that the department analyzes and reports on whether these grazing leases are meeting the stated management objectives and/or identifies what is needed to improve the management of grazing leases.

In keeping with the department's commitment to performance management and continuous improvement, we are working to identify and refine performance metrics for grazing leases that speak to the environmental, social, and economic considerations and outcomes referenced in the Auditor General's report. We will also continue our work on the stewardship-based 10-year strategy, that will update supporting codes of practice, further clarify and communicate departmental expectations and desired outcomes, and update compliance and renewal standards for grazing leases. As well, we'll continue reviewing and updating the framework for the assignment of fees and rental rates for public land uses such as grazing leases and other land uses as well.

We have an implementation plan that's been shared with the Auditor General and expect to have some of those deliverables in place in the upcoming fiscal year. Meanwhile we'll continue to work on the necessary performance measures, with the intention to implement those during the 2017-18 fiscal year. In summary, we acknowledge that we have a lot of work still ahead of us, but we've set a path and are determined to follow it.

Thank you. I look forward to the other presentations and questions.

The Chair: Thank you, Mr. Werry.

Mr. Sears, would you like to speak on behalf of the Alberta Grazing Leaseholders Association?

Mr. Sears: Thanks very much, Mr. Chairman. Good morning, everyone. I'm Larry Sears, and I'm representing the Alberta Grazing Leaseholders Association. We were created in 1998. The Grazing Leaseholders Association advocates for the rights of all grazing leaseholders in Alberta. As leaseholders we collaborate with the province and other stakeholders on a variety of public policy issues, including land use, property rights, and surface rights. In fact, our members are currently working with Environment and Parks and sustainable resource development for an updated rental-rate formula, assignment fees, and provision for ongoing rangeland sustainability. This collaboration reflects one of the reasons that our provincial grazing lease system works in our province, shared responsibility for the stewardship of our grazing lands.

There's a saying that many of you may have heard that goes like this: much has been written, but little is understood. Perhaps there is no issue that that saying applies to more than grazing leases. Today I want to share with you some background information on grazing leases and address several key myths involving compensation, transparency, and the role of the leaseholder, and I hope that we all leave the room with a little more understanding about the issue.

8:40

What are grazing leases? The first grazing leases were instituted in 1881. Today there are roughly 5,700 grazing leases covering an estimated 5.2 million acres, or 2.1 million hectares. These Crown lands have a designated priority use for agriculture, and most are best suited to cattle grazing. The grazing leaseholders pay the government of Alberta rent based on the usage of a particular parcel of land and what that land can reasonably accommodate. The average lease in Alberta is just over a section and supports approximately 50 cows.

Grazing leaseholders are stewards of the land. The lion's share of grazing leases in Alberta are on native landscapes. These landscapes have survived many pressures, including settlement, agricultural expansion, urban development, and industry. A big reason for that survival is the stewardship of the leaseholder. Our grazing lease lands are managed to ensure the health of the entire grazing ecosystem. This includes soils, grazing animals, plants, minerals, nutrients, and water. The government has laid out objectives along with performance measures and a code of practice for leaseholders and has adopted a range health assessment system to monitor the health of our rangelands. Leaseholders also must consider wildlife and human activities on the landscape.

It is the responsibility of the leaseholder to make leasehold improvements to properly manage these lands. Leasehold improvements are a necessity. However, proper stewardship has associated costs. Leaseholders must be diligent in monitoring livestock grazing to ensure that vegetation is not adversely impacted. In addition, leaseholders must also fence the lease, develop water sources, and provide other livestock-handling infrastructure. These infrastructure assets are often impacted by other oil and gas developments requiring that they be repaired, dismantled, or rebuilt.

Compensation is not revenue. When oil and gas activity occurs on a grazing lease, the leaseholder can no longer utilize those lands for grazing. The leaseholder may also endure other impacts, including increased traffic, damaged fences, the need to identify alternate water sources, et cetera. The Alberta Surface Rights Act requires that compensation should be paid to leaseholders of both private and Crown lands for the loss of use, adverse effects, nuisance, and other damages caused by the oil and gas activity on the grazing lands. The compensation is not rent nor is it revenue nor is it an access payment. The intent of the compensation is to make

leaseholders whole; that is, to put the grazing leaseholder affected by energy operations in a financial position as close as possible to the position they were in prior to the entry by the operator. Compensation is paid to those who are impacted.

The Surface Rights Act and numerous court rulings require compensation to be paid to the parties directly affected, the ones who suffered losses and impacts. I hold here a summary of some of the decisions that have come through the Surface Rights Act and the Court of Appeal. The Alberta Surface Rights Act separates these impacts into four categories: adverse effects on the rest of the landholder's lands, nuisance, inconvenience, and noise. Some have suggested that this compensation should go to the province. It would be difficult for the province to argue that they are directly affected by noise, dust, gates left open, moving cattle, loss of use, or nuisance because the province does not experience these impacts.

It strikes us as unfair and illogical for the Alberta Land Institute to support taking the compensation from the people who suffer harm and redirecting that compensation to a party that does not. Possible examples. A farmer who rents land from another farmer loses a portion of his crop due to a pipeline installation. Would the renter be expected to pass this compensation to the landowner? A renter of a two-bedroom apartment can no longer use the second bedroom because the landlord has also rented it out. Should the compensation go to the landlord? A store owner in a mall has a business close due to a water pipe failure. Should the compensation go to the mall owner?

The process is transparent. Energy companies generally make offers to landowners or leaseholders based on the framework for compensation set out in section 25 of the Surface Rights Act. In addition, if the parties fail to reach an agreement, the Surface Rights Board, a provincial quasi-judicial tribunal, holds a public hearing to determine the compensation payable under the Surface Rights Act to the surface occupant and owner, and that's what this details here. The board publishes detailed written decisions, the evidence the board receives is available to the public, and the board's decisions are reviewable by the Alberta Court of Queen's Bench, which also is a public process. The process for determining compensation is completely transparent and follows a clear legal process.

In conclusion, the AGLA members are prepared to engage in meaningful consultation to discuss the future state of grazing leases in the province provided that economic, environmental, and stewardship objectives and geography are all considered. The AGLA remains committed to ensure that an informed conversation about grazing leases occurs, and that is why we have and will continue to participate in consultation with the government. In fact, our group has provided substantial input on updating the grazing lease rental framework, the assignment fee changes, and the range stewardship fund to ensure the province has revenue to meet its public policy goals. The AGLA will continue to ensure that the policy conversation regarding grazing leases reflects the complexity of the grazing lease instrument and recognizes the benefits of grazing lease holders to manage competing interests on the land base.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Sears.

We'll now invite Mrs. Gaultier to provide opening remarks on behalf of the Northern Alberta Grazing Association.

Mrs. Gaultier: Thank you, Mr. Chairman. Our president, Gerald McDonald, was unable to be here today, but this is the message he wishes to convey.

The Northern Alberta Grazing Association, NAGA, has been in existence since the 1950s and currently represents over 1,900 leaseholders in northern Alberta. These leaseholders have laboriously worked to develop and maintain functional and productive grasslands from the Crown and have enjoyed a good rapport with the Alberta government to date. There are more than a hundred years of agreement between the Alberta government and ranchers who care for more than 5 million acres of public land in exchange for the right to graze livestock on it; 5,962 grazing leases on these 5 million acres contribute \$4 million annually to the Alberta government.

Yes, in 20 years grazing lease rental rates and assignment fees have not gone up and are in need of review. Grazing lease rental rates and assignment fees in Alberta were adjusted in 1994 with a new review of rates and assignment fees to be instated in 2004 but were frozen at 1994 rates due to BSE. However, in retrospect, members of NAGA agree that the rental rates should go up but are concerned as to what the rates will increase to as the process is already under way.

In reference to leaseholders receiving a personal financial benefit, it is truly a misconception that leaseholders receive personal financial benefit over and above the benefits of grazing livestock on public land. The money received from industry is compensation for damage and loss of usage of improvements that were developed by the leaseholders. Grazing leaseholders are entitled to compensation as set out under the Surface Rights Act and the Public Lands Act. Very few of these grazing leases collect large amounts of compensation. It's not revenue. It's compensation for damages from energy companies, and frankly most find it a hindrance from the adverse effects and damages incurred.

A grazing lease is not what most people think it is. The purpose of a grazing lease was for ranchers since 1881 to build fences as well as maintain these lands for grazing as set out under the Public Lands Act. The grazing lease is a legally protected property interest and an important factor of production for many ranchers in Alberta. These ranchers then pay rent to the government for the Crown land used for the purpose of grazing. The Alberta government collects these lease payments, and property taxes are paid to the municipality. Governments and the public sector also benefit by having a continuous caretaker for these said lands.

Another contentious issue or public perception is monies received from the sale of these said lands. These grazing lands were once granted freely, with obligations similar to homestead lands, but since 1988 new grazing leases have been put up for auction by the Alberta government. Grazing lease holders are not eligible to collect the market value of the land but can sell or assign their grazing lease and be compensated for their improvements.

8:50

The free market decides what grazing leases are worth. The annual lease rental rate plus taxes for the year is small in number to the perceptions of what proceeds are from the sale of these said lands. However, the misconception is not understanding that it took a lifetime to build, develop, and maintain improvements on these lands, and it comes with major expenses to the leaseholder, which is not reflected in any formula. These proceeds basically cover the costs of developing and maintaining this lease over many years.

With respect to issues related to the systems to manage grazing leases, it is important for the government and leaseholders to continue to have a good rapport and to work together for positive change. Society is changing, and so are their values and understanding of the importance of how food is brought to their table. Realities are not obvious to those who do not live on the land,

and they do not understand the true costs of developing and maintaining a grazing lease.

The agriculture industry employs a lot of people and has been a significant contributor to the Alberta economy and is still contributing today. We appreciate and support agriculture as a whole and are prepared to work with government and respective departments to help them understand and support agriculture. The family farm and the protection of rural culture are imperative and are contingent on how well we relate with government and policy-makers though it must be acknowledged, too, that the best stewards of the land are those who have a vested interest in its preservation and its use and that governments closest to the people govern best.

Our industry has experienced a lot of changes and challenges over the years. With some justification consumers are demanding more. With animal rights groups criticizing our every move, recreationalists demanding more, BSE, U.S. tariffs, survey results that contradict facts, more government regulations, weather changes – and the list goes on – it’s amazing we still have an industry. What do we do together to encourage our youth to invest in this industry, for governments to support rural infrastructure and investment, to change the perception of the urban sector and still be good environmental stewards of the land, all the while trying to make a living?

We have a little scenario here, a little example that you might be able to identify with. Imagine you have a business in the city and you need to expand. There happens to be an empty government building next to you. Now, after consulting with the proper government departments, you secure a long-term lease agreement for the use of this building. It is a good building, but it needs to be renovated to suit your needs, so you spend the money to renovate it to meet the needs of your business. Naturally, in business there are good years and bad years, but through it all you manage to pay the property tax to the city and make the lease payments to the government for the use of the building.

Now, one day a landman representing an oil and gas company shows up. He tells you he needs to occupy a certain amount of your offices, but he doesn’t want them all in one area. He needs them in various locations and also requires a hallway to somehow connect them. Understandably, this will cause damages to your renovations, inconveniences to your employees, and disrupt the flow of your business; in other words, affect your bottom line.

The Chair: I’m sorry. We’ve run out of time for opening statements, but thank you very much.

We will now invite Mr. Saher, the Auditor General, to make an opening statement on behalf of his office.

Mr. Saher: Thank you, Mr. Chairman. In July 2015 we reported the results of our audit on the Department of Environment and Parks’ systems to manage grazing leases. What we examined was as follows. We examined the department’s systems to identify objectives for and benefits expected from grazing leases on public land, we examined the systems to ensure all Albertans benefit from its management of grazing leases, and we examined the department’s systems to analyze and report on whether grazing leases are meeting objectives or what might be needed to improve how the department manages its lease program.

Our overall conclusion was as follows. The department’s processes do ensure that, overall, public land in Alberta used for grazing is in good health. However, the department could not demonstrate to us that the grazing lease program is meeting defined objectives. Further, during our audit we observed that current legislation allows an unquantified amount of personal financial

benefit to some leaseholders over and above the benefits of grazing livestock on public land.

We made the following recommendation to the department:

We recommend that the Department of Environment and Parks define and communicate the environmental, social and economic objectives it expects grazing leases should provide all Albertans as well as relevant performance measures to monitor and ensure those objectives are met.

Thank you.

The Chair: Thank you, Mr. Saher.

We’ll now open the floor to questions from members. We’ll begin with Mr. Malkinson.

Mr. Malkinson: Thank you very much, Chair. I pose my question to the leaseholders’ association. As noted on page 15 of the Auditor General’s report, “Albertans benefit by having leaseholders who help ensure long-term sustainability of the land and protect animals and plants at risk where needed.” For those of you who are here today, could you speak more to how the Alberta ranchers and grazing lease holders are currently working to ensure the long-term sustainability of this land for Albertans?

Mr. Newton: Certainly. I might use an example. I did a little bit of research on the greater sage grouse emergency protection order. This is an order that was put in place by the federal government in late 2013, I believe. The order applies to 1,200 square kilometres of Crown lands under grazing disposition, almost all under grazing disposition, in southeastern Alberta. This is one of those species at risk that needs the protection of habitat that is in its natural state. This is a grazing grassland with sagebrush in it. Twelve hundred square kilometres of Crown land have been put under this emergency protection order.

As part of the cost-benefit analysis for that, Environment Canada actually used research out of the United States indicating what an average household would be willing to pay to ensure the continued existence of an iconic bird species. In the United States they did everything from wild turkeys to bald eagles to whooping cranes. Here in Canada we hadn’t done the research specifically on sage grouse, but we did use the wild turkey as a proxy, which was at the lower end of the range from the American research, and multiplied that value, which in 2012 Canadian dollars was \$23 per household, by the 1,800 households in Alberta and Saskatchewan and came to \$40.8 million annually of value to society at large to have the sage grouse continue to exist.

When you actually divide that \$40.8 million by the 1,200 square kilometres, it comes down, I believe, to about \$137 per acre of land that was affected, this Crown land. If that’s \$137 per acre in benefits to society over and above the rent that’s being paid by the grazing lease holder, I think that’s an important consideration that we need to take into account as we determine what these lands provide to Albertans. This is certainly one of the social and environmental as well as economic contributions of lease land, and certainly grazing and sage grouse have co-existed for thousands of years.

Mr. Malkinson: Just a quick follow-up. I’m just wondering if the ministry officials had any more to add about the benefits the grazing lease holders give to Albertans.

9:00

Mr. Werry: In our response to the OAG report we identified a preliminary list of objectives of the grazing lease system in the province. I’ll start with the environmental objectives. First of all, the system does allow us to ensure that ecosystems function, as measured by range health, and are being maintained and improved

on lease lands. So we do have a system in place for that. We are working to improve that based on the kind of gap analysis work that the Auditor General did in terms of our ability to report on that.

The other thing we look at is the protection of sensitive ecosystems, including native rangelands, wildlife habitats, and species at risk. So we see the environmental benefits of the lease system addressing those. Obviously, there are other benefits that accrue that have both an environmental and an economic benefit, so I just want to identify those. They are the impact that our leasing system has on water purification and carbon sequestration. Native rangelands do provide benefits to water purification and carbon sequestration on the lands that are under disposition, so they really do have both an economic and an environmental benefit the way in which they're managed now.

Mr. Malkinson: Thank you very much. That's helpful.

The Chair: Thank you very much.

We'll go with Mr. Stier for a new question.

Mr. Stier: Okay. Good morning, and thank you, all, for coming here today. It's great to see all of you again. Over the years I've seen a lot of the great folks from the environment department, and I respect the work that you do. To the gentlemen that have travelled here and the lady from the grazing lease association: I really appreciate your coming in to provide direct communication to the committee here to give us the real facts and eliminate a lot of the rumours that have been going around.

My question, Mr. Chair, is to Mr. Werry. I noted the recommendation that the Auditor General had mentioned in the July '15 report, particularly with regard to clarifying the objectives and so on and so forth. I note, too, that in my previous term, when I served as SRD critic, there was a document – and I'm just going to hold it up – called Grazing Lease Stewardship Code of Practice. It's been around for some time. The date of it is December 14, '07. It's a fairly complex document that pretty well nails down what grazing leaseholders are responsible to do, how these things are laid out. It's fairly detailed. My question to you: is this code of practice still in effect? Secondly, too, there's a lot of information that the Auditor General has been trying to speak to which, he says, doesn't seem to be there. Is that not covered, in your opinion, in the code of practice document?

Mr. Werry: Just to respond to that . . .

The Chair: Mr. Stier, would you be willing to table the document?

Mr. Stier: I can table it at a later point, yeah.

The Chair: Thank you very much.

Mr. Werry: The code of practice is still in place and still operates in our system. In our view, as I mentioned earlier, as a department we're always looking to engage in exercises of continuous improvement. So we took the July 2015 recommendation that the Auditor made as an opportunity to engage in that process of continuous improvement. We do anticipate that, hopefully, by the end of this fiscal year we will have a set of objectives that are updated and pick up on the changes that have occurred over the last number of years. We're not seeing a dramatic challenge in that. We're seeing an opportunity to really tweak and make those objectives a little bit clearer. We do think we can improve our efforts on reporting on the impact to the system. That's part of the conversation we're having here today: how do we improve the way in which we report on the value that that system does provide to

Albertans? The office of the Auditor General raised that and said: you need to be clearer about how Albertans benefit from the system that's in play.

That's the path we're on. We're working with individuals in the grazing community to do that. They have that on-the-ground stewardship responsibility. Generally speaking, we would say that our rangelands agrologists have worked closely with folks, have tried to develop a good understanding of what's going on on the land base. Again, for us, this is an opportunity for continuous improvement of those objectives and goals.

The Chair: A follow-up, Mr. Stier?

Mr. Stier: Yes. Thank you. I appreciate your answer, and thank you for confirming that the code of practice is still in effect. With that, Mr. Chair, I'd like to ask one of the grazing leaseholders, Mr. Newton or Mr. Sears, then perhaps followed up by Mrs. Gaultier. The Grazing Lease Stewardship Code of Practice, again, seems to be a very detailed document on how things are to proceed. It seems to cover most of the things that I think were mentioned by the Auditor General. To Mr. Newton or Mr. Sears. You're following these, I would expect. Could you maybe illustrate or give us a little extra information as to what the code of practice really means to you and how most operators go ahead and follow along those lines, please?

Mr. Newton: Certainly, the code of practice governs the way we manage our grazing leases in terms of appropriately stocking them and allowing reasonable recreational access, developing our water, distributing the livestock effectively, all of those things that are necessary to keep this grassland ecosystem in a functional state. I might add that some of the requirements of a grazing lease are actually included in a grazing lease contract, which is over and above the code of practice. The contract sets out certain requirements for the leaseholder such as fencing the perimeter of the lease and doing the necessary infrastructure investments to allow to even utilize the grazing lease.

Larry, have you got anything to add?

Mr. Sears: Well, certainly, I think that the code of practice has outlined the best management practices that we and the department developed co-operatively and looked at as a standard that we would like to meet as much of the time as possible. More than anything I think it laid out the template for co-operative consultation with the department so that we could reach the objectives required in a rational fashion with practical application on the ground. I think that's a valuable aspect of this that sometimes we miss in that occasionally the departmental bureaucrats do not have the on-the-ground, in-depth knowledge that the day-to-day stewards have, and it gave us an opportunity to impart that knowledge while still having the oversight and long-term objectives kept in the background for us. So I think it's been a valuable document, and we continue to work in consultation with the department to improve it and update it, as Bill mentioned.

Mr. Stier: Mr. Chair, I had a follow-up with – your last name? I'm sorry.

Mrs. Gaultier: Gaultier.

Mr. Stier: Thank you. Any follow up on my question, sir?

Mr. Gaultier: If I may, yes. I agree with Larry Sears regarding this code of practice. It's a very good guideline. It's something that we've adopted over the years since it was printed. A good example

in our case regarding the recreational access: we've allowed unlimited foot access on our grazing lease since that document came out. It really hasn't been an issue. For us, anyway, it's worked out well. It is a good document regarding just general rules of conduct on these pastures and these grazing lands, and we'll continue to work with them as it evolves.

Mr. Stier: Thank you.
Thank you, Mr. Chair.

The Chair: A follow-up from Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chair, and thank you to all of our presenters today. It seems to me that we're in good hands and our lands are being well stewarded by the department and by both your organizations. There was one comment, I think, which maybe relates to the code of practice, that was in a document we received. That was with respect to meeting defined objectives. "This statement fails to identify whether there is failure to meet currently defined objectives, or whether the problem is the absence of defined objectives."

It sounds to me like maybe the code of practice does fill in some of those gaps in terms of the objectives. So I wondered, from the department and from the two organizations represented here and, particularly I think, the leaseholder association who referenced that: do we have an absence of defined objectives, or do we have adequate objectives to meet and to measure by, subject to the comments from the Auditor General?

9:10

Mr. Werry: Well, I'll respond first on behalf of the department. When we do get recommendations from the office of the Auditor General, there are a number of ways in which we can respond to those recommendations. One is to accept them, another is to accept them in principle, and the other is to say that we don't accept them. In this case we chose to accept the recommendation because we believe it's timely for us to update those objectives. We don't believe that Albertans are being poorly served by what's happening on the land base at the moment, but there is always room for improvement. That's why we're undertaking the work we're doing now consistent with the recommendations that the Auditor General made. So we have been speaking with the grazing lease associations. We have our staff speaking with individual leaseholders, and our staff are doing a thorough review of the current practices and the way in which we report on those practices. So we just see this as an opportunity for continuous improvement, from a department perspective.

The Chair: Thank you very much.

Mr. Hargrave: I'd just like to add a comment here, I guess, pertaining to the code of practice. I'd like to tie in, I guess, that the overall objective of the grazing lease should be a functional grassland, a functional ecosystem, and in order to keep it functional, that requires daily on-the-ground, on-site adaptive management in order to keep the biological value of that grassland intact. So when there is interference from industrial activity or you have portions of, let's just say, an access road or portions underneath a wellhead that won't sequester carbon anymore, that won't capture or store water, really you're losing that ecosystem service. It's gone. The leaseholder has a certain responsibility in the code of practice to maintain that biological value, and that requires a significant amount of on-site, timely adaptive management to consider for that loss of biological value.

Mr. Newton: If I might add just a little bit in order to answer Mr. Gotfried's question, the code of practice, the contract all made up part of the objectives, and I think there actually was a pretty clear understanding of what the objectives were between the department and the leaseholders, but I'm not sure that there was any one place that you could go to and say: oh, there it is; that's point 3 in the written-down, typed-out objectives of the grazing lease system. You know, the undertaking and improvement of that is certainly worth while as far as both, I think, the department and the leaseholders are concerned. To suggest that objectives were not being met or that we didn't have objectives – we didn't have them clearly written down in a single place, but in the collaboration that has occurred between the department and leaseholders and leaseholder associations, I think there was a clear understanding on our part of what the objectives were.

Mr. Gotfried: All right. Thank you.

The Chair: Thank you.
We're going to go to a new question from Mr. Loyola.

Loyola: Thank you, Mr. Chair. I want to thank you all for being here today and bringing your perspectives so that we can learn from them. Deputy minister, my question is going to be directed at you. Without a doubt, ranchers know how important it is to ensure that these lands are kept in excellent environmental shape so that they may continue to benefit from these grazing lands and continue to contribute to the economic well-being of the province. Mr. Werry, from your perspective, how are ranchers managing the balance between the stewardship of the land and the health of their businesses?

Mr. Werry: Well, I think it's really clear from the system that's been set in place that the department's view is that this is a partnership between the Crown and the individuals who have access to Crown lands and that our staff do their best to make sure that that partnership is mutually beneficial, that's it's beneficial to all the people of Alberta, whose lands they are. Just to be clear, these are lands that are held for all Albertans, but they need to be managed in that effective way.

Our sense is that what we've been doing so far has had a very positive effect on the land base. We do agree with the Auditor that we need to be more clear around the objectives and we need better reporting on the outcomes. It's a challenge that our ministry has on more than one file. It's a challenge we have on this file and on a lot of files, and it's an area where, quite frankly, I believe we as a department can do better on reporting to Albertans the value that they are receiving for the way in which we're managing public land. It's something we do need to up our game for. In that sense, we respect the recommendation of the office of the Auditor General, and we will be working to make those improvements, some of them as early as the end of this fiscal and the rest of them in the next fiscal.

But we do believe that individuals involved in this activity as leaseholders are stewards and are responsible stewards of the land. We believe that, and our staff, I think, work with the individual leaseholders on that basis.

Loyola: Thank you.

The Chair: Thank you.
We'll go to a new question from Mr. Stier.

Mr. Stier: Thank you, Mr. Chairman. To the leaseholders associations here today, there's been an awful lot of talk in the past

number of months with respect to compensation. It was mentioned in the Auditor General's report, and I think that in your presentations, Mr. Sears and Mrs. Gaultier, too, you gave a good synopsis of the types of things you run into. You've stated that the grazing leases are to provide an area for you to graze livestock as part of your operations, and the payments that you get from oil and gas activities are for loss of use and damages to land and livestock or personal property that may be involved as well as noise, dust, and so on that are caused by these kinds of activities, by oil and gas exploration.

I'm just wondering, for the committee: what kind of examples can you give us to illustrate the kinds of negative impacts that you've actually noticed, some of the more significant ones, of course? I mean, certainly, there's dust when trucks go in and out. But are there those kinds of things that you run into that provide you with significant negative impacts that you could illustrate for us? I can imagine that when I pop over a hill sometimes in the area that I represent down south, perhaps there might be at some point in time a whole bunch of fence knocked down or something and cattle are all over the highway. Can you give us something on-site that you're looking at?

Also, can you mention, if I could as a second part of that question – you possibly run into some observations as to the sites themselves that the oil and gas companies present. There may be some maintenance issues you notice or something unusual going there. Can you describe, perhaps, a little bit on that, too, please?

Mr. Sears: I'll defer to James, who's been our resident expert.

Mr. Hargrave: I could certainly provide a couple of larger scope answers to that, and they would be coming from personal business experience. Probably 15 years ago there was industrial activity taking place on our ranch, on our grazing lease plus our freehold lands, and throughout the drilling program, the completions program, we noticed – I mean, you deal with all sorts of adverse effects: dust, the nuisance, inconvenience. But what I'm getting at is that we were starting to see – and I talked about it before – a loss in biological value.

Being where our ranch is situated, we rely heavily on the rattlesnake to keep the rodent populations at bay, and that ecosystem has developed over the years. The snakes will migrate 20 miles off the river and take care of any critter along the way. What happens when you get these linear disturbances – pipelines, access roads, and specifically traffic – we were finding that we were losing our snake population. Gophers, badgers were moving in closer.

That is what makes that ecosystem valuable to us as a leaseholder, so we spearheaded a significant initiative to save the snakes, educating operators, putting signs up, and it worked. I mean, every operator put a stick in his truck to drag the snake off the road. When they're running a pipeline, one man would walk the pipe because a snake would get buried, backfilled in the pipe. So you'd have one person – I don't know if I'd like his job – and he'd go along and beat on pipe, and if there was a snake in the trench, the snake would come out. Every little bit that we harped on industry helped. Mind you, drilling has slowed down. Activity isn't nearly what it was, but there are still linear disturbances. You know, we have, I think, in my opinion, close to a healthy snake population.

9:20

Another prime example – I'm going back to adapted management – is that prior to the 2000s there was no real recommended code of practice for leaseholders in reclamation on pipelines, so it was really what the operator of the day felt like doing and how involved

the leaseholder wanted to get. Typically with pipelines you can deal with invasive species, crested wheat, downy brome, all sorts of issues. The '70s is very evident of that, when they seeded all of their linear disturbances to crested wheat grass, and they are still intact today with crested wheat grass, a big problem on our native range.

So my sister and I worked with the department in coming up with a different protocol for assisted natural recovery on pipelines in order to never get as close back to where we were before industry came in, and it worked. It really worked. We used assisted natural recovery methods using annual species to, you know, harbor the new grass coming in. We used natural recovery methods, and it depended year to year on moisture conditions, but that was in large part due to the on-site, the vested interest of the leaseholder to get the landscape back to close to where it was before.

These are just a couple of examples that are extremely time consuming, but that is where our heart is. I don't know. I could provide many more, but I don't need to keep rambling on.

The Chair: Thank you very much.

Before we have a follow-up on that, I'll just ask if witnesses could try to keep their answers succinct so that we can get as many questions in as possible, please.

Mr. Stier with a follow-up.

Mr. Stier: It actually isn't a follow-up. I had asked as a second part to hear from the other group, Mr. Chair.

The Chair: Oh. Yes.

Mr. Stier: Thank you.

Mr. Gaultier: Regarding adverse affects, to answer that question, a good example is that in northern Alberta we have – all our grazing leases originally were covered with heavy timber, very expensive to remove. We had to break the land. We had to seed it. Then an oil company or an energy company comes in and puts in miles of road and a well site and covers it with gravel. That in effect is a major loss in usage, and that's what they pay us compensation for. We have miles of gravel now where we had planted tame grass, so, again, an adverse effect, and that's why we get paid the compensation for the damages to our improvements.

The Chair: Follow-up, Mr. Stier.

Mr. Stier: Yes. Thank you. Thank you for raising that point. There are different kinds of things that come along, as you've just mentioned. I understand with regard to topographical situations that various properties have. There is talk about changing from the former contracts, that we've had to modify those contracts and have some reflection in the contracts. I understand with respect to – I believe the rates have frozen. Was it, like, 1994, or something, the last time? Can you maybe talk about a review that you think may or may not be of use in the system, and can you talk a little bit about whether or not the program that we have so far has met desired expectations?

The Chair: Sorry. I think that probably constitutes a new question.

Mr. Stier: Okay. All right. He mentioned, then – I'll take off the last part, Mr. Chair, if that's what you wish.

The Chair: Yeah. I would just caution us.

Mr. Stier: I would just like to talk about – he mentioned the topographical situations, and I'd like to have, perhaps, them speak

a little bit more on how the rates should, perhaps, therefore, part of what he mentioned, be altered.

The Chair: All right. I'll allow it, but I will constitute it as a new question, and I'll keep that in mind for balancing with the other parties.

Mr. Gaultier: I'll pass that question to Mr. Newton.

Mr. Newton: In terms of the rental rate review or consultations we've had, the idea is that the rental rate should reflect how profitable operation of the grazing lease is, and to do that we have conducted in the past cost studies of operating a grazing lease. I mean, obviously the cost is the rent to the province and the taxes to the municipality, but above and beyond that are the building of the infrastructure required, the fences, the water developments, the control of the invasive species, the clearing of the land in some instances, and seeding. All of those are costs associated with operating a grazing lease that are borne by the leaseholder.

In terms of the same rental rate across the province, currently we have four different zones and three different rates, and the rental review suggests two zones depending on the results of a currently undertaken, I believe, cost study, a refreshed cost study, to determine whether the costs are greater to operate a grazing lease in northern Alberta, in the boreal forest part of the world, as compared to southern Alberta.

The Chair: All right. A new question from Ms Renaud.

Ms Renaud: Thank you, Mr. Chair. To Mr. Werry and perhaps the Auditor General: if we were to zoom out and look province-wide to get a measure, how does the continued environmental sustainability of the grazing leases promote economic sustainability for Albertans? What is the information used to set the objective, and how will the department provide oversight?

Mr. Werry: I'll respond by talking a little bit about the economic objectives that we've identified in a preliminary way and that we hope to finalize in our plan that we submitted to the office of the Auditor General. Obviously, the economic objective for Alberta is to collect rental revenues for the use of public land and forage resources. The grazing leaseholder does have access to those forage resources; it's part of the way in which the system operates. We want to make sure that that rental revenue and the fees for that public land forage are appropriate. We've had some conversations on the rates, and we are talking about trying to use for all public lands a more appropriate market-based mechanism that understands what the market value is.

Secondly, there's obviously a benefit to rural communities with respect to economic opportunity that comes from those leases. Obviously, we are in a position, then, if you think about some of the other things that come from public land, whether it's sand and gravel or oil and gas leases, there obviously is – as I already mentioned, the forage and fibre-based contributes to the economic viability of the grazing leaseholders.

We do believe that we need to do a better job of quantifying the economic benefits associated with the water purification and carbon sequestration services, and there has been talk over time about, you know: what is the value of ecological goods and services, and how do we quantify that?

So we believe those are the four objectives we need to be focusing on and better beefing up our reporting to Albertans on those economic benefits.

Ms Renaud: Thank you, Mr. Werry.

The Chair: The Auditor General.

Mr. Saher: Yes. I don't think I can add anything to the answer that the deputy has given you. Our comments on defining objectives are on page 21 of that report, and essentially I think we are talking about a clear articulation of what the benefits are in a way that Albertans could understand. This is public land, and I think there was acknowledgement that over time an understanding is developed between those that have access to the land and departmental officials. I think, as the deputy has confirmed, that there is a need for, if you will, a refreshing of the articulation of the purpose of this program, and our contribution was to suggest that the best way of explaining to Albertans what the potential benefits are and ensuring that Albertans receive their fair share is to look at the benefits in terms of economical, social, and environmental.

Thank you.

9:30

Ms Renaud: Not necessarily a question. I just wanted to thank everyone for coming today. It's been really actually quite fascinating to hear your examples. Thank you.

The Chair: Thank you.

All right. A new question from Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chairman, and, again, I reiterate the comments. I think we're all well served and very lucky to have Alberta's ranchers as able stewards of this land. I don't think there are any better persons to take care of the land than those who are using it and producing some of the world's best beef from that land as well.

I've got one question with respect to some comments on various documents about the ability of the department. This is a question, I guess, for the deputy minister, but also I'd certainly welcome some comments from the two organizations here about reporting and disclosure of the value of the surface rights payments made from the industrial operators. It seems to me that there were comments made about the compensation of leaseholders being the most scrutinized compensation awarded in terms of the land regulatory system; however, in other documents from the Auditor General there were comments that we did not have a clear view of either the reporting or disclosure of the value of those. I just wanted to find out if that's one of the changes being considered in terms of making that reporting or disclosure of the value of the surface rights payments made by industrial operators a part of the new leases or amendments to current leases.

Mr. Werry: That's outside the scope of our current review.

Mr. Gotfried: Okay.

Mr. Sears: Thanks, Richard. Any oil company that feels that the leaseholder is asking too much for compensation can request a compensation review hearing in front of the Surface Rights Board. The fact is that oil companies do this frequently. Twice as many compensation reviews are filed for cases involving compensation on grazing leases compared to private land. The board is a quasi-judicial board and holds open public hearings in which the panel of Surface Rights Board members will listen to the evidence from each side and then make a decision on the amount of compensation and to whom it's payable. After the board makes its decision, that decision can be appealed to the Alberta Court of Queen's Bench. The point is that there are many checks and balances in the system

to ensure that compensation is appropriate for the impact caused to the rancher.

On the issue of transparency I think it's perfectly obvious from the existence of these documents that the transparency is there if you want to go look for it.

Mr. Gotfried: Okay. I guess, maybe, just to be more specific, I'd be interested in your perspective from the leaseholders and also the Northern Alberta Grazing Association about reporting or disclosure of those amounts that are received. If there is full justification of the payments that are being made and it becomes not the issue and those are deemed to be fair, then would it not also be in the best interest of Albertans to have that disclosed really for transparency on both sides of the equation?

Mr. Sears: Well, that's up to the department and the government, I guess, as to whether or not there is a so-called sunshine list as to what exists out there. We wouldn't have an issue with it, I don't think. It's available now for those who want to go looking for it.

Mr. Gotfried: Okay. Thank you.

Maybe a comment from the Northern Alberta Grazing Association?

The Chair: Mr. Saher.

Mr. Saher: Yes, if I could just make an observation here. In relation to the question that was asked, one of our findings was – and I'm just quoting from our report –

The department does not know:

- how many grazing leases have oil, gas or other industrial sites on them
- [the department does not know] the amount of money leaseholders receive in surface access fees [and]
- [the department does not know] the value of leases when they are sold or transferred.

That surprised us. We were unable to make a recommendation because within the law as it exists at the moment, the department, as I understand it, does not have the ability to seek out that information. I think the deputy responded to the question that it's not within the scope of the current review activities of the department, but I think it's important for Albertans to realize that that is how the law is at the moment. From the audit office's point of view we would have thought that a department should be able to obtain that information.

Mr. Newton: In response to the comments from the Auditor General and to the question the department may not know how many well sites or industrial sites are on grazing leases, but the province certainly does. The Department of Energy knows where every well site is. You know, this information is available. It can be extracted with a bit of effort from the land status system that we have in the province.

As to the value of leases when they're sold and the value of compensation, both of these are private matters, private contracts negotiated in the case of compensation between the industrial operator and the leaseholder or the private landholder, as the case may be, based on what that unique situation is, just how much adverse effect and inconvenience and nuisance and damage is occurring to that individual leaseholder. So reporting each of those without reporting all of the associated matters that determine that compensation would be inappropriate.

As to the value of leases when they are sold, again, this is a private contract. It's a contract between me as the leaseholder and you as the province, owner of this property. The contract – and I have one here – is for the rent of the land, not just the grass. As such

– and it is assignable and transferrable and renewable. If I choose to sell that contract to a third party, the province still has to approve the new recipient of the contract, but the amount that I sell it for is going to depend on, again, those unique circumstances like: is this right in the middle of someone else's deeded property so it's very convenient for him to operate, but another party is 500 miles away from it and has huge expenses to operate it?

I think in terms of pulling this information together, I suppose we can do it or we can get pretty close, but of what value is it when we know that we have these checks and balances in the system already?

The Chair: All right. Thank you.

A new question from Dr. Turner.

Dr. Turner: Thank you, Mr. Chair, and thank you to all of you for coming today. This has been very informative, and I'm very impressed with the stewardship that the leaseholders are demonstrating here.

We're all very aware of the benefits to our economy that Alberta's farmers and ranchers contribute and that farming and ranching will continue to contribute to the diversification of our overall economy as well. We also know that public land is set aside for the benefit of all Albertans, and I was very pleased today to hear that that means that we're going to take care of Alberta's environment: carbon sequestration; water source protection; species at risk, including the grouse, caribou – although I'm wondering if snakes actually qualify there; they might want to eat the grouse babies.

9:40

So with all of those in mind – and I'd like to hear from both the Northern Alberta Grazing Association as well as the Alberta grazing association – can you both speak to other environmental benefits that the grazing leaseholders bring to the land, and how would you suggest that we can publicize this so that all Albertans are really aware of these benefits?

Mr. Gaultier: Well, some of the benefits are the amount of money we put into the economy every year. There's a very large sum of money, which most people aren't aware of, that we have to spend every year to maintain and control weeds and so forth. I'll revert back to our situation. We budget about \$40,000 a year to maintain our grazing lease. If we didn't have it, that's \$40,000 less a year that wouldn't go into the economy. Part of that is to cover, you know, clearing the land, breaking the land, seeding it. First of all, we had to purchase that from the government originally, in 1988, purchase the lease that was set out on a public tender.

Some of that money that we budget for goes for equipment like heavy equipment for clearing the land, diesel fuel, fencing material. Fencing material is getting very expensive. We do a little work on the side fencing for the oil and gas companies. We charge them \$9,600 a mile for material and labour. So, again, that's the cost that we take on in our own pasture. Fences have to be rebuilt every 25 years. We just finished refencing ours last summer. We did 17 miles of basically new fence, so money, again, that goes into the economy, goes into purchasing fence posts, barbed wire, staples, and diesel fuel.

Another thing, too, is that our corral was 25 years old. It was made out of wood. It needed to be rebuilt. In the process of rebuilding it, we've purchased \$26,000 of new material, mostly from Moran, for this new corral, which is going to be all steel. Again, more money spent that goes into the economy every year.

Multiple dugouts: I believe we're at 12 dugouts that we've built so far, plus existing watercourses. We supply clean water for wildlife, also for our cattle. On our pasture since we've done all this

clearing, all this improvement, the number of elk have probably quadrupled, so they've benefited from it. So there's a lot of added benefits to it all. It's not just, you know, that we get to graze and we get compensated for damage. There's so much more to it than that.

Mr. Newton: I'll comment, if I might. Our situation is somewhat different from Mr. Gaultier's in that we are in a natural grassland. We're in the southwestern part of the province in a natural grassland. I think it's important to recognize that on our own operation about 80 per cent of our land is freehold or titled land and about 20 per cent is grazing lease, yet it's all managed the same way. It's managed as a native rangeland or certainly that portion of it which is native rangeland; some of it was cultivated prior to us acquiring it. The entire land base, both freehold and Crown grazing, contributes to ecosystem services and Alberta's economy.

Earlier there was this question about: how do we ensure that the health of the land and the health of the business are both balanced? By far our largest investment is in land and in acquiring grazing leases to operate, so if they're not healthy, my business is not healthy. The two are very linked together and in a positive fashion.

In terms of the ecosystem services that we're providing, certainly carbon – you know, Alberta environment, or ESRD at the time in 2008, commissioned a study that indicated that Alberta's native grasslands, native rangelands, store the equivalent of three years of Canada's total greenhouse gas emissions. Actually, if you bring that back to just the native grasslands under grazing lease and grazing reserve status, it's about 38 per cent of that total of Alberta's native rangelands, so just our grazing lease lands store over one year of Canada's total greenhouse gas emissions, some 720 megatonnes at the time. If you want to put a value of \$30 a tonne on that, as we're going to in 2018, that's \$22 billion, roughly. So carbon is certainly huge.

Water capture. We've talked about water purification, but just – water infiltrates into a grassland more rapidly than it does into an annual crop land or something like that. Flood mitigation, water capture: those are worth huge amounts of dollars.

Biodiversity. I mean, that's what we have on our place. We have I don't know how many species of grass, because it's a native grassland, with forbs interspersed in them. We have many species of wildlife: elk, deer, coyote, wolves. Many species. Incredibly, we probably have 100,000 times that much diversity in the organisms in the soil beneath that, and those are the organisms that are actually pumping the carbon down into the soil and improving the water infiltration. So we certainly have biodiversity.

Let's talk about some of the less defined ecosystem services like aesthetic values. Grazing leases, you know, are pretty limited in terms of what structures you can put on them. You certainly can't build a house on them without special permission. You can build your fences and things to operate, but to build, really, anything permanent in nature, you need approval from the department. This gives us those open spaces that we value aesthetically.

Recreational opportunities. It's where both the wildlife and the wildlife fans – hunters or observers – want to be. You know, in the United States they tried moving grazing off some of their Crown lands, their BLM lands and whatnot, in an attempt to improve the elk habitat. The elk followed the cows because the elk like to graze where it has been grazed and where the vegetation is fresher.

What are we doing as leaseholders and as ranchers and as stewards to make sure we continue to provide these things? I personally sit on an ecosystem services assessment working group. This is co-ordinated with the Alberta Biodiversity Monitoring Institute and Alberta Innovates: Bio Solutions, and we've looked at "What is the value of pollinators?" or "What is the value of Alberta's grasslands in terms of carbon and beef production?" But,

you know, we just picked five ecosystem services to try to put a dollar value on. There's more work to be done here.

Then, finally, I guess, I just think that, you know, going back many years now, the Ken Nicol report was tabled with government. The institute of agriculture and forestry, I think, did this report on a market-based approach to ecosystem services. Some of that work is still going on over at Alberta Innovates, both Bio Solutions and Technology Futures, and it would be an important place for the committee to look for more information on this.

Dr. Turner: Well, thank you very much. I really enjoyed the response, and I think it fits very well into Alberta's leadership and the climate change policies as well. I know that the deputy minister, Mr. Werry, is probably interested in that as well, but I don't need a comment.

Thanks.

The Chair: Thank you very much.

A new question from Mr. Stier.

Mr. Stier: Well, thank you once again. My question this time, if I could, would be to Mr. Werry and his department and staff. The government owns the minerals, and they're the ones that are paid by the energy companies at the land sales every second Wednesday, and so on and so forth, to operate on those lands and begin exploration, et cetera and eventually take them to market. In your information that you have, have you noticed that the government has incurred any loss of use or damages to the land where there aren't any grazing leases that they would have perhaps thought that maybe they should get compensation back? Is there a system for damages and that for them to get compensated?

Mr. Werry: I'm sorry. Could you repeat that?

Mr. Stier: Okay. So the government is the one that takes in the revenues for the use of the land and for the mineral rights, et cetera. I'm just trying to figure out – have you noticed in your observations that where there is an absence of grazing leases, are those lands suffering some damage, and is there a system for the government to get back some monies for damage?

9:50

Mr. Werry: In case of other leases, just straight up oil and gas leases, there are reclamation requirements that companies undertake when they get those leases.

The intent of our current policies is always that when we give anyone access to public land, whether it's for grazing or gravel extraction or oil and gas, those lands are returned to Albertans in the same condition that they were in before they were leased. That's our goal in the way in which our systems are designed. As you know, Energy collects the revenue; I spend it on the other side.

Mr. Stier: So there's no extra assessment?

Mr. Werry: No. We do require of any leaseholder that the land be returned in the condition in which it was provided.

Mr. Stier: Okay. Then, if I could switch now to the Auditor General and staff, it sounds like the government doesn't get much additional money for land disturbances in those kinds of situations, yet when we have the case of the grazing leaseholders who have a contract for that land and so on, they get compensation for some of this when it does occur. Why is it in your report that you think perhaps it should be considered that the government should get it instead? That is what, in essence, I saw in your report.

Mr. Saher: I don't think we advocated that the government should get it. We simply brought out for public interest the fact, that's on page 18 of our report, of the public consultations, the activities in the Legislature in 1999. There was a bill that was passed but never proclaimed. The intent of that legislation was in fact to change the system. So the alternative to the system that there is at the moment, if I can – it's the only alternative I'm aware of that has been studied, proposed in public. We set that out simply as a fact in our report. I'm not advocating for it; I'm simply saying that I think, you know, as auditors as we tried to learn as much as we could about the system, we found that to be an interesting piece of discourse that relates to understanding alternatives.

Just for the benefit of the members, that particular bill, had it been proclaimed, it's intent was to allow the department to remove from the grazing leases the area of land that industry operators need for access to subsurface resources and proportionately reduce the leaseholder's rent, receive as government revenue the surface access compensation fees that industry operators pay to leaseholders, and ensure that operators still pay leaseholders for the actual cost of industrial activity on the leased land. I'm not advocating for that; that's the job of legislators. I felt it was in the public interest to make it public that that consideration had been given back in 1999.

Mr. Stier: Mr. Chair, I think one of the others wanted to comment.

The Chair: Yeah. Mr. Newton wanted to speak.

Mr. Newton: Well, on behalf of individuals who were leaseholders at the time of this Bill 31, 1999, and still are, I think it's important to recognize that that piece of legislation – I think it's actually known as the Agricultural Dispositions Statutes Amendment Act, 1999, at the time known as Bill 31 – did pass through the Legislature and was never proclaimed. To complete the story, in 2002 or '03 Bill 16 passed through the Legislature. It was known as the Agricultural Dispositions Statutes Amendment Act, 2003. The first act, Bill 31, amended the Public Lands Act in certain instances, to allow the sorts of things that the Auditor General has just identified would occur, but never being proclaimed, those things never did occur.

The 2003 version repealed many sections of the 1999 or 2000 version, so we amended the Public Lands Act again and removed many of the sections that the Auditor General referred to in his report. Those sections, while not proclaimed in '99, were repealed in 2003 and therefore, in my opinion, you know, are not relevant in 2015.

Mr. Gaultier: If I may add to that on Bill 31. I was involved with that. The minister, I believe, was Walter Paszkowski at the time. I had asked him a question regarding this removal of the acres off our pasture and the legality of it because they had sold me these acres on so much an acre, the tender was so much an acre, so I would have the right to graze that pasture. My question to him was: how are you going to proceed with removing those acres after you sold me the rights to them to give them to the oil company, and then I'm supposed to deal with the adverse effect of so many acres missing out of the middle of my pasture? His response was that he wasn't aware that anybody had purchased their grazing leases. He was under the understanding that everybody had their grazing leases assigned. That was a major stumbling block to Bill 31.

Mr. Hargrave: I believe it's incredibly important to keep intact the harmonic relationship between the leaseholder, the day-to-day manager, and industry. Part of what set Bill 31 on a course to – you know, it really disrupted the relationship between the leaseholder

and industry, and that's incredibly important for, I guess, the environmental leg of the stool. We need to keep that intact. It's crucial. If discussions break down between industry and the leaseholder, it's not good for anybody.

Larry or Bill, if you'd like to add on to that.

Mr. Sears: Well, certainly, Mr. Chairman. At the time the oil and gas industry was initially in favour and possibly part of the push behind Bill 31. After they stopped and thought about it a lot more, they became our allies and thought: this isn't going to work well at all. So we worked with them in conjunction to develop a new approach or a different approach to Bill 31 and came up with Bill 16, which repealed large chunks and enabled the industry to continue to operate in the community as friends and neighbours should. That was going to be impossible under Bill 31.

The Chair: All right. Thank you very much.

Our next question goes to Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chairman. Again, I wanted to say that I'm very impressed by not only the codes of practice and terms of practice but the spirit of the sort of collaborative use and stewardship and, as importantly, I think, the trust in creating value and economic development in these grazing lands.

We're here today to speak to some of the comments from the Auditor General's report. I've got some comments and questions in that regard. There was obviously some reference to comparisons with B.C. and Saskatchewan, which I'm curious about and would hope that those would form some of the consideration. I think there's been an acknowledgement from at least some of the parties that it is time to do some updating of the rates and maybe using some of the neighbouring provinces as a guideline or at least a comparison, albeit maybe some very different circumstances even within our own province versus other provinces. I see there's some agreement that rates need to be updated.

I'm curious on some of the duration in terms of renewal, whether that needs to be revised or changed in any way and whether there is an opportunity for long-term stability of revisions or increases in that. I very much understand that there may be some grandfathering that's required to also honour the spirit of existing contracts, but the reporting and disclosure, to me, comes up again in my mind. I think that, to use some of the comparisons to a renter or a leaseholder in other circumstances, you would typically be required to notify your landlord of any improvements and possibly the terms in the nature of a sublease and, in some cases, any change of use in that.

I guess, just in the context of these various issues I wonder: do we have a spirit of co-operation going forward with this between the department and the key organizations represented here? With great, due respect to the Auditor General's report, do we see an opportunity for progress, to actually move in that direction in a timely manner and/or change legislation to either require that or have some voluntary reporting of things that will create greater transparency for the use of this land for Albertans?

10:00

Mr. Werry: Just to respond to that, we have been working with the associations on the lease rates matter, and I mentioned that we're also looking at lease rates for public land in general, so other Crown land. I think I mentioned already that we are looking at market-based mechanisms to assess what is the appropriate return for Albertans on all public land leases, and our work with the two associations has been very positive thus far.

We took a quick step back because we realized that we didn't want to move ahead on grazing leases without looking at the other aspects of public lands, so when we think about leases for sand and

gravel or peat or other matters, we need to have some comparability between the ways in which we approach the leasing of public land. That's slowed us down a little bit on the process side of things, but we think that there's good collaboration thus far with the leaseholders associations on this matter of lease rates for Crown land.

I already mentioned that the whole matter of disclosure is kind of outside the scope of the work we're doing thus far and remains outside the scope.

Mr. Gotfried: Thank you.

The Chair: All right. A follow-up from Mr. Cyr.

Mr. Cyr: My question is for the deputy minister. This has been talked about probably extensively, how to approach getting this kind of information from the leaseholders. Are my thoughts off topic here?

Mr. Werry: What kind of information specifically, sir?

Mr. Cyr: Well, between third parties, between oil companies and the leaseholders. Has that been talked about or discussed within your department?

Mr. Werry: We've had our legal staff look at what our current range of motion is with respect to that question, and that's why it remains out of scope.

Mr. Cyr: Okay. If this was something that was pursued, like the hon. member across from the PC caucus is discussing here, what kind of cost would be, I guess, transferred to your department by trying to keep these new sets of information between third parties? Like, there would be an incredibly huge burden on your department should we proceed with that kind of a system.

Mr. Werry: Because we haven't reviewed it, I haven't looked at what the cost of such a matter might be because it's outside the scope of our review. We haven't even looked at that. There would obviously be some costs, administrative costs, and a change perhaps to our system of tracking information in this space, but I couldn't comment on what that would be. I can tell you again that we're focused on the recommendation. We're focused on the ongoing working relationship with the leaseholders associations on the rates, and that's the limit of our work thus far.

Mr. Cyr: Do you see a value in having that kind of a list open to the public?

Mr. Werry: You'd be asking me for kind of a personal opinion. I haven't really looked into it from the point of view of – when we review the Auditor General's reports, we really do zero in on the recommendations and focus our response on the recommendations. The other information is information. It's interesting, but it doesn't – it doesn't – come into the way in which we scope out the work.

Mr. Cyr: So you – and I'm not putting words in your mouth here – would probably have some real difficulties even collecting this information unless it was voluntarily offered by all of the leaseholders.

Mr. Werry: We don't have the authority to collect that information right now.

Mr. Cyr: Correct. So there would be a significant possible burden on your department, and we would have to force through legislation making it mandatory that they release this information.

Mr. Werry: We don't have the authority right now.

Mr. Cyr: Okay. Thank you. That was my question.

The Chair: All right. I'll just note that there are 10 minutes left in the meeting, so we'll try to keep questions and answers short and get as much in as we can before we conclude.

A new question from Mr. Dach.

Mr. Dach: Thank you, Mr. Chair. Very interesting discussion this morning on an important issue to all Albertans. My question would be directed to departmental officials regarding land protection plans. The report notes that "about 60 per cent – 100 million acres – of Alberta is [currently] held as public land." The grazing leases currently operating on these lands make use of about 5 million acres of this land. How do grazing lands fit into the overall land protection plans that are currently in place?

Mr. Werry: As you're aware, we are in the process of establishing regional land-use plans across the province. We have two that have been approved so far, the South Saskatchewan regional plan and the lower Athabasca regional plan. The North Saskatchewan regional plan is under development. In those plans we do look at grazing leases from the concept of being part of the public land base and what the ultimate best use of that land is, so that's considered in the regional planning process. As we've already indicated, there are tremendous ecological benefits to having these particular lands grazed. As you're aware, in the history of the province, in particular in southern Alberta, those lands were naturally grazed by the bison and buffalo before we arrived, so it's a part of good ecosystem management to continue to have that land base grazed. That's taken into account as we develop our regional land-use plans.

Mr. Dach: Thank you.

The Chair: That exhausts our speakers list. That rarely happens. Are there questions from members?

All right. Well, if there are no more questions, then I'll thank our guests for their time. We very much appreciate your coming all the way here and the preparation involved, the travel required. I think today was very insightful for all members.

We will now adjourn until 10:30 and resume the next part of our meeting. Thank you.

[The committee adjourned from 10:08 a.m. to 10:30 a.m.]

The Chair: I will call the meeting back to order. Welcome back.

We will now start the next portion of today's meeting, to discuss systems to ensure sufficient financial security for land disturbances from mining, with representatives from Alberta Environment and Parks. Members should have a copy of the briefing documents prepared by committee research services and the office of the Auditor General.

Mr. Werry, we will hand it back to you to give your introductory remarks.

Mr. Werry: Thank you, Mr. Chairman. Again, it's a pleasure to be here today to discuss the Auditor General's recommendations to Environment and Parks on systems to ensure sufficient financial security for land disturbances from mining. I think I've already introduced the staff here from the department who may be involved in answering questions.

We are committed to protecting Albertans by ensuring that those responsible for pollution are held responsible for the eventual remediation that is required. The vast majority of companies in this province are responsible, so we focus our efforts on education and

prevention. However, as we know, there are those that don't meet their responsibility. In these cases it's important to have backstops to ensure Albertans do not shoulder the costs of future reclamation in the event a company goes out of business.

The mine financial security program protects Albertans against unsecured liabilities and compels the coal and oil sands mining industry to undertake progressive reclamation. In 2014 operational responsibilities for the mine financial security program were turned over to the Alberta Energy Regulator. The government retains policy functions for this program. As of August 31, 2015, the total security held by the program is about \$1.45 billion held as cash and letters of credit.

That brings us to some of the items in the Auditor General's July report that you've asked us here to discuss. The Auditor's recommendations from last July were to "analyze and conclude on whether changes to the asset calculation are necessary due to overestimation of asset values in the methodology" and to "demonstrate that it has appropriately analyzed and concluded on the potential impacts of inappropriately extended mine life in the calculation."

In terms of the mine financial security program it does allow the province to collect a deposit from operators to ensure the conservation and reclamation of mine sites, including oil sands. We have also undertaken a three-year review of the mine financial security program working with Energy and the Alberta Energy Regulator and industry stakeholders. We have incorporated those recommendations into this review and will be moving forward in the near term on improvements to the program.

The recommendations laid out by the Auditor General question the methodology related to how assets are allowed to be calculated under the program. He also suggested that the current formulas we are using result in an overestimation of company assets, a higher asset-to-liability ratio, and the ability to delay reclaiming depleted mine sites. An implementation plan to review and respond to his recommendations on this matter is currently under way. The department is leading a team involving Alberta Energy, Treasury Board and Finance, and the Alberta Energy Regulator to assess the findings related to potential risks in the program that may result in an overestimation of assets and the potential inappropriate extension of mine life. The review will examine the current methodology for assessing assets and determine if any changes are needed. A report is expected to be completed by the fall of 2016.

In summary, we are committed to ensuring that the costs of reclamation are paid by industry and not from the pockets of Albertans.

Thank you, and I'd be happy to answer any questions.

The Chair: Thank you, Mr. Werry.

I'll now invite Mr. Saher, our Auditor General, to make his remarks.

Mr. Saher: Thank you very much, Mr. Chairman. These are comments on the audit we did on systems to ensure sufficient financial security for land disturbances from mining. The department initiated the mine financial security program in 2011. The overall conclusion from our audit work was that implementing this program was an important step towards a system that obtains sufficient financial security for mining-related land disturbances.

However, in our opinion from our audit, for the design and operation of the program to fully reflect the intended objectives of the program, improvements are needed to both how security is calculated and how security amounts are monitored. What we found is as follows:

There is a significant risk that asset values calculated by the department are overstated within the [Mine Financial Security Program] asset calculation, which could result in security amounts inconsistent with the [program's] objectives. The [Mine Financial Security Program] asset calculations do not incorporate a discount factor to reflect risk, [the calculations] use a forward price factor that underestimates the impact of future price declines, and [the calculations] treat proven and probable reserves as equally valuable.

The extent of the department's and the [Alberta Energy Regulator's] audit verification activity since 2011 has been limited. There is no documented risk-based plan to outline the extent of activities necessary to provide the necessary assurance that security amounts are appropriate.

We made two recommendations, one to the Department of Environment and Parks and one to the Alberta Energy Regulator. The deputy minister has already read into the record the recommendation we made on page 29 of our report. Just for completeness, although it won't be directly discussed today, I would like to have on the record the recommendation we made to the Alberta Energy Regulator, and that can be found at page 31 of our report. It reads as follows:

We recommend that the Alberta Energy Regulator, as part of its enterprise risk assessment process, develop and execute on a risk-based plan for its Mine Financial Security Program monitoring activities to ensure it is carrying out the appropriate amount of verification.

Thank you.

The Chair: Thank you, Mr. Saher.

I'll now open it up for members to ask questions. Actually, before we start, I want to thank members for a very productive morning session. I think that is exactly how Public Accounts should work. I think that people reading *Hansard* would have a hard time identifying what parties people even came from in this, and I think that that was a very productive morning session. They won't always be so, they won't always be such, but I want to thank members for a very productive morning session. Also, I think that our speaking list is working a lot better right now. I think members are truly respecting the process for interjection, follow-up questions. I think it's working a lot better. I thank members for that.

We'll now open up the speakers list for questions. We'll begin with Mr. Dach.

Mr. Dach: Thank you, Mr. Chair. Thank you, all, for being here this afternoon, late this morning, I guess.

Regarding the price of oil, we know that the sliding price of oil has had effects on all parts of Alberta, especially in the energy sector. How has the decline in the price of oil affected the resilience of the mine financial security program?

Mr. Werry: The program operates with a core payment and then an assets-to-liabilities ratio that companies need to maintain. The price of oil does impact the asset value. They have to maintain a ratio that is 3 to 1 so that there is an assurance that they would have sufficient funds to meet their obligations. That's the way it's designed right now. As the value of the asset goes down, they still have to maintain that ratio.

The Chair: All right. The next question to Dr. Turner.

Dr. Turner: Thank you, Mr. Chair. Again to the deputy minister. Page 32 of the report notes that "the intervening period can erode an operator's financial situation" between when they submit their annual report and when a review of the MFSP may happen. What

is the process that Environment and Parks uses to monitor current events which may signal risks to the operating and financial conditions of the mining operator?

10:40

Mr. Werry: Could you refer to the page number again, please?

Dr. Turner: Page 32.

Mr. Werry: I'm just going to ask Mr. Ridge to respond. He's the acting ADM of policy.

Mr. Ridge: The MFSP just started in 2011. The actual review: this is the first review, and it was part of a three-year review. A series of enhancements are coming forward in that regard. The alignment of the review to what may happen in any particular period is kind of separate in the sense that annual reports and the oversight by the Alberta Energy Regulator are intended to assess those risks as identified by the Auditor. It's out of scope in terms of the nature of the extent to which those risk assessments are achieving the degree which they need to be. But as part of the review insights into that performance of risk management plans, the understanding of cycles, and the robustness of the mine financial security program feed into that review.

The review happened to have been started at the same time that the Auditor General's recommendations came forward, so these are being connected in terms of insights for the review and now response to the Auditor General. It will begin to deal with assessing that degree of risk, and that information is feeding into the final recommendations that will develop.

Dr. Turner: Thank you.

The Chair: Mr. Gotfried, a new question.

Mr. Gotfried: I think Mr. Westhead actually had his hand up before me.

The Chair: No. I generally try mixing it up between parties to keep it balanced.

Mr. Gotfried: Okay. Thank you.

Thank you, Mr. Chairman, and thank you again for being here for this session. It seems to me that the key elements here are with respect to some of the variations in risk and assets, and we're focusing, really, much on that side of it. I come from another industry. There was a warranty program in the building industry that sort of protected people from defaults and things like that and the failure of participants in that program to cover the costs of default and things like that. I wonder if there's an option or an opportunity for us to come at this from a different angle, which is, as opposed to a security deposit, to actually have some kind of a program where the operators pay in and if there's a claim against it, there is kind of an insurance or a bond sort of scenario where we cover the risk from a different angle.

I mean, obviously, the risks associated with the asset base are there, but is there another way for us to look at this in terms of protecting Alberta taxpayers, that we can cover that through an insurance-type model, where if somebody is unable or defaults or there is a bankruptcy of some sort, the Alberta taxpayer is protected in a different way?

Mr. Werry: Part of the review is that we will be working closely with the Energy Regulator and Energy and Treasury Board and Finance. Certainly, we could look into that.

Just to clarify, right now the program includes four types of security deposits. There's a base security deposit, that provides funds to maintain security and safety at the site until a new company takes over. There is also an operating life deposit, that addresses the risks at the end of mine life, and then there is an asset safety factor deposit as well along with an outstanding reclamation deposit. So there are a variety of ways in which we're trying to manage it right now. As part of the review and the opportunity to look at it afresh from the Auditor's recommendations: we certainly could look into that as well.

Mr. Gotfried: Okay. Thank you.

The Chair: A follow-up from Mr. Hunter.

Mr. Hunter: I think that Mr. Gotfried brings up a good point, and maybe the nuance that I'd like to bring in is the fact that any new policy or any new change to the policy needs to take into consideration that we don't give unfair advantage to a large-cap company versus a small or mid-sized cap company. If you drive out the small guys, then competition is driven down, and the cost goes up. Looking at and making sure any changes that come to it are something that will not give unfair advantage to large companies: is that something that is going to be taken into consideration?

Mr. Werry: Yes. As we've been consulting with industry, we're looking at the impact across a wide range of companies. Actually, the assets-to-liabilities ratio does take into account the size of the operation at its base, so we certainly will be looking at that as we go forward.

The Chair: All right. Mr. Westhead for a new question.

Mr. Westhead: Thank you. It's sort of along the same lines with respect to the asset calculation; that's what my question entails. This morning with the Auditor General they made it clear to us that one of their key findings was that the asset calculation tends to overestimate the value of the mining asset, therefore putting the public at risk of not necessarily having enough assets to reclaim the mine at the end of its life. My question is: has the department made any plans to review the asset calculation formula itself for the MFSP? What would the scope of that review of the asset calculation look like, and when would you expect that may be done?

Mr. Werry: I just want to make one point of clarification on the asset calculation. What the office of the Auditor General brought up was the fact that the department and government currently include proven and probable reserves, so the value of proven reserves and probable reserves. I think the office of the Auditor General is making reference to the fact that probable reserves might inadvertently kind of inflate the value of the asset. That's one of the things that we're looking at through this review. Right now our intent is to be done this by the fall of 2016. We will look at how much that puts Albertans further at risk by the fall of 2016, and we're doing that work in conjunction with Treasury Board and Finance, Energy, and the Energy Regulator.

Mr. Westhead: Okay. Just in follow-up to that, I guess, sort of restating what we talked about in our premeeting briefing, part of the problem with the asset calculation was the three-year moving average. Did I understand that correctly from what we talked about this morning, that it doesn't necessarily respond quickly to fluctuations in the marketplace for those goods and services?

Mr. Leonty: Yes. That's correct. In our report we do indicate that the program wasn't designed to respond rapidly to, you know, a decline in prices. The price calculation uses a three-year average of the net back, so the revenue less the cost, and applies a forward price factor. Because of that design it doesn't respond quickly, and it wasn't intended to. The department understood that that was a risk inherent with the program.

Mr. Westhead: Uh-huh. So does Mr. Werry's response adequately characterize your concerns about the asset calculations identified in your report?

Mr. Leonty: I think that as part of the three-year review that's indicated, that they will be performing, are performing, it would consider the specific findings that we include in our report and determine whether changes are necessary based on that.

Mr. Westhead: Okay.

Mr. Saher: If I could maybe supplement in relation to the question asked. I think the deputy minister talked about, with respect to the calculation on page 29 of our report, that we have three areas in which we think that the calculation needs to be studied. The deputy talked about the potential for probable reserves potentially being overvalued in relation to proven. We've just talked about this forward price factor. I'm not sure that the deputy directly commented on that. Then there is the third area of the calculation that we discussed, and that's a discount rate or risk-based adjustment being introduced into it. It's my understanding that the department, as my colleague has said, will consider all of these as part of the review.

Mr. Westhead: Thank you.

Mr. Werry: And I'll just confirm that we are looking at all three things. I just highlighted one of the ways in which it was being overestimated.

Mr. Westhead: Thank you.

The Chair: A follow-up from Mr. Stier.

Mr. Stier: Well, good morning once again. Thank you, Mr. Chair, and thank you, gentlemen, for remaining here today with another topic of great interest. I've not been following necessarily the same line of approach here perhaps that some are, so this is a new topic . . .

The Chair: Oh. It's a new question?

Mr. Stier: Yes.

The Chair: Oh, okay. Well, then we'll come back to you in just a moment.

Mr. Stier: I'm not used to your new system yet, Mr. Chairman.

The Chair: That's okay. We have some follow-ups. We'll come back to you in just a moment.

Mr. Stier: Okay.

The Chair: Mr. Gotfried.

10:50

Mr. Gotfried: Thank you, Mr. Chairman. I guess it's maybe directed both to the ministry and to the Auditor General. You're talking about the three-year rolling averages on the asset

calculations, which, obviously, in the current environment does introduce some potential risks, increased risks to us. I wonder, in the circumstances or situation of a bankruptcy, whether the obligations for reclamation would be carried over in any foreclosure or, you know, in a situation where a receiver then resells that asset. Is that carried over, in which case I would assume that there'd be some mitigation of that risk as well?

Mr. Ridge: Yeah. I think, again, as the deputy outlined, there's a whole scale of liability management. In the base deposit it's up to \$60 million, for example, for an oil sands operation with an upgrader, \$30 million for an oil sands operation without an upgrader. The intent is to use that base in a situation that's been described, where if the assets or the oil is still in the ground, if somebody goes into receivership, that's considered as part of the reserves. The intent is to have enough backstop or liability that can maintain whatever's been done, address any reclamation, keep the facility in a state that could be picked up by another operator, but the government has sufficient money to support any reclamation that may be required. In those instances the assumption is that if another operator is going to come in because of the existence still of the resources, there's a starting point, that as a government we have that base security.

As the operation or as the mine life proceeds, there's an increasing amount of security that's posted. It's influenced in part by the asset-to-liability and also impacted in part by the degree to which it's coming to end of reserve or mine life, so that'll also have a bearing. That number increases so that if somebody goes into receivership or bankruptcy later in the life of the project, we have more money as a base to deal with any of the reclamation costs that may be required, with the assumption that somebody may come in and pick up that operation and also post necessary securities to carry forward.

Mr. Gotfried: If I just may add, I guess my concern in the picture here is that when we have a risk associated with a downturn in the value of assets, we also have companies in distress. I'm a bit cautious about actually going after companies for more money when, in fact, they are less able to produce that money and they're laying people off.

Thank you for that answer.

Mr. Ridge: If I could supplement, it is the asset base as well as how they interact with the financial institutions in terms of what's required. Not in all instances is it full dollar-for-dollar that's posted. Sometimes it's deposits or it's a security posting that's a percentage of the dollar-for-dollar dependent on that asset base. That'll be one of the considerations of the review: how robust is this entire system as we look at downturns as well as upswings?

Mr. Gotfried: Thank you.

The Chair: A follow-up from Mr. Cyr.

Mr. Cyr: Thank you again for being here today. When we do these calculations, we do them for what the expected current climate is over a three-year average, so it's one calculation. Why don't we do a best-case scenario and a worst-case scenario so that we can know kind of a range of what we've got happening there? Is that something that's been considered, or is that something that is there and I've just missed it?

Thank you.

Mr. Werry: We are in the midst of the review and looking at the potential improvements to the system to mitigate the risk, so that's

certainly something that will be part of the reflections that go on amongst the folks who are involved. We'll certainly take that back.

Mr. Cyr: Thank you.

The Chair: All right. We'll go to a new question from Mr. Stier.

Mr. Stier: Thank you, Mr. Chair. Gentlemen, I apologize if this was touched upon a little bit by one of the previous speakers, but I just needed to reaffirm in my mind one thing that has occurred to me over and over with this change in our economy, especially in the oil and gas industry. Obviously, there are sometimes mergers and so on and so forth. There are situations where sites or operations may be in a different state of repair, perhaps – let's just call it that – or what have you. Is there some sort of contingency plan in place, with your reviews and all of this kind of thing? Is there a process, when those kinds of transactions happen, that you rush in to do another assessment, perhaps, please?

Mr. Werry: We think that the basic structure we have around reclamation, for example, because that ends up being a concern, and also the structure we have around the way in which we regulate activity on the landscape with respect to mining, keeping in mind that that day-to-day responsibility has been transferred to the Energy Regulator – as these kinds of deals happen, the new owner has an obligation to meet the requirements for the way in which the land needs to be managed and still incurs the reclamation liability that comes with that asset that they're purchasing. So as these things change hands, those responsibilities and liabilities transfer to the new owner, if that's where you were going.

Mr. Stier: If I could, I guess I was more or less saying that sometimes these are responsibilities and so forth, but I was talking more about the assessment of the operations. Is that an opportunity to trigger you folks to go in and do a reassessment as these things are changing so rapidly?

Mr. Werry: Yeah. The Energy Regulator would undertake that.

Mr. Stier: Okay. All right. Thank you.

The Chair: Great.

A new question from Member Loyola.

Loyola: Thank you, Mr. Chair. With the question I'm going to ask, I'm looking for a moderate level of detail. Not just to you, Mr. Werry, but to all the ministry staff that are here: when companies submit their annual reclamation plans, does the department or the AER provide feedback on those plans, and if so, what kind of feedback?

Mr. Werry: The structure right now on the reclamation site: we do have a reclamation policy framework that's been created. We have been working with the Alberta Energy Regulator on the regulatory piece that goes with that policy framework. It hasn't yet come into force; it's still under final review. But that responsibility would fall to the Energy Regulator, to review those plans as the company submits them, to then go out and verify that they were being executed in a manner consistent with the plan, and then to do the assessment at the end.

Mr. Ridge: If I could supplement, we could certainly make available the criteria, but one of the things that we have introduced is the concept of progressive reclamation so that we're encouraging companies through the operations, no differently than what we

heard from the grazing leaseholders, to actively manage the land. It's in the interest of the operator to be backfilling and filling holes, and they are, and that's what we're receiving from industry, that you don't wait till the very end to deal with reclamation.

There are about seven or eight elements of reclamation, from, you know, just backfilling, then contouring the holes, then seeding and putting back the natural vegetation, that was removed, in place. Those reports become quite extensive in terms of the different stages. As well, there are very different site-specific circumstances, and this program covers a range of evolving facility configurations, including connections to, as I had mentioned, upgraders, connections to integrated in situ operations. Those other variables inform the state of the performance of MFSP, not just market price and market changes. But the industry is evolving as well. Reclamation techniques and procedures are evolving as well, and those all factor in and will factor into the review in response to the Auditor General's recommendations.

Loyola: I'm just trying to get an understanding, then. I understand there's going to be variance, but on average how long does a reclamation normally take?

Mr. Ridge: Again, it's going to be site specific, and a reclamation isn't complete until the government says that it's complete in terms of the landscape performing. Often that's well after production has ceased because trees have to grow and wildlife has to be actually living and thriving in that environment. So it could be 10, 20 years after the actual operation, the mining operation, that you actually get that final certificate.

We do have various stages of reclamation that are going on during mining operations, where there is backfilling of holes and contouring, and that's immediate. It's the final certification that takes time. We have about 104 hectares of certified thriving habitat and landscape out of the entire mining operation, which reflects that it does sometimes take decades to get to that state. Again, there's a variety of activities, that the Alberta Energy Regulator assesses on a year-by-year basis, that progress towards that output, so in any given year you could see reclamation activity happening.

11:00

Loyola: Thank you.

The Chair: All right. We'll go to the next new question, from Mr. Dach.

Mr. Dach: Thank you, Mr. Chair. I'd like you to take us back to the inception of the mine financial security program, when it was initially created, and ask you what the desired outcomes for the program were then and if there has been a shift in these outcomes subsequently.

Mr. Werry: Well, I'm going to ask Andy Ridge to respond to that. I wasn't there when it was created, so I don't want to speculate on what was going on at the time. So, Andy, please respond.

Mr. Ridge: Yeah. I think there were a variety of factors. The 2008 downturn, for example: I think it drove a need to look at the liability side. I'd also talked about the desire for more progressive reclamation and how to incorporate that into the liability framework. From the perspective of outcome, it was at that time and remains about balancing risk and finding that right balance, where we're respecting operators having to make the initial investment and get projects going and having the right level of liability at the start that respects the need to make those investments but also protects Albertans.

Part of the objective in managing that risk is understanding the realities of industry, the expectations of Albertans, and then the natural actual reclamation possibilities. How do you encourage companies to find that right balance of undertaking progressive reclamation but also having enough backstop so that if circumstances do change and shift that are unforeseen, we have enough knowledge that Albertans and the Crown are ultimately protected? So the outcome remains: evolving circumstances, sometimes global, sometimes provincial; evolving understanding of how to best balance that risk and the science of actually undertaking reclamation activities; the costs of actually getting the bulldozers and moving land but also the evolution of the industry.

As part of the commitment to the reviews, it's not to reassess that outcome of balancing and managing risk but: how does that balance and the consideration of risk and the calculations that feed into that reflect the best circumstances of the day but in a way that gives certainty to investors and industry who still need to make investments in this resource but in a way that they understand the expectations around the liability as well as the reclamation requirements?

The Chair: A new question from Dr. Turner.

Dr. Turner: Thank you, Mr. Chair. Basically, I want to ask about comparison with other jurisdictions that we might be in competition with or that at least are our neighbours. The report doesn't seem to mention how the current program compares to these other jurisdictions such as British Columbia, Saskatchewan, Montana, and North Dakota, who will all face the same issue of reclamation of either coal mines or oil sands properties. How are these other jurisdictions dealing with the issue of financial security for mine reclamation?

Mr. Ridge: We're unique from the oil sands perspective. As with a lot of things, it's difficult to compare with other jurisdictions, but the principles that underline the approach, the mine financial security program, are consistent with what we see in other jurisdictions. I would note that coal mining, for example, is in B.C. and other parts of Canada and North America. That's a full cost based reclamation, so they post the full cost of reclamation at the outset. Within the province that's consistent with other jurisdictions. It's the unique aspect of oil sands and the scale and the nature of the oil sands operations that makes it difficult to compare to other jurisdictions. But, again, the principles of finding the balance of risk, assets, and establishing mandatory reclamation requirements is fully consistent with what you would see in any part of the world with respect to mining.

Dr. Turner: Thank you.

The Chair: Mr. Dach.

Mr. Dach: Thank you. Almost as a follow-up, in a similar vein but a slightly different topic: what risk factors are used to determine the amount of financial security needed?

Mr. Ridge: In terms of risk factors, that really shows up more in the context of certain stages of the mine financial security program. So in the base security that's posted, that's just the nature of the actual expectation of what's going to be dug out and what reclamation costs might be. As we get into things like the asset-to-liability ratio, which is a guide to determining, "Does more security have to be posted?" that's where there is an assessment of a formula of the value of the reserves, the probability of extraction, many of

the areas that the Auditor General has identified. That's often where the risks are introduced into this framework, so we'll take that input.

But as we move to the end of production, for example, the amount of securities regardless of the asset-to-liability ratio as you produce, as you start moving within 15 years of end-of-mine life, there are additional securities that are posted. That's not risk per se; that's a temporal dynamic. And then if operators aren't conforming to the reclamation requirements that are set in their plans and regulated by the regulator, they have to actually pay up to – it's \$75,000 per hectare that goes over and above all other securities. So the areas of risk are really more in the context of that asset-to-liability ratio, which is one component of the system.

Beyond that, it's, you know, the risk to physically reclaiming. There are decades, over 40 years of experience, of reclamation and knowledge, so the risk from that perspective is being managed, then external risks of global circumstances, market prices that are, to the extent possible, reflected in the mine financial security program but, as noted by the Auditor General, a variable that needs to be further assessed. That's kind of what we're going to be looking at over the next year.

Mr. Dach: A quick follow-up if I may: how does the mine financial security program work when a new operator assumes control of a mine?

Mr. Ridge: In that context it's an existing mine, and they've taken it over. Because of the base deposit that already would have been posted if the operator walked away, for example – so in a new oil sands mine there's \$30 million that they had to post, and it's collected. There's basically a recognition of the new operator and the expectations of what securities may be required for that operation if – and we don't have actually a lot of examples of this, but in the regulatory system the whole purpose is to ensure that there's a base deposit. So if some of that money was utilized by the government or an operator on behalf of the government to do some form of reclamation before a new operator took over that would erode that base, then there would have to be, I would expect, a supplement to that base.

But the formula is set, so an operator is moving in on the base of what specific asset-to-liability ratio, what specific base security is required. It really is going to be contingent upon, you know, the part of the cycle, if you will, of where the project is in – if it's near the beginning, the middle, or the end – that's going to define what else that operator might have to take on in terms of liability. The expectation is that they're taking on that full liability, but they're also accessing that asset base in terms of what the reserves are.

Mr. Dach: Thank you.

The Chair: I have no one on the speakers list.
Mr. Barnes.

Mr. Barnes: Thank you, Mr. Chair. Just for clarity, to me a large part of making certain that there's enough money going forward for reclamation is this asset-to-liability ratio. Obviously, the price of oil has changed dramatically in the last year. Did I hear correctly that it's the Alberta Energy Regulator's job now to assess that? How often is that changed? Are you confident that there's going to be enough value in these companies to cover the reclamation costs?

Mr. Werry: We're working with the Energy Regulator on the implementation of all of this, so when we developed our response to the recommendations from the office of the Auditor General, we worked with the Energy Regulator, and we both responded as accepting all of the recommendations. Part of the review will be

that assessment and making sure that we're capturing that on whatever changes we make to the system.

Mr. Barnes: Obviously, some of these companies have been in business and good corporate citizens for a long, long time. New regulations, new changes – I think I heard earlier that there's a lot of good discussion with these groups. Can you talk a little bit about that? Are there going to be some hardships there? Are there going to be some hurdles there? Are Albertans going to be protected?

11:10

Mr. Werry: Well, first of all, our goal here is to ensure Albertans are protected. At the same time, there are companies who've entered into this, made undertakings. They have a right to be heard here, so part of the process has been the engagement with those folks. Whatever we put in place between ourselves and the regulator is going to address both of those goals, that we're protecting Albertans on the back end of this and that we're paying attention to the impact on the operators.

Mr. Barnes: Okay. How does the communication work between your department and the regulator? Is that a once-a-month meeting, or how is that going to go forward?

Mr. Werry: Okay. Just let me wax eloquent for a moment about the structure we now have for working with not only the Energy Regulator but also the monitoring agency, our colleagues in the Department of Energy, and our colleagues in the Department of Agriculture and Forestry. We do have a mechanism where the deputy ministers and the CEOs meet every two weeks on the mutual business that we have with one another. We have lots of business with one another on the way in which the integrated resource management system operates on the land base. At the highest level we have an intent document that we've shared with all of our staff. We meet every two weeks. We're trying to run this from a systems perspective. On a weekly basis our executive vice-presidents in the Energy Regulator and our assistant deputy ministers are meeting on issues on an ongoing basis. For this project we have a joint working group at the assistant deputy minister and the vice-president level to respond to the Auditor's report. So we're working hand in glove with the Energy Regulator on this.

Mr. Barnes: Thank you.

The Chair: A follow-up from Mr. Hunter.

Mr. Hunter: Thank you, Mr. Chair. I'd like to take this from a little different perspective. Do you have any numbers on the companies that are at risk with the downturn in the economy and having to increase their deposits? I take this from a perspective as the shadow minister for jobs, skills, training, and labour – well, now Labour. Smaller name. What are the risks to these companies, and how many jobs are at risk here? That's what I'd like to know.

Mr. Werry: The current system is in place until we've undertaken the review. The current system has the potential to take into account this asset-to-liability ratio. If the value of the asset declines, the liability goes down with it as well because it's no longer of that same value.

As to what jobs are at risk and how many companies are at risk related to this particular aspect of our program, I would say that we're not putting jobs at risk by the way it operates now. We continue to work with companies on this on an ongoing basis, trying to sort through how we both protect Albertans and help companies sustain their operations in a downturn. So I don't think there's

anything directly related to this initiative that potentially impacts jobs at this point. That would be my view.

Mr. Ridge: Maybe what I would add is that the system provides that type of information to help inform the veracity of the program. There's an annual reporting of that asset to liability, that companies have to provide to the Energy Regulator, so this program allows the right information to be able to do an assessment. I can't at this point provide, you know, what the status is of operators that are under this, recognizing that this is for mining operations, but the information is being collected and publicly reported in terms of the status of that asset to liability so that we're able to understand the state in any given year of what's going on. That information, as part of this review, certainly will test the veracity of the system to find that balance as a risk-management approach.

Mr. Hunter: Could you provide that to this committee, if there are any issues that would affect jobs?

Mr. Ridge: I think what we can commit to is the reporting and making access to information to the reporting, and then certainly we could take back to the Alberta Energy Regulator the type of information that you've identified and work with them to see what could be made available.

The Chair: The speakers list is open.

If there are no more questions, then we're actually going to get some business out of the way for later on in the afternoon.

Before we get there, though, I will thank our guests for joining us today. I think they'll be with us in the afternoon as well. It's a very long day on the job, but I thank them for their participation today. I think that you've been very helpful, and I certainly invite you to join us for lunch. It's in the Canadian Shield Room. We may have it ready a little bit early, hopefully.

We will reconvene here at 1 o'clock, again with Alberta Environment and Parks, to address the remaining items.

Before we get there, though, let's deal with some afternoon business so that we don't have to deal with it later in the day. If members will indulge me, we will go to part 4 of the agenda, the upcoming meeting schedule. As approved by the committee yesterday, we are scheduled to meet with the Department of Justice and Solicitor General on March 15. [An electronic device sounded] I asked Siri to stop participating in the meeting.

As we currently don't have any meetings scheduled beyond that, the working group has met and agreed on one suggestion for the committee's consideration, that the committee meet with the Auditor General for an overview of his upcoming February 2016 report, which is expected to be released next week. The idea, I think, is that rather than defining a specific date, due to significant changes taking place in the committee and being flexible with people's schedules – Mr. Gotfried, I apologize; things have moved a bit quicker, actually, during our meeting.

Mr. Gotfried: I have notes.

The Chair: You're familiar with . . .

Mr. Gotfried: Yeah. Whatever best meets the needs of the committee.

The Chair: We tentatively, I believe, have agreement to not set a firm date for that meeting with the Auditor General. This is not about the Justice meeting; this is about the meeting with the Auditor General for an overview of his report when it comes out. The idea would be that the working group would be authorized to set the date

for that meeting, and I will do my best as chair to find a consensus that works as well as possible for all members.

Following the release of the Auditor General's report, the working group would suggest other topics for the committee's consideration, which meetings would occur following the consideration of the main estimates in the spring. Again, that is flexible because we don't know – I don't know – when the budget is coming. As members are aware, according to the standing orders committees cannot consider other matters or meet for other purposes while the main estimates are under consideration unless we have special permission to do so.

Is there any discussion on that before I move to any kind of formal motion?

Okay. Would a member then move that

the Standing Committee on Public Accounts invite the Auditor General and his officials to meet for an overview of the February 2016 report of the Auditor General at a date to be determined by the working group.

Loyola: So moved.

The Chair: Member Loyola. Any discussion? All in favour? Opposed? Carried.

Very importantly, I'm informed that lunch will be ready early, at 11:45, since we're ahead of schedule, so I will adjourn the meeting. We will reconvene here at 1 o'clock.

Thank you.

[The committee adjourned from 11:19 a.m. to 1 p.m.]

The Chair: All right. I will call this meeting back to order. Welcome.

We will now start the last portion of today's meeting focused on the Auditor General's report related to managing Water Act partnerships and regulatory activities, systems to manage the specified gas emitters regulation, and management of sand and gravel resources.

A copy of the briefing documents prepared by committee research services and the office of the Auditor General on these topics has been made available to members.

We'll start by asking Mr. Werry once again to please make an opening statement of no more than five minutes on behalf of Alberta Environment and Parks on the topic of today's meeting.

Mr. Werry: Thank you, Mr. Chairman. Sort of round 3, I guess, here. We are pleased to be here today to discuss the Auditor General's recommendations regarding security for sand and gravel, wetland compensation, and systems for specified gas. I'm pleased to tell you that we have made significant progress in these three areas.

First, in regard to wetlands and our Water Act partnerships, the Auditor General's recommendation to the department was to formalize its wetland restoration relationships and control procedures . . . [and] ensure its partnerships to restore Alberta's wetlands are efficient and effective. There should be clear, enforceable agreements between parties. The department should periodically monitor its partners' progress, through prompt year-end reporting, for example.

We are continuing to implement our new wetland policy, which took effect in June of 2015. The Auditor General's input has played a key role in support of the new provincial wetland policy while also guarding enhancements to the relationships in place today to support wetland management. I'm pleased to say that extensive work has been completed on this recommendation. Since October reporting requirements on wetland restoration activities have been clearly defined in agreements between the government of Alberta

and designated wetland restoration agents. In the coming weeks the department will be releasing and implementing protocols for wetland restoration, and wetland restoration agents will be expected to adhere to these protocols. This summer Environment and Parks will be implementing an audit process for wetland restoration projects. The process will seek third-party confirmation that a wetland restoration project has taken place, that it's been executed in accordance with the protocols and agreed upon conditions, and that it is likely to culminate in the establishment of a healthy and fully functioning wetland ecosystem.

On the specified gas emitters regulation the Auditor recommended to the department that it clarify the guidance it provides to facilities, verifiers, and offset project developers to ensure they consistently meet the requirements to achieve Alberta's emissions reduction targets. For Alberta's economy to grow locally, nationally, and internationally, Albertans, Canadians, and the world need to understand that investing in Alberta means investing in a province that protects the environment.

The Alberta government knows that climate change may well be the most significant environmental challenge facing jurisdictions around the world. With this in mind, we updated the specified gas emitters regulation last June, and as part of this update key guidance documents used by large final emitters, offset system participants, and verifiers have been made binding under the regulation. Environment and Parks is currently drafting an implementation plan. We expect to complete the work required to implement that outstanding recommendation later this year.

On sand and gravel: regarding gravel pit security the Auditor's recommendation to us was to assess the sufficiency of security deposits collected under agreements to complete reclamation requirements. We support the requirement for security deposits for sand and gravel operations on public and private land as collateral to protect Albertans from any associated liabilities if an operator were to default. The reclamation security task group was struck and has conducted an internal review and assessment of this issue. The group has been informed by several information sources, including the recent guiding principles, security, and the Public Lands Act, and recognizes that approaches may need to vary somewhat between the public and the private land pits program. Department options and recommendations will be developed this year.

In summary, we're making progress on addressing these recommendations, and I look forward to providing further updates as we make additional progress.

Thank you, and I'll be pleased to answer your questions.

The Chair: Thank you, Mr. Werry.

Mr. Saher, did you have any comments?

Mr. Saher: Mr. Chairman, I don't have any comments at this time. I think the deputy has done a good job of outlining the outstanding recommendations, and I don't think I can add value.

The Chair: Thank you very much.

We'll now open the floor to questions from members. We'll begin with Mr. Westhead.

Mr. Westhead: Thank you very much for coming to talk to us about this today. The subject of wetlands is something that's kind of near and dear to my heart. You know, arguably the best constituency in the province is Banff-Cochrane, which is home to many wetlands . . .

Mr. Gotfried: Marshes.

Mr. Westhead: Wetlands, marshes, you name it.

We've got a lot of strong environmental organizations within the riding as well like Yellowstone to Yukon Conservation Initiative Foundation, who's concerned with migration of animals and giving them kind of open territories to migrate through and whatnot. The topic of wetlands is something that's, you know, obviously, very important to a lot of various groups.

I wanted to start off with just some more information about the contract approval process to get new agencies that would represent these groups. On page 45 of the report it notes that there are currently three different wetland restoration agencies. I'm just wondering if you can tell us a little bit more about how the contracts are awarded and if it's possible for other organizations to become wetland restoration agents and what process they would go through to do that.

Mr. Werry: First of all, it's really important that the restoration of wetlands is conducted in a manner that's consistent with the science and the appropriate approach to wetland restoration, and for that reason not anyone can restore a wetland. There has been a process in place for some time certifying organizations as wetland restoration agencies. Ducks Unlimited Canada has been in that role since 2005, and for a long time they were the only certified wetland restoration agent in the province. The city of Calgary was certified in 2007, and the county of Vermilion River was certified in 2013, as is noted in the Auditor's report.

We have been working with Ducks Unlimited, and because of the new wetland policy they themselves have said that they don't have the capacity to do all the wetland restoration that the new policy requires. As I think you're aware, for high-value wetlands it's actually 4 to 1 restoration, for the lowest value wetlands it's 1 to 1, and for the midrange – I can't remember the number – it's 2 to 1 or 3 to 1 or something like that. They've said to us, "We can't do that," but they've agreed to work with others who are interested in becoming certified wetland restoration agents to achieve that designation.

We've been working with Ducks Unlimited on that basis, and we have had conversations with the administrators for the municipal districts and counties, and several of those would like to become wetland restoration agents because they end up involved in a lot of that kind of activity. Ducks Unlimited has agreed to work with them to get them to that status. Once they achieve that status, then they're allowed to act as those agents. That's the process that's in place right now.

Mr. Westhead: Thank you.

Mr. Werry: Andy, if you wanted . . .

Mr. Ridge: Yeah. As the deputy mentioned, capacity has been a big challenge, so we've been able to collect funds, to actually invest the funds, particularly in areas where there's a high cost and a high expertise required to restore wetlands. So we're actually working as well with the professional designation, so the -ologists, the engineers. There's the professional seven, but I think they're growing as a group. We're working with them to define the procedures and the protocols to help guide how you would designate.

There's the restoration work and the capacity to actually deliver successfully but also the ability of the systems, as guided by the office of the Auditor General and the recommendations, to identify and have criteria so that there's a skill set there but an accountability as well – often if you're an engineer and you put your stamp on it, there's an accountability that is connected to that – so a system very similar to provide assurances that wetlands are being properly restored on the environment side but also by people that have the

capacity and the skill set and the designation to back that up. That's also part of our review.

The Chair: A follow-up from Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chairman. Just a follow-up on the question here with respect to the three approved. I noted in some of the documentation that the city of Calgary, of course, was one of the three, and they've collected about \$2 million since 2007 to 2014 but actually have not undertaken any work. Having been in the development industry, I'm assuming that some of that work was actually undertaken by private companies in residential areas, the reclamation of wetland within the boundaries of the city of Calgary, but that sort of brings into question what happened with the \$2 million and whether that is just kind of being held by them to ensure that the work is completed and whether that's actually being put to productive use or whether they're collecting that really as a bit of a fee to ensure that the work is done and then just collecting that as a bit of a levy on the work that's done by other parties. I guess I'm a little unclear why they've collected money and haven't done any work for a seven-year period.

1:10

Mr. Werry: They were certified as a wetland restoration agent and indicated their willingness to do the work. They did collect the fees, and they are holding the funds. The funds have not gone anywhere. They're sitting with the city of Calgary. We have suspended the role of the city of Calgary as a wetland restoration agent until such time as the full fund has been established. The legal advice we have is that we need a formal agreement before the funds can actually be dispensed. So we're working with Calgary to get to that place of a formal agreement.

Mr. Ridge: If I could just supplement as well, that highlights that there's a strong willingness of Calgary, and municipalities have played a very critical role in the management of wetlands. The challenge is land value and competing land value, where you restore a wetland versus some other use. So Calgary is at the foray of trying to figure out that balance: minimizing impact to wetland, but where there are impacts to wetlands, how do you restore?

They've had challenges within the Calgary region, so we're working in partnership with them to explore the broad range of opportunities, including, more broadly, into the watershed. Actions on wetlands upstream of Calgary could have a variety of benefits, including flood mitigation and other things. The new policy is intended to help better guide those opportunities so that Calgary is seeing the benefits, because they're seeing the loss. That's another variable that's been difficult in terms of Calgary wanting to invest, but the ability to do it has been a challenge.

Mr. Werry: Just to conclude, in the interim people who have Water Act authorizations will be required to pay wetland replacement to Ducks Unlimited.

Mr. Gotfried: Okay. Great. Thank you.

Mr. Saher: Mr. Chairman, just a point of clarification. The member referenced some material which cited the amounts collected by Calgary as being \$2 million. In fact, the amount collected between 2007 and 2014 is \$25 million.

Mr. Gotfried: A significant difference.

Mr. Saher: Yeah. I believe there's a typo in one. The \$25 million: I can reference if you need to get back to it.

Mr. Gotfried: I probably read one of the other, then. I read \$2 million.

Mr. Saher: It's on page 45 of our public report.

Mr. Gotfried: Okay. Great. Thank you.

The Chair: That's a useful clarification.

We have three follow-up questions on this particular question: Mr. Stier, Mr. Hunter, and Mr. Westhead. These are all follow-ups to this very specific question? All right. I will begin with Mr. Stier.

Mr. Stier: Thank you. To Mr. Werry. You mentioned the role of municipalities, and this is some of my background and expertise. I probably am overqualifying myself a bit there. Nonetheless, my experience is that – can you please verify? It has been the case and it's still the case that applicants for development are to be proposing with those developments, whether it's urban or rural, what they're going to do with regard to wetlands. Therefore, the approving authority, being the municipality, would be controlling the monitoring of proposals and/or those that have been approved, and they, in their process, do notify your department as to what has been proposed, what is being met in the case of developments that are in progress, and so on and so forth. So I'm sort of surprised that we're finding that there's a little bit of concern from the Auditor General that there isn't some sort of better handle on the data for all of these types of projects. Could you perhaps just clarify for me? You said that the municipalities are perhaps going to be having a stronger role or they do have a role. This is separate to the three entities you've mentioned so far. Do they not still have some sort of responsibility as well?

Mr. Werry: They do at this point. What I was referencing in my earlier remarks was that we have had municipalities, rural municipalities in particular, who come forward and want to be certified as wetland restoration agents. That would give them the development-approving authority but also the responsibility, then, to follow up on the manner in which those wetlands were restored. We've indicated our willingness to work with them and to work with Ducks Unlimited where that makes sense. So where there's the potential for volume in those areas, then it makes sense for them to go through the process to become a wetland restoration agent. We've indicated we'd be willing to work with them, to work with Ducks Unlimited to get that designation. Failing that, they could go to one of the registered wetland restoration agents to actually oversee what happens in the restoration of the wetland as the development-approving authority.

Mr. Stier: Okay. Just to follow up there, then, too, given that they do have to give you notification when they're doing things and seek approval for the project, do you not have a database of all ongoing projects and perhaps a stage-by-stage database, too, that would provide the Auditor General's department an adequate measuring system?

Mr. Werry: I'll let Mr. Ridge respond.

Mr. Ridge: Yeah. If we're just clarifying the projects relating to wetland impact or wetland restoration, for every impacted wetland there is a Water Act approval authorization that's administered through the Department of Environment and Parks or through the Alberta Energy Regulator for oil and gas impacts. There is a system to track that, and the information is made available.

What the Auditor General has identified is that where there's a transaction to pay Ducks Unlimited for mitigation impacts under

the current policy, the tracking of the dollars and then the tracking of the projects tied to those dollars – what was found was that the systems to track those need to be improved. There is, absolutely, information. In fact, we get annual reports, for example from Ducks Unlimited, that will tell us which dollars were collected, what wetland projects are being invested in and where, and their status. Our response to the Auditor General is to strengthen the tracking of those systems and the assurance that how the money is being collected, how it's being invested are being done robustly and transparently.

Mr. Stier: Just to be clear for me and my aged mind, there is a system, though, that does contain the data of projects that have sought approval from the department and what those projects entail other than the ones that are on a reclamation type of thing that you just described?

Mr. Ridge: For the wetland projects, yes.

Mr. Stier: Okay. Thank you.

The Chair: A follow-up on this topic from Mr. Hunter.

Mr. Hunter: Thank you, Mr. Chair. I guess I'm just trying to understand: what is the right number of agents that we would need to have in order to be able to facilitate the new mandate?

Mr. Ridge: More than what we have today. But it's not just about the number. It's about the capacity to actually undertake wetland restoration activities. The reason Ducks Unlimited has been a big player is that they're recognized across North America as having the skill set, the capacity to actually go in and create and restore and replace wetlands. Globally the science of that is still growing and emerging. Our focus has been on making sure that we put in place protocols to guide effective restoration of wetlands, creation of wetlands, protection of wetlands as a starting point and then determine the attributes and the skill sets required and then the actual process by which somebody can put their hand up and say, "We want to be that agent" on the basis of the skills to undertake the activities.

There is a lot of interest from people wanting to get into this business because, you know, there's money in Calgary, et cetera, so we're trying to ensure that it's driven by competence and the ability to deliver. We do know that we need to increase the capacity and that there's a strong desire by other groups, private-sector groups, to get into this space. We want to make sure that it's motivated and driven by an understanding of what's really expected and their capacity to be successful. That's why we have a role in the implementation of the new wetland policy, to invest in that capacity, to invest in that knowledge and skill set.

As I said, we need more, but at this point we have to create clarity on what would be expected of anybody that wants to get into this business. Our hope is that there is great expertise that we haven't tapped into yet – agrologists, biologists, engineers – but at this point we have to create that system to bring them in, to signal that, yes, they have the capacity and they have the ability to actually deliver.

Mr. Werry: Just one more point if I could supplement. Our intention is to use Ducks Unlimited as the source of that expertise in order to make sure that the people who do come onboard to do that work have been trained by Ducks Unlimited and are doing it to the same kind of standard that they do.

Mr. Hunter: Sorry. I just need some clarity on this. You are the organization that will give this certification, correct?

Mr. Ridge: We'll create the rules. There may be another agency that gives the actual designation, but we would set the rules.

1:20

Mr. Hunter: Okay. But not Ducks Unlimited?

Mr. Ridge: No.

Mr. Hunter: That would be a conflict of interest, wouldn't it?

Mr. Ridge: They've acknowledged that they need to ensure that they're participating in a way that allows them to at some point make a decision to move through this designation process without that conflict of interest.

Mr. Hunter: So they're going to help you design the criteria for a further organization to come in and be certified?

Mr. Ridge: Well, they are one of a variety of stakeholders helping to inform the designation process. They're providing input into what I talked about around the back end, the restoration, protection, and establishment of wetlands, and the rules and the procedures which exist as guidance and are used by groups like Ducks Unlimited and others. They're providing input on the creation of the protocols and the guidance on how to actually restore wetlands, the science. The business side of it, in terms of who's a wetland restoration agent and the designation: that's being developed through a different process. Ducks Unlimited is not defining and setting that, but they have experience that they're feeding into it, no different than the Nature Conservancy or a municipality like Calgary or the county of Vermilion River.

Mr. Hunter: Thank you, Mr. Chair.

The Chair: All right. Technically this has all been a part of the first question. We've actually only had one leading question here, a very good progression. I thought it actually followed it very nicely, but we have strayed significantly far from Mr. Westhead's original topic, I think, and then kind of come full circle. So let's just be mindful of staying on topic. Not that it was Mr. Hunter; I think we parted from the original topic some time ago.

A follow-up on this, though, from Mr. Westhead.

Mr. Westhead: Thank you. It's actually a follow-up to something that Mr. Ridge said in response to Mr. Gotfried earlier, and that was the city of Calgary looking at municipalities, particularly upstream of Calgary, for things like flood mitigation, wetland restoration. You know, flood mitigation is sort of one of those side benefits. That's something that's really of interest to me, and I'm just wondering if you can elaborate a little bit more on that, looking at other municipalities upstream or around Calgary to help with flood mitigation.

Mr. Ridge: Well, that is the best example that we have. A lot of that information and knowledge was driven by the work in response to the 2013 floods and a recognition of the need to look at some of these natural opportunities. What it did was that it highlighted that wetlands contribute a whole range of functions and benefits. That's one of the efforts that we put into the development of the new policy, to appreciate the full range of, as was discussed earlier, ecological goods and services. We don't necessarily want wetlands to be driven by a single reason, but when you look within the vicinity, there are aesthetics and certain things that might exist within a municipality. When you look broadly into the watershed, which is really the approach we're trying to take in the wetlands

policy, to think about the watershed, there are relationships throughout the watershed upstream and downstream as well.

More work needs to go into education and awareness of how wetlands do contribute. It could be, you know, water purification. It could be flood mitigation. It could be drought management. The challenge we have through the Auditor General's recommendations is to ensure that where there's a disturbance of a wetland and a loss of a wetland, there's a direct line of sight to where there's a replacement or a balance of that. The policy says: as close to impact as possible, but give consideration to regional opportunities.

So we need to make sure that our system has that line of sight, and in doing so, we're going to, I think, be more exposed to new and other ideas and concepts that work in the watershed, not just on a local, municipal scale. We need municipalities to appreciate that as well, that there is an interest in keeping dollars and impact and mitigation as close as possible. There could be bigger benefits if you think of watershed scale. Again, that's something that's just emerging. The flooding is a good example, and we're hoping to see more examples of that and the flexibility of the policy to explore it.

The Chair: Thank you.

We'll go on to a new question from Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chairman. Within the report there was considerable discussion about the lack of tracking of verified volumes of aggregate removed from some of the sites and the fact that there hadn't been, specifically, audits on that. It was really a self-reporting mechanism, as much as I could understand from the report. I just wonder what advances have been made in that. I guess my sense from the aggregate industry is that they take off a site, they bill from a site, and they would have adequate knowledge from each specific location as to what billable tonnage or cubic metres of aggregate are pulled off that specific site just as a regular course of business. I wonder if that's been considered as a source of information and where we are at in terms of either having a reporting mechanism or at least an audit mechanism to ensure that there is verification even on a spot-audit basis if that's justifiable.

Mr. Werry: Okay. I'm going to ask Mr. Blair to respond to that.

Mr. Blair: In '14 we started moving on this, and we were 98 per cent complete on audit verification for the 2015 returns. We've also established a three-year plan, from '16 to '18, to actually take a risk-based approach and to go through and do an audit verification of the balance of the operations. I think we're going to be in pretty good shape, actually, to have the Auditor come in. We're thinking that if they come in in Q1 of '17-18, we'll have a very good opportunity to demonstrate to them where we've taken this recommendation, but I think we'll be ready in Q2, Q3 of '16-17 for them to come in. So we've made some really great strides on this.

I think the important part to note is that while there are many things that are happening on a sand and gravel operation, we're really focusing on the scale for the verification purposes.

Mr. Gotfried: Thank you.

The Chair: A follow-up on this topic for this question from Mr. Malkinson.

Mr. Malkinson: Actually, he answered it.

The Chair: Well, that's wonderful.

Okay. A new question from Mr. Malkinson.

Mr. Malkinson: Also on the very gritty topic of sand and gravel, for Environment and Parks: I was wondering what you were doing

to ensure that all the sand and gravel holdings are reclaimed when they're no longer in use.

Mr. Ridge: In terms of the security aspect of the findings of the office of the Auditor General we have been working to assess options of what types of securities may be most appropriate for sand and gravel, particularly on public lands, in consideration of how it's done on private lands. We have been looking at a variety of options, including looking towards a full cost-based accounting model.

As part of the response to the office of the Auditor General, we're going to be taking some options out to stakeholders to test, but we've assessed that there are some shortcomings in the current amount of securities. Now it's about determining, based on the feedback from the office of the Auditor General, what options might serve to mitigate those risks, and movement towards full-cost security is one of the options that's going to be considered.

Mr. Malkinson: It's good to hear about that progress on the security front.

Just as a follow-up, are there going to be any moves to look at the land that has been reclaimed or where a company says that it's been reclaimed to check that that is up to standard?

Mr. Ridge: Those procedures are in place now in terms of what is obligated, just like with any type of mining operation. The requirements and the assessment of the requirements: it's out of the scope of the security deposit amount. But it certainly would be part of the consideration of: when is it appropriate that the security can be extinguished because the reclamation requirements have been met? So there would be a part of consideration for areas where we need to make sure that the rules for reclamation are clear, but at this point the focus of this recommendation is really around the sufficiency of security that has been collected.

Mr. Malkinson: Okay. Thank you for that clarification.

1:30

Mr. Saher: Mr. Chairman, just before we leave that, I think it was really useful for the department to speak to the previous recommendation that we had which is outstanding, which has to do with the amount of security. That was actually one that we didn't pursue in this particular follow-up audit. You know, Mr. Ridge, I'm pleased to hear comments on the department's work with respect to the appropriate amount of security.

But I think the member was asking about the recommendation we made on page 51 of our July 2014 report. I'll just read the recommendation.

We again recommend that the Department of Environment and Sustainable Resource Development improve its processes for inspecting aggregate holdings on public land and for enforcing reclamation requirements.

I think that's what the member was asking questions about.

Mr. Blair: Definitely, the focus now is to ensure that reclamation is complete. There's a requirement for the operator to have a plan for reclamation, and we follow through to ensure that that plan has been completed in cases where the operator has not finished, where there is no closure on it. We move to, obviously, steps of working closely with the operator to fulfill the obligations of the reclamation plan. In cases where there's no intent to move in that direction, we can move down a path of enforcement through the issuance of an order, but the intent is to focus on completion of the reclamation plan.

The Chair: All right. There's a new question from Mr. Stier.

Mr. Stier: Yes. Good afternoon. Thank you, gentlemen, again. Mr. Blair, it looks like you're the aggregate guy. I'm a guy that's had a couple of gravel pits in my backyard, and I've rolled across those scales many times with my old truck.

I'm looking at the recommendations that the Auditor General referenced with respect to the quantities, volumes, et cetera. In my experience there are scales at all the public pits, I'll call them, on deeded properties, but I'm not sure how it works on Crown properties. Certainly, those operators are required to have scales and record records and data, et cetera. I'm not up to date as to what kind of equipment they have to record that, nor am I up to date as to how they submit those volumes to your department, et cetera. Could you perhaps elaborate for the committee on how the data is obtained or perhaps is supposed to be obtained and on what is done with that? Has that system not been implemented across the province for the past five years or so, if I recall?

Mr. Blair: I'll do my best. If it doesn't fit the bill, I'll follow up and get you the information that you need on this. Ultimately, there is reporting from the perspective of what is crossing the scales. Our audit verification goes on-site and does a full audit of their books and confirms to ensure that what has crossed the scale is recorded in the books. In talking to staff about this, from the perspective of the actual operations that are occurring in a gravel pit, from the perspective of potentially stockpiling or mixing or crushing, we've just solely focused on exactly what's crossing that scale. Our auditors have a fairly good appreciation when they get on-site, looking at the state of the operation, looking at how the company manages their books and how the information is presented, of how that audit is actually going to unfold as they go through it.

Mr. Stier: Thank you for that.

I guess I'm still a little bit fuzzy. That happens at this hour of the day for me. Then there is no central system. Like, there's no central database that they are to be entering this data into, or in the case of your inspection folks, there's no way to plug in and obtain that data in a standardized form so the government of Alberta can know exactly, given certain limits, how much extraction and removal from the site has taken place, then. Is that what you're saying?

Mr. Blair: No. We do collect that data. I was just talking about the actual verification aspects. We do have a desktop audit that's done, but we also have a physical, on-site audit.

Mr. Stier: Okay. All right. That's it for now.

The Chair: All right. A new question from Mr. Malkinson.

[Ms Sweet in the chair]

Mr. Malkinson: Thank you, Chair. It's also on sand and gravel. You know, we know how important transparency is when it comes to environmental protection. I'm wondering: does the department provide the province a public list of operators who have been issued enforcement actions?

Mr. Werry: Any time we issue an enforcement action, that information is made public. To anybody who contravenes any one of our acts we would issue – when we enter into enforcement, that's made public.

Mr. Malkinson: Okay. Thank you.

The Acting Deputy Chair: Any other questions at this time? Follow-up questions?

[Mr. Fildebrandt in the chair]

The Chair: We have Mr. Barnes on the list.

Mr. Barnes: Yeah. Thank you. Thanks for helping me clarify. I want to ask about the specified gas emitters regulation. I need some help. I don't understand it really well, but what I think I know – I'm quite concerned about the two outstanding recommendations that your department still has with the Auditor General. They're on page 3 of our Public Accounts Committee meeting for this. The recommendations are:

Clarify SFE Regulation guidance documents ... July 2015 report, page 43.

We again recommend that the Department of Environment and Parks clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow its requirements to achieve the Alberta government's emission reduction targets.

In some of the notes that the Auditor General's department has provided to us, I think he mentioned that only one-third of the 35 approved protocols currently in place meet the department's standards for developing offset protocols. So if I understand the system, Alberta industry pays tax, pays a fee for emissions. Offsets can be earned, but only one-third of the 35 offsets have been reviewed and meet your department's standards. Am I understanding that correctly?

Mr. Ridge: If you can provide the specific reference to the one-third. Maybe the Auditor General can point out where that is in their findings. I know that one-third have probably been used, and I just want to get clarification on if that's a reference to one-third of the protocols or if it's that one-third have met conformance, as you've asked.

Mr. Barnes: It says that in making this recommendation, the Auditor General found that one-third of the 35 approved protocols currently in place meet the department's standard for developing offset protocols, so probably just in the development process.

Mr. Saher: Could I help, Mr. Chairman? I think the member is reading from briefing materials produced for the committee, so I will reference the actual report of the Auditor General, July 2015, page 47. It's the very first paragraph at the top. I'll just read it aloud.

The department does not include non-adherence to its own protocol standard in its rating of protocols for review. We found that only one-third of the 35 approved protocols meet the department's standard for developing offset protocols. This creates a risk that the offset claims from the associated projects are not legitimate.

Mr. Barnes: Thank you.

The industry pays the tax. The offset: I guess we need to ensure that it's meeting the goal of reducing emissions. Have you had a chance to work on the two-thirds that aren't approved?

1:40

Mr. Ridge: Yeah. The intent is to follow up with the findings of the Auditor General and to continue to improve and work on protocols. Of note is the fact that there are 35 protocols, and part of the driver for that was that Alberta was first out of the gate in the late 2000s to enable the range of options that are available for greenhouse gas emission reductions. At the time there were a variety of protocols put out that were in support of the new system. Since that time we've been working to refine and update and revise those protocols, so that's why I wanted clarity.

Only a subset has actually been utilized, and I don't have that number at hand. The ones that maybe are meeting nonadherence may not actually currently be in use at this point, but where there

are circumstances – what this finding is is that we need to continue to refine and focus on the ones that haven't met the standard that's been identified. It's part of a broad, continuous review and refinement of all protocols, including these, to make sure that they conform to standards and meet best available science.

Mr. Werry: If I can just supplement, we'll also, as part of the review, consider incorporating any changes to the program that stem from the climate change panel recommendations and the work that they did on the matter of offsets and the specified gas emitters regulation and so on. All of that will be taken into account as part of our review.

Mr. Barnes: Okay. Thank you.
My second concern ...

The Chair: Sorry. Is this a follow-up?

Mr. Barnes: A total follow-up, please.

The Chair: Okay.

Mr. Barnes: Please help me understand. My second concern is when the Auditor General talks about the guidance to facilities and verifiers. Of course, there have been some increases in the carbon tax; there have been some increases in how that is going to impact our industry and our competitiveness. I guess, you know, right after the budget I got talking to someone in the industry who said something to me like: if they tore their entire plant down and rebuilt it with today's technology, they couldn't meet the new guidelines. I'm concerned that that means that if you're rebuilding, you don't rebuild in Alberta, and that scares me. I'm concerned that if we're not clear with industry on what the guidelines are, what the targets are, and then we're not clear on what the offsets are, how are we knowing that we are actually on the right side of reducing pollution, reducing emissions? Can you help me with that question, please?

Mr. Werry: Just to be clear, we're working now with the government of Canada on how we verify greenhouse gas reductions. The science on the verification process is continuing to evolve, so we're trying to make sure that what we're asking Alberta companies to do counts in the international context, in the national context. That's why we're going to be looking at the recommendations from the panel and others as we try and address this issue.

Mr. Barnes: Okay. Are the new rates not set, then? Are the new rates going to be set once all this consulting goes back and forth? Aren't the new rates set?

Mr. Werry: Could you ask that question once more? Sorry.

Mr. Barnes: What the rates are going to be to industry for carbon taxes: they're already known, aren't they?

Mr. Werry: Yeah. What I thought we were talking about was how we verify that reductions have taken place and that appropriate offsets are in place and so on. The rates that people are being charged relatively per tonne of emissions need to be set up against the fact that we can actually verify that there are reductions, that there are appropriate offsets, and that we are using the appropriate systems to give credit where credit is due. That's the work we're doing now. In some sense, if the rate is \$10 or \$20 or \$30, the challenge is still the same in making sure that we understand what counts for the purposes of reductions regardless of what the rate is. So that's the piece we're trying to make sure that we have right.

Mr. Barnes: Okay. So when will the marketplace, when will Albertans know what the rates are? Is there a number that the rates are going to be capped at? Has that all been set, or is that to be determined?

Mr. Werry: On a go-forward basis I think the province has already indicated the rate will be \$20 per tonne in 2017 and \$30 per tonne in 2018 and has said that that's where we are for now and that's where we are for the foreseeable future. People understand that the rate on January 1, 2017, would be \$20, and it'll be \$30 in 2018.

Mr. Barnes: Okay. But with the offsets, though, are they set as well? Does an industry know what they can do to reduce their rates, or is that, as you were saying, with Canada, with other jurisdictions to be established?

Mr. Werry: What we're really trying to be clear on is making sure that we have offsets that are credible to other offsets in Canada. One of the other issues the Auditor raised was making sure we didn't have duplicate issues with respect to offsets being claimed in two different ways and not being counted and so on. So on the matter of the offsets that's the purpose of our review, that's why we're updating, and that's why we accepted the Auditor's recommendation.

Mr. Barnes: Okay. So, again, is there a date that we need to have this done so that Albertans can know how to earn their offsets, so they can know how to reduce emissions?

Mr. Werry: It will actually be done at the end of this current fiscal year.

Mr. Barnes: Okay. Thank you.

Mr. Ridge: If I could just clarify on the comment on industry, you know, tearing down a facility, just to give insight. In the development of these guidelines it's done in partnership with input from various stakeholders – industry, environmental groups, municipalities, et cetera – and it's in part to better understand the implications of these guidelines. So for the past almost 10 years now there's been a concerted effort to make sure that that type of input is fed into these guidelines, and that's why they continue to improve and evolve, to understand the complexities that you've identified.

Mr. Barnes: Okay. Thank you. Is there an opportunity for input from industry still, or is it too late?

Mr. Ridge: There are always opportunities. What I can commit to provide to you is what the next steps will be, when there will be engagement with industry and stakeholders and make sure that you have that information available.

Mr. Barnes: Thank you.

The Chair: All right. We have a follow-up on this question from Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chairman. Yeah. Just following up on what Mr. Barnes has said here, you know, I think that there's a big concern about industry and economic development. As I like to say, the best way to create a job is to save a job. So I would hate to see us shutting down industry. I guess my question is a little bit around the transition and any grandfathering that may be in place and, as importantly: is your department doing any work with regard to comparison to neighbouring jurisdictions and feeding that

information along with feedback from industry into the decision-making process? Again, this may be a little bit off topic with what we're discussing here, but it is, I think, relevant to the discussion about how we're measuring and how we're signalling that to industry, so if you have any comments on how we're ensuring that we're remaining competitive and not affecting economic development growth at the same time.

Mr. Werry: Well, clearly, we're working with our colleagues in other provinces in Canada, and we're also looking at the competitiveness dimension when it comes to other jurisdictions. That's very much part of the process as we move forward.

Mr. Gotfried: Great. Thank you.

The Chair: There is a follow-up on this question from Mr. Stier.

Mr. Stier: Yes. Thank you, Mr. Chair and gentlemen. Interesting topic, and I'm sure that if we wanted to go down this road, we could be here for a few days. The public is very, very interested in this one, I'm sure. With that, I note that the government launched a new climate action plan, a little while ago made that announcement. As a matter of fact, in our briefing this morning with the Auditor General he did raise that as something that he had flagged as well. There are, of course, new strategies there and so on and so forth. That's supposed to come into effect here in a year and a half to two years, I understand.

I'm just wondering. I think there's going to be a new carbon competitiveness regulation, or something, it's going to be called. That's going to probably kick the goalposts down another further few steps from where they are at now in terms of what is acceptable, not in the dollars that Mr. Barnes was talking about, more or less the measuring of emissions and the limits on emissions and so on and so forth. I wonder now: are you already taking steps to look at and make the operators aware of what will be required coming up? Will there be significant changes to that? Do you have a sense of how that's going to roll out and how they're going to be able to manage with that new set of guidelines, please?

1:50

Mr. Werry: That's a great question. I think it's important to recognize that we continue to operate in collaboration with our colleagues in other provincial jurisdictions on all of these matters, that the issue of competitiveness is really important in the way in which we manage in this space.

The other thing to pay attention to is that greenhouse gas emissions is a global issue. You know, it's the presence of CO₂ globally that creates the challenge. We're also going to be paying attention to the fact that we want to make sure that our industry remains competitive and that we don't just penalize our industry and end up with emissions coming from other countries just driving up emissions. There is a global dimension to this, that we're paying attention to, and we're really committed to continuing to engage with the stakeholders in Alberta on these issues as we build a system going forward. There's no question that we understand that, practically speaking, Canada is only 1.6 per cent of global emissions. We have a role to play, but we don't want to be putting our industry at a disadvantage and not actually contributing to reducing global emissions.

Mr. Stier: Could I follow up, if you wouldn't mind, too, in a little bit of extra detail. The Auditor General's report here is essentially, I think, in all these topics this afternoon, talking about the inability to measure or get solid data on some of this stuff. Do you see some ability with the new intention from the government plan to be able

to do perhaps a better job in trying to monitor and recognize issues and do more about that reporting situation that you mentioned?

Mr. Werry: Absolutely. That's why we've accepted the Auditor's recommendations against a backdrop of a new program coming down the road with respect to GHGs. We've been very clear that this is an opportunity, again, for a continuous improvement perspective, to make sure we have the measurement and reporting part of this correct.

Mr. Stier: Thank you very much.
Mr. Chair, that's all for now.

The Chair: Two more follow-ups on this from Ms Miller, Mr. Cyr. These are follow-ups on this topic?

Ms Miller: Yes.

The Chair: Okay.

Ms Miller: What advice has the department taken from the Climate Change Advisory Panel when it comes to implementing the Auditor General's recommendations?

Mr. Werry: I'm actually going to ask Sandra Locke, who is our ADM responsible for climate change strategy, to respond to that question.

Ms Locke: Thank you, Bill. Since the panel's report was released in November, we've been working quite hard with our ministry partners to identify exactly how we implement each of the recommendations, how we incorporate existing regulatory structures, and how we engage with industry and other stakeholders. As part of that implementation we're also looking to some of the recommendations of the Auditor General in terms of the existing system and how we transition the existing system to a new system and how we make sure that appropriate controls and systems are in place so that any challenges or weaknesses that have been experienced before are not seen in the new system.

Ms Miller: Thank you.

The Chair: A follow-up on this question from Mr. Cyr.

Mr. Cyr: With the new change in the federal government, are we waiting to finalize our review of the system until we get word from them, and if so, are we expecting a time frame from the federal government for these new protocols?

Mr. Werry: There is a secretariat that's attached to the Canadian Council of Ministers of the Environment that's based in Winnipeg that does work to support all of the provinces and territories and the government of Canada on these matters. That group actually met on Monday in Vancouver to begin the process of looking at this issue of measurement as well as part of a pan-Canadian approach to the way in which we measure greenhouse gas emissions and the way in which all of this gets managed pursuant to the Paris conference of the parties, where that agreement is expected to be ratified in April by Canada. Canada will be a signatory to the Paris agreement. We anticipate they'll be signing that agreement in April together with most of the developed countries in the world.

So we do have a structure in place to make sure that that work happens and make sure it happens in a co-ordinated fashion across jurisdictions and that, ultimately, it feeds into an overall Canadian approach to this question of measurement and making sure we're counting things appropriately.

Mr. Cyr: Are we relying on the Paris agreement to create our strategy, or are we waiting on the federal government to interpret the Paris agreement and get back to us?

Mr. Werry: No. We're continuing to move forward on our strategy regardless, and the only thing we're paying attention to relative to our partners is the question we're on about how we measure and account greenhouse gas emissions and greenhouse gas emission reductions. That's an area where we do want to try and align with the international scientific standards. It's not a policy question, it's not a question of the Paris agreement per se, but it is a question of making sure we do things in a way that they do count towards the commitments that Canada has made with respect to the Paris agreement.

Mr. Cyr: Thank you very much.

The Chair: All right. We're going to a new question, from Ms Miller.

Ms Miller: Yes. My question is on the specified gas emitters regulation. Recommendation 5 on page 46 of the report talks about the need for increased transparency. What steps has the department taken to improve transparency?

Mr. Werry: I do have an answer to that question; I just can't find my notes. Okay. In terms of improving transparency, the department has improved transparency by updating the website with contact information for technical and process details regarding carbon offset protocol development. We've updated a number of our existing offset protocols to conform with the 2011 guidance for offset protocol development, and we've updated a risk-based process to systematically review and update existing protocols, which identifies and updates these protocols in need of review. We'll be making that information public.

Ms Miller: Thank you.

Mr. Werry: Sorry for the delay.

The Chair: You're good? Thank you.
All right. A new question from Mr. Stier.

Mr. Stier: Yes. Thank you, Mr. Chair. It's been a while since I signalled for that one. I'm going to be switching gears back to my favourite, sand and gravel. I would like to say that this new system that we have of having three topics within the same meeting here kind of gets a little bit back and forth, and focus sometimes can get a little bit out of hand.

Anyway, with respect to sand and gravel operations there was a lot of talk in the report from the Auditor General with respect to how many inspections have been done and so on and so forth. Frankly, I can't recall how far we went into that topic before, if we had, but I want to get there a little bit again because it talked about targets of 440 inspections, talked about only about half of those being done and so on and so forth. I'm just wondering, gentlemen, whoever wishes to speak to that, if there's an issue to do with a lack of resources – staff resources, equipment resources – or how that is going to be addressed, please?

2:00

Mr. Werry: Mr. Blair.

Mr. Blair: Certainly. I guess a couple of context pieces which are probably pretty important for the committee to be aware of are that we don't have a dedicated team that is just looking at sand and

gravel inspections; they are inspecting across the full spectrum of public lands dispositions. Of course, this team until recently was also responsible for the forestry operations management program as well. If I could give you a number of inspections, if we just talked on the land inspection management program, that's 2,199 inspections that we're trying to do in a year. Our staff are also called upon from time to time to assist Agriculture and Forestry in support of wildfire operations, and of course, as we know, last season was a higher than normal wildfire season.

On to the transparency part of this. On the sand and gravel side of the house we were targeting 423 inspections for 2015 – that was 423 out of the overall 2,199 – and back in October we were at 36.6 per cent complete. We're probably targeting, by the end of when all of the reports get in and everything, somewhere in the neighbourhood of 50 per cent. Part of this is that we actually have 47 land officers across the province that are responsible for delivering these inspections, and we're also looking at working closer with Agriculture and Forestry to call upon their forest officers to give us some mutual support on this.

All of this is coming to the point where we do have to look at our processes. We have to consider a risk-based approach to this. We have one already, but we are going to be going back and revisiting that as we move forward. We are resource constrained, but between process and people we're going to have to start really looking at how we're going to crack this nut of trying to focus in on the real high-risk areas across the province.

Mr. Stier: Okay. Thank you for the remarks. I do know from my previous experiences here that the department can be stretched in every direction by all cases of different unexpected things like fires and flooding and so on.

Just a follow-up if I may. With that in mind, have you looked at some efficiencies? I know, as in the case of sand and gravel, that from time to time different operational permits are granted, and there has to be a phased, stage-by-stage reclamation. I'm not sure if that works on Crown land, though. You may not require that. That would eliminate a few extra inspections, I suppose, at each stage in some of these operations. Could you speak to that a little bit? Would that be more efficient, not to require that on Crown operations?

Mr. Blair: I guess another context part of this is the department having come together in 2012. We are starting to leverage some of the best practices that we have in the Environmental Protection and Enhancement Act inspections that we're responsible for as well as the Water Act inspections that we have. We are fundamentally looking at anywhere we can find some efficiencies, so that's not out of the question for us to consider. Again, it just becomes a focus of: where are we going to look at the most significant risk? In some cases it's going to require us to actually look at sort of the compliance rating of the proponent and work that back into our inspection protocols.

Mr. Stier: Okay. Very well. Thank you. That's all I have on that line of questioning. Thank you so much for that answer.

The Chair: Are there other questions? The speakers list is open. Going once, twice. All right. We will close the speakers list.

I'd like to thank our guests for attending today's meeting. It's been a very long day, and I appreciate all the time you've provided to this committee. You've answered our questions, I believe, and actually been quite open with us, I think, provided a lot of good feedback, so thank you very much. Feel free to leave now.

There are just a few closing remarks we have to finish up with the committee. To committee members, in closing, I'd like to say

that yesterday was – we'll call it rigorous and interesting. But I believe that we are now functioning today the way a good Public Accounts Committee should, and I'm very impressed with all members of the committee. You've made my job easy and have done very good work today and over the last two days. We've now come to the end of what we've called super PAC, possibly the longest chain of Public Accounts Committee meetings maybe ever. Corinne has been around for a long time.

Mrs. Dacyshyn: I don't think it is, actually.

The Chair: No? There have been longer?

Mrs. Dacyshyn: Maybe till 4:30 on the second day, so actually you might not be first.

The Chair: All right. You got off lucky.

In any case, I don't believe we're going to have too many more days like this. For various reasons we had a lot to catch up on, and I believe that for the most part the Public Accounts Committee is now largely caught up on outstanding recommendations from the Auditor General that we'd be looking at at this time. There is still a lot more for us to look at, but I believe that now we can be more proactive and take a little more liberty in where we want to go, into areas of interest. If you have areas of interest, government members and third-party members, speak to your representative on the working group, and we'll certainly negotiate between the parties to ensure that we can look to your areas of interest, in mutual agreement among the parties, now that we've significantly cleared up the work that we needed urgently to get done.

Again, I want to very much thank our staff – researchers, Corinne, Philip, audio, everybody here, many others – who have done so much and really made this function over the last few days. Thank you very much.

All right. We've already gotten through some of our other business at another stage. Is there formal other business that members wish to raise? Very good.

The next meeting: we have informally discussed among the working group March 8. That is the date that we are expected to return for the Speech from the Throne. Everyone will be in town, and the Speech from the Throne is in the afternoon, so tentatively circle that on your calendar.

Ms Renaud: Sorry. Can I just make a suggestion? I think that we have some committee membership changes coming up, and we've got a couple of other things. I'm wondering: would it be possible to maybe survey a little bit on some different dates instead?

The Chair: Yeah. We've talked about this. We are not confirming any date today. I'd just recommend to keep the morning of March 8 open as the most likely date. People will be in town for the return of the House anyway, and the Speech from the Throne is always in the afternoon, so I ask members to keep that open if they can as the most likely date for our meeting.

I will call for a motion to adjourn. Would a member move so?
Dr. Turner.

Dr. Turner: It's the first one that I get to do.

The Chair: Any discussion? All in favour? Opposed? Carried. Thank you very much.

[The committee adjourned at 2:09 p.m.]

