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Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order.

This is a continuation of our study on the manufacturing sector. We have before us members representing the Energy Dialogue Group to talk about the relationship between energy and the manufacturing sector.

It is one of the items identified in our interim report, which was presented in June, as one of the main challenges to the manufacturing sector in terms of dealing with energy costs as an input into their process. We're here today to have witnesses present on that issue and on how energy has a manufacturing component as well.

We have with us three members representing three associations that are all members of the Energy Dialogue Group: Michael Cleland, president and CEO of the Canadian Gas Association; Hans Konow, president and CEO of the Canadian Electricity Association; and Dane Baily, vice-president of the Canadian Petroleum Products Institute.

Welcome, gentlemen.

I believe, Mr. Cleland, you'll be presenting the opening statement for everyone here. I understand you have about a ten- or fifteen-minute statement. We typically have ten-minute opening statements, but because you're presenting for all three here today, we will allow twelve to fifteen minutes.

Welcome to the committee. We look forward to your presentation.

Mr. Michael Cleland (President and Chief Executive Officer, Canadian Gas Association, Energy Dialogue Group): Thank you very much, Mr. Chairman.

I will endeavour to respect your timelines. Obviously what's of interest to you is the opportunity to ask questions, so I'll move through it. There's a PowerPoint presentation, and I believe you all have copies of it.

Just by way of introduction, we've all read your interim report with considerable interest. This is an important study, and there are a lot of challenges facing the Canadian manufacturing sector. We welcome the opportunity to talk with you about how energy fits into that picture and how energy and manufacturing are closely intertwined. They are two important components of the Canadian economy that depend on each other in important ways.

We are the deliverers of energy to the manufacturing sector, but we are also important consumers of the products and services of the Canadian industrial economy. So it's a mutually beneficial relationship that has existed for a long time.

As I said, energy and industry are very strongly linked in an overall system. Energy is a supplier of abundant, reliable, low-cost fuel to the manufacturing sector, but at the same time it's a consumer of steel, cement, equipment, and a whole variety of high-technology services from the Canadian economy, as well as inputs from around the world. Energy itself is a system or series of subsystems, and we find that it's useful when you talk about energy, where it's going, and the drivers of the various parts of the system to see it in that full perspective.

Industrial energy use is the biggest single component of energy demand in Canada. It's not the fastest growing, and I think there's an important and positive story here. The industrial sector has made big strides in reducing its energy intensity, in some measure by having increased its energy efficiency. That's made a big difference in sustaining the competitiveness of Canadian industry, even in the face of rising energy costs. It will have to make a bigger difference going forward, for both environmental and economic reasons. In any event, what we've seen is good progress. I'm sure you've heard this from our industrial colleagues over the past years. It will clearly have to be one of the focuses looking forward.

If you look at industrial demand overall, about 30% of it is the energy industry itself—mostly the upstream oil and gas industry. So the cost pressures we're facing in the industrial sector are being faced right across the board—the big one is pulp and paper. A lot of the growth in demand has been driven by the oil and gas sector itself, particularly in the last ten years. That's been a big success story for the Canadian economy, but it also contributes to the demand for energy in Canada.

Where do we get it? Canada is blessed with diverse sources of energy. The industrial sector uses gas, electricity, and refinery products, and a fairly substantial part of its energy comes from owned sources, particularly in the forest sector where they're increasingly using biomass. So options in fuel choice is an important consideration for policy, as well as options in ways to improve energy efficiency.

The next slide is really a kind of macro picture of industrial energy. An important point here is that you can see important gains in efficiency and changes in industrial structure. Over time the Canadian economy, as with any developed economy, is becoming less energy-intensive because of the basic structure. We're moving to products such as high-tech manufacturing, which are inherently less energy-intensive. But Canada has a highly energy-intensive industrial structure, and that will continue for a long time into the future. It's something that has benefited Canadians for a long time, and we need to be mindful of how to ensure that Canadians benefit from that in the future.

● (1535)

On the next slide, the other side of the equation, if you will, is that as we've been increasing our capacity to produce energy in Canada, we've also benefited from a growing export success story on oil, on gas, indeed on electricity, on uranium, and on a number of energy fronts. It is a big success story for Canada and one the energy industry wants to continue, while at the same time sustaining energy supplies for the Canadian economy and for individual Canadians.

Going to the next slide, the chairman mentioned that energy is an industry in its own right, a major contributor to the economy right across the board, most notably, though, with respect to exports and investment, where energy is a very big part of the Canadian economy, and of course to TSX market capitalization—a relatively new phenomenon in the last few years, but an extremely important one.

I'd note as well the last bullet on that page. Energy is also a big contributor to governments, and that is to all governments right across the country; to provinces such as Alberta through royalties, but to the federal government and other governments through corporate income tax, and indirectly through the taxes paid by employees.

The next page gives you a bit of a regional picture. Again, you could spend a lot of time on this one, but note that the regional distribution of energy as a part of the economy is pretty widespread —clearly concentrated in Alberta, but also right across the board in Canadian provinces. It's a big part of GDP and a surprisingly big part of exports from the provinces, again right across the country.

Let me just take a few minutes to go through the different sectors. Three of us are represented here, the main input sectors to industry: electricity, natural gas, and petroleum products. We have different markets, different forms, and different geography, with oil being the most deregulated, the most competitive, and the most world-scale in terms of the market. Natural gas is a continental market, largely deregulated. Electricity is the least deregulated and the most regional in its basic structure.

On the next page, briefly dealing with oil—Mr. Baily can pick up on a lot of this and get into the details—there are a couple of key things worth noting. One is that product markets are very closely linked to the underlying crude price. The underlying crude price itself is derived from a world market, and product prices will tend to move with that price. There are some regional differences and regional lags, depending on the logistics of specific regional markets and things like product standards. That may be even more true going forward. In any event, there's a very strong relationship between the two.

The basic point on the next slide is to show the relationship between the underlying world crude price and the price of refined products. If you look at five different jurisdictions here and strip out the effect of taxes—this is looking at diesel fuel—you basically have an underlying price that is very similar, and indeed those product prices interact between continents, as does the crude price.

Summing it up, on the crude front what we have is a growing demand in developing countries, putting a lot of upward pressure on prices that's likely to continue. We're all familiar with the geopolitical uncertainty that underlies oil prices. It comes and goes. Right now we've seen an easing of it and a consequent reduction in prices.

Refining capacity will be a growing challenge in North America, and indeed in the developed world in general going forward, and it's something there will be growing pressure on.

Related to it is the need to integrate biofuels into the picture. Obviously there's a lot of policy drive to find more room for biofuels. They have to be integrated into the refined petroleum products stream in a way that makes markets work better.

● (1540)

The next page is natural gas. This is a highly developed and mature North American market that works generally well, but it has been under a lot of pressure in the last five years because of a very tight supply-demand balance.

What you see there on that graph is several spikes over the last few years as that tight supply-demand balance has been affected by weather, for the most part, but underlying that is a longer-term trend going up. The reason for this is simply that finding and development costs for natural gas have been steadily growing, and that's likely to be the future we're going to face.

LNG comes into the market in North America, is coming in now, and will make the North American and world markets come together; nonetheless, you're looking at a worldwide phenomenon.

The next page just looks at the future of natural gas in North America. The big picture is there is lots of gas but changing sources, more likely for the north, from the deep Gulf of Mexico, from the Rockies in the U.S., and to a very considerable degree from liquefied natural gas coming in from offshore sources. What that means is there's lots of gas. It means we're going into higher-cost sources of gas, and we're also looking at increased pressure on the transportation system to accommodate the different geography. So investment in transportation will be an important thing going forward.

Page 15, again, sums that up: more expensive, more remote, more unconventional need for investment to sustain those supplies.

Very briefly on electricity, starting on page 16, there are several things we could say on this page, but there are a couple of things to note. Canada is still very strong on hydro. It's one of our big advantages, and an advantage we can sustain going forward if we can get the hydro projects built. But there still has been an increasing reliance on fossil and a stronger and stronger integration going forward between fossil markets, coal, natural gas, and electricity. It goes back to my point about the energy system. They are tied together in a whole variety of ways.

Page 17 gives you a bit of a comparison of prices in North American jurisdictions on electricity. Canada has had an historical advantage in electricity. That has eroded somewhat over the past few years, although Canada is still not uncompetitive in a North American context. Some regions are under more pressure than others, but, generally speaking, our position is still not bad.

I might note as well something you'll probably want to update in your further report, which is that the price conditions we're looking at today are rather different from what they were at the end of last year, which is where your interim report left off. If you look at natural gas, by the end of last year you probably had prices in the order of $13 to $14. Today they're around $4. The point there is that prices move. They can move very rapidly and they can move a lot, but they move in both directions.

So on electricity, I think the key thing there is it has been regulated, and it's tended to be frozen for a lot of reasons that we all understand. Consumers have gotten used to that; it feels good. It feels good until it starts to move, and there are a lot of reasons why it will probably have to move going forward—because of underlying fuel costs, because of the need for new infrastructure, because of the need to upgrade existing infrastructure, and right across the board because of the need to manage growing environmental pressures.

Mr. Chairman, I'm going to sum up on the last page several reasons why we think energy matters to Canada, undoubtedly reasons that would be familiar to all of you. It is an industry in its own right. It's a hugely important part of the input mix to Canadian industry.

On the other hand, we have a diverse energy mix and it's growing more so. We are getting better in terms of energy efficiency. We need to do more. That has to be an important part of the puzzle. We are moving to a higher-cost world. We're certainly not going to move back to the low-cost world we knew up until the turn of the century. We do need to develop more supply in a timely manner.

Mr. Chairman, I'll turn it back over to you.

● (1545)

The Chair: Thank you very much, Mr. Cleland.

We will now go to questions from members. I'll just point out to members that Mr. Bailey has informed me he has to leave at five o'clock sharp, so he will be here for about an hour and ten minutes.

We'll start with Mr. McTeague, who promises me he will not ask about gasoline prices.

Mr. McTeague, you have six minutes.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Chairman, thank you very much for that. I simply wanted to point out collusion between the energy sectors here—not that it could ever be proven under Canada's current Competition Act, which is really written by the people it's meant to police, but, Mr. Chairman, thank you for that.

I want to thank and welcome all of our guests. Dane, you and I go back quite some way.

I don't have many questions for you. I only wanted to ask some simple questions more along the lines of what we've seen lately.

Mr. Cleland, you pointed out the sudden and dramatic drop in the price of natural gas, which comes as a welcome relief I think to consumers and to businesses alike across this country, though perhaps it's not good news for the gas sector.

I am concerned about how we get from the $4 to $5 to $6 when we know that inventories have been sort of static over the past few years in terms of demand—maybe up a little bit. The overall international capacity for a lot of these products, especially natural gas, has more or less remained static in the five-year bandwidth.

I'm wondering if you could tell this committee if the drop in those prices has anything to do—more than simply substitution and arbitrage between the various types of energy that are out there—with the wild speculation that we saw. Last week *The Globe and Mail* and many other papers wrote about the collapse of Amaranth, again another hedge fund, an organization that had spent a considerable amount of time leveraging money to drive up the price and speculating, thereby damaging the economy and obviously taking away some confidence from consumers.

In your view, what is really driving the question of price for natural gas? If it could drop fourfold in such a short period of time, one would have to conclude that it probably went up fourfold for fairly spurious reasons.

● (1550)

Mr. Michael Cleland: I suppose you could invite a lot of technical analysts in to talk about to what extent the hedge funds or speculators are actually driving our price behaviour. One thing we do know for sure is that markets in the short term are not particularly rational. They get onto a particular bugbear and will go tearing off. We saw that last fall.

The underlying supply and demand conditions in gas markets, though, were tight, and whenever you have underlying tight conditions, a small change or a small fear of some future event will tend to drive it to degrees that a normal person would think were not particularly rational. On the other hand, then you see it coming back down again when conditions change.

What we think we know about the underlying fundamentals in the North American gas market—if you base it, for example, on finding and development costs—is that they've probably doubled or more than doubled in the past five years.

Hon. Dan McTeague: For natural gas.

Mr. Michael Cleland: Yes, for natural gas.

So finding and development costs are probably in the order of about $4, which is what the price is today. Most forecasters have an outlook for natural gas in North America that is something a little over $4 to something a little over $6. So if you're asking what is the right price, it might well be in that range. So no, $15 is the result of unusual events and not entirely rational responses.

Hon. Dan McTeague: Let me take you up on that. I'm worried about the speculative element here, because it clearly robs your industry of predictability, notwithstanding the fact that there may be more difficulty in trying to get these products, going to find them, going to exploit them, and, in the case of refining, having to refine the product. Obviously, it's a two-stage level. But I'm really interested in hearing from your association. Are you not concerned about how far this is getting out of hand?

Last year I was involved with getting Canadians out of harm's way with respect to the number of hurricanes we had, and there were some legitimate reasons. We had 25% of refining capacity wiped off as the hurricane went up the Mississippi, up refinery alley. But I think what people are seeing now, Mr. Chairman—and this is the second time we've seen it in the past couple of years—is a large group of people coming in based on what might be down the road. We saw it earlier this year with CIBC, and many others, saying, “Oh, gasoline will be $1.25 by the end of the summer.”

I think I was one of the few who looked like a bit of a heretic for saying it won't go anywhere. If anything, based on what BP and others were saying, it might actually come down as a result of so many players coming in at those prices of $15 per gigajoule or $1.30 for gasoline. You're going to get a lot of players at $70 a barrel coming in.

Does your industry have any concern about its ability to speak to other nations, other organizations, to try to curb the enthusiasm of a wildly speculative market that hurts your industry and hurts consumers and hurts manufacturing in this country?

Mr. Michael Cleland: Not as such, but let me make a couple of points that I think you might agree with.

First of all, volatility is bad for consumers; it creates all sorts of situations. For example, somebody who thought their heating price was going to be such and such for the coming winter finds out that all of a sudden it doubles, because they perhaps didn't take advantage of some of the options that are available to smooth that out. It's bad for our industry. There's no question about that. No one particularly likes volatility. The producers don't like volatility because somebody who was planning their drilling this season on the assumption of $7 or $8 gas is today looking at something under $4, and all of a sudden you have a bunch of idle rigs.

What can you do about it?

In the charts we've given you one of the things you'll see is the comparison between North American and European and Asian markets, and you'll see that the European and Asian markets are indeed less volatile than the North American. The reason for that is fairly straightforward. The European and Asian markets are heavily based on long-term contracts. There are historical reasons for that and also some cultural reasons. They are long-term contracts generally tied to oil.

A question we've raised with regulators on several occasions is whether we could have more latitude to enter into long-term contracts, particularly for liquefied natural gas. We think we need that kind of underpinning, and we believe that would have some effect on volatility. The ones who don't like those long-term contracts are the consumer intervenors in our regulatory processes, because the downside of that is that you can get locked into prices that may stay high rather than coming down with markets.

So you're kind of caught between a rock and a hard place. As I say, in North America it is very much based on spot markets. It has worked very well for us up until recently. There are some sound arguments that we should be putting more long-term contracts in the mix.

● (1555)

The Chair: Thank you, Mr. McTeague.

We're going now to Mr. Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman.

Between the first quarter of the year 2000 and the fourth quarter of 2005, energy costs for industry increased by 94.3 per cent. Manufacturers believe there will be a further increase, which means the situation will only get worse.

Do you believe the manufacturing industry is right to believe that the situation is going to get worse?

[*English*]

Mr. Michael Cleland: My colleagues may want to comment on this as well, but let me give you a couple of quick responses.

First, I think if you updated that number, that 94.3% would be a lot less today, and that would be across the board—petroleum products and natural gas, and to an extent, probably electricity as well. So I'm not sure what that number would actually be.

Is it likely that prices would go higher than they were last fall? I don't think so. It's hard to speculate on something like that, but they were extraordinary conditions that we faced last fall. So no, we won't see prices going back to the 1990s, but I'm not sure that the fears of prices going through the roof beyond what they were last fall are really justified.

Perhaps my colleagues might want to comment.

Mr. Hans Konow (President and Chief Executive Officer, Canadian Electricity Association, Energy Dialogue Group): Very quickly, on electricity, certainly the level of volatility in the prices is far less extreme than with respect to oil and gas, and that's structurally because we just have a different set of realities. As a starting point, 60% of Canadian electricity comes from hydro and another 15% or so comes from nuclear. So there's roughly 23% or so that comes from fossil fuels and is exposed to changes, but most of that is coal. Again, compared to natural gas and oil, coal has been much more predictable, but all of those energy inputs, and electricity itself, are on an upward trajectory. It's just at a much slower rate than the type of number you described.

My general impression is that we've gone through a kind of step change into a much higher price reality for the reasons that my colleague has explained. I don't think you could expect the prices to continue to increase at that level of volatility. In fact, with oil in the $60-some range, it's probably plus or minus $10 or $20 in an area that you would expect it to remain, with ups and downs, depending on geopolitical events, on weather, on a whole lot of other issues. I don't think you would see it go from that range to the $120 or $150 range, to doubling again, in the next couple of years.

Generally speaking, I think markets have worked reasonably well, even with respect to the kinds of impacts that Mr. McTeague was describing. I would think there are a lot of hedge fund operators who will be exceedingly careful not to get their positions out on a limb, the way a couple of these companies have found themselves. Those are pretty painful lessons to learn. There's no doubt that speculation can be a negative in terms of impact on consumers, but there is a self-righting in this process that when you get it wrong, you're basically out of business.

[*Translation*]

Mr. Dane Baily (Vice-President, Canadian Petrolum Products Institute, Energy Dialogue Group): Let's talk about the oil industry. I believe that it is more important to consider competitive factors from one industry to the next. The crude market is a global market. As a result, everyone is subject to the same price hikes.

Let's look at the table on page 10 of our document. The bottom line shows the price of crude oil in cents per litre. Trends are similar for products like gasoline and diesel fuel; the pattern is almost identical in each case.

However, if you look at the red line, it represents the price per barrel in U.S. dollars. We saw the price per barrel rise much higher than the others in cents per litre, because of the appreciation of the Canadian dollar. As a result, it costs energy consumers in Canada less than in the United States. So, we have become more competitive as a result of our higher dollar. We have an advantage in that sense.

It is also advantageous for the market to be a global market, because our competitors are subject to the same cost changes as our industry. That means that competitiveness and efficiency in our industry are more important than ever, and that energy costs are less important.

● (1600)

Mr. Robert Vincent: I've heard industry people say that because the cost of oil has skyrocketed, prices for other types of energy, such as natural gas or electricity, have gone up, since these sectors did not want to lag behind.

Were these industries right to do that?

Mr. Dane Baily: Markets are not integrated to that extent. There is an alternative to oil. If heavy oil becomes too expensive a source of energy for a given industry, it can start using electricity or, more often than not, natural gas. If demand drops in a sector but prices are high and the industry opts for something else, that has a tendency to increase prices.

Prices result primarily from meeting demand. In the oil sector, the reason why the market has been volatile for two or three years now is that in the past, global demand was about 80 to 85 million barrels a day. There was an excess production capacity of about four million barrels. However, because of increased demand in China and India in recent years, and the United States' economic strength, that margin has decreased to about one million barrels a day.

But let's talk about political problems, particularly with respect to Iran. That country's production is four million barrels a day. If it reduces the amount it supplies the market, that could mean that demand would outstrip supply. That has amplified the normal situation. And that is why supply is starting to increase. As soon as we have restored that safety margin globally, political events should not result in any price volatility.

[*English*]

The Chair: Mr. Konow has a point, briefly; we're well over time.

Mr. Hans Konow: It's one short point.

Electricity prices are not set by markets; they're set by regulators who look at the cost structure of the industry. A point on why electricity prices are going up is that there's a reinvestment curve occurring now, as we replace old equipment and build for the future. The cost of all new projects is higher than the historic costs. They're going up based on the cost structure.

The Chair: Mr. Cleland.

Mr. Michael Cleland: Mr. Chairman, I'll be very brief. Maybe we could come back to this in the rest of the conversation, but perhaps we could take a few minutes at some point to talk about the way markets, in this case the natural gas markets, actually function. I wouldn't want to leave the impression that somebody's in a position to say markets are going up, so I'm going to sell my product for more. It doesn't work that way.

Perhaps we could take a few minutes on that at some point.

The Chair: Okay.

We will go to Mr. Carrie, for six minutes.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

I'd like to thank you gentlemen for coming forward.

We've been undertaking this study of the manufacturing sector in Canada, and one of the things we've heard over and over again is about how the cost of energy is affecting their bottom line and also new investment into this country.

I had the opportunity to visit different auto sector areas. There was a big concern when Ontario was talking about brownouts and things along those lines. This really is something that might affect future investment in our country. Can you give us an idea how we as a government could maintain Canada's competitive edge to make sure we provide a good, sustainable supply of energy?

Mr. Hans Konow: I can respond. You raised the issue of the reliability of the electricity system, and 2003 was a wake-up call for a lot of people in eastern North America, certainly in Ontario.

A lot has been done since then in terms of addressing the rules in North America, by working through the North American Electric Reliability Council, for instance, and setting it up as an international rules developer to maintain and operate the bulk transmission system. A lot of good technical work has gone on to try to prevent the cascading failure we had.

The federal government can do things. It was active in a bilateral relationship with the U.S. Department of Energy, but it also plays a key role in electricity development. Notwithstanding the provincial predominance in this field, there are virtually no major projects we can do that don't trigger certain federal powers, particularly environmental assessment rules, navigable waters, etc.

Part of the challenge in developing a major hydro project is how long it takes to get permits in place before you build. Most major projects can take somewhere in the range of ten to fifteen years to develop. That lead time leaves a lot of potential for market demand to absorb any surpluses and then put pressure on the system before the new resources are available.

From the federal government's point of view, if we have policy coherence and understand what we're trying to accomplish with respect to our energy systems from a policy point of view, then with that framework well-established in partnership with the provinces, the issue becomes that of regulatory efficiency and coordination. We're not arguing for less regulation or less stringent regulation, but for timely regulation, for processes that are time-bound in their commitments to get the job done and to coordinate with other jurisdictions that have the power to influence these projects. That would be an important step forward. Coordinating the multiple federal regulatory processes—because despite attempts at a one-window approach they aren't perfectly integrated—and then coordinating the federal and provincial regulatory processes so that project proponents can expect to have the whole package of requirements clear to them...that should all happen within a two-year timeframe, or something of that order.

● (1605)

Mr. Colin Carrie: What about infrastructure?

Oh, sorry, go ahead.

Mr. Michael Cleland: To underscore Mr. Konow's point about regulatory efficiency, if there's one positive thing the federal government can do, it should be in that realm. Regulation can be made more efficient in a lot of ways, more effective, certainly not less effective, and we can get the infrastructure built in a more timely way.

But there's more to it than that, and I hesitate to say this, but I think it's important: there's also what government shouldn't do. If you go back to slide 6 in my presentation, there's a story there. If you go back to 1990 and see what's happened to gas and oil production in Canada, you're seeing the effect of the investment from deregulated markets. Canada opened up for investment. It deregulated prices. It created conditions so that people wanted to come here and work to develop our resources. Going back to the mid-eighties, the federal government can pat itself on the back for starting to create those kinds of conditions. Reinforcing the message that this is the approach Canada is going to take is a really important part of it.

The Chair: Mr. Carrie, you have thirty seconds.

Mr. Colin Carrie: I was going to speak about the infrastructure issues, where you think they are now, where you think they need to be over the next ten years, and what you see as the federal government's role in improving infrastructure. What have your organizations done to help improve infrastructure in Canada?

● (1610)

Mr. Michael Cleland: As I say, regulation is a key one. I think there are some things that can be done on the tax front to improve capital costs, and there's allowance treatment to improve the investment climate for infrastructure. Apart from that, our industries are investing billions of dollars all the time, working with regulators to get approval to put those investments in the ground, or, alternatively, in unregulated industries, working with our shareholders to get the dollars. We need to push harder on it; we're talking about renewal of old infrastructure as well as new.

The Chair: Mr. Baily, do you want to wrap it up?

Mr. Dane Baily: Yes.

I think in terms of regulatory clarity on the environmental side, certainly from a hydrocarbon business viewpoint, understanding where we're going to go on climate change and what the expectations are.... It would take a very brave soul to build a brand new refinery today. There's lots of investment in incrementally expanding the refineries we have. But a grassroots refinery is $3 billion to $4 billion. We don't know where we're going in terms of climate change. Will it have an effect on demand? There are things that can drive the demand down, in which case our refining capacity would be more than adequate.

Those types of issues need to be clearer, so that people have an idea of where they can go, so that before they put those kinds of dollars into the ground, they know there's a good chance of getting a return.

The Chair: Thank you.

We'll go to Mr. Masse. You have six minutes.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

Thanks for appearing today.

One of the things we heard from a number of the different delegates who came through the first part of the phase of the study we had is the issue of speculation—that of efficiency—in the sense that some world events out there, which caused the market to increase, didn't actually come to fruition. It's done out of fear and a series of different tactics. It's a great inefficiency for manufacturers because it's another cost in the system that's not even real.

Are there any suggestions or is there a position you have on that speculation? Personally, I find that it's completely inefficient. How do we deal with that?

For example, the plastics industry gets whacked pretty hard when stories drive the price of the commodity up on the market. Maybe it's good for people in Chicago, New York, and Toronto, but it's not good for small and medium-sized manufacturing plants that are trying to deal with it on a regular basis.

Mr. Dane Baily: I guess I'll take a crack at the liquid barrels.

Actually, manufacturing industries can buy crude futures or gasoline futures, so they can hedge their cost structures. The gold people have been doing it for a long time; they sell all their production forward at a guaranteed price. You could lock in a margin, if you can lock in your selling price.

The problem is they get caught on the down side; they're just like the traders. At a company I worked for they used to try to hedge this. They just said, our shareholders are not looking to buy a gambling organization, they're looking to buy an oil company, and we're going to buy and sell oil on the commodity market and that's it.

Gambling is a different business, and I think most people would live and die via the current price.

But it's the same thing with your heating oil contracts. You can get natural gas contracts that will lock in a price. They were out selling them last fall, and I bet you the people who signed up then, when the prices were pretty strong, might not be happy right now. So it's a risk-reward business of trying to get the volatility out of the market or trying to anticipate it.

Mr. Hans Konow: I would offer that it comes back down to basics. If the supply-demand equation is tight, then it's fertile ground for volatility. And volatility is what drags the speculators into this game, because they can make a lot of money at it. In that world, you're right. All of us who are just trying to plan our production runs and acquire enough stock can be victims of it.

Dane is right. You can hedge your requirements in different ways, but then you're locked into a certain future, and if the price goes lower, you feel like it's like the old mortgage game. Mortgages today are a bit different from when I was younger. You had 12% interest rates and you were trying to lock in. But a lot of people now, just as Dane was describing in terms of energy purchases, are going with the market because the differences don't seemed to be large enough.

Maybe we're in a new world where people will have to forward buy and play the old traditional mortgage game of trying to hedge their risks. To the extent that we can get fundamentals right in this country, to ensure enough investment in infrastructure and resources, then perhaps we can be a little long in our supply, which then will have a dampening effect, in terms of globally induced-type markets. There's no perfect solution.

● (1615)

Mr. Brian Masse: I have two quick questions here. What is your position on strategic reserves? The U.S. employs a system of strategic reserves through which the President intervenes on the market. That has an effect on the commodities we export to them. The strategy they've employed was supposed to be, for national interest's sake, related to other measures but is now market-driven. So what is your position on strategic reserves and the American system of their use?

Second, I was disappointed that I didn't hear anything about new technologies and cleaner products and alternatives, so if you have some comments on that, they would be helpful.

Mr. Dane Baily: In terms of strategic reserves, the U.S. is the driver because they're a net importer. In fact, there's the worldwide requirement under the International Energy Agency that says that any importing nation is required to have a certain number of days' supply. For the net exporters, there's no requirement. We're a net exporter of just about every form of energy. There's no real benefit to us. We've got the crude coming out of the ground. We've got the refineries to refine it. We export gasoline and diesel. We export crude oil. We export a lot of electricity. We export lots of natural gas. In a shortage environment, with the way the international energy allocation system works for oil, when we had the Hurricanes Rita and Katrina, we actually were required to reduce our own consumption to be able to export more to the U.S., as were a bunch of European countries. There's no real advantage to Canada's having a strategic reserve.

Mr. Brian Masse: But we're awfully quiet when the President uses market manipulation on the products we're exporting to them. That's the reality. He's introducing product into the market through the state system.

Mr. Michael Cleland: Briefly, on the question of clean technologies, and again it's something we should probably spend a bit of time on—we didn't particularly touch on it, but clearly it's something that all of our industries are involved in. My industry actually made some proposals before the finance committee a couple of weeks ago, with some ideas for the way we can introduce cleaner and more efficient technologies into the energy delivery system in Canada's cities and towns. There are lots of things we can do there. In some places we need a bit of help from provincial and federal governments. There are other areas where our companies are simply investing in that because it is the future.

I don't want to belabour it, but I just want to come back to the speculation point, because it's important in terms of the way these things work. There's a fairly straightforward trade-off; my colleagues alluded to it. If you lock in, you lock in. You could lock in high when a market may be going down, and you'll pay for it. One of the reasons, as I said, customer intervenors in our regulatory processes actually don't want us, the gas delivery industry, to contract long is that they're not sure we're going to do it the way they would like it to be done. They actually prefer to follow the market and manage their own market risk. That may be the right way to do it. I think, as they say, there are some arguments for long-term contracts to underpin investments, but there is a pretty straightforward trade-off there.

The Chair: Thank you very much.

We're well over time here.

Let's go to Mr. Lapierre for five minutes.

[*Translation*]

Hon. Jean Lapierre (Outremont, Lib.): Thank you, Mr. Chairman.

Gentlemen, thank you for being here.

In recent months, manufacturing sector representatives have told us that one major factor contributing to their competitiveness problems was energy costs and, consequently, the cost of transportation.

However, if we compare the costs of energy in Canada, for your three industries, to costs in competing countries — like China, India and Brazil — are prices equivalent? All other things being equal, if these countries are following the global trend, are you really facing any particular disadvantage?

Are variations in the cost of energy in developing countries, which are our major competitors, in any way an additional advantage? Do they benefit from a protected price, unlike in Canada, where we pay the market price, at least for our oil? For electricity, it's another matter. Is there more protectionism in developing countries? That may not apply so much to natural gas.

● (1620)

[*English*]

Mr. Michael Cleland: If I can speak very briefly on natural gas, I have two responses to that. Yes, in a lot of developing countries they do control energy prices in ways that keep them artificially low. That's pressure they'll eventually have to pay the piper for, but for the moment, indeed, they give some of their industries a competitive advantage. If you look at natural gas in particular, on slide 13 you can see the way European, Japanese, and North American markets work together. They aren't much different. By comparison—and I think our manufacturing colleagues would have shown you this—for the people who use natural gas as a feedstock, in particular, there's a big difference. In places with what's called stranded natural gas—gas that will eventually become part of the LNG market but right now is stranded—the natural gas costs may be 50 cents per thousand cubic feet, as compared to what we pay in Canada, and that's just because of the circumstances of those particular countries.

[*Translation*]

Mr. Dane Baily: Let's talk about oil. Let's take the example of Venezuela that, for all intents and purposes, practically gives its gas away. People pay practically no taxes and practically no value is attached to the production of natural crude.

China was an exporting country. However, two or three years later, it became an importing country. I don't know exactly how it deals with its own production, but it does pay the world price for its imports.

There are very few countries that produce crude oil. As a result, just about everyone tends to pay the world price, except exporting countries such as those in the Middle East, and a few others.

[*English*]

Mr. Hans Konow: With respect to electricity, Canada still has amongst the lowest prices in certainly the developed world relative to the developing world. I don't have good data on that. My impression is that prices are considerably higher in the developing world, particularly if you factor in reliability, which has a cost. If you can't count on it, obviously it's a huge cost to your production system. On the whole, electricity is not an issue of competitive disadvantage in Canada.

If you look at the data in the slides that showed the U.S. and Canada, you would see there are some regions in the United States that have lower prices than Ontario, for instance, and Ontario has some of the higher prices in Canada. Notwithstanding that, if you look at the northeast New England states, prices in Ontario are still lower than those generally in New England, which is your prime competitive market for a lot of products. So with respect to electricity, it's more about reliability, making sure that our system can deliver absolutely top quality reliability.

Coming back to the technology argument, the technologies that we would deploy in the electricity area, particularly to deal with the environmental challenges, will raise the price of electricity, not reduce it. At the distribution level, however, we have technologies emerging that allow customers to be much more selective of when they use electricity, and therefore, while the commodity price may be rising, the bill could actually be stable or lower. So that mix of pressures will give you an end result that, I would submit, will still be attractive in terms of our competitive circumstances.

[*Translation*]

Hon. Jean Lapierre: We all agree that as far as oil is concerned, there is no avoiding paying the world price. However, we currently have a competitive advantage as regards electricity, although all the projects currently on the drafting table are predicting that electricity will cost a lot more.

In Quebec, for instance, there is a new philosophy. The Government wants to collect dividends from its investments. But all of that has consequences. None of the scenarios suggests that electricity could be cheaper in future. The curve has to rise as a result of these new investments and, I would also say, the governments' appetite. That is true, is it not?

[*English*]

The Chair: Perhaps we could ask you to be brief. We're out of time here.

Who wants to take this on?

Mr. Konow.

Mr. Hans Konow: Very briefly, the price of electricity will continue to go up; it just won't have the volatility, driven by external factors, that you see in some other fuel choices.

The Chair: Okay. We're going to Mr. Van Kesteren for five minutes.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, gentlemen, for appearing here today.

I want to talk about futures. I'm wondering what effect the speculation of what's going to happen in climate is having on the price of oil and gas. I'm thinking in terms of what we witnessed with the hurricanes two years ago, and then the predictions that we were going to have the same things happening again, and that just plainly didn't happen. What effect did that have on our pricing, and what effect would that have on our industry?

● (1625)

Mr. Michael Cleland: Maybe Dane and I could talk about the natural gas side of things. You saw it in the prices. Natural gas, in particular, is basically driven by heating costs, and increasingly, as more and more people use air conditioning and you have gas-fired electricity, it's going to be driven by cooling costs. So it's very weather-dependent. Most models of natural gas prices can swing the market by as much as $4 or more, simply depending on whether you think you're going to have a cold winter or a particularly hot summer. So there's no question, in today's circumstances, that weather has that effect. The fear of unusual events—we hope, unusual events—like last year's hurricanes, can swing it further.

I'm not sure there's a lot you can do about that. You have to adapt to those circumstance, except—going back to Mr. Konow's point—to the extent that we can get more supply into the marketplace and that the underlying fundamentals are not as tight. In the case of natural gas, to the extent that we can get more storage—and investing in storage is a big issue for my industry—we can mitigate and dampen those effects. I don't think there's anything we can do to make it go away.

Mr. Dave Van Kesteren: I was thinking more in terms of the prediction that we were going to witness the same thing we witnessed in 2005. Did that have an effect on our petroleum prices this summer in the speculative market?

Mr. Dane Baily: It's really difficult to say there's $5 a barrel in speculation. Trying to define that criteria is a rogue's game. But there's no question there was a speculative premium in the price of crude when it hit $77 per barrel in July.

There were supply-demand fundamentals driving it. We were heading into the peak driving period in the U.S. They're the biggest and they consume 25% of the world's oil.

There was still a lag effect of Katrina and Rita in shutting down the refining industry in the gulf. We had a lot of refineries that were supposed to shut down in the fall for maintenance, and we put it off because of the other ones that were shut down by the hurricanes. They were shut down in the spring. We had many more shutdowns in the spring, and then the inventories for gasoline were low. Crude also tends to be pushed up if there's a perceived gasoline shortage.

All of that was combined, along with the threat of Iran, and we had the Lebanese war. There was nuclear tension in the U.S. Was the U.S. going to use sanctions, and was Iran going to shut off the oil supply? All of that was in the world of speculation.

We made it through the summer, and almost before Labour Day, the U.S. President was not being quite as categoric about sanctions and was looking for negotiated solutions. The pipeline in Alaska didn't look as if it was going to be as severe, and the Lebanese war stopped.

All of a sudden, we had lots of gasoline in inventory in the U.S., and people said we were going to make it through the summer with no problem. People said $77 a barrel was never going to hold, they started unloading it, and it went down.

Was there a premium? Yes, there was a premium. It came out pretty quickly too.

Are there still some? It's very tough to say.

Mr. Dave Van Kesteren: I understand we have 17 refineries here in this country. Are we missing the boat? Should we be building more refineries?

Mr. Dane Baily: Yes, there's certainly an opportunity to build more refineries. But as I mentioned earlier, we really need to be clear on what our plan is going to be for climate change. To what extent will it affect the demand for petroleum products if it drives demand down?

Essentially, if you're going to hit your Kyoto target, you have to take 30% of the demand for petroleum products out of the market. If you do that, you don't need to build refineries. That's one key.

The opportunity to export really depends on where you are. Our two Atlantic refineries, the Irving Oil refinery and the North Atlantic refinery in Newfoundland, are primarily export refineries. They basically import crude and export finished products to the thirsty nation south of us.

● (1630)

The Chair: Thank you, Mr. Van Kesteren.

Mr. Lussier, pour cinq minutes.

[*Translation*]

Mr. Marcel Lussier (Brossard—La Prairie): On page 7 of your document, you say the energy sector pays some $18 billion to the Government. But the word “Government” is in the singular.

Are you referring here to the federal Government?

Mr. Dane Baily: I believe we talked about “all governments” in our presentation.

Mr. Marcel Lussier: Of that $18 billion, what is the oil companies' contribution to government revenues?

[*English*]

Mr. Michael Cleland: Mr. Chairman, I don't know whether Mr. Baily knows that off the top of his head, but it may be best if we get back to you with the precise answer. We can give you the breakdown on where that comes from.

[*Translation*]

Mr. Marcel Lussier: Could we add some columns to your table? For example, I would like to know how much companies are receiving in subsidies, how much they are realizing in profits as a result of research and development, amortization, and so on. Another column could be added to show oil company profits.

There could be three other columns: one for the oil companies' contributions; another representing federal Government subsidies to oil companies; and a third showing oil company profits.

Would it be possible to provide us with that data?

[*English*]

The Chair: Would this be tax that is paid federally and provincially or only federally?

Mr. Marcel Lussier: Federally.

Mr. Michael Cleland: If I could just comment, we can still see what we can follow up on there.

The tax credit issue is one that is much talked about, and not terrifically well understood, in my experience. If you go to the Department of Finance data on that, you can find information that basically defines what is a tax expenditure, as opposed to what is a legitimate write-off. The actual tax expenditures, over and above appropriate write-offs linked to the economic life of assets, are relatively small, and have been relatively small for certainly the oil and gas industry for the past ten years.

I can't comment off the top of my head as to what other subsidies there may be around. Again, there are some definitional issues around that, but we will endeavour to get some further information to you.

If I could just add to your question, I don't know what the number is, but clearly, if you look at the industry overall, the vast majority of those taxes are paid by the oil and gas industry, particularly the upstream production industry. It's far and away the largest part of the sector.

[*Translation*]

Mr. Marcel Lussier: You don't have any figures? Ninety per cent or...

[*English*]

Mr. Michael Cleland: It would be better not to speculate for the record. It would be better to give you the information.

The Chair: This would be the Canadian Association of Petroleum Producers?

Mr. Michael Cleland: Yes. We were their colleagues in the Energy Dialogue Group. We can follow up on that.

[*Translation*]

Mr. Marcel Lussier: We've talked about the future in relation to climate change, and especially climate change. What is your reaction in that regard?

We know that the oil sands project will double the production of greenhouse gases between now and 2015, with the risk that the efforts made by other businesses and industries to reduce greenhouse gases will be completely annihilated. The oil industry will be doubling its production while all the other manufacturing industries are trying to reduce greenhouse gases.

In light of that reality, what is your position on the Bloc's proposal, namely that the polluter pay?

[*English*]

Mr. Michael Cleland: Mr. Chairman, I would be loath to comment on matters that are of particular concern to my colleagues in the upstream oil and gas industry, and I suspect my colleagues might feel the same. But perhaps more generally, I think there are two points to think about here that are of general application.

One, as the economy grows, as the population grows, it tends to put pressure on greenhouse gas emissions, and that's true right across the board. As the commercial sector grows, it will use more energy. In fact, it's the fastest growing part of the energy system, and it therefore will put more pressure on greenhouse gas emissions. That's true right across the board, whether it's residential, commercial, or any other.

The question for Canada is whether Canada believes it's in its interest to continue to be a big energy producer, to enjoy the benefits, the jobs, the investment, and the export dollars that come from doing that. That's a question of policy, and I think probably a lot of us, certainly at this end of the table, would agree that's probably a positive policy. There are inevitably consequences with respect to greenhouse gas emissions as a consequence of that.

On the polluter pay principle, at a general level, I think most people would agree that when you're talking about a polluter—in other words, somebody who is creating environmental emissions but has a mitigation technology available to them. Then under some measure of controls, usually regulation, it's entirely appropriate that those costs should be internalized by the investor. To that extent, I think most people would agree that polluter pay makes a lot of sense.

● (1635)

The Chair: Thank you.

Mr. Konow, briefly.

Mr. Hans Konow: I would briefly offer that I think in terms of the choices we make, as Mr. Cleland alluded to, strategically it's important that if Canada is to retain a sense of energy security based on having indigenous supply, then the tar sands development has to go ahead. Our conventional basins are shrinking in terms of production, so we have on one level a challenge with respect to having our own indigenous supply of crude oil versus being dependent, like so much of the world, on the Middle East or other highly vulnerable sources. So I would look with great care at not upsetting that rather advantageous situation in Canada.

Secondly, the polluter, in the sense that you speak of, will pay, because whatever requirements emerge from our climate change strategy technology will be what will be required to solve that problem, and that technology investment will be made by the companies active in the oil sands. What benefit will accrue from that remains to be precisely seen, but all of us, whether we're electricity-dependent, in some regions on coal, or we're developing more global warming gas-intensive oil options, we will deploy technologies that will raise prices—make no mistake about that—in order to achieve whatever is decided is the requirement for dealing with global warming gases. So it will happen, in my view.

The Chair: Mr. Baily, you wanted to respond—very quickly.

[*Translation*]

M. Dane Baily: The oil industry is part of a world market. So, if there are additional costs for the oil sands sector, the world price will not change. An increase in costs would mean that these projects would no longer be viable, but that will not happen. It's a question of balancing the security of supply in Canada and the cost-effectiveness of these kinds of projects, depending on the result of additional costs for greenhouse gases.

If these projects were not cost-effective, there would not be as much development occurring today. However, our balance, in terms of supply and demand in Canada, would mean that we may be subject to imports.

This is a very important question for the country and for the federal policy.

[*English*]

The Chair: Thank you.

I have seven more members here who want to ask questions, so I would ask members to be brief in their questions and you to be brief in your answers as well.

I think it would help the committee to have, especially from your member associations, revenues to the federal government, what your industry associations are doing on emissions—and you can include greenhouse gas emissions as well as SO_2, NO_2, particulate matter, everything, just to give the committee an idea of where your industry association is at—the issue of credits or subsidies that your associations may receive, and then new technologies, because the Energy Dialogue Group includes everything from oil and gas to wind and solar, so anything in new technologies, and any advice you have to the committee on any policy changes we ought to make in these areas.

I think this covers members and what they've been asking for, and obviously we're continuing this study for over a month, so don't feel you have to get this into us next week. But it would be helpful information for us to have, and if you could, please submit the information to the clerk.

We will go now to Mr. Shipley for five minutes.

● (1640)

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chairman, and thank you for being with us today.

It's an interesting topic, obviously, and we've had a lot of discussions. And I think actually a lot of the questions get framed around the same issue of manufacturing—how can they be successful, how do the inputs from those who supply all sorts of energy to the industries...and make things a win-win situation.

I want to go to a question about the fluctuations. You've talked about how the fluctuations in the market and the volatility are not only not good for consumers, which is obviously so, but they are also not good for industry. But when the prices do go up, and they have—they're still up from where they were, as you mentioned, a year ago—is that particularly bad for industry? Give me some reasons for why it is, when we're talking about global markets, where actually it isn't just Canada, where industry and manufacturing are struggling with the energy costs.

Mr. Michael Cleland: I'll kick it off.

I'll make a couple of comments here, and I suppose these are very much matters of opinion. Competitiveness is a relative concept, and I think you alluded to that. If your cost structure is going up and so is your competitor's, then on balance it should not make a difference. It depends a lot, though, on where you are and what your capital structure looks like. If you have a lot of old, inefficient capital, then you're going to take more of a hit in the face from rapidly changing costs.

Going back to Canada in the 1980s, when we protected ourselves briefly from the effects of rising energy costs, I think most analysts going back and looking at that would say it wasn't a good thing. We didn't win as a consequence of that; we delayed the adjustment process we needed to go through.

Clearly, we want to avoid things that create an imbalance so that our costs become higher than our competitors . We're not in that position now, and we need to keep pushing on that. The last thing we should do is protect ourselves from underlying global fundamentals.

Mr. Bev Shipley: In terms of working with the industry in manufacturing, and I guess even beyond that, can you talk to us about any operational alliances you've built with the industry so that you can work together—for example, on technology, working together for the success of both industries?

Mr. Michael Cleland: In fact we do work closely with our manufacturing colleagues. They have a loose association of energy-using industries. Actually, they're headquartered right across the hall on the same floor that the Canadian Gas Association is on. So we do work with them.

The main thing we've been doing together is pressing the federal and provincial governments to develop a more coherent perspective on energy, to develop what we call an energy framework. We think that's absolutely fundamental to getting the conditions right. We're on the same page on most of these issues and we compare notes and try to push it along.

The Chair: Mr. Konow.

Mr. Hans Konow: To add to that, at the ground level, where our companies operate in distributing gas and electricity, etc., we have very active programming with our industrial partners and our commercial accounts. All of the work that goes on in trying to drive energy efficiency through the industrial structure is through a partnership approach. Our systems examine how they might be able to assist through smart metering, different rate programs—ways in which the customer can tailor his energy buy in such a way as to minimize or optimize his costs. If you want absolute, 100% reliability, you'll pay one price. If you're willing to be on a merit order when supply is very tight and there have to be cutbacks, then you pay a different price.

Every industry, of course, has different needs. Some need 100% reliability—100% power quality, basically—and others are more flexible. It is a partnership approach, and if you want happy customers, then you have to work with them. That goes on at a kind of granular level.

We have some programming in terms of encouraging energy efficiency and working with federal departments and provincial settings to try to advance energy-efficient technologies into the marketplace.

● (1645)

Mr. Bev Shipley: Is that one of the things—

The Chair: Mr. Shipley, we're over time.

We'll go to Mr. Masse for five minutes.

Mr. Brian Masse: Thank you, Mr. Chair.

I have a couple of questions. The first is, can all of your organizations vouch that the GST reduction actually went back to consumers, that you didn't inflate your prices internally to make up the difference for it? When there was a reduction in Atlantic Canada of taxation, there was a study done that showed there was no real net benefit to the consumers, so I want to make sure it has happened.

I'm going to ask my second question, because it's more important than the first, which is just one I get on a regular basis.

To bring it back to the study, I'm not really hearing anything from the energy industry here about how they can help move the manufacturing industry forward, in a larger perspective, or make energy part of a competitive advantage. When I look at where we're going in manufacturing, I guess we have to decide as a country whether we're going to be in or out of it. One of the assets we have as a net exporter of all kinds of energy is that it's the number one thing companies often look at: do you have stable energy and do you have low prices?

It gets to whether we have a dual market economy, where you have this as an attractive incentive for manufacturing plants. I look at, as an example where I come from, the auto industry. We're getting hammered by subsidies from the U.S. and Mexico and other places. Why is it that we don't use the natural advantages we have to bolster our manufacturing industry? I know we have trade agreements that are prohibitive of this, but where, in a larger picture, do you think your organizations can make a big difference for manufacturing in our country, as opposed to somewhere else?

Mr. Hans Konow: On electricity, if you talk to the industrial accounts about what their number one objective is, it's reliability. They say, before price, before anything else, make sure my supply is absolutely reliable and that I'm not going to have sudden interruptions, because that's extremely costly. I think we do an excellent job in that regard.

In terms of the price of an electron or a molecule of gas, I think the picture we've been painting is that we are competitive. There are regional realities, which certainly appear to me difficult to fix through policy intervention without having probably unwanted side effects. So I think what you get down to is what I was trying to talk to earlier: what the practical things are that companies that supply electrons can do with their customers to ensure they have the right technology, optimized for the price ranges and circumstances they need, and that they have, within the regulatory environment—because, as I pointed out, for electricity we have regulated prices.... Are we able to make the investments in energy efficiency program offerings and recover those costs? Will the regulators allow us to make that investment, or will they say no, that's an additional cost that everybody bears and they don't want us to make it? This then denies industrial customers the opportunity to have that partnership.

That's a real issue. In Ontario, where the market was restructured, there came to be a disincentive to investment in energy efficiency by the very entities that are directly connected to the customers. Regulators are starting to deal with that and recognize that they have to create incentives or opportunities to earn back the investment you make as a company in that partnership. I think there are opportunities at that granular level for us to be strong partners in helping consumers use the product in the most efficient way in their own lights.

● (1650)

Mr. Dane Baily: To talk just about the oil business, the fundamental differences in oil, gasoline, and diesel prices as you go around the world are due to taxes. The base crude refining costs are pretty much the same, and as you saw on the chart, all the taxes are different.

The U.S. is about 15 cents a litre cheaper than the average in Canada, and even in Canada, when you go province to province, you'll get a low of about 25 cents a litre on gasoline all the way up to just over 40 cents a litre in some other provinces. That's where the price differential comes in. There's an element of competitiveness there. This is really government prerogative; we don't get into the tax discussion.

But I want to react to the question about whether the GST went through. I can categorically say yes. Our wholesale prices are ex-GST, and then the taxes are just added on, so the wholesale prices went down exactly by that.

There was a myth about that study in...I think it was New Brunswick; I think it was Shane Walsh who did the study. He said that the tax reduction clearly went through to the marketplace, but the trouble you get into is in the retail volatility, which is after the wholesale price—the retail price wars. It's pretty tough, when the price is going up and down a dime a week, for the consumer to see it, but he said it was definitely there: the whole band just moved down.

The Chair: Mr. Cleland.

Mr. Michael Cleland: Very quickly on the response to what we can do to help to underpin industrial competitiveness. I think it's really very straightforward. We can invest in delivering supply to our customers more reliably and more cheaply. There are some things that policy and regulation can do to help with that.

I do want to make one point, though, and we're not always on the same page. In this particular case, Mr. Konow talked about demand-side management programs. When we go to regulatory processes, the industrials actually don't like our demand-side management programs, because they end up paying for it. They say, “Look, we'll look after that, go away.” I understand why they would do that. That's fair, and that's played out in the regulatory processes. But as I say, there are two sides to all of these coins, and we don't always entirely agree on these things.

Mr. Brian Masse: You also noted another important difference in terms of storage—

The Chair: Mr. Masse, you're way over time.

Ms. Kadis for five minutes.

Mrs. Susan Kadis (Thornhill, Lib.): Welcome, gentlemen.

I'm interested to know particularly if you believe the federal government should be providing further financial incentives or alternative incentives in the alternate energy sector in particular. I know you've touched on that, obviously needing a whole gamut of energy, particularly in the manufacturing and other sectors and the current status. Also, how do we compare with other industrial countries in the research and development alternate energy area? Finally, who would you say are the leading players in Canada in this area?

Mr. Dane Baily: We've been working very closely with the government in terms of the renewable fuels policy, ethanol and biodiesel. The fundamental challenge the government has is that the only way for an effective policy to work in Canada, because we have a free trade partner in the United States that has heavily subsidized both the production of ethanol and the blending of ethanol, is to match their subsidies.

We had one estimate that it was about $800 million a year to meet our 5% target. That's a significant amount of money to invest in the business. Two of our association members built the two largest plants, so it's a viable business option, but we have a real challenge, because the U.S. structure throws our markets off by reason of the way in which they've heavily subsidized it.

Ideally, what we can do is talk to the U.S. government and say,“Listen, at $60 a barrel crude, you don't need to throw this amount of money at the renewable fuels business.” If they were to take away, say, the blending subsidy and do other things, then the business would grow in Canada.

So do we need to throw more money? We need to match the U.S., if it's really going to go. And I think that's a challenge that the policy-makers are looking at seriously. But it will go.

The Chair: Mr. Cleland.

Mr. Michael Cleland: Briefly, on who's investing in alternative technologies, I think if you looked across the board you'd probably find that it's the members of Mr. Konow's association and my association and Mr. Bailey's association who are mainly doing that.

My member companies are investing in wind power. They're investing in ways, for example, of reducing the costs of running energy at their gate stations with ground-source heat. So there are all sorts of examples across the board.

Who are the biggest? I'm not sure. You'd have to look at that. But one thing that's quite clear is that diversity is good. Alternative energies of all sorts are good. We need to do some things to help give them a bump. But it's important, if you're going to subsidize things like that, that it be time limited. It's until they can get themselves established in the marketplace. The worst thing we can do is put subsidies in place that go on forever. That's bad policy.

● (1655)

Mr. Hans Konow: To follow up, the electric utilities are now by far the biggest wind developers in the country. That's incontestable. Wind is increasingly becoming close to being commercially competitive. It still does require an uplift, so that I think should be sustained. But I think Mr. Cleland's point is correct, that this should not go on forever.

I think where you use federal dollars it should be in an attempt to advance and de-risk technologies that aren't quite there yet. I would certainly make the case, in terms of strategic investments, that wind is one such thing. It is a strategic investment that's useful to us. I would submit that clean coal is another strategic investment that we need in order to maintain the diversity of fuel sources that dampen volatility. So that's another area of opportunity.

The Chair: You have a minute remaining.

Mrs. Susan Kadis: I'll give my remaining minute to Mr. McTeague, if he so wishes.

The Chair: Mr. McTeague, for a minute.

Hon. Dan McTeague: Before Mr. Baily goes, I thought it would be a good opportunity....

Mr. Baily, in light of the number of refineries that have closed, and I know my colleague Dave Van Kesteren talked a little bit about what the future is, I've noted here—and you and I will probably dispute the question of cargo rates—that prices in Toronto, Ottawa, and Montreal are exactly four to five cents a litre above the prices in the United States, which can't be good news for consumers. But the real issue here I think is one of how you would foresee, short of the municipal and economic or ecological and environmental concerns that are out there....

Is it true that the industry itself, certainly at the downstream, which is your section—not the upstream, which we can't hear from CAPP—has spent a considerable amount of time rationalizing, shutting down refineries, raising utilization rates, such that you would create an artificial situation where, even if demand were to start a little bit on an upward trend, we would find ourselves in a very scarce and tight market situation?

Mr. Dane Baily: Utilization in Canada is much higher now. There is a myth about the refineries that have been closed down. We had 44 refineries I think in the 1960s. We have 17 refineries today. The capacity today is about three times what it was for those 44 refineries. So people can play with numbers, and I think there has been some misleading information.

Our refineries—

Hon. Dan McTeague: It's just that we have none in Toronto, and it's the largest market in Canada. We used to have seven refineries.

The Chair: Mr. McTeague, you're over time and we need to let Mr. Baily answer.

Mr. Dane Baily: The refining capacity is adequate. What's happened is that a lot of product is coming into southwestern Ontario from Quebec now. That has been the supply.

Ultramar has expanded. I think a few years ago they were at about 160,000 barrels a day. With the recent expansion they're working on, I think they will actually go past the largest refinery, which is 250,000 barrels at Irving. So there's huge incremental creep. That's almost 100,000 barrels a day, which is 20% more than the Petro-Canada refinery that just shut down.

So there's no question that right now Ontario is in a net import situation. They're poorly positioned. They don't have access to international crude supplies, and the Canadian crude is heavier and it's going to the south where they have cokers. That's just the economic reality of it. But your point is true that as we get tight in refining capacity, which we saw in the western area when Suncor had their fire in their upstream plant—and what people don't know is that the Suncor plant, their heavy oil plant, actually produces a lot of diesel oil—there was a shortage of diesel in the Prairies, and you know economically it's booming. The prices were higher than they should have been normally if that plant hadn't come down. So we're always subject to the laws of supply and demand, but it came back on and the premium came out of the market.

Normally, Edmonton refineries supply right through Vancouver to Victoria Island. There was product being imported into Vancouver and back-hauled up to Kamloops. It was a very tight situation.

● (1700)

The Chair: Thank you, Mr. Baily. I understand you have to go. It's five minutes after five.

I'm going to take the Conservative spot here, and after me, we'll have Monsieur Arthur.

Mr. Cleland, you mentioned, I believe, the capital cost allowance, and this has been mentioned by a number of witnesses. I just want to get on record what your recommendation to the committee would be with respect to the capital cost allowance. Some people, such as the CME and the plastics industry, recommended that we go to the two-year write-off of capital cost allowance. Do you have a specific recommendation for us on the capital cost allowance?

Mr. Michael Cleland: Mr. Chairman, I'll speak particularly on behalf of my own industry. In the last couple of years we've seen improvements in the capital cost treatment of the long-distance pipelines, and actually the rectification of a problem on the treatment of compressor stations.

Going forward, the thing we focused on this year is the distribution system itself, where our capital cost treatment has depreciation at 4%, and we recommend that it be moved up to 8%. That would put us on a competitive basis, for example, with Mr. Konow's distribution companies. His recommendation might be that it should go a little farther than that. In our case, it is a question of ensuring that we renew the capital stock, that we extend service to as many customers as possible, and that we are in a competitive position with our electrical colleagues.

The Chair: Mr. Konow, do you want to comment?

Mr. Hans Konow: Yes. We too have had some benefit in moving our capital cost rate from 4% to 8%. When we look at the United States, they're higher than that. We would like to see basic infrastructure go from 8% to 12%, but we also have some targeted asks that would help advance energy efficiency, and in those areas we're looking for basic.... For smart meters, for instance, we'd like to move from 8%, which is wholly unrealistic, to something more in the area of 45%, which is common for communications and software, because that's what smart meters really are; they're all about communications and the software attributes. For so-called firmware, 12% on the hardware would be fine. So there are some blended rates we're looking for.

These are targeted adjustments to try to encourage the deployment of some of these things.

The Chair: The Energy Dialogue Group does not have a universal recommendation. If we could ask your members if they want to provide specific ones for each industry association, that's fine. But I think in this report to the government we want to be as specific as possible so that it is acted upon.

The second issue I want to raise is the issue of an energy framework, distinguished from what was in the past the national energy program. Is your group in favour of this government adopting an energy framework to ensure that energy remains a cost advantage and that we have a diverse supply of energy, especially for the manufacturing sector?

Mr. Hans Konow: Absolutely. We've been working hard for a long time to try to get a framework. By that—we want to be very clear—we don't mean a rigid, top-down kind of plan. What we're talking about is a clear understanding of where the federal government's policy envelope sits and where the provincial energy policy envelopes sit, so we can examine them and make sure they're coherent in terms of a broad energy policy.

What are the messages that investors are getting when they look at Canada as a destination, which we would hope would be a destination of choice for investment in energy infrastructure? We think having a coherent policy framework would make a lot of sense. Then, of course, we step it down to what we talked about earlier in terms of regulatory coordination between federal regulatory authorities with powers and provincial regulatory authorities and powers, all to try to make it transparent, understandable, coherent, and efficient.

● (1705)

The Chair: Mr. Cleland.

Mr. Michael Cleland: Mr. Chairman, if I could, I'll just add a little bit to that. I fully subscribe to that. I think the important point is why we think there should be an energy framework. It is not, as Mr. Konow suggests, that the federal government should be acting in all sorts of new ways outside its jurisdiction. What we're saying is that it should be acting within its jurisdiction and doing the things it now does, but doing them in a more coherent policy context. Take energy efficiency, for example. We think it would be appropriate to situate that in a clearer policy context as opposed to just having a bunch of programs.

There is climate change—Mr. Baily talked about climate change. We can't figure out where we're going on energy and we can't figure out where we're going on climate change until we start to talk about both in the same paragraph. That has to be part of an energy framework. Then there are other pieces. Yes, indeed, we think this is an important piece of the puzzle going forward.

The Chair: Okay, thank you.

Mr. McTeague, are you on again?

Hon. Dan McTeague: I didn't expect to ask the question. I wanted to perhaps flesh it out.

The Chair: Okay. Could you be very brief, because Monsieur Arthur has not asked any questions yet.

Hon. Dan McTeague: We have, Chair, I believe, until 5:30. I'm willing to allow Mr. Arthur to go first, if you wish.

[*Translation*]

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): My problem is that my questions were for Mr. Bailey and had to do with refining. I would have liked to ask him to complete some of the answers he gave earlier. Unfortunately, he has left. So, I am just going to leave and give my speaking time to Mr. Carrie.

[*English*]

The Chair: Well, Mr. McTeague, you might as well go then.

Hon. Dan McTeague: Then the question would not be so much on refinery...but I would like to make a couple of acknowledgments to help Mr. Arthur.

And perhaps, Mr. Cleland, you could help us a bit on this.

I have today, as of about an hour ago, the various rack prices or wholesale prices for energy. And they do vary. In Quebec, for instance—and Mr. Baily alluded to this—the price of refined gasoline in Montreal is about 48.3¢ a litre, and that's before taxes, for the same type and quality of gasoline. If you're living in London, Ontario, where Mr. Shipley comes from—not quite, but very close to that region—you find that the price of gasoline is at 1.6¢ a litre more. There is this variation and fluctuation, but by regions there seems to be a tremendous amount of control for prices. No one challenges those prices.

Given the profits that are being made, and the fairly substantial wholesale profits over and above what we see in the United States at any given time, four or five cents a litre, provable today, from New York.... Mr. Baily wasn't able to answer that question, and I appreciate you may not be able to.

What, in your mind, do you think needs to be done to try to bring some degree of competition to that sector of the marketplace, given these substantial and rather important controls of prices that we're seeing in regions across the country?

Mr. Michael Cleland: I have to say I'm sorry, Mr. McTeague, but I do think I would be well off my patch if I were to offer comments in that area. It's not the industry for which my association is responsible.

Hon. Dan McTeague: There is a comment here that you've made regarding substitution. In the substitution you refer to the fact that home heating fuel, which is, as we know, diesel, may drive the price of another form of another commodity. And we talked about arbitraging and speculation a while ago, through my colleague Mr. Masse.

Do you believe there is a chance for us to be more predictable as Canadians, since we are an energy producer? A lot of us know the valuation of the Canadian dollar often follows the price of energy. When energy is up, so is the currency; therefore, it's a shield against the benchmark for pricing, which is the United States, not Canada. And I'm not here to reopen that debate.

Is there any way in which you can provide, short of a regulatory regime, perhaps a more competitive regime in terms of those who supply a product? Your member companies, I would assume, include the propane industry.

Mr. Michael Cleland: No, they don't.

Hon. Dan McTeague: It's a very troubling industry, as the chair will remember, because of course there's virtually only one company in Canada that provides it, and we have a competition bureau that was asked to give some comment on it, that felt it was a very dangerous situation for consumers if only one company could produce it.

How do you think we can get to the point where we can assure Canadians that all the money they're investing, including what Mr. Baily said a little earlier about the Toronto prices and the big refineries at St-Romuald...? In my region, in Toronto and London, an enormous amount of tax money was spent building pipelines to ship gasoline and oil to the west. That line has now been turned around to allow gasoline to flow the other way into Toronto, with the predictable effect that we're paying higher prices in the heartland of where manufacturing is taking place. Now, that's not to exclude other regions, but it makes us rather uncompetitive.

How can we respond to that when local competition is not allowed to flourish in such places as Toronto, and not just on gasoline, obviously, but on other products?

● (1710)

Mr. Michael Cleland: Again, I would have a hard time commenting on what happens in refined-product markets.

I think this is instrumented in the natural gas industry. The key there is that natural gas is traded in highly competitive markets, where you have liquid trading hubs. One of the biggest North American trading hubs is at Dawn in southwestern Ontario; others are in Chicago, in Henry Hub in Louisiana, or at AECO in Alberta. Those liquid trading hubs—lots of pipe, lots of storage, lots of physical gas available—create opportunities for people to buy and sell gas. And if you look over the last fifteen or so years, it has been a very competitive market.

So it's about infrastructure and it's about transparent markets.

Hon. Dan McTeague: Do you think Canada is well placed as far as its mix of various types of fuels and energies that exist, and not just in terms of hydro-electric, not just in terms of nuclear? We have coal, gas, propane, and LNG being used potentially down the road. Do you see manufacturing and others being kept on a firm footing as far as assurance of a competitively priced product is concerned? I recognize that much of these are the result of international pricing. Our mix of energy is perhaps one of the most enviable in the world, including the infrastructure that supports it. Do you believe in the next ten to twenty years that they will continue to be seen generally as a competitive advantage for Canadians, and manufacturers in particular?

Mr. Michael Cleland: I would certainly agree with you. We are in an extremely enviable position. I doubt there is any country in the world that is in a more enviable position in terms of the availability of energy and the reliability of the system for delivering it.

Will we be in a better position going forward? Yes, subject to a couple of caveats: if we get the investment conditions in place, particularly regulatory conditions; and if we get public support to put that investment in the ground. That's absolutely key. We need to work with the public to make sure they are with us, because right now they're not stepping up in favour of anything, whether it's wind power, new generation, or new pipelines.

So we need to work on that. This is an important role for government.

The Chair: Thank you.

We're going to Mr. Carrie for five minutes.

Mr. Colin Carrie: Thank you very much, Mr. Chair.

We mentioned a little bit about what government can do for the manufacturing sector, and I just wanted to get you on the record. With the government coming forth in our latest budget with the GST cut, the corporate tax cuts, and looking at a decrease in capital taxes, would you say it's true that at least we're on the right track with regard to taxation?

Mr. Hans Konow: Yes, fundamentally the steps that have been taken have certainly been helpful in addressing the investment climate, and that's what we've been on about at some length. But there's always room for improvement. That's why the CCA rate discussion is important in terms of incenting specific investment.

The largest impact will come from having a clear policy sense with respect to what Canada desires to have happen in terms of energy investment, if the policy world is clear. Most of our sectors invest in big blocks of capital for a long period of time, so it isn't today that they're worried about as much as what the consistency is over the next twenty or forty years. If I put $1 billion in the ground today, is it suddenly placed at risk through policy gyrations that might be anticipated? If so, then they won't make that initial investment.

That's why we talk about a policy framework that's explicit, so that people can look at what governments are committed to. As future governments consider the policy framework, they too can see what we said about it and where we thought we were going. Nothing is forever. There will always be changes, but at least there's a greater sense of stability in terms of a policy framework.

And then one step down, the regulatory compact also has to be one whereby investors can say that if they want to put $1 billion, $2 billion, or $3 billion into the ground for some infrastructure, they will know how long it takes before they get their permits. Can they say they can put $100 million into proving out this investment and have some certainty that in two years they will get a yes or a no? If it's a no, that's okay too, because they're big boys. If we know we can't do that, then we'll look at this. There are always options.

So it's trying to have a degree of predictability and consistency and coherence over time that is probably the most important set of elements, as opposed to specific fiscal adjustments—not that they're not helpful or necessary, but they're the next order down. On getting that fiscal framework right, you've made steps in the right direction and we commend you for that, but the big picture has to be right as well.

● (1715)

Mr. Colin Carrie: If we continue further on the road and, as you said, even look into more friendly regulations, my question is whether you think it would make a significant difference in energy prices for the manufacturing sector if we continue along this path.

Mr. Hans Konow: I think it's about expectations. When the industry was faced with the possibility of electricity deregulation, the question was why we would want to do that. If you couldn't tell people that it was because the price was going to come down, it didn't fly. We had relatively low prices, so why would we experiment in Canada? Well, where we did experiment was where prices were high, with mixed results.

I think it's the same thing. What we're asking for is a world in which prices will be lower than they would otherwise be if we did not have coherence, if we did not have timely investment, but that's hard to prove. It's not whether prices will come down for the industrial sector if you do all the right things, not necessarily. We've already tried to explain that the underlying fundamentals show a rising cost curve for energy across the board. The question is, can we make it lower than it would otherwise be if we do it badly? I feel very confident in saying that's the case, but it's a tough case to prove to skeptical people, let's face it.

Mr. Michael Cleland: Can we ensure that we don't create conditions that are less favourable than our competitors, so we don't get out of sync? But with oil and natural gas becoming a world market and electricity being increasingly tied into those other markets, they will tend to equilibrate. If we don't get it right, there are barriers we could put in place that would make us slightly worse off. But I agree with Mr. Konow—certainly not lower than today's natural gas prices.

The Chair: Mr. Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you, Mr. Chairman.

I have a table in front of me entitled “Canada's Energy Mix”. There is something in here that bothers me. You told me earlier that in any sector, whether we're talking about natural gas, electricity or oil, the price is set according to supply and demand.

However, on this graph, for all production sectors, including natural gas, oil, electricity and cold, total production amounts to 16,705 petajoules. We import 3,144 petajoules, and primary sources amount to 19,849 petajoules. As for final demand, either residential, commercial, industrial, transportation, or agricultural-related, usage amounts to 8,457 petajoules.

If we are producing 19,000 petajoules and using only 8,000, that means there is a surplus. Why are we not seeing lower rates for electricity, natural gas or oil? In the case of oil, I understand; it's because there is a world price. But why are we not seeing better prices for our resources, if we produce more than the current demand?

[*English*]

Mr. Hans Konow: Electricity is not set by supply and demand per se. The prices are generally set by provincial regulatory bodies in virtually all provinces except Alberta. Ontario is a hybrid market, but certainly in Quebec, New Brunswick, Nova Scotia, Saskatchewan, etc., all of the electricity prices are set by regulators. They look at the cost structure brought forward by the industry, test against their ask in terms of increase in price, and come out with some judgment that allows a rate of return generally lower than the cost of equivalent service in the United States. So electricity is somewhat different from oil and gas.

I'll let Mr. Cleland talk to that situation.

● (1720)

Mr. Michael Cleland: We have a considerable surplus of natural gas relative to the amount we use in Canada. Until the mid-1980s, we regulated natural gas prices and very closely regulated the amount of natural gas that could be exported. We had a much higher price at that time than we enjoyed throughout the rest of the 1980s and the 1990s because we were sustaining an inefficient industry.

Since deregulation, we've considerably more than doubled our natural gas production. We've attracted investment into the industry, and Canadian consumers have done very well as a consequence.

Looking forward, it's not a question of whether we have an apparent surplus or not; it's a question of what it costs to get it out of the ground. We know that in order to bring northern gas into the picture and bring LNG into eastern Canada, we're going to need the kinds of prices we've been talking about. It will be very difficult to see how you could get prices down much from them.

[*Translation*]

Mr. Robert Vincent: I have another table in front of me showing that from 1978 to 2002, the price of natural gas remained stable. There were slight increases and decreases, but from 2002 up until now, prices have increased exponentially.

What happened in the last four years for there to be this kind of price explosion in the price of natural gas, when prices remained stable for almost 20 years?

[*English*]

Mr. Michael Cleland: Going back a few years, we in fact had a big inventory of natural gas in North America, and particularly in Canada. Until deregulation, Canada required a thirty-year surplus of natural gas in order to allow exports. With deregulation, that was relieved. The reserve-to-production ratio in North America has now come down to around nine or ten years; in Canada, it's actually a little lower than that right now.

What happened in 2000—and again, you could probably spend two hours just on what happened in 2000—was that it caught a lot of people by surprise, probably a lot of people who should not have been caught by surprise. I suspect there was a lot of over-optimism as to the amount of gas that was available in the western Canada sedimentary basin and in the Gulf of Mexico. In a very short period of time, people found that well productivity was dropping, that new wells were not producing flows as they were expecting, and there was a fairly dramatic change in expectations in terms of the availability of gas in North America.

The gas is there—there is lots of it—but it's quite clear now that we're going after much more expensive supplies.

The Chair: Time is up.

Mr. Masse, I have you on the list. Is that correct?

Mr. Brian Masse: Yes.

The Chair: Okay, we've got about three minutes.

Mr. Brian Masse: Thank you, Mr. Chair.

I just have one question. With regard to the blackouts we had in Ontario and an update in terms of the U.S. side, how confident are we that we're not going to have a similar problem, or another one?

What that did on that day was significant to the economy, not just in terms of the immediacy but also to the confidence of investment in Ontario, for the region supplying manufacturers and so on. Is there a comfort zone there now and a backup plan?

Mr. Hans Konow: That's a good question. I think the story is actually a very positive one in terms of what has been accomplished. To begin with, the entire incident was taken apart in great detail and lessons were learned from it.

Ironically, some very simple things were found—things like tree trimming. Everybody thought people would take care of rights-of-way, but what they found was that notwithstanding the requirements of a voluntary reliability organization to maintain lines, the first thing that generally was cut when there was financial pressure were discretionary things such as tree trimming. It was not done well enough, and all it took was one branch at the wrong time to contact a line and take it out.

They're much more aggressive about that. The voluntary system of compliance with reliability requirements has been replaced by a mandatory one. It's in the process of transition, but it is being implemented. In Ontario, for instance, it is mandatory to conform with these international reliability requirements.

The coordinating, on a regional basis, so that U.S. and Canadian practices are on a par—and quite frankly, the investigation showed that our practices were superior to those of a number of entities in the United States—is becoming much more homogenous in terms of performance.

I think the root causes were determined, and a massive plan was developed to address them. That plan is rolling out. There is an international reliability organization empowered by legislation in the United States and by regulation in certain jurisdictions in Canada. Hopefully, one day, all will make them mandatory.

Those are the steps that have been taken, together with audits that look at performance in advance of incidents rather than after-the-fact analysis, to try to ensure there will not be a recurrence of it. A great deal of effort has gone into it.

There is a binational report—Canada and the United States—that addresses the recommendations. Those recommendations are now being deployed by regulatory fiat.

● (1725)

Mr. Brian Masse: Some of those things were outright negligence. I'm just wondering, because there are several providers that go through the circuit grid that affect each other, is there a penalty system in place if that negligence continues?

Mr. Hans Konow: The answer is yes, there will be a schedule of financial penalties, and there are other mechanisms that are also being used.

Mr. Brian Masse: Thank you.

The Chair: Thank you very much, Mr. Masse.

Thank you very much for coming in today.

I want to reiterate that if you have any further specific information regarding any of the questions you've been asked today, or if you have any further specific recommendations, such as on the capital cost allowance, that you want us to consider as recommendations, please forward them to the clerk. Or if any of your other associations...in the Energy Dialogue Group I believe nineteen associations are members. If any other associations within that group wish to submit anything, we'd certainly encourage them to do so.

Thank you very much for your time today.

Members, thank you very much for trying to keep on time with your questions and comments. We'll see you Thursday afternoon.

The meeting is adjourned.

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