LS: This morning I'd like to cover some of the issues of 1954, some of the legislation, and also of 1955, the First Session of that legislature.

Before getting into the specifics of the legislation, there's one thing that seems to be discussed at this time - in fact, it is mentioned in the Throne Speech - about a new system to conserve natural gas, and the whole question of oil producing operations on a unit basis rather than on individual wells. What's the significance of that?

ECM: A unit basis means to pool a number of wells in the same area and work out a program for the production and conservation of gas for all of them, rather than work on the basis of each individual well separately. There are quite a number of reasons for pooling wells. One is that by pooling their production you get a volume sufficient for one pipeline to be built to carry it to market. In those days wells were assigned quotas on the basis of engineering data that would ensure the greatest ultimate recovery, and later proration to market. All of this became more viable in some cases where it was done for a group of wells in a region, which was called a "unit", instead of dealing with each individual well separately.

LS: But they could be owned by different people, could they?

ECM: Yes, the unitization often meant putting together a group of wells that belonged to a number of different producers.

LS: And was there any kind of resistance to this when it was introduced?

ECM: On the whole, I think we could say that it was a practice that was approved by the industry. You would run into difficulties, of course, if somebody had an arrangement for selling the product from their particular well. They might not want to come into the pool. But those were rather incidental problems. On the whole it was a well accepted policy.

LS: I'd like to move into two pieces of legislation of 1954. The first is Chapter 8, An Act to Validate Certain Agreement Between the City of Calgary and the CPR. What were the provisions there?

ECM: That was an arrangement that went back originally to an agreement between the railway company and the City of Calgary as far back as 1911 when the CPR built their main hotel (the Palliser Hotel) in Calgary. The question arose at that time as to what the tax basis would be - what municipal revenue the city would get from this railway hotel.

There were some complications in it because it was built on railway property. The CPR owned a stretch of land through the middle of Calgary, so in a sense it wasn't on Calgary property, but it was within the corporate limits of the city.

This agreement in 1954 was really an update of that old original arrangement going back to 1911. Under the agreement, the CPR undertook to pay Calgary a fixed amount per year in lieu of what would have been the ordinary city taxes, and I think there was an additional factor in which they paid (if I recall the figure correctly) on the basis of $75 per hotel room. It was rather a complicated formula to arrive at revenue to the city that would be roughly equivalent to what the city would have collected had the hotel simply been assessed and taxed the same as any other property. But it arose out of the fact that hotel was built on the railway's own property that ran through the very heart of Calgary.

As I recall, that arrangement in 1954 expired in about ten years (the $75 a room thing) and it was then opened for renegotiation. I have no idea whether the city renegotiated something else at that time with the CP or not. But because it involved the railway - which of course comes under Federal legislation, and these are things that give some complications to these things - both the city and the railway wanted the agreement ratified by the Legislature of the Province. The Legislature had nothing to do with the agreement; they simply ratified this deal that the city worked out with the CPR.

LS: The second piece of legislation of that year that is significant, I think, is Chapter 37, which was An Act to Incorporate a Gas Pipeline Company to Gather and Transmit Gas within the Province. There are a number of things that are interesting here.

First of all, I believe this piece of legislation was personally introduced by you in the House. I'm interested in the background and the philosophy and what kind of options were considered before this legislation was brought forward, but the whole issue of the use of a private company of private financing to pursue public goals, or to fit in with public goals, I think is interesting.

ECM: To refer first of all to the background: By this time the volume of gas produced in the province was getting quite substantial, and the export market was now becoming a very prominent thing in the minds of the producers and also the governments. The TransCanada PipeLine project was at last under way, and this was going to require the removal of large volumes of gas from Alberta. There was already some gas going out of the Peace River area to British Columbia. And there were applications for further export to the United States.

As this situation developed, we became increasingly concerned in the Government as to what would be the best arrangement to ensure the maximum provincial control over the movement of this gas within the province. We couldn't do anything about it outside the province. But as a matter of policy we were very anxious that as gas was moved around the province to take it to points of export, this should afford an opportunity to supply gas to an increased number of Alberta communities that were too small in themselves to justify or make economically viable the building of a gas line from the nearest supply of gas to those communities.

But if we were going to have feeder lines running around the province, picking up gas to feed into large export projects, we saw the opportunity in those feeder lines supplying a lot of communities that otherwise couldn't be supplied. That was one concern.

The second concern, and even more important because it's in a broader and bigger field, was the matter (as I have indicated) of retaining provincial jurisdiction over the pipelines, because under the existing laws at that time, if a pipeline was built under federal legislation (which would be the case in any pipeline that crossed provincial boundaries), if the feeder lines built within the province to bring gas to the point of export were an integral part of the national pipeline - in this case the TransCanada PipeLine - or any pipeline that was going out of the country or across provincial boundaries, then those feeder lines would also be under federal jurisdiction if they were an integral part of the export line.

We didn't want that, because that would be the kind of thing that would interfere with our using those facilities in the dual capacity of not only delivering gas for export but permitting gas to be tapped from those lines to go into Alberta communities to supply local Alberta utility companies and so on.

It was out of a consideration of all of those aspects that we came to the conclusion that the best thing to do would be to provide for a major provincial gas-gathering system that would be exclusively within provincial jurisdiction. As far as export is concerned, that company would simply deliver gas at the boundary of Alberta, whether at the eastern boundary to go east in the TransCanada PipeLine, or the west to go to British Columbia, or the south to go to the United States. Every aspect of that company would be exclusively provincial.

Then we had to come to a decision on "what's the best way to do this?" Should we just throw it open and invite the private sector - companies interested in pipelines - to make submissions or proposals for a company of this kind? Obviously there could only be one; you couldn't have a lot of them.

Should we consider a Crown corporation and put the government into the pipeline business? We didn't want to do that, in the first place because we saw absolutely no necessity for it. We could control the company anyway without getting into it and putting public money into it. As a matter of

principle we were opposed to investing public money in commercial activities of that kind.

So we finally came up with a third alternative which was the one accepted. That was, to establish a public company, but incorporated by an Act of the Legislature instead of being incorporated under the Companies Act as most companies are incorporated. So it was a public company, but not government owned, incorporated under a special statute of the Legislature that was Chapter 37 of 1954, called An Act to Incorporate a Gas Trunk Pipe Line Company to Gather and Transmit Gas Within the Province.

It was a unique company, and this was another reason for doing it this way. Quite frankly, we couldn't reasonably ask the private sector to accept the kind of structure that we were interested in seeing set up. In the first place, we felt that its Directors should represent four segments: the producers, the Alberta utility companies who were supplying Alberta communities, the export companies, and also that there should be somebody on the Board appointed by the Government as consumer or public representatives.

There was no way you could say to a group of private investors, "We suggest you put together a company and provide this type of structure." It wouldn't be viable.

And secondly - and this is rather unique; the emphasis on this tapered off in later years until of course now it's been long gone - the way it was structured, and the way its Board of Directors was structured, it provided very little incentive to the company to make a profit. In fact, it was advantageous to the groups that controlled it as directors <u>not</u> to make a profit, other than what was necessary to pay for the operation and keep the system viable and expand.

The only way the company could make a profit would be by increasing the amount of tariff that it charged for moving gas through the line. If it jacked that price up, somebody had to pay it. The exporter didn't want to see it go up, because he'd be afraid that he'd be asked to pay it. The

producer didn't want to see it go up because he thought they were going to take it out of the price that he got for his product. And the utilities in Alberta didn't want to see it go up because it would increase the price of gas which they would supply to their consumers.

So there was a built-in incentive for these groups to keep the operating costs of that line as low as they could possibly be, and keep the profits of the line as low as was viable to still maintain a viable operation. In other words, the interest in the line was not profits from its operation, but from the service it would provide in bringing gas from wherever it was and delivering it, whether it was to an Alberta utility company...

Now that was the thinking behind the whole project: the constitutional issue - keeping jurisdiction within the province; using the system primarily to gather gas for export, but using it also to provide gas to Alberta communities; and a structure that would not encourage tariffs any higher than were necessary to make it a viable operation.

Weighing all of those objectives, we came up with the conclusion that a company with special provisions, incorporated by an act of the Legislature, was the best way to do it.

LS: It was fairly unique in its time, was it not?

ECM: It was very unique; there's never been anything else quite like it in Canada.

LS: In those discussions about setting it up, who were the people involved?

ECM: Well, primarily of course the government. We were the ones that were concerned to get this type of thing put in place. There was interest and concern on the part of the cities and large communities in Alberta, and Alberta utility companies, who were getting a little concerned about major gas exports. They were afraid that if an export company was permitted to build its own gathering lines in the province, it could go off and make deals with Alberta producers, run its own lines in (which would not be

under provincial jurisdiction), and this in turn could affect the supply to the Alberta consumers, Alberta utility companies, Alberta cities, and so on. So there was concern there.

And we were concerned as a government because we felt it our responsibility to see that, if we were moving into the export field, it was done in a way that would be advantageous to Alberta and not create disadvantages, which we feared might come about.

We were particularly concerned about the matter of retaining that jurisdiction. Looking down the road, we didn't want to see two or three large export projects (and this did happen later on) - suppose each of those had been permitted to build their own feeder line systems throughout the province. We would have had two or three pretty major networks, gathering systems, integral parts of international or national companies. And the province would have lost a great deal of jurisdiction, not only over the pipelines (where they were built and how they were built and all the rest of it) but also over their use to supply Alberta communities as well as the exporters.

LS: How was it financed?

ECM: The structure of the company was unique, and maybe I'd better run over that, because it bears on the financing. The Act of Incorporation authorized the company to issue 8 million, or up to 8 million, non-voting shares with a par value of $5 each. And it authorized the issue of 2,002 voting shares, also with a par value of $5 each.

The voting shares, under the Act, were divided into four groups. The first group, of which there were only 200 shares, were to be held only by Alberta gas utility companies. The second group, for which there were only 50 voting shares assigned, were available to export companies. The third group, of which there were 1750 shares, were made available to Alberta producers or processors. And the 2 shares were the shares assigned to the two members of the Board of Director that were appointed by the Lieutenant-Governor in Council. That was merely because the Act required that every

Director hold a share. Those were the voting shares.

The 8 million common shares held no voting rights. So the company was managed by the owners of the 2002 voting shares, which were those four groups.

LS: Was that 8 million, or 8 thousand, non-voting shares?

ECM: 8 million non-voting shares, that had a par value of $5 each. That gave the company scope to raise $40 million by sale of non-voting shares to the public.

The Board of Directors, under the Act, consisted of seven members. The two that I've mentioned were appointed by the Lieutenant-Governor in Council. The utility company group were permitted to elect one Director to the Board. The exporters were permitted to elect one member to the Board. And the producers, 3 members, because they were by far the largest block. So there were three from the producers, one from the exporters, one from the utility companies, and two appointed by the government. That was the seven-man executive which administered the company.

After the company was put in place, there was some initial financing advanced, just as bridge financing. While the government never put money into it as such, they did some bridge financing to pay the expenses until they went on the market and raised the money.

The initial financing of Alberta Gas Trunk I guess was very unique in Canada. They decided at that point that they required (and I may be a little out on the amount) approximately $18 million of initial capital they wanted to raise. And this would be raised by raising the appropriate number out of the 8 million non-voting shares that the Act authorized them to sell.

The government involved itself in that initial financing to the extent of requiring Alberta Gas Trunk to offer those shares to the people of Alberta before they were put on the open market outside of Alberta. This was not

well-received, of course, by the financial community. They said, "That isn't the way you sell shares. Once you attach conditions, and say only certain people can have the first crack at them, you impair the ability to sell stock." They didn't like it at all.

Another thing we insisted on, that they also didn't like, was that we said, "It isn't going to be adequate, if we're really going to get these spread around among the people of Alberta, to just have them available through a syndicate of brokerage houses. They're in the large centres; the small towns don't have brokerage houses. So we had an arrangement made, in cooperation with the company, whereby the banks and the Alberta Treasury Branches would take applications for these shares, from citizens of Alberta.

The arrangement was that they would be offered to Alberta citizens for a few days (I've forgotten just how long, but quite a short period). If they had not picked up the stock by that time, then of course it would go on the general open market across Canada, and anybody that wanted it could buy it.

They went on the market for $18 million. Quite a bit of publicity was given to this - it was novel, very unique. Well, the amazing thing was that there was something between $70 and $80 million of stock subscribed by the people of Alberta in those few days that they were given the opportunity, before it was to go on the open market. So of course it never did go on the open market.

One of the other unique things about it (I don't think this ever happened in Canada before or since, to my knowledge) was that these orders that citizens put in for shares were not just orders with a deposit, they were orders with certified cheques for the full amount of the stock. We didn't want, and the company didn't want, to take a chance on having a lot of people put in orders and then when the time came to pay either hadn't the money or didn't realize what the situation was. So every order carried a certified cheque.

They had certified cheques for close to $80 million that came in from the people of Alberta!

Then of course they were faced with the problem of how to allocate $18 million of stock among people who've ordered $80 million? So they had to rebate over $60 million. It was a draw-selection type of thing. It was rather interesting, I think I heard from abut 2/3 of the people that didn't get stock. Everybody thought they'd been manipulated or something, because their money had been returned. But they had to return something like $62 million.

LS: Why did Albertans do that?

ECM: I think, for one thing, the whole thing was novel. There'd been a lot of public discussion about gas and gas export in the media and in the Legislature, over several years before this. And we had made a point in the Legislature and in providing information to the public that the position of the government was that we were going to see that the facility was built and managed in a way that protected first of all the interests of the people of Alberta. And furthermore, we were going to give the people of Alberta the right to own it. First chance to buy the stock before anybody else got a chance to buy it.

It was their opportunity; if they wanted to take it, it was there for them. And it caught their imagination. They saw a chance to get into the gas business in a big way.

I remember some concerns that we had later - this is a little off the point perhaps. They bought this stock for $5 a share, and I think the service charge was two bits - $5.25 I think was the gross cost to the purchaser. And of course the stock never looked back. It was up, $10, $15, and away it went like a rocket. And a lot of these people made a lot of money. Now it's true, the volume of stock that anybody had was quite limited, because in the pro-ration they tried to spread it out among all the purchasers as much as they could. It wasn't a matter of giving a big block to somebody, and somebody else not getting any.

But one of the worries that I had, and I guess quite a few others had, was that we knew that the thousands of these citizens, rank and file people of the province who bought the stock, had probably never owned a share of anything in their lives before. And I was pretty concerned that they would get the impression that this was what always happens when you buy stock. You see, you pay $5 for it, and three months after you can sell it for $15! I saw a great danger in the public ever getting that concept, because they might go out on the market and buy something for $5 and three months after it was worth 30¢. But the experience on this one was all in the one direction.

It was a most unique situation. That's how they got into business. That raised the initial capital, and away they went.

LS: Before it went on the market, was there any discussion about maybe Albertans wouldn't be interested?

ECM: Yes, the financial people were quite sure, with all these restrictions on it, that you'd have difficulty selling this kind of stock, and that the people wouldn't be interested in it. But I think this demonstrated a conviction that we had had for a long time (and I still have this same conviction today), that there are literally hundreds of millions of dollars of investment capital in the hands of the "little people", and it's not tapped for the simple reason that the whole structure that we have in Canada and elsewhere for financing industry is oriented to the larger investor.

I don't say this critically - from their standpoint it's the sensible thing to do. The brokerage syndicate wouldn't put it in these words, but this would be their philosophy: "Why fuss around with 10,000 shareholders with 100 shares each, when you can sell 10,000 shares to 100 people, and that's all you have." The simplicity of bigger volumes to fewer people has quite an attraction to the management kind of thing.

But we felt quite strongly, as a philosophy, we wanted the maximum number of people involved; we wanted the little people to have a chance to get

into the ball game, and that meant making it available to them even though, sure, you had to print a lot more stock certificates, and you had to involve all these banks and Treasury Branches. There was a lot of paper work, sure. But it ended up with a huge volume of Alberta people owning stock in Alberta Gas Trunk, which otherwise would never have happened.

I might add, some interesting and amusing situations came to light. Of course these things naturally get exaggerated at a time like that, but there was undoubtedly a volume of stock that did go out of the province. People from other parts of Canada had their aunts and their uncles and their nephews and their nieces buying stock for them, as long as they were in Alberta. It was known that there was some of that going on; there was merely no way that you could stop it. And it wasn't a big thing, but it was rather interesting because again it shows how the public reacts.

Just as soon as you said to the rest of the investing community in the country, "You can't have this until after these Alberta get the first shot at it," everybody wanted it! "There must be something to it that we don't know about." So they were clambering all over themselves to get into the ball game, and of course the more they did this, the more it made the Alberta people think, "There really must be something in this, or these outsiders wouldn't want to get in." So they ran down and put their orders in and filed their cheques, $80 million worth.

And remember, that was in a time when $80 million was an awful lot of money; Alberta wasn't the bouyant country it is today.

LS: And too, this approach is consistent with the Social Credit approach, is it not?

ECM: Yes, it was simple application of our philosophy of public involvement.

LS: Who was the Chief Executive Officer when it started? Who was the chief operations person? It wasn't Bob Blair at that time, was it?

ECM: Oh no, no. Blair came in away later. Maybe we can come back to that; that

man's name slips me - I'd have to check back, I can't recall off-hand.

LS: But the history of the company in Alberta is interesting, because it evolves quite a bit, doesn't it?

ECM: Oh well, yes. It went along as originally structured for years, in fact all the time I was in the government, and I think during Mr. Strom's government there was little if any change. It was changed only after the Conservative government came in. Of course today it bears no resemblance at all to Alberta Gas Trunk.

One of the things they did (and I wouldn't be critical of this; we would have done it sooner or later) was that after the company became well established, the non-voting stock was changed to become voting stock. That was one of the big changes. And the structure of the Board of course changed at that time. Once they threw it open to the public, then the public had a vote on the Directors and so on.

I served on Alberta Gas Trunk after I left the government, for a period of about two or three years. I was elected as the Director representing the export companies, and I served in that capacity until the Conservative government changed the legislation, and they eliminated those categories.

Under the old Act, the exporters had the right to elect one Director, the utility companies had the right to elect one Director, and the producers three Directors. Well, the Conservative government changed the Act and did away with those groups. They lumped those 2000 shares into one group. Well, as soon as they did that, because of the great predominance of producers, there were no more people elected as representing exporters or utility companies. It became a producers and public representation.

LS: In 1954, in March, there's a quote in one of our newspapers, talking about the price of crude oil. You are quoted as saying that you think that the price of crude oil will drop within the next one to two years, due to large shipments to two refineries at Ferndale in Washington State.

I'm interested in what the thinking is there. Why would you think that?

ECM: Well, it was a matter of volume. The Trans-Mountain pipeline had been constructed, which carried oil from Alberta to the West Coast, and they had this opportunity to supply western Canadian crude to these refineries in the State of Washington. I don't recall what the volumes were, and of course control of that was under the Federal people anyway - we had nothing to do with that. But it did increase the volumes, and I was probably referring to the through-put of the line. The tariffs in these pipelines of course depends on the through-put. If you can run a line at 90% capacity, that's one thing. If you're running at only 50%, that's another. And the higher your volume, the lower your cost per unit.

LS: One of the things that apparently you discussed at that point in time was that you said that oil production since 1947 in Alberta had really run in three stages, (1) first of all it was wide open, (2) wells were cutting down depending on engineering data, and (3) they then started to operate on the market available. Can you enlarge upon that?

ECM: Yes, initially when there was very little oil in Alberta or western Canada other than the little bit that had been produced from the naphtha field in Turner Valley (going away back before the War), our oil was imported from the United States mostly. We didn't produce anything like enough oil in Alberta or western Canada, or the country as a whole for that matter of course, so we were importers, and we brought our oil mostly from the United States.

Then when the Alberta production increased to the place where it supplied all of the Alberta market and went on into Saskatchewan and into Manitoba, some, and the east side of British Columbia (this side of the mountains) and later when the Trans-Mountain pipeline was built we got across the mountains. But our volume of production was coming up then to the place where even that market wouldn't absorb it. In other words, we had more production than we had available market.

In the meantime, before we reached that point, as we had more oil wells and

the whole program of oil development was falling into place, we imposed production quotas on the wells on the basis of engineering data - I've referred to this before. The purpose there was to be certain that the wells produced at a rate which would ensure the ultimate maximum recovery. Because of the structures, if you produce an oil well at a high rate you get more oil quickly but you leave more oil in the ground. Ultimately that well will cease to be a producer with far more oil left in the ground than if you developed that oil at a lower pace. And the engineering data was all geared to getting a rate of production that would bring the maximum amount of oil out of the formation. So those were the first quotas that were imposed.

Then when our production increased to the place where the market couldn't absorb it, we introduced the third thing which was pro-rating the wells to the available market. I think I have covered before why that was done. I can restate it very briefly. We had generally speaking two types of producing companies in the province. One was the large integrated companies that were in the oil producing business, the refining business, the marketing business - in all phases of it. The others were more the smaller companies who were only in the field of oil production. That's all they did; they produced oil and they sold it to refiners.

When the volume of production reached the place where the market would no longer absorb it, if we just left the thing wide open the way it had been before, the large integrated companies had enough production from their own oil wells to supply their own refineries, so there was no need for them to buy oil from the companies which were only producers. So what would have happened is, progressively the companies that were only producing companies would have been put out of business because there was nothing they could do with their oil. They either had to go into the refining and marketing end (which the small ones couldn't afford to do) or else shut down.

There were a lot of good reasons to keep the whole industry operative, and not put these small producing companies out of business. Some of these small producing companies have always been leaders in finding new supplies of oil. They're usually people that are prepared to take risks; they're

sort of the prospector type, many of them, in the oil field. They fulfilled a very important role as finders of new oil reserves.

Secondly, it was common practice with the large integrated companies, if they bought a large area and developed a well or two in it, to farm out the drilling of the additional wells in that field to these small companies which were only producers - farm-outs, they were called. And they performed a very valuable service in that area. The big company could go on with the advanced technology and some other area of looking for oil, and they would let the smaller producing companies take a farm-out and do the actual development in proven areas. So it was very important that those companies be preserved.

The system that was followed when we pro-rated to market was that the refiners who were buying Alberta crude would file with the Alberta Conservation Board at the beginning of each month a statement of the volume of crude that they were in a position to buy that month. This was added, and the aggregate amount was then pro-rated among all the producing wells, so that all of the wells shared equally in whatever market there was.

We did reach the place, at one time later on, where the volume of oil production in Alberta (had we permitted it to go at the best engineering rate of production, without this pro-ration) was less than 50% of capacity, because there simply wasn't any market for it.

There's another point I should mention here - I don't recall if I've mentioned it before. You were asking about this period when we didn't have oil here and had to import oil. We got our oil, as I say, largely from the United States. That was the score when the War came along; we were importers of oil from the States then. And it's something I've often thought the Canadian people should be more aware of than they are - or at least they've forgotten if they were aware. When the War situation became serious, the Americans imposed rationing of course, of gasoline, which we also did in Canada. And there was real concern in this country whether they would supply Canada with oil. When they got into the War, the War demand for oil was just staggering. For one thing, all the Middle East oil

was cut off, and the oil had to be tankered across the Atlantic to keep the War effort going, and they lost tankers by the dozens. It was just utterly staggering. And the Americans were trying to conserve. They were operating then at full capacity, the same with us - as soon as we got into that situation everything was going full blaze.

But the Americans took the position that as long as Canada would impose comparable gasoline rationing to what they did, they would treat us exactly the same as their own domestic market. We would get an equivalent amount of oil to what they got themselves. They took the bulk of it for the War effort, but there was no distinction made by the Americans between supplying Canadians and supplying other Americans.

And I've often thought in recent years, when you've got all these negative nationalists and committees for independent Canada, and all this stuff, running around with their anti-American attitudes (especially in the field of oil, that we should be cutting off all oil and cutting off all gas to the United States as if they were the enemy or something) - these people have pretty short memories. I'd hate to think of the position that Canada would have been in if the Americans had taken that nationalistic attitude towards us in those grim days when we didn't have oil in Canada to supply our needs. They, without any argument at all, said, "We'll treat Canadians exactly the same as we'll treat Americans. As long as we've got oil for Americans, we've got oil for Canadians." And I think it's something to their credit, that should be recognized by Canadians.

LS: So what you're saying is that that didn't have to be negotiated by Canadians?

ECM: Well, it was negotiated, but it was not a problem. There was a willingness on the part of the Americans to do it.

LS: Moving on, I'd like to talk about another idea that was introduced during the Budget Speech of 1954. You announced something called "Citizen Participation Dividends". I'm interested in the philosophy on that,

because what immediately comes to mind is some very early Social credit ideas. And also the outcome - what happened in this whole area.

ECM: That was a very interesting experiment. Again, it all ties in with our philosophy of government, as a Social Credit government. We worked from this premise: that the natural resources of Alberta belong to the people of Alberta as a whole. Alberta was unique in that we had not alienated our natural resource to private owners; they were owned by the public of Alberta. 90% of our oil was owned by the people. The development was done by private companies, yes, but it was done only under lease agreements, and the title remained with the citizens as the owner.

We reasoned that, if the people were the owners and the development of their resources was generating revenue, why should they not be entitled to dividends on the returns from their resources just the same as the shareholders in any other company are entitled to dividends on the returns from the development of their companies?

So we decided finally to set aside, I believe it was, one-third of the oil revenues into a Citizens Participation Fund. Incidentally, of course this was completely in line with our philosophy that you have to finance consumption as well as production. This was a way of financing consumption directly. Then any citizen of Alberta (there were certain stipulations: they had to be here so long, and so on) was eligible for a Citizens Participation Dividend as a shareholder in Alberta Incorporated, the Province of Alberta.

I believe the first one was either $20 or $25, and these dividends were paid out of this fund. What we did was take the number of citizens eligible (they registered) and the amount in the fund, represented by a third of the revenue from royalties in that year, divided the population into it, and it worked out to "X" amount. They were paid this directly, a cheque directly to the citizen.

It's the only place in Canada this has ever happened; it was a classic demonstration of financing consumers directly, and also of recognizing that

citizen ownership of resources means something other than just a theory and something on paper. There was a tangible benefit from being an owner of these resources.

It was an interesting experiment, and it also brought to light some other interesting aspects of public thinking. We did it for three years. There was a lot of criticism. Initially the criticism was primarily, and almost exclusively, from the Opposition, and of course the media - it was terrible, it was utterly stupid, this idea of giving people their own money, governments shouldn't do that kind of thing! And the Opposition of course, their line of attack was that this was a "bribe", we were "bribing the people with their own money". I don't know what we were bribing them for, but we were bribing them anyway! So there was very strong opposition, but it certainly didn't come from the rank and file of the people. They took their dividends and gobbled them up.

Then you had the other ones who said sure, all you did was stimulate the business in the beer parlours and you got it all back in the extra booze that they bought - and all this kind of stuff. It was all the usual kind of guff that comes to light when anything novel like this is done.

There was a tremendous amount of debate about it. It was in the media all the time, and it was debated at meetings and forums, and whether this was or wasn't a good thing, and so on. And we kept very close monitoring on this to see if we could find what the public mind was on it.

By the second year, we did detect one aspect that was coming through rather significantly. And that was not the political or media criticism, but an increasing number of people and interested groups were saying, "This is a very good thing and a great thing and a novel thing, and so on, but would there not be more public benefit if this money was diverted to some capital use, of something that would be a permanent benefit. After all, the family gets two or three $20 dividends, and they spend it, and a month after, precisely how much better off were they than they were before? Wouldn't it be better to do something in the capital field?"

The area in which there was the greatest interest at that time was homes for senior citizens. We had a lot of homes around the province, but we didn't have enough. So after the second year when the dividends were issued, right after the dividend was issued, we had a pretty extensive confidential public opinion survey done for us by an organization we brought in from the States. We wanted to get somebody completely outside, that had no axe to grind one way or the other, and no interests - they could be completely objective.

On the questionnaire, which we framed for them (in consultation with them) we dealt largely with this question. It dealt with a lot of other general things too, but this was really what we were concerned about. And we specifically raised the question, if they had their choice, would they prefer this one-third of the oil royalty money to be paid to them in dividends to be spent on education, to be spent on senior citizens' homes, and several things of that kind.

And the results of that survey came out very strongly on the side of senior citizens' homes. So we gave a lot of work then to preparing a program to see what we could do in this field, surveying what was needed around the province and so on. And the survey showed there definitely was a need. The homes that were there, privately operated homes most of them and some municipal ones, many were inadequate and there weren't enough of them, and there were waiting lists.

We worked out a comprehensive program to provide fifty senior citizens' homes, pinpointed all over the province. And we had a design contest. These were, I think, very attractive. Of course they're still in operation, most of them. They only accommodated about fifty people. The philosophy was, "Let's get away from getting these people in big institutions where they're just numbers. Keep the numbers down so they're a modest-sized little community, and by having more homes and smaller ones, scatter them all over the province so these dear souls in their latter years don't have to leave their loved ones and communities but they can go to a local senior citizens' lodge and be close enough to be visited by their families and their friends." It would be far less dislocation.

So we worked out this program, and after we got it all complete then we announced the cancellation of the Citizens Dividend, and that this same amount of money was diverted to pay for these fifty senior citizens' homes. That provided accommodation (it took probably two or three years to get the whole fifty in place) for 2,500 senior citizens.

I don't know whether you've ever seen these lodges as they're scattered all over the province - there are several in Edmonton. They were all the same design, and they're very delightful places. They weren't like an institution at all. They were like a nice big home, with lounges where people could sit and visit, and all this kind of thing.

So that's how the Citizens Participation Dividend program ended in the money being diverted to the capital for senior citizens' homes.

LS: Did it surprise you to find that questionnaire answered in that way? that these people who were getting the cash would say that this was a better use for it?

ECM: I was surprised to some extent, and I might say I was very pleased. It seemed to me that it showed a thoughtfulness on the part of people, a concern for others.

Certainly the number of people who were going to get benefit from the senior citizens' homes (2,500 as compared with half a million) - a lot of people were giving up $20 and doing it apparently quite readily, saying, "We'd rather do without this $20 once a year and have a home where people in our community can go when they need that kind of thing." I liked the attitude that it indicated.

LS: I'd like to move on to 1955, and before looking at a piece of legislation I want to first of all discuss an issue that came up regarding the government purchase of land for a jail site in the Calgary area. There were several sites - Spy Hill, Chestermere Lake, and I think one other - involved.

I'm wondering what the background was to that, your comments on it, and

what kind of opposition claims were made. Also, the role of the Public Accounts Committee. Apparently this was one of the issues on which you (or however it works) in fact called together the Public Accounts Committee, and in fact there were 61 members on it. So I'd like your comments on that whole issue.

ECM: The background was simply that with the growth of population, and growth of crime, our existing jails were inadequate to accommodate the jail population, and we had to have a new provincial jail. The main provincial jail at that time was in Fort Saskatchewan near Edmonton, so I think pretty well everybody agreed that if we were going to build another major jail it should be in the southern area of the province, somewhere near Calgary.

We ran into the usual problem that all governments run into (in those days and even more so today) when you're going to build anything that's unpopular. Everybody wanted additional jails because they wanted the thugs locked up, but nobody wanted the jail within ten miles of where they lived. And that situation is what as you know prevails today. There are wars going on all the time, every time anybody wants to build a jail or a mental hospital or a nuclear plant or something of this kind - everybody wants it, but don't put it near me!

Our public works people went around Calgary and ferreted out a number of possible sites that had the physical requirements for an institution. One was Spy Hill, one was Chestermere, and I believe there was one site near Airdrie, if I remember correctly. They looked at many sites, but they came back and said, "Here are three sites."

In those days, of course, it was not practice anywhere to have anything like the public input into things of this kind. It was very rare that there were public forums held asking community opinion on these things, other than the municipal authorities that you dealt with.

As I recall (this is pretty vague now), of the three sites, I think the first choice was Chestermere. The Public Works Department had done some dickering in all these areas to get some options on land, because in

anything like that with the government, if it gets around that the government's looking for property, of course the land prices will double and treble overnight. So if you're going to have to put an institution or a main public works in an area, if there's any reasonable chance of going there at all, at least you take out an option to protect you. Our people took options in I think all three of these areas.

There was a fuss made over the Chestermere site, and this was raised in the Legislature by Calgary members, I think Paul Brecken who was one of the Tory members from Calgary. Of course it was the usual criticism. They heard about these options, you see, that the government was buying land, and all the usual criticism - "Why did they take an option on this particular farmer's land and why not somebody else's land?" and all this. I don't remember the details of that, but that kind of criticism surfaced as it always does.

And there was quite a protest. The protest from the Chestermere Lake area I remember was very vehement. And there was one thing there that I guess influenced us. Chestermere Lake, east of Calgary, was a nice little resort area. Now, the jail wasn't going to be at the resort area, but in that general area, and this was one point that we felt of valid concern. You don't want a jail in an area that's being frequented as a tourist attraction, summer cottages, and all this type of thing.

The final selection was Spy Hill, west of Calgary. That was a tract of land that was not particularly good land, from an agricultural standpoint, but quite suitable for the location of an institution. So that's where the jail was finally built.

LS: Why was the Public Accounts Committee called to deal with this among other things?

ECM: Well, the Public Accounts Committee of course met every session to deal with the estimates. One of the policies in those days was, rather than go through a lot of things they'd usually single out one department to concentrate on during that session. The Public Accounts Committee would

have a number of meetings during the session, on that department.

I assume (I don't remember this) from the fact that it dealt with these matters that probably that was one of the years when the Public Accounts Committee looked at the Public Works Department. And naturally the expenditures on the Spy Hill jail and jail sites would be one of the big items which would naturally be dealt with by the Public Accounts Committee.

LS: I think that the other thing that it dealt with (and we'll come back to this later) was the whole question of Government Members and offices. I believe that was one of the things that there were terms of reference for. Do you recall that?

ECM: No, I don't off-hand, but that could well be. The Public Accounts Committee is a Committee of the Whole House, and it's an opportunity for members, particularly the Opposition Members, to raise any subject on government expenditures that they want to have the Committee look at.

LS: Now I'd like to look at an important piece of legislation and some of the background to it, in 1955, the First Session. This is Chapter 57, An Act Relating to Statutes Affecting Bituminous Sands Operation. I'd like to know what the provisions and background for that were, and then to get into a discussion about the Great Canadian Oil Sands.

ECM: We were moving at that point in time to the place where hopefully there was going to be a commercial development of the tar sands. There'd been a lot of activity prior to this, but it had been primarily research work by the Research Council of Alberta, and a couple of pilot plants up in the area, but not commercial. We really didn't have any legislation. This stems now on from the Blair Report that we talked about last time, which had said they believed and felt it was economically viable to produce oil from the tar sands. As I say, we didn't have any legislation specifically for governing and spelling out the procedures for commercial plants in the tar sands.

So an Act was passed at that Session in 1955 which spelled out all the

details - leases of the tar sands, how they could be developed, royalties, everything that pertained to developing oil from the tar sands, just as we already had it in place for oil produced from the conventional method by wells.

But the Oil and Gas Resources Conservation Act did not apply to bituminous sands. It applied only to the conventional industry. There was another reason for making this distinction, and even having it in separate legislation. As I've indicated a little earlier, our conventional industry (the oil wells) were already pro-rated to market, and were operating below capacity.

Everybody recognized that if we got into commercial development of the tar sands, that was much more of a mining operation than it was an oil operation because the big factor is removing the overburden and getting the sand out. Then you come to the phase of separating the oil from the sand; and then you have the huge problem of disposing of the tailings - the sand that is left. As far as the oil is concerned, it simply has to be upgraded sufficiently to pump it through a pipeline and then you send it off to an ordinary refinery and from there on it's no different from any other crude. But basically, it's a mining operation, and that's where the cost is. If it was going to be economically viable, it would be by finding a means of stripping this overburden and doing all this stuff.

Now, because it's a mining operation, a plant would have to be a continuous through-put. You couldn't pro-rate a tar sand plant to market, and say, "You can operate at 50% of your capacity," the way you could an oil well. If you ever cut an industrial plant or a mining plant down to 50% operating capacity, you'd put the thing into bankruptcy immediately. It's got to operate at full capacity to be economically viable.

So this Act took the tar sands out from under the oil conservation regulations altogether and put them under a separate Statute where all these characteristics of tar sands operations which are so different from the conventional industry could have their own regulations and rules governing their development.

LS: That means that the company, Great Canadian Oil Sands, then that went up to develop that area was excluded from the kind of quota system; there was no pro-ration on it at all?

ECM: No pro-ration at all.

LS: It was also excluded apparently from guaranteed markets?

ECM: Well, the guaranteed market is really a part of the pro-ration system. What the pro-ration did was guarantee a market. But it cut the volume of the market up - it guaranteed you a market but it would be a market for only part of your production, and that of course was not applicable in this case.

LS: Was there some thinking also that there were a lot of things to be ironed out in the process? Was that part of the thinking in not putting these kinds of conditions on it?

ECM: Well, it was mainly the economic viability. We started with the premise that if we're going to have a commercial operation in the tar sands, number one, it has to be a minimum output. Anything below a certain figure is not going to be economically viable. It's got to have a certain size. Two, it's got to be able to operate continuously, 24 hours a day, 7 days a week. Three, it's got to be able to market the production that it's authorized to produce. If you can't meet those three things, then there was not going to be commercial development because it simply would not be viable.

There was quite a lapse of time, of course, between this and when this tar sand pland finally gets into the ball game, even putting it together. But I might mention at this stage, though we may have referred to this before, the conventional industry was very disturbed - not so much at this time because this was still in the legislative and theoretical stage, but when we got around to approving the first plant - because by that time we were in the period that I have referred to when their production was less than 50% of what it could be. And because there was no new market altogether,

what the conventional industry felt was, "If you let the tar sand oil go into the existing market, the ultimate result is going to be that our production is going to be cut down by an equivalent amount." Which was perfectly logical.

We recognized that it was a real problem, a real headache. And we finally came up with an arbitrary formula (admittedly it was purely arbitrary) and we gave assurance to the conventional industry that in any permits that we issued for a tar sand plant we would not give them a permit that would exceed 5% of the available market at that time. In other words, the conventional industry would lose 5% of the aggregate market. Now, that spread over the numerous companies, and it would not be too serious. It was a loss to them, but they could live with it. They objected vehemently to even that.

And I mention that because it also had a bearing on the initial tar sand plant. When the application was finally made for a plant, they applied for 45,000 barrels a day through-put. The reason that they picked 45,000 barrels a day was that at that point in time, 45,000 barrels a day was 5% of the available market, so they knew there was no point in applying for more. Actually it was too small, and they had to increase it later on. The plant should not be less than 60-65,000 barrels a day, or even more. But the 45,000 they arrived at by simply saying, "Well, that's 5% of the market. If we apply for more we won't get it because of this overriding policy."

LS: Back in 1953, apparently, in Toronto a group of business people got together to form the Great Canadian Oil Sands. I'm interested in whether there were discussions at that point in time with your government? or perhaps with Mr. Tanner or with you? I'm interested in the background of who these people were, and especially that interrelationship with this part of the country, and how was it all financed and put together. Those "behind the scenes" preliminary discussions.

ECM: There was a group that became known later as Great Canadian Oil Sands, that was headquartered in Toronto. There were western oil people involved in it

too, but I think it was based in Toronto because they recognized that the big question was whether you could finance a tar sands commercial plant. The technology had been carried to the place, particularly with the Blair Report, where it had been said, "It's viable technically and economically, but it's going to take a lot of money." And the next stage was, "Let's see if we can raise the kind of money that you have to have to do this."

I think it was understandable under those circumstances that the headquarters of this group was based in Toronto, because that's where the money was if they were going to go to the money markets.

There were a number involved in that group. They included oil men. They included professional men - lawyers, and accountants, and the people that are essential to that thing. They came out and talked to us, on a number of occasions, I don't know how many. These were general discussions. They were looking, for example, at what would the government's position be, what would the government's role be, had the government any intention of backing this financially or were they entirely on their own, what would the royalty rates be, what would the taxation rates be - all these things. And as I say, we had a number of discussions with them over quite a perid of time.

They explored a lot of possibilities for raising money for this, and they were not successful. They interested some groups, they tried interesting other companies. If I recall correctly, at one time they tried to interest Canadian Pacific, because they were in the mining and oil business. But these deals never worked out.

I think what that all adds up to is, while it was considered at that stage that a tar sand plant could be a viable enterprise, it was not an attractive enterprise. It was not something that would attract investors as a sure thing that you'd get a return on your money. You had a chance of getting a return, maybe down the road a good return, but it was an iffy situation.

They tried very hard over a long period of time, and I must say they tried with considerable encouragement from us, because we wanted this to be a

Canadian operation. As a matter of practice and policy, we would like to see Alberta groups involved in it, and we'd like to see it Canadian if it was possible at all. But over quite a long period of time and much effort by some very competent men, they simply could not come up with a financing structure to implement it.

During that period of time, a number of American groups had expressed an interest in it. One of them was the Sun Oil Company. They were rather a unique company because Sun was a huge oil company, one of the big companies in the States, but it was a private company. It had not gone public at that time (they did later). That gave it some advantages in that it was quicker; they could come to decisions easier than a public company that had to go through all the formalities of shareholders' meetings, resolutions of shareholders, and so on.

Sun became quite interested in this. Sun Oil Company of course belonged to the Pugh family, a family that had made their mark in the oil industry in the States and been very successful, and during the War became quite prominent because they went into the War effort completely and went into the shipbuilding business. They had had a shipbuilding yard before - I think they built tankers for their oil operation and so on - but they had a shipbuilding plant at Chester, Pennsylvania, and I think they had another one on the West Coast.

I know the one at Chester, Pennsylvania, at one time during the War employed around 45,000 men. I guess it was the largest shipbuilding plant in the States, turning out what they called Liberty Ships, which were a cheaply built freighter to haul cargo across the Atlantic. They were little more than a hull with an engine in it and some cargo holds. They lost so many of them that they were purposely kept to an absolutely minimum. And the Sun company formed a shipbuilding company as an auxiliary.

Howard Pugh, the one that was the most active in the oil end of the Sun Oil Company, came up to Western Canada and looked at the tar sand possibilities. He was a very, very remarkable man. He's dead now; he died

at the age of well over 80, and his mind was still like a steel trap. He was one of the old-school, hard-worker, doer type of entrepreneur. And I think probably because of that outlook that permeated the Sun Company activities in those days when they were a private company, it perhaps made him a little more inclined to get involved in things of this kind. They were sort of challenged by the newness of opportunity as entrepreneurs, and Pugh was very much an entrepreneur.

Anyway, they dickered around, and tried to get involved a little big. The Canadian group did not want to involve American groups, initially, because they were trying to do it as a Canadian project.

But anyway, to make a long story short, when the Canadian group finally felt they just couldn't put a financing package together, they finally made a deal with Sun Oil Company and Sun put up the initial financing. There was financing done in Canada too, and we brought in again another application of the same principle we'd used in Alberta Gas Trunk.

Initially, Sun didn't want to do any financing up here. They didn't need it. Sun had all kinds of money; money was not a problem with Sun Oil Company. But we said no, we wanted the Canadian people and particularly Albertan people, to have a chance to get a position in this.

So at our insistence they agreed to issue a relatively small issue - I've forgotten what the actual amount was - of convertible debentures. These were bonds that were guaranteed by the Sun Oil Company, they carried interest at I think 6% which in those days was pretty good interest, and they were convertible into shares of Great Canadian Oil Sands.

They too were offered, at our insistence, to the people of Alberta, and away over-subscribed. The whole issue was picked up by the people of Alberta. That deal didn't work out nearly as profitable for the investors as Alberta Gas Trunk, because while Sun got into the commercial development and opened the first plant, they lost millions and millions of dollars the first number of years. In fact, they're probably only about at the break-even point now, and they certainly haven't recovered yet the money

that they lost in those early years. So the stock didn't become terribly attractive. The people got their interest on the debentures, but they were not attractive as convertible stock. I don't know how many converted, but they had that opportunity.

LS: Did you personally know Mr. Pugh?

ECM: Oh yes, I knew him quite well.

LS: I recall somewhere in looking at old newspapers, a picture of you and Mrs. Manning actually christening one of these boats or ships called the "Alberta-something"?

ECM: Yes, that was at the Pugh ship-building yards in Chester, Pennsylvania, but that was really was not connected with the Sun people other than that they built the ship. That was the ship built by the Imperial Oil Company. They named it the S.S. Imperial Alberta after Alberta, in recognition of the Leduc discovery well.

LS: So that was some years earlier, was it?

ECM: I don't recall the year, but it was the year we split the Department of Mines and Minerals. Do you recall my telling you about us having to wait till midnight to take off because we had to swear in a new Minister? The Imperial people asked Mrs. Manning to christen the ship, so we went down to Chester, Pennsylvania, for the christening.

That was at the Pugh shipbuilding yard, but had no connection with Sun Oil.

LS: Just one final question. Your government was criticized, I think, for some of the results of this relationship that developed with Great Canadian Oil Sands for the kind of concessions that they received. What is your comment about that?

ECM: I guess whatever criticism there was is the same as you hear today. The border-line situation that this first commercial tar sand plant faced led

them to come to the government and say, "Look, there's no way we can make this thing go unless we have an understanding on royalties, taxation, and things of this kind, at least in the transition period until we get the thing established." And royalty concessions were made to them, that is compared to the conventional industry.

This was criticized, by the Opposition and in the media, and the type of criticism was the standard. First of all, they said, "This is an American company, and here's the Government of Alberta giving them concessions on royalties." What was overlooked in that kind of criticism was that the choice you had was between making the project economically viable and not having it at all. And we felt it was very advantageous to the province that there should be a commercial development of the tar sands. So we made the necessary concessions.

I certainly don't think we gave anything away that we shouldn't have given away. Without those concessions I know they couldn't have gone ahead. And I think we can truthfully say we made the minimum concessions that we had to make to get the project off the ground and into production. And of course the experience after it got into production more than bore it out because as I say, they lost millions and millions of dollars.

They're in trouble again now, as you know, because there was a period when the present government permitted them to get world price for their product. And then they decided that they didn't need world price because the plant was built before the time of high inflation, so they stuck them back on the arbitrary domestic price. They had moved into a profitable position for a few years where they were liquidating some of the accummulated deficit that they'd piled up, and then I think the effect when they cut them back on the price - they may be breaking even, but I don't think they're doing more than breaking even, if that. They're protesting very loudly.

LS: One final question. Did you know Mr. Thayer? What was his role?

ECM: He was the man that was in charge of the tar sand development when it came into production. There's an interesting story there. J. Howard Pugh, who was supposed to be retired (he had been President of Sun Oil Company for many years), retired three or four times on paper, I think the last time when he was about 80. He was always active; he became a little frail, but his mind was active, and he was a fantastic man, just a delight to talk to. His grasp of things all over the world was tremendous; he was always wanting to do something. He was a humanitarian, a deeply religious man, an ideal character.

Anyway, Mr. Thayer had been with Sun Oil Company for many years. He was an extremely talented technical man, another fine calibre fellow, a delight to know. He had managed their big operation, I think in San Francisco was the last one, and he had reached the age of about 67. He'd stayed on a couple of years after retirement because he had been in charge of a huge operation Sun had - a refinery and processing plant, I believe at San Francisco.

As a little side-line, he was a sailor, loved to sail. He had a beautiful ocean sailboat, and his ambition was to retire and spend a little time cruising around on this boat.

Anyway, he stayed on two years beyond time, and it was just at this time when he finally retired in San Francisco, that the tar sand plant came in in Alberta. This story was told to me by oil company people that where there at the time, but knowing both of those men I can well believe it. Mr. Pugh and Mr. Thayer were very close friends, apart altogether from the fact that Thayer had been in the company for 30 or 35 years; they were close personal friends. So now they were both ostensibly retired - the one fellow's about 70 or 75 and the other fellow's about 67. They were up at McMurray, and this is the story that's told me at least by the fellows that were driving around, this very interesting conversation that these two men had in the car driving out to the plant.

Mr. Pugh had decided that the ideal man to take charge of this new plant, get it off the ground and on its feet, and iron out all the bugs, was Clarence Thayer. He was the best man he knew in that field. So he's

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telling Mr. Thayer as they were driving out, "You know really, you're the man that ought to take this over. I really want you to do it." Here's poor Mr. Thayer, who stayed on two years past retirement, and wants to go sailing, and now Pugh's at him to take on this job, and not only take it on but take it on for five years. He thought it'd be five years to get the bugs ironed out, you see, so this is going to put poor Clarence to 72 or 73 or something.

The argument goes back and forth, and Thayer's advancing all the reasons why he didn't want to do this, and shouldn't do it, and you ought to get a younger man, and all the rest of it. The story as it's told is that finally Mr. Pugh says, "Well, alright, Clarence, I guess you leave me only one alternative." So Thayer says, "What's that?" "Well," he says, "I'll do it myself."

Now here's the old fellow about 75, he's going to take it on for five years himself, and this young fellow just about 67! So of course Clarence collapses and takes it on. And he was their man who put the whole thing into operation. A very capable man.

LS: And a capable administrator.

ECM: Oh yes, extremely capable. He was a Vice-President of Sun Oil Company; he was right up at the very top. He was a technical man, and that's why Pugh was very anxious to have him in charge. Now, he didn't stay up here all the time; he spent a lot of time here and was back and forth all the time.

LS: Did he ever get to sail?

ECM: Oh, I guess he did a bit of it. He's dead now; he died not too long after.

LS: O.K.