

Petroleum Incentives Program Act

The proposed wells in this program were identified as a result of a law passed by the then Liberal Government. According to this provision, Canadian companies—with their benefits—could be encouraged to farm-in on lease holdings of other companies. In this case the company was Mobil Oil, which was operating off the coasts of Nova Scotia and Newfoundland. Mobil Oil would sublease its well drilling rights obtained from the federal Government to other companies like Husky-Bow Valley. In other words, it would be a sublease, but in return for obtaining this sublease Mobil Oil and other companies giving the sublease or farm-in would often require those companies to drill additional wells besides those for which they had obtained rights.

In the case of the Husky Oil and Mobil sublease, the drilling of additional wells was a requirement of the farm-in provision. While Husky-Bow Valley agreed to these requirements, it wanted the right to back away from these additional wells if the initial wells drilled showed no likelihood of oil or gas in those areas. It would not proceed with the other wells, even though it could get 80 per cent funding. I believe that such an arrangement was a benefit to the Government and the Canadian people because the companies would not be drilling dry holes.

Other companies that granted these sublease rights required that additional wells be drilled regardless of whether the initial wells showed any likelihood of oil or gas.

According to the regulations introduced by the Government after the Western Accord, those companies which had an agreement that they would not have to drill additional wells unless the initial wells indicated that oil and gas deposits may be found were placed in a detrimental position. Since these were not firm commitments to drill wells, the Government said those companies could not receive funds under the Petroleum Incentives Program. Therefore, companies that acted in a business-like manner were being penalized and prejudiced under the regulations of the Petroleum Incentives Program. That is unfair because it was prejudicial to companies like Husky-Bow Valley. It had submitted its drilling program and acted in a business-like manner. It stated that it was interested in the frontier off the East Coast of Canada. It even spent \$430 million on two drilling rigs as a show of its good faith.

Furthermore, the federal Government indicated that any penalty expense would not qualify for grants under the Petroleum Incentives Program. A penalty expense refers to those companies, Petro-Canada in particular, that were given particular rights, through a consortium, to a particular well through the back-in or Crown lands provision. This back-in provision would enable Petro-Canada to obtain 25 per cent of the drilling rights to a particular well and its production. If Petro-Canada backed out of the consortium, the new partner or remaining partners that would have to pick up the 25 per cent would not qualify for grants under the Petroleum Incentives Program. In other words, the remaining partners or new partner are being put into a prejudicial position.

The Government is asking companies in financial difficulty, particularly during this time of declining oil prices, to take on

an extra 25 per cent with no assistance from the federal Government other than the minuscule 10 per cent provided according to this Bill. It is incredible that the rules of the game are being changed retroactively.

Let me return to the case of Husky-Bow Valley. At the time of the Western Accord it was in a position to drill 10 additional wells, pursuant to the Petroleum Incentives Program. These wells were to be drilled in 1986 and 1987. The company owned two drilling rigs which enabled it to drill a limited number of wells at one time. If it did not use these rigs, worth \$430 million, it would have to rent additional rigs at a cost of millions of dollars, while the repayment and recapture of its investment on its own rigs might go completely unreplenished. Therefore, the company wanted to make use of its own investment in order to drill the wells which they acquired on their own behalf and on behalf of the people of Canada.

The Government makes matters worse by stating that the Petroleum Incentives Program grants are only available under the primary term, which it is limiting to the period from the Western Accord, approximately a year ago, to the end of March, 1986. Since Husky-Bow Valley would have to stagger its drilling in order to use its own rigs, that provision completely rules out the possibility of Husky-Bow Valley being able to drill its 10 wells with its own rigs. This was done by the Government, with full knowledge of the drilling program of Husky-Bow Valley because Husky-Bow Valley had to file its drilling program and did so in 1983. You can imagine, Mr. Speaker, the concern of a company which spends \$430 million, plans to drill 10 wells to recapture the money invested and then finds out it cannot drill these wells.

● (1240)

The company immediately started to talk to the federal Government about drilling the 10 wells. In the fall of 1985 it met with the Department of Energy, Mines and Resources and the Department of Finance—and we have the Minister of Finance (Mr. Wilson) here today—and was asked if it would accept seven wells. Husky-Bow Valley said it would accept seven wells at the urging of the federal Government. It agreed to reduce the number of wells to be drilled from 10 wells to seven. I think that is a quite a magnanimous move on the part of Husky-Bow Valley, even though it felt it should be able to recapture the expenditure by drilling the seven wells instead of 10.

Then in January of this year, the Minister of Finance put pressure on the Department of Energy, Mines and Resources, saying the Government could not afford to let Husky-Bow Valley drill seven wells, so changes were made in the regulations under Bill C-85. But no one has seen the regulations. No one knows what they are. Certain regulations have been made known to Husky-Bow Valley and Members of the industry but no one has ever seen them in their entirety. No one knows exactly what they are going to be. They could be changed yet again.

By saying that it could not afford to let Husky-Bow Valley drill seven wells, the federal Government has taken these