with such regulations as the Governor in Council may make in that behalf, an amount equal to the excess of

(a) the total value, as determined by the Board, of the purchaser's gas delivered in that month in that area or zone outside its province of production or at that point on the international boundary of Canada;

over

(b) the purchaser's cost, as determined by the Board, in respect of the acquisition and transportation of that gas to its point of delivery in that month.

(3) For the purposes of this section, "cost of gas" shall be computed, if approved by the Board, by using prices payable at the wellhead to producers of gas or shall be computed by such other means as the Board may prescribe."

Mr. Baldwin: While I am sure that the President of the Privy Council has grasped in an instant the interpretation of this amendment, there may be some hon. members to whom it is not quite so plain. Would the minister be willing to explain the purpose behind the amendment?

Mr. Macdonald (Rosedale): Yes, Mr. Chairman. As indicated, believe it or not, from having read the terminology, the considered opinion is that this is a simpler mechanism for determining the flowback of certain moneys to the producer of gas. Clause 64(1) deals with the case in which the pipeline is the owner of the gas transported from the producer to the consuming province. Much of the gas transported by TransCanada PipeLines is in that category. Gas transported and sold in the consuming province is, of course, sold at the prescribed price. The total revenue is computed and from this is deducted the purchaser's cost of service as determined by the board. The difference is then distributed, in accordance with such regulations as the governor in council may make, among the producers.

The intention is that it prescribes prices more closely approximating commodity value, that is, the equivalent value of petroleum, to improve the return to producers and so provide a means for encouraging exploration and development of gas. The distribution will be made in the manner best calculated to achieve this, which would not necessarily be on a pro rata basis.

Clause 64(2) provides for the case in which the pipeline, as opposed to being the owners, is only a carrier of the gas. A similar calculation is carried out *mutatis mutandis* and a similar flowback would occur.

In Clause 64(3) the expression "cost of gas" is defined in terms of prices payable at the wellhead to producers of gas or by such other means as the board may prescribe. This is necessary to cover the situation for a company like Westcoast Transmission. Westcoast Transmission does not itself buy from producers. The purchases are made by the British Columbia Petroleum Corporation which, having bought from the producers, immediately transfers it to Westcoast Transmission which in turn pays BCPC according to a formula by which the price is determined *ex post facto*. It is necessary for purposes of calculation to use the price paid by BCPC and not the calculated price paid by Westcoast.

I hope that is helpful as an explanation. It is obviously a rather complicated regime.

Mr. Baldwin: I have the general idea.

Amendment (Mr. Sharp) agreed to.

[Mr. Sharp.]

Clause as amended agreed to.

Clauses 65 to 69 inclusive agreed to.

On clause 70—*Reports*.

Mr. Douglas (Nanaimo-Cowichan-The Islands): This may not be the best place to deal with the matter, and if the minister prefers to leave it until his report to the energy committee, I would be perfectly satisfied. But since we are dealing with cost compensation in part IV of the bill, I wonder if the minister would like to make any statement with respect to the basis upon which these cost compensation payments have been made. Some newspaper reports have indicated that in the past 12 months there has been a switch by the oil importing companies from Venezuelan oil to Middle East oil.

Prior to the cost compensation program coming into effect, my recollection is that about 60 per cent of our imported oil came from Venezuela and about 40 per cent from the Middle East and Africa, and now it has been reversed. Reports indicate that the reason for this switch is that it is financially advantageous for an oil company to bring in Middle East oil, to the extent of some 95 cents a barrel, and sell their Venezuelan oil in another market. One day in the question period I asked the minister if he would look into the matter, and I am sure he has. I wonder if the minister wants to comment on the steps that are being taken to plug this loophole—if there is a loophole—or to leave it until his report to the energy committee? He may want to deal with it at that time, but we ought to have an explanation reasonably soon.

Mr. Macdonald (Rosedale): Perhaps I could do both. The energy supplies allocation board will be before the committee on Thursday morning and it might be appropriate then to go into this matter at greater length. But perhaps I could make some comments at this point. This has been a matter of some concern in the administration of the provisions of the compensation program. It will be recalled that the program was founded on the oil price costs as they were in November, 1973. The purpose was really to compensate for increases beyond the prices that were established as of that date. There was an adjustment of 90 cents per barrel to reflect the April 1, 1974, Canadian crude oil price increase, the price of imported oil having previously risen by some $2 a barrel while western prices were frozen. As of April 1, 1974, the prices domestically came into balance.

● (1520)

It is quite true, as was pointed out in a number of press stories and in the House, that at the moment Middle East oil does receive more compensation and is cheaper in relation to Venezuelan oil after compensation. This reflects the fact that at the time the November, 1973, provision went into effect, Venezuelan oil was actually ahead in price. Prices were frozen at that time for the base, so compensation has been laid on top of that difference. That reflects the 1973 competitive relationship which has been embodied in the compensation program.

I think it is fair to say that it is now indicated to us that there should be a change to try to make the system neutral as between Venezuelan and Middle East oil. Indeed, the officials of my department and of the Energy Supplies