

EVENING SITTING
COMMITTEE OF FINANCE

General Revenue Fund
Saskatchewan Property Management Corporation
Vote 53

Subvote (SP01)

Mr. Bjornerud: — Thank you, Mr. Deputy Speaker, and welcome back, Madam Minister, and your officials.

Madam Minister, when we left off we had just started in to talking about the Alberta company that went under. And maybe to start off tonight if I could get you just to give us an overview of what happened to that company and the ramifications that it caused. Was there money lost because that company went under and so on? Could you just give us a broad overview of it?

Hon. Ms. Hamilton: — Thank you for the question, colleague. I'll go through a bit of a story to this discussion if I may.

You're asking about subcontractors and, as I said before the break, we contract with the overall general contractor and then the responsibility for the subcontracts and the trades that come on board are the responsibility of that overall construction manager, which in this case is PCL Maxam. But PCL Maxam, if they were going forward and looking for a subtrade, and in this case you're talking about asbestos removal, would have SPMC (Saskatchewan Property Management Corporation) insisting that they use the Canadian construction documentation committee criteria to evaluate each applicant based on their capacity, skill, and experience.

So the pre-qualification research has to include the legal structure of the contractor, the financial references, the bonding references, the annual value of the construction work that they've done over the past five years, principal projects that they've completed over the past five years, similar or related projects completed, major construction projects presently underway and key personnel proposed for this project and a history of their qualifications and experience.

With that in mind, and with the requirement that PCL would do a fair, open, tendering process for the subcontractors, there were six firms that were identified who would be qualified to do this based on that criteria.

On that then, the tendering policy we have in a fair, open, tendering way is to then look at who would be able to complete the work within the lowest bid. And that was I.E.S. contracting. And I think the difference was well over a million dollars difference between their bid and the next bid.

So making certain, as my officials have done in this instance, that all of the requirements were met, I.E.S. was the one who began the work. And as you know, there was some difficulty with the financing of the parent company, and that company then was no longer able with that name to complete the work.

PCL then looked at whether or not, with of course the people

working there already started, with the pre-qualification that they would go through extensive training on the particular job site, with the work that had been completed to date, it was their deliberation that Vision Industrial, working under the authority of the original bond provided by I.E.S. with full knowledge of the bonding company, was arranged to continue on the work site by PCL.

Mr. Bjornerud: — Thank you, Mr. Deputy Speaker. Madam Minister, is it standard procedure in these situations to not have even sub-contractors bonded when they tender on any project for the government?

Hon. Ms. Hamilton: — My officials tell me that in this case, it would be standard procedure to make sure that the job was fully bonded and insured, and that that would properly protect the investment which the taxpayers have made in this instance. And then it's my understanding that the company working on-site now is working under the authority or the auspices of the original bond provided by I.E.S., with full knowledge of the bonding company involved, and it's arranged under PCL. And in that way, the interests of the taxpayer of the province is protected.

Mr. Bjornerud: — Maybe I misunderstood you, Madam Minister, but you said they're working under the bond of I.E.S., and if I understood it right, that I.E.S. didn't have a bond. And they were . . . and you also had said that they were \$1 million cheaper. And Madam Minister, maybe I can understand why they were \$1 million cheaper when, when it comes to finances, they couldn't even do the job in the end. So could you explain that.

Hon. Ms. Hamilton: — I believe you are misunderstanding what I'm saying. I.E.S. would have to prove that they have the bonding and insurance in place before they could pre-qualify. When I read the qualification list, they have to have a bonding reference, they have to have financial references, they have to work under the legal structure of the contractor on the site, they have to inform people of the work that they've done beforehand in this usual way, any major construction projects they've been involved in. And we believed that PCL demonstrated to us that all of the pre-qualification requirements were met, and that was demonstrated to my officials.

They were using the Canadian construction documentation committee criteria, in this instance and as I said, there were eight pre-qualifiers and six companies met those qualifications. I.E.S. was one of them.

Mr. Bjornerud: — Thank you, Mr. Deputy Speaker, Madam Minister, is there any chance we could get you to table that information you're giving us there?

And I'm still having a hard time understanding, Madam Minister. I've been involved in municipal politics where we put out tenders and we have companies that are bonded. They have to supply the bond when they put their tender in or they won't even be accepted. Now, you say that this I.E.S. had to have bonding references. I don't understand why they would need bonding references if they were not bonded. Are you saying they were bonded? Maybe I'm mistaken. Maybe they were

bonded and my information is wrong.

Hon. Ms. Hamilton: — I have to tell you that I.E.S. was fully bonded and Vision has been working under the authority of that original bond. So, yes, bonding requirements are in place and have been met. I can also give you . . . I'll get for you from my officials the pre-qualification criteria that were set out and established in this case.

Mr. Bjornerud: — Thank you, Mr. Deputy Speaker. Okay, Madam Minister, that would be good if you would pass that onto us. The company that took over then from I.E.S. and filled in to do the work that they were originally designated to do — were they also bonded on their own or were they bonded under PCL?

Hon. Ms. Hamilton: — Thank you. The initial bonding was in place. The letter of surety was there. The insurance was there.

As I said earlier, Vision, the new company, is working under the authority of the original bond that was provided by I.E.S., and it's done with the full knowledge of the bonding company arranged by PCL. All of their work therefore would be covered by that bonding and by the letter of surety.

But this, as I said earlier, Mr. Chair, is an issue between PCL and that company. As long as they can assure us all of those things are in place and our taxpayers' dollars are protected, and the work is covered in the way we suggested for the pre-qualification, then all of that guarantee is between PCL and the subcontractor.

Mr. Bjornerud: — Thank you, Madam Minister. Madam Minister, then in a number of cases, and I know it hasn't always worked this way, but a number of cases when this situation happens then you would move down the list to the second tender. The company that you're using now, did it tender in the first round — was it one of the tenders put in, in the first round?

Hon. Ms. Hamilton: — PCL would be the one to guarantee to us that the work is being done. In this instance, it's not by a totally new company so it wasn't that the workers who were on the site before the work began were other than I.E.S. employees and workers.

So when there was difficulty with the parent company and the financial situation was changing, PCL worked with the workers on the work site to be able to put all of the guarantees in place. These workers had been trained to the specifics of that location. They were already working there and PCL believed it was the best way to meet all of the requirements that we've set in place for them for that portion of the work and to meet those time frames.

So we had no reason to . . . other than say work with PCL who said the initial requirements would all be met, to do anything other than what is in place at present.

Mr. Bjornerud: — Thank you, Madam Minister. Madam Minister, would it be possible for us to get a copy of the companies that tendered the first time around and what their tender would have been?

Hon. Ms. Hamilton: — As I mentioned earlier, this is a contract between PCL and the subcontractors. We'll work with PCL to ask if we're able to release all of the details of the bids. As I said earlier, there were six firms that bid who met all of the pre-qualifications, and we can certainly get you that list.

For the detailed information you're asking, we know overall that the difference between the low bid and the next closest bid was about \$1.6 million. So if they are able to release to us that information, I would try and endeavour to get that for you.

Mr. Bjornerud: — Thank you, Madam Minister. Madam Minister, onto a different subject here now. And I was wondering . . . the current buildings that SIAST (Saskatchewan Institute of Applied Science and Technology) is in right now, are those buildings that they're operating out of owned by SPMC at this time?

Hon. Ms. Hamilton: — The SIAST locations, I understand, at present have four locations that are owned by SPMC and three that are under lease arrangements.

Mr. Bjornerud: — Madam Minister, then I presume we will be going out and for the ones that we do, releasing then, finishing those contracts off to some new company to fill that void when the people that are in SIAST now move over to the Plains?

(1915)

Hon. Ms. Hamilton: — Of the locations that are leased, we're either in a position of the timing that we're looking at, fulfilling the terms of the initial lease and not backfilling in those instances. And some of the economies of combining and consolidating would be that we would no longer have to enter into leasing arrangements with outside individuals. So that's part of the reason why we wanted to consolidate in the manner that we're doing. And that would release us from the commitments of those leasing arrangements.

Mr. Bjornerud: — Madam Minister, when SIAST gets fully moved into the old Plains building, will that totally fill up the Plains? Will SIAST take up every part of what we know as the old . . . as the Plains hospital?

Hon. Ms. Hamilton: — My officials tell me, Mr. Chair, that once the consolidation occurs the building will be fully occupied by SIAST. There will be some flexibility when we're working with SIAST program people to make some changes where their program requirements have changes that need to be met but there wouldn't be additional space for anyone else to occupy.

Mr. Bjornerud: — Thank you, Madam Minister. Madam Minister, will parking spots at the Plains — the old Plains I keep calling it — still be saved for the nurses that were being . . . I presume are still being bussed back to the General and parking there? Will spots be saved in the parking lot for the nurses?

Hon. Ms. Hamilton: — I can't answer what the health district has for its long-term parking requirements. I think you're talking about in the longer term. It's my understanding that once the consolidation has occurred and the students are there,

other arrangements will be made by the health district for the nurses. And so that parking on that site will be for the staff and students of the SIASST project.

Mr. Bjornerud: — Thank you, Madam Minister. Madam Minister, another concern I believe that caused media attention at one point, and I'm just wondering if it was rectified, is the safety concerns with the ventilation for the workers that were removing the asbestos in the old hospital. Have those safety concerns been addressed and is that no longer a problem?

Hon. Ms. Hamilton: — Yes, Mr. Chair. I believe very, very early on in the project, I think something was mentioned about negative air pressure — you need to maintain that. And there was some concern that people weren't understanding, from the health districts, that they couldn't go in to get some things until they had checked and made certain that they were meeting all of those requirements. That was stopped immediately.

So now what we have is a full occupational health and safety committee on the site from the managers and from the workers and representation from occupational health and safety.

We have the occupational health and safety unit from the Department of Labour that does checking, and daily monitoring is in place. And we have equipment established that's very, I'm told, very good equipment to pick up the minutest particle and would be looked at on a daily basis to make certain that things are being maintained the way they should. And we also have an independent review source — I believe your member quoted from that at some point — a very early Bersch report. We have those on an ongoing basis from the independent review source.

Mr. Bjornerud: — Thank you, Madam Minister. Madam Minister, there is a building . . . an SPMC building — and maybe it's not anymore, it could be an SPMC lease in the town of Kamsack — and I believe the health district in that area is using that building. Can you maybe explain what arrangements we have there. Number one, does SPMC own that building or was that just a lease from a private company? And now that the health district is in there, have they taken over that lease? Is SPMC still involved?

Hon. Ms. Hamilton: — It's my belief from the information my officials have present this evening that that was a lease building, and it was the one that New Careers was in, I believe. We no longer have the lease on that building, and I understand that the health district has an independent lease on their own. We're going to try and get that information to you, find out whether it's the health district who has that lease and provide that to you if we can.

Mr. Bjornerud: — Thank you, Madam Minister. And, Mr. Deputy Chair, I think that's all the questions that I have at this time. I want to thank the minister for her answers and thank your officials for helping us out here tonight.

Subvote (SP01) agreed to.

Subvote (SP02) agreed to.

Vote 53 agreed to.

**Supplementary Estimates 1998-99
General Revenue Fund
Budgetary Expense
Saskatchewan Property Management Corporation
Vote 53**

Subvote (SP02) agreed to.

Vote 53 agreed to.

The Chair: — I'd like to thank the members and the Minister.

Hon. Ms. Hamilton: — Well, Mr. Chair, I would like to thank the officials that were here this evening. As all members of the House would know that the services they provide, not only to the departments but to ourselves and to the communities around the province, probably touch just about everyone here, and I believe in a very positive way. So I think they'll take back the thank you of all members of the House and I thank them for their support here this evening.

**General Revenue Fund
Saskatchewan Research Council
Vote 35**

The Chair: — I would ask the minister to introduce his officials, please.

Hon. Mr. Lautermilch: — Thank you very much, Mr. Chairman. I would like to introduce, to my right, the chief executive officer of the Saskatchewan Research Council, Jim Hutchinson. Behind me is Lisa Wallace, director of corporate performance, and to her right is Crystal Smudy, the chief financial officer for the corporation.

Subvote (SR01)

Mr. D'Autremont: — Thank you, Mr. Chairman. I would like to welcome the minister and your officials here this evening. This is a very important council . . . operation of the government because it provides some research and I think we all agree that research is very important and the only way we're going to build this province is through the fruits of research.

Mr. Minister, how many people are employed by the Saskatchewan Research Council?

Hon. Mr. Lautermilch: — Mr. Chairman, I'm told that there are 230 people on staff at this point.

Mr. D'Autremont: — Thank you, Mr. Minister. Is that a change from previous years or is this going up or down or is it remaining static?

Hon. Mr. Lautermilch: — Mr. Chairman, there are about five more employees this year than there were at this time last year.

Mr. D'Autremont: — And, Mr. Minister, what's the added duties that these employees are performing? Why was it necessary to hire five new employees?

(1930)

Hon. Mr. Lautermilch: — Mr. Chairman, the incremental number is as a result of employees in the analytical chemistry lab work that is being done by the Council.

Mr. D'Autremont: — Thank you, Mr. Minister. Mr. Minister, was there any additional money given out this year to Saskatchewan Research Council in special warrants that wasn't planned for in the budget estimates of last season?

Hon. Mr. Lautermilch: — Mr. Chairman, no.

Mr. D'Autremont: — Well, Mr. Minister, was there a number of people who left from the Saskatchewan Research Council? You have five more people employed but that doesn't necessarily mean that there weren't people who quit or transferred out, and a like number of people transferring in. What was the rollover in your employees in the last year?

Hon. Mr. Lautermilch: — Mr. Chairman, there are about changes in the neighbourhood of 30 to 40. Most of those were hourly people who would be working on that basis, so there would have been a change of around 30 to 40.

Mr. D'Autremont: — Thank you, Mr. Minister. Was there any need for any severance package payouts in the past year?

Hon. Mr. Lautermilch: — Mr. Chairman, there was one severance payout in the year in question.

Mr. D'Autremont: — Thank you, Mr. Minister. What would the amount of the severance packages be and, if possible, who were they directed to?

Hon. Mr. Lautermilch: — The severance was \$88,000.

Mr. D'Autremont: — Thank you, Mr. Minister. Is it possible to give the individual's name or is that . . . would that be a conflict or a need for privacy?

Hon. Mr. Lautermilch: — Well I would just . . . I would say I think it would be inappropriate with respect to the name. I have given the member the aggregate amount and the fact that there was one severance, but I don't feel it would be appropriate in the Chamber or in the public to be discussing the person or the circumstances.

Mr. D'Autremont: — Thank you, Mr. Minister. What is the SRC's involvement with the prairie agriculture institute? How much involvement do you have? How much money would you have involved there, and how much participation in the results, in the actual research, and in the distribution of results would the SRC have?

Hon. Mr. Lautermilch: — Mr. Chairman, the Saskatchewan Research Council used to manage that operation under a contract. That is no longer the case, and I'm also told that there have been no contracts with that operation in the past year . . . Research Council with respect to that company.

Mr. D'Autremont: — Thank you, Mr. Minister. Are you contemplating reactivating your role with PAMI (Prairie Agricultural Machinery Institute)? I believe that PAMI does a very good job for the agricultural sector, in particular in

Saskatchewan. But for general manufacturing and equipment users across the board, PAMI provides a good deal of support and information that's made available to people to make determinations on what kind of equipment would best serve their needs, the value in the sense of what the longevity of the operation of this kind of machinery would be, its acceptability in providing quality work. Mr. Minister, is SRC planning to become . . . to play any role with PAMI in the future?

Hon. Mr. Lautermilch: — PAMI, in itself, as the member has indicated, is in fact a very helpful institution in this province in terms of developing agriculture and equipment and techniques that assist Saskatchewan's agricultural community. I could say to the member that if we were asked by PAMI, with respect to certain areas of expertise within the Saskatchewan Research Council, we'd be more than willing to work with them. Our mechanical engineers generally refer those kinds of issues to PAMI through IRAP (Industrial Research Assistance Program) but as I've said, if in fact PAMI felt that it would be a beneficial relationship to have some element of the Research Council work with them. Certainly we would be and remain more than willing to co-operate with them.

Mr. D'Autremont: — Thank you, Mr. Minister. I believe the SRC has been involved with the petroleum industry, and in fact is . . . a new announcement coming out here about three days ago included the SRC in some new investigations within the oil industry.

What involvement would the SRC have in the oil industry in dealing with horizontal drilling?

Hon. Mr. Lautermilch: — Mr. Chairman, the Research Council has a long history of working with the oil and gas sector with respect to the development of our heavy oil resource here in the province. They were responsible for all of the lab work that was done in developing the first horizontal well in 1987, and that relationship with industry has continued to this time.

I want to say, Mr. Chairman, that we . . . the Research Council is very excited about the new development at the university campus, the PTRC (Petroleum Technology Research Centre), in terms of furthering that kind of involvement, partnering with industry. We believe that technology is the future of the heavy oil industry of this province.

Technology was very much responsible for the fact that we have a growing, an ever-growing oil and gas industry in this province. And I think if you talk to industry and if you talk to people within the Research Council there is a great deal of optimism in terms of what can happen as a result of what actually is a very small investment for what may be the returns.

So the relationship began and the lab work was done at the beginning of 1987. That kind of work continues to progress and expand with respect to an oil, you know, enhanced oil recovery and developing the industry. And I want to commend the people within the Research Council and industry for the work that they have done on behalf of the people of Saskatchewan. There's been some very great advancements in the last few years.

Mr. D'Autremont: — Well, Mr. Minister, the development of

the horizontal well industry has certainly been of benefit to all of Saskatchewan, and mainly to the area that I represent. And the fact is, I think, the Research Council needs to do a little more work though on this technology to make it so that tight formations produce a little better because under my land that's what it is is a tight formation and you can't get the oil out. That's why I don't have any oil wells.

Mr. Minister, in the lab work that was done on the horizontal wells, was this done under contract from industry or was this sort of an independent initiative by the SRC? What was the involvement of the SRC in that sense? Were they the originators or were they contracted to carry out the research?

Hon. Mr. Lautermilch: — Mr. Chairman, just a little bit of history. The initial involvement was with a company by the name of Sceptre Resources. That was on a contract specifically between the Research Council and Sceptre. Since then, there have been a number of contracts and a number of multi-client agreements and projects put together. Those have been shared cost with industry and the Research Council.

With respect to horizontal well technology, as you will know, in our budget we announced through the Department of Energy and Mines a \$1.5 million, five-year project dealing with research and development on the site and, as well, some incentive for laboratory work. So the Research Council is fully expecting to be involved with industry in terms of lab work and continuing on that.

And as well, industry . . . as a matter of fact, the project was just announced, with respect to horizontal drilling, a pilot project, an R&D (research and development) project, to see if we can't enhance the ability to have the horizontal portion of the well operate in a better fashion using a new pump. So I think that it's a small project; it's not multi-millions of dollars. It's \$1.5 million over a five-year project.

The fact that we've had three different proposals in the last few days that have been approved that I think are very encouraging. So it tells me that again the developmental partnership with the Research Council and the kind of work that they will do in the future may even make it possible to tap the formation under your back forty and create a little wealth in your household.

Mr. D'Autremont: — Well thank you, Mr. Minister. I'm very familiar with Sceptre and have worked with them in the past. In fact is . . . the Gainsborough field was one of the original horizontal fields, and while production has dropped off, it still continues to produce.

The work that the SRC has done on the horizontal wells, does it collect any royalties from any of that work, or was this because it was a contract basis, they simply . . . any information, new knowledge that was gained from that belonged to the contract payer?

Hon. Mr. Lautermilch: — No, the Research Council has no properties in that regard. They help facilitate the knowledge and work with industry. But in terms of ownership and royalties collected on any of the technology that's been developed, the Research Council doesn't have that as an asset base.

Mr. D'Autremont: — The new agreement that was made with the Petroleum Technology Research Centre, Mr. Minister, in particular, what is that aimed at developing? I noticed that the SRC has a \$1.5 million part to play in that. Is that an annual budget, 1.5 million ongoing, and ongoing for how long?

Hon. Mr. Lautermilch: — Mr. Chairman, the involvement of the Saskatchewan Research Council with the Petroleum Research Centre is in the neighbourhood of \$7 million over a five-year period. That breaks down to about 700,000 of core funding and 700,000 of rent because they'll be relocating to that new facility that was just announced in the last few days.

(1945)

Mr. D'Autremont: — Thank you, Mr. Minister. In particular what kind of projects will be carried out at the PTRC centre when it's up and running? Do you have anything in mind at the present time, or you're waiting until the facility is actually available, hoping to get tenants in there to move in any particular direction?

Hon. Mr. Lautermilch: — Mr. Chairman, what will be happening is the work that we are doing now, which involves about 25 employees, will be moved to the new location. As well, what we will be doing is attempting to develop technology and do work on techniques that will allow us to be able to make certainly an enhanced production capacity in some of the existing pools. We'll be looking at the use of enhanced oil recovery methods such as CO₂ injection, a program that I think you're very familiar with. PanCanadian has announced with their partners in the Weyburn area about a billion dollar investment that will be started very shortly, and that will be enhancing the development of that pool over a very long time. Steam injection, in situ combustion, and all of the things that will have shown some promise in terms of advancing the ability to be able to draw more of that reservoir from those pools through vertical and horizontal wells.

So that's basically the work that we'll be working on and expanding. And I want to say that the employees and the knowledge component that's going to be, in my opinion, attracted to this centre is going to end up ultimately being an area where there is worldwide knowledge and an ability to export some very good technology developed right here in Saskatchewan.

We already do have a reputation as being very much advanced in terms of our techniques here in Saskatchewan in terms of heavy oil recovery. And I think that this investment is just going to do much, much more to enhance our ability to further our reputation internationally in that regard.

Mr. D'Autremont: — Well, Mr. Minister, I think the role we play in horizontal drilling is indeed on the leading edge of that particular technology around the world, and it would certainly have some application in other areas and other formations. The 700 . . . plus-\$700,000 that you're proposing to spend per year, how much of that will be on projects and how much will be on the operation of the centre?

Hon. Mr. Lautermilch: — As I indicated, there's about 1.4 million a year, 700,000 of which will go to rent. The entire

amount, the entire balance of the 700, the other 700,000 will go strictly to projects. That's straight project money.

Mr. D'Autremont: — Thank you, Mr. Minister. Is SRC involved at all with the PanCanadian project in Weyburn, the CO₂ injection?

Hon. Mr. Lautermilch: — The Research Council has already been involved in terms of a lot of the design work that helped them put the project together, so it's been a very important part in terms of PanCanadian's understanding of CO₂ and how it functions and how it works in that reservoir, and in no small way the Research Council was responsible for helping them design the smaller projects that were used to determine whether or not they would want to make the kind of investment that they are making in the Weyburn area.

I think I would want to say that none of this happens overnight. This has been an understanding of heavy oil and technologies that have been developed at the Research Council and in the field that have allowed the board of directors of PanCanadian and their partners to commit over a billion dollars to enhanced oil recovery projects. So I think as you look at the growth of the industry, it's not something that happened six months ago or eight months ago. These are developments that have happened over the last 10 years or so. And all of the people — governments, industry — I think need to take credit for understanding in a . . . very much a future kind of approach, a future looking approach to the development of heavy oil here in Saskatchewan.

And I think you, as a member who comes from an oil-producing area, will have an understanding of some of the excitement in terms of the future development, in terms of the future of oil and gas in Saskatchewan, as I certainly have learned in the four years that I've been in this portfolio. There's just some great opportunities, and certainly we can all look forward, I hope, and I believe, to some very well-paying jobs, some good investment opportunities for Saskatchewan businesses.

Mr. D'Autremont: — Thank you, Mr. Minister. Within the work of the SRC and the CO₂ projects, were any studies done on the in situ plants and the in situ oil recoveries that were taking place in the southwest, particularly in the Battrum and Fosterton fields?

Hon. Mr. Lautermilch: — Mr. Chairman, I'm told by the officials that the Research Council was involved initially in the in situ combustion development and that they still do have some ongoing connection with that.

Mr. D'Autremont: — Thank you, Mr. Minister. My question was . . . thought lines were along the idea that the burning in the in situ plants would create CO₂ heat pressure, and particularly in an area at Fosterton where it was in a waterflood zone already, that has been water flooded, which is basically what is the case down at Weyburn with the CO₂ into that field there that had previously had a water flood situation in there for recovery, and just wondering if any of the information gathered from the in situ projects would be valid or relevant in the CO₂ recoveries in the Weyburn area. So that was sort of the line that my thoughts were travelling along in that particular area.

What other areas besides the oil field and perhaps some limited agricultural applications the SRC may be involved in, what other projects is the SRC involved in? And how do people contact the SRC to make application to be part of a research project?

Hon. Mr. Lautermilch: — Mr. Chairman, I think it might be helpful if I were to perhaps go through a list of the things that the Research Council has been involved in in the past little while, to give an understanding of sort of the breadth and the depth of the knowledge within that corporation.

I want to say that certainly the corporation is open to inquiries with respect to the ability to work with industry and with the agricultural community and other areas of our economy. And they can be contacted quite easily. Their offices are in the research park in Saskatoon, the heavy oil component is down here in Regina. And I'd certainly be willing to get information and contact people specifically in the different areas of expertise. If you would wish, I can certainly get that for you.

Just some of the things that have been happening in the Research Council I think that are very exciting: we just recently opened a new \$4 million fermentation facility. That was completed in March of 1999. That will be helping and serving the needs of the ag-biotech industry.

There's plant genetics lab that is functioning and operating. That is partially funded through the Agri-Food Innovation Fund.

They deal in animal genetics. Research Council's parentage test lab for beef, dairy, other livestock is moving from blood testing to DNA (deoxyribonucleic acid) testing. There's a lot of things that they do with respect to animals.

You and I have talked about petroleum, their involvement in petroleum. They're also doing some work with respect to natural gas vehicles on the environmental side to try and convert that.

We've also got a building efficiency program. There's the ice rinks efficiency program that you will know about. They're working . . . the prairie adaptation network.

I could go on through a list of many things, but I'm not sure you want to hear them all. But I'm certainly more than willing to send you a condensed version of what they've been doing. And I think you'll agree with me that they are a very, very worthwhile corporation and do a lot to enhance Saskatchewan's economy — have in the past; will in the future.

Mr. D'Autremont: — Thank you, Mr. Minister. Yes, you can just send the list over. That would be adequate.

Do individuals become involved with the SRC and does the SRC provide grants or assistance to do research? I'm thinking more along the Agriculture Development Fund line of research but does the SRC become involved in something similar?

Hon. Mr. Lautermilch: — Mr. Chairman, the Research Council doesn't offer grants directly. But through the IRAP programming, working with NRC (National Research Council),

the Research Council can help to access . . . help small business access and facilitate that kind of assistance, but it's done through the IRAP program.

Mr. D'Autremont: — Okay, thank you, Mr. Minister. When the new PTRC is up and running, you're talking about moving from the current SRC location over to there. What's going to happen to the old location? Will it still carry on under SRC with some new projects being carried on there or what's going to happen with those old facilities?

Hon. Mr. Lautermilch: — The whole heavy-oil operations will move into the new facility. SPMC will be the owners of the old building and they will deal with it in, you know, whatever fashion they see fit. I can't speak for the Property Management Corporation. They may have some ideas in terms of backfilling at this point but I can't tell you what they are.

We leased . . . the Research Council leased from Sask Property Management Corporation, but they'll be moving into the new facility on the university campus which will mean Property Management Corporation will either have or will be looking for a tenant for that area.

Mr. D'Autremont: — The lease that you currently hold with SPMC, will that be running out at the time . . . expiring at the time of your move or will your lease be carrying on that you have to pay for rent in that location while you're not using it?

Hon. Mr. Lautermilch: — Mr. Chairman, I'm told that it's an open-ended lease but we have given Property Management Corporation a year and a half notice and so they will have ample opportunity and are comfortable that they'll be able to find a new tenant in the time period that we speak of.

Mr. D'Autremont: — Okay thank you, Mr. Minister. The SRC, as I stated earlier, is a very worthwhile enterprise in this province, and I think it needs to be encouraged. And Saskatchewan benefits greatly from the research that's carried out there. So I would encourage you to carry on — be penny-wise though because we're watching to see just how you do actually spend your money. But I would like to congratulate you on your successes and wish you well in the future and to thank the minister and the officials for coming in today.

Hon. Mr. Lautermilch: — Mr. Chairman, I just want to say a closing word of thanks to Mr. Hutchinson and his staff at the Research Council. In the short period of time that I've come to know them — I have to agree with the member opposite — they have been a big positive, a very positive impact in terms of Saskatchewan's economy. I have no doubt that we're getting a very good value for the money that we spend and have spent in the past in developing research capacity at SRC.

So I just want to thank Mr. Hutchinson and his staff for the work that they've done in the past year.

Subvote (SR01) agreed to.

Vote 35 agreed to.

(2000)

General Revenue Fund Energy and Mines Vote 23

The Chair: — I would ask the minister to introduce his officials please.

Hon. Mr. Lautermilch: — Thank you very much, Mr. Chairman. To my right is the deputy minister of Energy and Mines, Ray Clayton. To my left is Bruce Wilson, who is the executive director of petroleum and natural gas. Immediately behind me is Donald Koop, who is the assistant deputy minister responsible for finance and administration. To Donald's right is Dan McFadyen, the assistant deputy minister, resource policy and economics. And to Mr. Clayton's right is George Patterson, who is the executive director of exploration and geological services.

Subvote (EM01)

Mr. Heppner: — Welcome to the minister and his officials this evening. I think this is an interesting area for most people in the province because I think when we realize that most people throughout Canada consider us just a wheat province, to have some of these other resources here is something we find exciting and take a great amount of pride in.

Can you tell us how many new oil wells were drilled in Saskatchewan in 1998?

Hon. Mr. Lautermilch: — Mr. Chairman, I'm told by the officials there were 1,068 wells drilled in 1998.

Mr. Heppner: — Okay. And that would bring us up to a total of how many wells in total, in Saskatchewan?

Hon. Mr. Lautermilch: — There are just a tad over 17,000 producing wells in the province.

Mr. Heppner: — With the drop in production, was the pain spread fairly evenly throughout the province where oil plays a major role? Or were some producing areas hurt more than others, and which ones would those have been?

Hon. Mr. Lautermilch: — Mr. Chairman, I am told that the heavy oil took the biggest bite last year, which would be the Lloydminster, Kindersley area. But I want to say that there wasn't a significant drop in terms of production. I think the industry is maturing, has matured, and the ups and down cycles are, I think, much less dramatic than they may have been a few years back.

Mr. Heppner: — Could you go into some detail when you mention that the ups and downs aren't quite as extensive and as dramatic as they used to be. What exactly are you referring to when you say that the system has matured and that those things aren't quite as dramatic as they at one time were?

Hon. Mr. Lautermilch: — The industry is certainly price dependent and price-sensitive. But I think the technology that's been developed — horizontal drilling, enhanced oil recovery — puts some wells that may have been with just straight vertical drilling very much a marginal well.

With the new technology, there's a larger percentage of oil that's recovered from the same pool and the investment, although the initial investment may be more to develop heavy oil and to enhance the oil recovery techniques, over the longer haul it does make it a cheaper well to operate. So the technology has been very much responsible for minimizing some of the ups and downs and the peaks and valleys.

Mr. Heppner: — Okay, I thank you for that answer. I think it's something that we look forward to in Saskatchewan having those things even out as much as we can so that we're not hit to the same extent as we have been in the past.

What about gas wells compared to 1997? The difference in the last year or so?

Hon. Mr. Lautermilch: — Mr. Chairman, certainly the strong prices for natural gas which were reflected, I might add, in SaskEnergy's rates as they buy on the markets were very much responsible for 1998 being about double in terms of what was there in 1997. In 1998, there were 626 wells compared to just a little over 300 in 1997.

Mr. Heppner: — Do you have a forecast for the coming year?

Hon. Mr. Lautermilch: — Mr. Chairman, I don't think that I'd want to forecast now. We'll want to watch the markets very closely through this year, and as we put together our budget in — if we come back, which we probably will after an election, if it's held in June or in the fall — as we put our budget together, we'll be making those estimates based on the market prices at that time and what the market analysts are saying we should predict into the next fiscal year. But I think at this point, it would be very difficult to make estimates because it's been such a volatile market.

Mr. Heppner: — Thank you, I rather have to admit I agree with you on the hesitancy that you might express about the coming year and your own being here.

How many people were employed in the oil and gas sector in Saskatchewan in '98 compared to the previous year?

Hon. Mr. Lautermilch: — Mr. Chairman, my officials were trying to put together an aggregate figure of both oil and gas and the activity. Both direct and indirect jobs in 1998 would have been responsible for about 17,000 jobs. In 1997 that figure would have been in the neighbourhood of 18,000 direct and indirect, so there's about a thousand difference.

Mr. Heppner: — The price of a barrel of oil has been rising for the past few months. Do you have any estimates on how this will affect new drillings for '99?

Hon. Mr. Lautermilch: — Mr. Chairman, although I guess this will change with company to company, and based on barrel analysis of the markets, but I think overall it's fair to say that the industry generally is looking for two to three months of stability before they would be willing to commit a large amount of capital to enhancing the program; because if a drop comes and we're looking at \$12 oil again — very difficult to find the cash to make the investment.

Most of these companies are operating on a cash flow which I think is . . . although it's difficult for us, wanting to see the activity in the drilling and the activity that comes with that, the fact that they've taken a very prudent approach to the development tells us that we should have some very healthy companies even though we've had this little downswing.

But I guess the point is we should probably know about mid-summer if the price holds at 17, \$18 a barrel I think you'll see some increased activity later on in the year.

Mr. Heppner: — And as you mentioned, it's always good to have some healthy companies out there sort of waiting for the things to turn around to get at it.

Does the Saskatchewan government have any plans to encourage increased investment in Saskatchewan in the oil and gas sector?

Hon. Mr. Lautermilch: — Mr. Chairman, that's been part of our planning process for a long, long time, since 1991, which is evidenced by the changes that we've made to the royalty and taxation structures and it's an ongoing situation. I think when I first came to this portfolio, my perception would have been that one would want to sit down, look at the royalties, the taxation, go in and fix them and — bang! — you're done; you've got everything fixed. But I'm becoming more and more of the view that the volatility of the industry, the fact that you're competing globally in terms of investment dollars means that one has to continue to look at those on an ongoing basis and identify areas where you can improve your competitiveness and where you can attract investment.

And so I think the same can be said of the oil and gas sector to any other of the industries and any of the other resources that we have in the province. I think it's become very much an ongoing, monitoring, understanding, and working with industry . . . to know what their circumstances are, what the changes are, and what the impact is on them because ultimately if that investment isn't brought to the province, the 17, 18,000 people who work in this industry are not going to be employed.

So we really do have a responsibility to keep on top of the changes to make sure we're competitive. And that should be, certainly from my perspective, done on an ongoing basis, and I think you would probably be one of the members in this House that would agree with me on that.

Mr. Heppner: — You mentioned royalties in that response. What was the take by the province for oil and gas royalties in '98?

Hon. Mr. Lautermilch: — The figures, Mr. Chairman, for fiscal year '98-99 — and these were in the 1999 budget — for oil royalties, production taxes, bonus bids: 290.6 million; gas royalties, 62 million, just over 62 million for a total of \$352.7 million.

Mr. Heppner: — Thank you. Moving over into two other areas of the industry in your portfolio, and that's uranium and potash. Regarding uranium mining in the North, what is the output in uranium . . . was for the past year? And how does that compare to previous years?

Hon. Mr. Lautermilch: — Mr. Chairman, if I can, I'd like to . . . I'll just give the member, I'll give you the total production three years running. I'll give you for 1997, '98, and '99. In millions of pounds '97 was 31.2 million; '98 was 28.4 million; and 1999, 22.1 million is the projection.

Mr. Heppner: — What do you foresee as expansion in the future in the uranium industry in Saskatchewan?

Hon. Mr. Lautermilch: — Well, Mr. Chairman, I am certainly no expert, but what I have learned in terms of an understanding of the industry is that we've come through a very low cycle in terms of the price — eight and a half, nine dollars a pound. I think it's fair to say that the market will be much more stable in the upcoming, in the upcoming short-term in that there appears to be some market stability created by agreement with Russia, the United States, and the uranium-producing companies. And so I think, and hopefully, that will create some upward movement in the price.

I'm very optimistic in terms of the long-term future of uranium as we look at the concerns with respect to global warming and the Kyoto Agreement. All of those things I think will make development of uranium-produced electricity over the longer haul a much more attractive investment that perhaps it would have been in the past.

As you will know there's a lot of environmental concerns with respect to uranium production. I think it can be . . . I believe very firmly it can be a very safe industry. It needs to be policed and controlled as other industries are, but I just think that all of the signs would point to a very healthy mining industry here in Saskatchewan. We've got very rich resources, richer than any other ore bodies in the world. We're a big part of the world production and I think we can look to a very stable industry in the future.

(2015)

Mr. Heppner: — Thank you. I appreciate your enthusiasm that you have for that industry, and I share the positive attitude that you have for the possibilities that are out there in the uranium industry, and I hope that we continue to work in that direction.

Earlier on today, I believe, we dealt with some changes in tax structure to promote growth in the potash sector in this province. The question is: are you doing anything else to promote the potash industry in Saskatchewan?

Hon. Mr. Lautermilch: — I think, Mr. Speaker, the changes to the potash royalty and taxation and this Bill that assists us in doing that are probably one of the most positive things that this government could have done in terms of the development and the strength and the health of the industry. We are about 35 per cent of market share around the world. We have large client bases in Asia. China's our biggest offshore market, and as that population grows, I think the relationship that we've built with the potash industries and through their marketing arm, Canpotex, and with the Chinese government and the Chinese people, would tell me that as their needs will continue to grow our markets can continue to grow.

So I think working with Canpotex; working with potash

companies, we're going to be ensuring that we here have first of all up to date mines, efficient mines. And I think the investment that IMC (International Minerals and Chemical Corporation (Canada) Ltd.) announced right after we did the royalties, \$481 million, is indicative of their trust in the future of developing that resource here in Saskatchewan.

So I think the combination of royalties, building a good positive relationship with industry, continuing to work with our markets and the people who purchase our potash, are all things that will ensure that we will remain number one in the world in terms of potash production.

Ms. Julé: — Mr. Chair, good evening, Mr. Minister, and good evening to your officials. Mr. Minister, I just have one question and I guess it's more a comment and I certainly would appreciate your reply at the end of it. And it revolves around some concerns of Saskatchewan landowners — concerns they brought forward at mid-April National Energy Board hearings, concerns surrounding the safety of our natural gas pipeline that will be running from the western border of Saskatchewan, south of Lloydminster and exiting the province in the southeast corner.

And as I mentioned it was . . . The concerns seemed to be mainly centred around the pipeline safety in light of rising . . . a rising number of incidents. And so from what I can understand these people want some assurance that this government is going to do something to assure that scheduled safety audits are carried out because according to Canada's Auditor General, the report that he put forward of pipeline incidents per 1,000 kilometres, it says here, is up by 73 per cent in the last five years.

And the Auditor General's report also called into question the National Energy Board's resources for checking up on pipeline operations. And the board says that due to resource constraints 40 per cent of scheduled safety audits were not carried out in 1997 and 1998. So my question to you is simply, what is your government going to do to assure these landowners who have these fears that scheduled safety audits will be carried out, you know, carried out and precisely on time?

Hon. Mr. Lautermilch: — Mr. Chairman, to the member opposite, the National Energy Board, as the member will know, is responsible for cross-provincial types of developments. When a pipeline crosses the Alberta-Saskatchewan border, it becomes the jurisdiction of the federal government and the National Energy Board to regulate and to monitor the safety of those particular initiatives.

We, I can say, as a department, carry on due diligence in terms of the operations of the pipelines that are operating provincially. We have certainly maintenance schedules, companies have maintenance schedules, and we work very closely with industry to attempt to ensure the safety of these pipelines.

Some of these pipelines, as you will know, have been built, you know, 30 years ago. And certainly they require very close diligence. Stress corrosion, cracking is I guess a new phenomenon that's been discovered. We are working with, and SaskEnergy — I'm not responsible for that department — but I know that they are working with industry in terms of

monitoring, developing ways, developing technology, and they call them pigs. They run them down the lines to do x-rays and determine areas where there might be problems. They are looking at ground formation that can create, or it would be assumed or presumed that they may be, creating the stress corrosion problems or a corrosion problem.

So SaskEnergy I know works very closely with our department and with industry in terms of ensuring that we have all of the technological advanced . . . technologically advanced knowledge that we can have.

But in terms of the Alliance pipeline that you are referring to, which is coming through Saskatchewan, that'll be an investment of in the neighbourhood of \$700 million. IPSCO is supplying, here in Regina, the vast majority of the pipe and certainly for the Saskatchewan component. IPSCO is well known as a very high quality producer of pipe so I think that gives me some comfort. But we will continue to work in the province and with the federal government in terms of monitoring safety.

Ms. Julé: — Thank you, Mr. Minister. I hope that does provide these concerned citizens with some degree of assurance.

Mr. Minister, if there happens to be an incident where there is a pipeline spill, is there any liability by the Government of Saskatchewan to compensate the landowners for damage to their lands? I mean there were people here who are organic farmers that have brought this issue forward, and I'm wondering whether or not the province of Saskatchewan is liable for any spills and if that has been discussed with these people.

Hon. Mr. Lautermilch: — Mr. Chairman, the only liability that any arm of government would have would be through TransGas or SaskEnergy being the owners of the pipe. In terms of the Department of Energy and Mines and the Government of Saskatchewan, outside of that Crown entity we don't own any gas lines. So any difficulties in terms of pollution would be the responsibility of the owner of that asset.

So it would be, in the case of the pipeline you're talking about, it would be Alliance that'd be responsible. They, by the way, are also responsible for — as the line comes through — for the cleanup after they've been through, putting back topsoil.

And for the most part, from what I've seen, the pipeline companies are very responsible. They understand that a poor job reflects on their whole industry. And if they can leave and a landowner can be satisfied that the land is returned to as close to the state as it was before the intrusion, they clearly understand that that is a very necessary part of them doing business.

Ms. Julé: — Thank you, Mr. Minister. Mr. Minister, have you spoken with Alliance Pipeline to ask them whether or not they have provisions for compensation should there be a spill from their pipeline, basically in order to again facilitate the questions that might come forward regarding this issue if it should happen. And those questions may come forward to the provincial government. So have you spoken with Alliance to see whether or not they have seen to it that people will be

provided compensation in that event?

Hon. Mr. Lautermilch: — Mr. Chairman, I can say that . . . I mean we dialogue with the industry — the department and I do — with the industry on an ongoing basis. And in terms of an explanation to them of their responsibilities, that doesn't need to be drummed into their heads. They know full well what their responsibilities are and they know their liabilities and they know if there's damage, they pay.

We have a regulatory system and I can . . . if you'd like more information, I'm certainly willing to have the department send to you the process whereby what action would be taken in a certain circumstance. As an example, if a pipeline broke shortly after it was in operation, what circumstances would come into force. We have the responsibility as a department to ensure more than taxation and royalties, we have responsibility to work to ensure that it is done in an environmentally sustainable way, and we work very closely with SERM (Saskatchewan Environment and Resource Management), with the Department of Environment and Resource Management.

But if you would like more information, more detail in terms of process, I'd be more than willing to send that over to you.

Mr. D'Autremont: — Thank you, Mr. Chairman. Mr. Minister, and officials, I'd like to welcome you here this evening.

From my past experience in the oil patch, if there was a leak in a pipeline just shortly after construction, the construction company would be in deep trouble. And that company would have a serious difficulty in finding further employment in the industry. So I think people in general in that industry take safety very greatly to heart and try to act accordingly.

In the past there were a great deal of number of difficulties with the oil industry, but that has changed over the last 20, 30 years. It's no longer the same operations as it was in the 1940s and early '50s. And the oil industry has improved its operation significantly since that time. But people are still remembering those days and are still concerned, and that's why I think it's important that they receive the reassurances that are necessary, that the government participate in those reassurances, and that industry be a part of those.

Not everybody though is dealing with pipelines, Mr. Minister. We had an issue here a couple of years ago that has died down a little bit now, so I'd like to revive it a little bit, and that's the Condie power line. Your portfolio is Energy and Mines, so it would fall within that area although perhaps the Deputy Premier, as the CIC (Crown Investments Corporation of Saskatchewan) minister would like to lay claim to this, but we will ask you the question, Mr. Minister.

What kind of compensation was paid to the landowners along that route? Was it necessary to go to arbitration to put that line through there? And as I asked, what kind of compensation was paid to those landowners?

Hon. Mr. Lautermilch: — Mr. Chairman, that is not . . . and the member is right; that's not part of Energy and Mines estimates. That is an issue that would be more appropriately

dealt with by the Minister responsible for Crown Investments Corporation.

I can only go from memory. I will attempt to answer this for you. It was a considerable amount, over market value, in terms of compensation, and that was the rule as that line was put through. Don't quote me on this, but I think it was something in the neighbourhood of 110 per cent to 120 per cent of what the appraised value of the land was. But as I say, I think the Deputy Premier would be the more appropriate minister to ask for details because I don't have them here.

Mr. D'Autremont: — One question on that, not related to values but . . . on the . . . you didn't answer whether it was expropriated and perhaps you can answer that and what lands were taken, in the sense was it a narrow strip 16 feet wide or some such measurement, or were you taking land by the quarter, paying for it, or what kind of a mechanism was in place that way? Was it just a narrow corridor or was it a larger . . .

Hon. Mr. Lautermilch: — Mr. Chairman, I'm trying to be helpful here and I'm going from memory again, and sometimes my memory isn't as good as I'd like it to be, but I think it was just a narrow corridor that was being dealt with.

Mr. D'Autremont: — Thank you, Mr. Minister. We discussed earlier in SRC, the PanCanadian project. The government has some involvement in that project. What is the government's role in that and what is the progress of that particular project? I believe with the oil prices being down that there was some royalty incentives in place for the company within a certain period of time from the start of the project for the royalty rebates to run for. Has the company activated those royalty rebates and how is the project going?

(2030)

Hon. Mr. Lautermilch: — Mr. Chairman, and I appreciate the question from the member because there has been a lot of interest in terms of that project. I can say that we as a department had a responsibility, and working with the Department of Finance to ensure — and the Minister of Finance is here so I had to say that — to ensure that we had an appropriate fiscal regime that would give a reasonable rate of return to PanCanadian and its partners as well as a reasonable rate of return for the people of Saskatchewan.

The main area that was dealt with was with respect to enhanced oil recovery royalties, and the timing was that those royalties would take effect 18 months prior to the start-up, and that remains unchanged.

Mr. D'Autremont: — What's the projected start-up date then for the project? Has it started today, therefore the royalty holiday or special royalties have kicked in already? If so, how long do they run for? And if it hasn't started yet, when do you foresee it starting?

Hon. Mr. Lautermilch: — Mr. Chairman, it would appear that the project has been somewhat delayed because of negotiations with Dakota Gasification. I am understanding that those things have been ironed out. The start-up date will now be, as I understand it, in late 2000. And with respect to the royalties, the

agreement that we had was 18 months prior to start-up and certainly we'll be looking at that 18-month period. That hasn't changed.

Mr. D'Autremont: — So what happens . . . Let me lay this out, see if I have it correctly. The start-up date will be sometime in late 2000, so then you take from that date and go back to mid-1998 for the royalties holiday to kick in. Or is it 18 months from the start-up date onwards so it would run until the middle of 2001 or 2002?

Hon. Mr. Lautermilch: — Under the agreement it's 18 months prior to the start-up date and those rates would continue as long as they're injecting CO₂ into that pool. So as long as they continue to use CO₂ after the start-up date for injection purposes, that royalty rate would continue. And hopefully that will be a long time because the longer that process takes, the more oil they're going to be recovering from what would have been a depleting pool which would have returned zero for the government and zero for the investors.

Mr. D'Autremont: — This new royalty rate, Mr. Minister, is it a fixed amount of reduction from the ordinary royalty rate or is it a percentage change? I don't know what the royalty rate on old oil would be there but is it a percentage drop or is it a fixed amount of drop?

Hon. Mr. Lautermilch: — My officials describe it to me as being a mini-income-tax system that we put in place. Prior to payout, they pay a flat 1 per cent. After payout I'm told that they pay, and would pay, 20 per cent of operating income. So it's got basically two components. It's based on income, which is the system that we felt was reasonable and PanCanadian felt was fair for them. We were able to reach their threshold in terms of their corporate requirement for return on their investment.

And on the other hand, when we looked at the amount of revenue that would ultimately come into the public coffers, although there was a little dip in the in years — and that we expect — we will, over the longer haul, generate many more millions of dollars of revenue because we're generating oil that otherwise wouldn't have been there.

Mr. D'Autremont: — Thank you, Mr. Minister. I wonder if you could tell me what the royalty rate is on old oil and what the royalty rate is on new oil.

Hon. Mr. Lautermilch: — Mr. Chairman, I'm just looking at the graphs and as these are described to me, I'm always mystified somewhat because there's non-heavy old oil, there's non-heavy new oil, there's non-heavy third year, there's southwest designated new, there's southwest designated third year. You're familiar with some of these. And it's all price dependent so, I mean, it varies depending on what the price of oil is.

So there are some very complex sets of royalties and it all depends on the kind of oil that we're producing. And it almost seems that every pool in this province has different characteristics and qualifies under different royalty systems. And in gas there's old gas, new gas, third . . . (inaudible) . . . gas — it's all over the wall.

What I'm going to attempt to do is get a one-month example for you — if that would be appropriate — that will sort of describe what would happen under the different scenarios for a given month. And I'll send those graphs over to you. Okay?

Mr. D'Autremont: — Yes, that sounds very good, Mr. Minister. I'd appreciate that.

As I was explaining to one of your colleagues here while you were getting the information from you staff that what you really want in Saskatchewan is green oil.

Mr. Minister, when it comes to drilling of oil wells in this province, I wonder if you could give us some indication as to what types of wells have been drilled in the last year and the changes that would have occurred there? Were there more horizontals being drilled, more conventional, deep wells, shallow wells? What's happening in those areas?

Hon. Mr. Lautermilch: — Mr. Chairman, I think as I get older this printing gets smaller. So I might have to use it from here.

But I can give you the 1997 total, and this includes horizontal, development, in field, deep — the whole works — 1997 was a total of 3,608; 1998 was a total of 1,068.

The one you might be interested in is the . . . with respect to deep rights reversion and what is happened there in 1997, if I'm crossing this appropriately, there was 75 deeper wells drilled. In 1998 there were 79 drilled. So this was the result of deep rights reversion and looking in the lower formations. Horizontal in 1997 was 39 and because of the decrease in crude, as you will know, the horizontal drilling took a pretty severe whack, and there were nine drilled. So it's quite a decrease.

In terms of, let's see, horizontal . . . Okay and in terms of the horizontal, 596 in '97; and 242 in '98. So I've given you the aggregate amounts, and you can see what's happened with the deep play and in terms of the horizontal drilling. A very expensive drilling as you will know, and it's pretty hard to find cash flow for that kind of activity right now.

Mr. D'Autremont: — Yes, thank you, Mr. Minister. Yes, when you said nine horizontal wells, I thought there was that many almost right around my farm — not on, mind you, but near.

Mr. Minister, the government holds a certain amount of land which it holds mineral rights on in conjunction with other partners. Particularly the lands that were previously Scurry Rainbow lands that reverted back to the government. What's the procedure on leasing those lands out, and has the government leased any of them out where they have other leaseholders in with the government?

Hon. Mr. Lautermilch: — Mr. Chairman, I'm getting a little bit of an education here, a little history lesson as well. With respect to Scurry Rainbow, what they have done is separated the rights. Just as an example, if the Crown portion was 80 and the company portion was 20, they will deal with their own, and the Crown will deal with its own. So they've been separated, and that's how they managed.

Mr. D'Autremont: — When it comes to leasing out those properties though, would the government lease out their 80 per cent, and then the company that was purchasing the lease or doing the leasing would have to go to the landowners or whoever holds the rest of the mineral title to make a separate negotiation with them? Or would it be all done sort of in conjunction, negotiate with both parties at one time until an agreement is arrived at?

Hon. Mr. Lautermilch: — Well the first scenario would be the one. They would have to negotiate with the Crown and with the company on a separate basis.

Mr. D'Autremont: — Okay, thank you. I was kind of concerned whether or not the landowner or the mineral-right holder would have to settle for the same rates as the government, which perhaps may be beneficial or not depending on how well the government negotiates that, and since I'm not . . . haven't been privy to that yet, I'm not sure what the government's track record is on those kind of agreements.

When the government would lease that out, that would be part of the land, sale process would it, and the companies would then tender on those lands? I recognize that there are certain large sums of money that change hands on that. What kind of a royalty though would the Crown retain on those lands as a percentage of production?

(2045)

Hon. Mr. Lautermilch: — Mr. Chairman, the royalties and the incentives . . . you know, and I guess it depends on the tier of oil we're talking to, you know, those all vary; but they would be the same whether we own 80 per cent of the whole package or whether we own 60. We would take that portion, but the royalties would remain the same, and incentives as well.

Mr. D'Autremont: — So whether the Crown owned the mineral rights on the 80 per cent, you would get the same kind of return as on the lands that the Crown would hold a hundred per cent. So there would be no difference in that case. When an individual holds the mineral leases though, they negotiate a royalty retention on behalf of the landholder. So that doesn't happen in the case of the government when they're in negotiations to lease land to the oil companies?

Hon. Mr. Lautermilch: — That's correct.

Mr. D'Autremont: — And I was wondering if I was doing better or worse than the government was and I can't find out.

On some of the lands that are being transferred today with TLE (Treaty Land Entitlement) settlements and specific land claims, what happens with the mineral rights on those properties — does the Crown retain the right to collect royalties from those lands or is that right given up along with the titles to the lands and minerals?

Hon. Mr. Lautermilch: — Mr. Chairman, when we transfer the . . . we transfer the ownership to the federal government, we give up the rights to the surface, and to the minerals. That's all transferred to the federal government. They then deal with it in whatever fashion they deal with it through the agreements.

Mr. D'Autremont: — Thank you, Mr. Minister. At one time those mineral rights did indeed belong to the province, and people purchased them, so that's why I was concerned. Or the province controlled those mineral rights; that's why I was wondering just what happened to them in those TLE transfers.

Does the same thing happen in the specific land claims where a band may purchase land with the monies given to them for that purposes? Do those lands automatically become subject to federal regulation, or do they remain part of provincial regulations if they're not brought into the reserve structure?

Hon. Mr. Lautermilch: — Mr. Chairman, I'm told under specific land claims we sell the rights to them, and under TLE if they're disposed we will sell. They will then be administered by Indian Oil and Gas Canada after that process is taken place.

Mr. D'Autremont: — Okay, thank you, Mr. Minister, my colleague had talked to you a little about the uranium industry, and the uranium industry is very important to Saskatchewan.

I'm wondering though if your department has given any consideration to expanding the role that uranium plays in Saskatchewan and moving us into the secondary processing stage of the industry or into the disposal stage of the industry. I know that . . . I believe it was about two years ago Atomic Energy Canada was around doing some hearings on possible disposal sites in northern Saskatchewan. That seems to have quieted down and disappeared now. I'm just wondering what is happening in that area. Is your department involved in any way in those kind of discussions if they are ongoing?

Hon. Mr. Lautermilch: — Mr. Chairman, I can say to the member opposite that, with respect to disposal — and I'll deal with that first — I think that before that would be acceptable to the people of Saskatchewan, there would have to be a very clear understanding of technology that would ensure that that would be a reasonably safe situation. As you will know right now, that material is in storage, mostly in areas where it is being used. And I think that before that would be a decision made to bring disposal material and to use Saskatchewan as a disposal ground, we would want to and need to ensure that the people of Saskatchewan are comfortable with that decision. I don't believe that we're in that position right now, and I think that that would take a lot of dialogue and a lot of understanding and a lot of assurance that the technology in terms of disposal would work and work for the long haul.

Mr. D'Autremont: — So the department then is not carrying on any discussions at the present time. What about the secondary processing that may or may not be available to Saskatchewan? We mine and ship a large percentage of the world's supply of uranium, and yet we don't carry on any secondary manufacturing in this province with the uranium industry and the fact is most of the secondary benefits both either from the processing itself or from the manufacturing based on that processing is carried on in other places in Canada or indeed around the world.

Hon. Mr. Lautermilch: — Mr. Chairman, in respect to secondary manufacturing, I am told that there is still a very large capacity in terms of the ability of this manufacturing process to handle all that is there and more if necessary, and

that industry has indicated that they're not interested in capital investment in secondary manufacturing until the capacity that now exists is totalled out. That isn't the case, so my guess would be that that is not going to be an issue that's going to have to be dealt with in the near future.

Mr. D'Autremont: — Well, thank you, Mr. Minister. One last area in the province's energy and resource sectors is hardrock mining. What's happening in that area? It fell on hard times similar to that which the oil patch fell on. The gold mine at Contact Lake closed, I believe. What's happening in the hardrock mining area and what are the prospects in the coming year?

Hon. Mr. Lautermilch: — Well as the member will know, in this spring budget we made some fairly significant changes to the royalty and taxation structure of base metals and gold. And part of the reason that that was done was, first of all, because they hadn't been looked at for many, many years and it was time . . . it was due. We wanted to review to see if those royalties and taxations were pertinent in today's marketplace.

Ultimately we made the decision that we would look at a reduction for new mining and new opportunities. So I think that will do an awful lot in terms of Saskatchewan's image, not only in Canada but around the world, in that we want to be an investment-friendly environment. And I think those changes will do very much to have that happen.

The exploration dollars in Canada have been shrinking in the past. And as you will know, it takes a considerable period of time to get a base metal mine, a hardrock mine, on stream. When you look at the exploration stage and in through the development stage and then into the production stage, it's a long, long time. So we in Canada, and I would want to say that we in Saskatchewan in particular, have got a long way to go in terms of developing our base metal industry.

I think it's one of the areas . . . I think it's fair to say that we really as a province, and I say this not to reflect on anything that anyone within the Department of Energy and Mines has done, but I think it's just been an area of policy that successive governments have not developed. We haven't looked at it and we haven't looked at the opportunities and we really haven't been serious about attracting the investment. But I think that's changed. My department is very much focused on that.

We're now attending prospectors' and developers' conferences to share the Saskatchewan geology, to share the expertise that's been developed here within the department, and to talk to investors about coming to Saskatchewan to develop the geology that we think is host to some very good and productive opportunities for investment. So just to condense it, I guess . . . I don't think we had done our job here in this province in the last 34 years. Should have done more, could have done more, but we're moving towards doing that now. And I think that even though the commodities, the base metals, as you will know, the prices are in the tank, they've been in the tank for a considerable period of time — hard to attract investment, fair to say that Bre-X gave Canada a bit of a black eye — you will know that. So it's going to take a while for us to turn those kinds of things around.

I want to say that Mr. Patterson and his area of the department is working very closely with the industry. We want to create a very positive investment image and climate here and that's part of what we were able to achieve in this year's budget with the reduction in the base metal and gold royalties for new production.

I must say, by the way, and maybe I shouldn't single out Mr. McMillan, but I notice Neil McMillan and his comments in the Saskatoon *Star Phoenix* as a result of the changes spoke very positively of what it will do with respect to the industry. And if there's anyone in Saskatchewan who knows hardrock mining and who knows that industry, it would be him. So I very much appreciated the comments that he made with respect to the changes we initiated.

Mr. D'Autremont: — Thank you, Mr. Minister. Indeed the base metal industries have been sort of the orphan of the resource sector in Saskatchewan. A good percentage of the investment that was taking place around the world in base metals was taking place by Canadian companies, though, outside of Canada and in particular in South America and Asia. And we need to indeed do something to bring them home so that they invest here.

The terms investor-friendly, though, coming from a member of the NDP government, just sort of seems to be diametrically opposed. And I'm glad that your government has finally recognized that you indeed do have to be investor-friendly if you want to develop this industry and the resource industries in general, Mr. Minister. So I think it is indeed worthwhile that we take a very serious look at what we need to do to reinvigorate an industry that is beneficial to Saskatchewan and particularly beneficial to northern Saskatchewan starting right from the US border, Saskatoon and north.

I think there is a lot of opportunities there for us and it's certainly time that we took advantage of what God gave us in the terms of minerals and went ahead and used them to the best possible advantage to the people of Saskatchewan. So, Mr. Minister, I think we need to carry on in that direction, not just in the base metals but in industry as a whole throughout Saskatchewan, to be an investor-friendly location and if you can pass that message on to some of your colleagues, it would be of benefit to all of us.

So I'd like to thank you for coming in this evening. I'd like to thank your officials for spending their time with us this evening and providing us with the answers. Thank you.

Hon. Mr. Lautermilch: — Thank you. Mr. Chairman, I want to thank the members opposite for their very thoughtful questions and for their comments. I know that they are interested in the development of investment opportunities and profit opportunities here in the province, as we are. And I think that together working with industry this government, both members of the government side and the opposition, can do a lot to enhance the attitude towards Saskatchewan as being a great place to invest, which I think it is.

I just want to close by thanking my officials for their help, their support tonight, and in the past years. Oh I think I may be a little premature, so I'll take my place.

Mr. Hillson: — I note, Mr. Chairman, that the minister said the opposition questions were very thoughtful before I stood up.

I do however want to ask the minister about a less happy sector of the mining industry, and that is the pending closure of Cluff Lake mine. And I'd like to ask him if he is working with the federal government to ensure the proper closure of that mine, and also what programs are in place to ensure the transition of the employees of the Cluff Lake mine.

(2100)

I was there this summer, and I was very impressed that that mine appears to have done an extremely good job of hiring northern labour at the mine, and this is something we always want to see. But on the other hand seeing that it is northern labour as opposed to labour which has simply been flown in from the South, it must mean that with the closure of Cluff Lake suitable placements for those people will be difficult to find. And I'm just wondering what programs the government does have in place, what plans there are to ensure the placement of those people who will lose their employment as a result of the closure of Cluff Lake.

Hon. Mr. Lautermilch: — Well, Mr. Chairman, let me deal with two issues, first of all with respect to the closure of the mine.

AECB (Atomic Energy Control Board) and SERM are the two regulatory bodies that will deal with the process in ensuring that the proper techniques are used in terms of closing the mine on the environmental side. And I have no doubt that given SERM's diligence, knowing that department as I do, they very much have the environment in their forethought as they move towards decommissioning this mine.

With respect to the employees, you know . . . it's a difficult thing, I know, for the employees. And I can't speak for all of the miners but certainly what I hear from them is they understand the nature of their industry. They understand that every ore body has a depletion time, a time where a mine will not be economical and won't be viable to operate.

I want to also say that I know industry, and from industry's perspective they understand this as well. And do they have the concerns of their employees at heart? Mr. Chairman, I can tell you conversations that I've had with the principals. In terms of management, they are doing everything that they can to assist in a transition to perhaps a new mining opportunity within that portfolio up there. It may not be that all of the mine, the people working at this mine can be accommodated.

It may be that some of the contracts that supply . . . contractors that supply services to the mine may not be able to deal with all of their employees but I guess that unfortunately is the nature of the mining business, the mining industry. Mines open, do their job, and they close. So for the most part, people in that industry I think understand that and are willing to move and accommodate those circumstances.

But I want to say that from a corporation's perspective, they have been very open to our concerns about ongoing employment for the employees in that industry up there. I can't

say that my department has a program in place for the transition, monetary or otherwise. We don't have a program. That's not the mandate of the Department of Energy and Mines but I think it's something that is certainly of a concern to us as government as a whole.

Mr. Hillson: — Mr. Chairman, I'd like to know if the minister can tell us the projections of the industry or of the department as to the medium- and long-range projection of uranium prices. Is it anticipated that uranium prices will remain soft for the foreseeable future or do we see any firming up for uranium in the next few years?

Hon. Mr. Lautermilch: — Mr. Chairman, you know I think it's fair to say that both my department and industry are hopeful that the prices will be firming up. I was discussing this earlier with a member from the official opposition in that \$8.50, \$8.75 a pound uranium is certainly not nirvana for those who have invested hundreds of millions of dollars in the industry.

But I think that it's also fair to say that the arrangements that have been made with the Russians in terms of I guess supply management, and the Americans, that the prices will be firming up. I don't believe and my department doesn't feel that earlier projections of perhaps 30 or 35 or \$40 a pound will be achieved in the near future. But certainly I think the arrangements that have been made with the Russians will create an upward . . . some upward pressure. And I think that's already been evidenced in the price of uranium. Uranium is what at . . . about 10.95 a pound right now so there has been some upward pressure, and hopefully you know for the health of the industry that will continue.

Mr. Hillson: — Thank you. Can the minister answer the same question in regard to potash? What are the department's and the industry's projections as to where we are headed with potash?

Hon. Mr. Lautermilch: — Mr. Chairman, you know the history, I guess, and the recent past of potash prices has really been one of stability even in spite of the competition in the marketplace with our largest offshore client which is China. Russia has been attempting to move into that market and there's been a bit of a differential between the Canpotex price and what the Russians are offering.

But what can't be offered from other jurisdictions is what we have been able to achieve by developing the industry here in Saskatchewan over the years and that's stability. And the other component that I think gives us a step up and an advantage and the ability to continue to be very dominant in the world markets is the quality of our potash.

So if you look at quality and the ability to supply on time when required, we're in a pretty good position and so we can command a reasonable price for Saskatchewan potash. I think the trick for us is over the longer haul to ensure that this industry, in Saskatchewan, remains competitive in terms you know of mines that are competitive because they're efficient. We've got a great workforce that work within the mining sector. We've got a good marketing tool, the industry does, through Canpotex. We've changed our royalty and taxation structure which Bill will be . . . is before the legislature, part of that right now, which will make Saskatchewan more

competitive in the global market place.

So I think the secret, although the prices are stable and they're fairly strong, the secret for us is to ensure that we remain the dominant player in the world marketplace, which is what I can tell you I am committed to doing and this government is committed to doing to ensure that we maintain our dominance in the world markets.

Mr. Hillson: — Mr. Chairman, I realize that this province did not sign on to the Kyoto Agreement, but nonetheless it seems to me that there are international developments that we will not be forever able to ignore even if the projections and the objectives of Kyoto turn out to be unrealistic and unobtainable in the short term.

So I want to ask the minister what are Saskatchewan's plans in terms of Kyoto; and also if we can continue on long term to use coal-fired generators as a major means of power production in this province or is that something that we will have to consider alternatives for in the medium to long term; and where you think we are in terms of coal-fired generators as our source of power production in Saskatchewan; and if Saskatchewan will be in fact signing onto Kyoto.

Hon. Mr. Lautermilch: — Mr. Chairman, the member asks some very thoughtful and I guess some very important and pertinent questions with respect to the position that the federal government has taken in terms of the Kyoto Agreement. I've said publicly, and I will say it again tonight, that if we were have to act in isolation — Saskatchewan from other provinces and the rest of our nation — that would be for us a very, very daunting challenge given the nature of our economy.

We're an energy-producing province. We have a large agricultural base which is a large consumer of energy historically. We've generated 70 per cent or close to that figure of our electrical energy by coal-fired power plants. And so we've got a circumstance here: as our economy continues to grow, so do our emissions. This is not a declining economy; it's a growing economy so it would only stand to reason the energy consumption level would continue to increase unless we have some methods of mitigating that.

I want to say that we are now, as a province, very much involved with the federal government in developing a plan. I can report to you tonight that when the Kyoto Agreement was signed, there was no plan, and there is no plan now other than we're in the stages and I think we have made some progress in terms of formulating the plan.

What we are taking to the table are initiatives, and we are asking initiatives that are not specific to Saskatchewan but certainly have a major impact on Saskatchewan, and that is the ability to use credits and sinks with respect to agricultural practices — carbon sinks with respect to agricultural practices and forestry because those are two very, very large areas where we believe we can effect some positive impact and be part of a Canadian solution. So that's basically where we're at.

We will be meeting. — I'm assuming; I'm not sure yet, the federal minister hasn't indicated yet — but we meet fairly regularly and I'm assuming we'll be meeting in fall.

Industry has been doing a lot of work in terms of early action. SaskPower has been doing a lot of work in terms of their initiatives. The oil and gas sector, frankly, have been very, very much in the forefront in terms of early action prior to any kind of a plan being announced by the federal government.

Our officials are working very diligently. They're at some very important tables. They're working on economic modelling and other initiatives so Saskatchewan is playing a very, very major role in terms of Kyoto.

We're working co-operatively with the federal government, but I want to say again we are very, very concerned with respect to the environment as every jurisdiction in Canada should be; every jurisdiction in the world should be. And we want to do our share and we will do our share and we will do our part, but we will not agree to initiatives that will put Saskatchewan at an economic disadvantage to our neighbouring provinces, to other areas of Canada or to other areas of North America, because that I think would be irresponsible of us as a province not to protect the jobs and the industries here in this province. But we'll do our share. We're working very co-operatively with the federal government but what the end result of this is going to be we can't really say yet; it's a little premature.

Mr. Hillson: — Mr. Chairman, I can appreciate that the environmental issues and our co-operating with the Kyoto Agreement may well be the subject of sensitive negotiations that the minister cannot divulge or perhaps anticipate right now. But in the case of coal-fired generators though, then can I ask — leave aside the environmental issue which the minister says the province is dealing with; there's also the economic issue, economically; and from a standpoint of a surety of supply — is lignite-fired generators, is that a way for us to go on, continue supplying Saskatchewan with power? I think you gave the figure of 70 per cent of our power continues to be coal-fired by lignite. Is that a method of generating power for the province that will be economic and viable in the long term?

(2115)

Hon. Mr. Lautermilch: — Mr. Speaker, I can answer that and I think with a great deal of conviction. In terms of the North American scheme of energy production, our coal-fired plants in the southern part of this province are very, very efficient. This is not a comparison that would be made nor should be made in terms of efficiency and efficiency of production. It's not a comparison and not a realistic comparison to compare Manitoba's hydroelectricity energy with Saskatchewan's coal-fired energy. It needs to be compared in a much broader context.

And so I could safely say that my department and this government is very much of the opinion that those plants are competitive. They are now and I think in a totally deregulated marketplace they would be. So I have all measure of faith that those plants will continue to operate through their lifespan.

They're new plants. There's been millions of dollars, many hundreds of millions of dollars invested there. We got an efficient workforce who know those plants well, run them well. And so I have no reason to believe that in a broader context, in a deregulated marketplace, that SaskPower and in particular the

coal-fired plants would do very, very well.

Mr. Hillson: — Thank you. If I may turn to the issue of heavy oil, it's my understanding that the economic viability of heavy oil depends not so much on the base price as such, but rather the gap between number one Texas crude and heavy oil. In other words, what is required then to do the upgrading so that heavy oil is marketable? And I'd like to know what the projections of the department and the industry are as to whether that gap will continue to be great enough to allow the economic upgrading of our heavy oil reserves so that that industry will continue to be strengthened and expanded.

Hon. Mr. Lautermilch: — Mr. Speaker, let me deal with this in two areas. Certainly the differential has an impact on part of the industry and that's the upgrading industry. And that component, it affects very, very directly as to whether upgrading is viable or whether it's non-viable.

But the ultimate . . . the economics of oil are the cost of drilling, the capital cost of investing, in putting that well into place, the costs of operations; part of that is electricity. So I guess the absolute value is as important to heavy oil as it is to light sweet crude. But in terms of upgrading, the differential is what makes the difference between economic viability and non-viability in that area.

Mr. Hillson: — Mr. Chairman, I was given the figure of a \$4 differential is required. Is that a figure that the department would concur in, that you require a \$4 differential for upgrading to be economic? And what is the present differential?

Hon. Mr. Lautermilch: — Mr. Chairman, as it relates to the differential, firstly, let me say that the variation and the fluctuations have been very, very dramatic. I'm told by my officials, just looking at the history of the differential . . . in early 1998, the differential was around \$10. In early 1999, the differential was around \$3 CDN (Canadian) or about 25 per cent of what it was a year before.

In terms of the economics of an upgrader, I don't know that I would want to use a rule of thumb because I think the different circumstances in different upgrading facilities would require different margins. I think that it's fair to say that NewGrade will have a different circumstance than Husky. And what might work for Husky may not work for NewGrade or the other way around.

So I think what makes upgrading work is very much the economics of the production facility, the efficiency of the plants, the amount of capital investment required to do the upgrading. I mean so there's many, many variables. I couldn't give you a rule of thumb but certainly the differential is important to all of them; but what's even more important is the base cost per barrel.

Mr. Hillson: — Thank you to the minister and his officials. And I guess now that I've warmed you up, I will turn you over to the tender mercies of my colleague from Melville.

Mr. Osika: — Thank you, Mr. Chairman. I just have a couple of questions going back to petroleum exploration, your exploration for oil and gas. Are you at liberty at this point to tell

us where there may be some major projects that are undergoing some exploration, pinpoint some areas in the province?

Hon. Mr. Lautermilch: — Mr. Chairman, I think maybe, maybe I can just share a little bit of excitement that I have inside of me in a couple of areas of the province and some new, I think, exciting opportunities have been created for investment and for some of the companies who have taken the opportunity to purchase land in these areas and involved themselves in the deeper plays.

The Montmartre area just to the south and the east of Regina here is, I think, as exciting as all get out. And south of there, Ceylon, where companies are investing larger amounts of dollars to drill deeper and are finding success. And I think that for me is really exciting in that it's in a non-traditional oil and gas area in Saskatchewan as we know it.

So technology is driving the investment because the opportunities are seen to be there and when they actually start the investment in Montmartre — Tri-Link Resources has been a fairly successful player, and I'll mention just that one company among others — but I think it's just exciting as heck.

And you know what I find as exciting? I met recently with . . . and it's creating challenges too because I've met with some of the municipal governments who are totally unfamiliar with that kind of activity taking place in their area so it's creating some challenges because they don't understand the industry and shouldn't because they've never had to deal with it. And what we've been able to do is involve some of the traditional producing municipalities in working with the non-traditional municipalities in conjunction with my department, with Energy and Mines and municipal government and the Canadian Association of Petroleum Producers.

We've got them sitting down at a table saying, hey, these are new things happening here. What does this mean to me? This is intrusive. I don't like the way this is happening. What's going to end up as a result of your activities here? And so it's a whole learning curve for a whole bunch of people but I think that's probably as exciting as anything I see in the oil and gas play. It's new and it's there and it's creating investment and it's creating jobs in new areas and taxes for municipalities and freehold landowners, and I think that's good.

Mr. Osika: — No question about that, that is good. I'm glad to hear, Mr. Chairman, that some of the new areas where this is happening, that they are brought in, that local government is brought in and there is some explanation given to people in the community so they can also participate in the sense of excitement as well.

I just wanted to go back to your resource regulatory program, and particularly with cleanups on abandoned sites. Does your department, if in fact there are some farmlands where a producer may feel that there hasn't been adequate cleanup taking place after a well has been shut down, where would that individual then go with a concern or some assistance to follow up?

Hon. Mr. Lautermilch: — There I think I've got it straight, okay. There's a body in the province that's been set up to deal

with these kinds of issues — the surface rights arbitration fund or the Surface Rights Arbitration Board — and if there is a dispute between a landowner and a company, they can apply to the Surface Rights Arbitration Board to come in and see if they can find a solution.

In the event that it's an abandoned well, an orphaned well as they call it, where the company no longer exists, that then becomes the responsibility of the Department of Energy and Mines, and the landowner would want to contact our department. And we have the resources, the technical abilities to do the assessment then, you know, and work with the landowner in terms of getting a fix to the solution.

Mr. Osika: — Thank you for that answer. Mr. Chairman, to the minister, there have been some concerns brought regarding these types of situations in the south-east corner of the province. So I appreciate your assurance that there is a body that these people can go to and ask for some assistance.

A lot of the companies that are operating in the province here now with respect to oil and gas, are any of those companies . . . do they have in fact a head office here, or are they subsidiaries from companies from other provinces?

Hon. Mr. Lautermilch: — Mr. Chairman, it became very apparent to me after a short period time in this portfolio that if I wanted to deal with the majors, I had to go to Calgary. You know, the one major that we do have and have had here is Wascana Energy which was as a result of a Crown corporation, Saskoil, that was headquartered here in Saskatchewan many years back.

But I think it's fair to say that Calgary, over the years, because of the nature of that oil and gas industry in Calgary and the fact that they were able to exploit and develop their resource much earlier than we . . . they have light, sweet crude, and we've had heavy oil. So we've had a different circumstance, and they've been major players in that sector which has attracted many head offices and support to the head office. So they built a core of critical mass.

I think what we have been attempting to do here in Saskatchewan is to do what is doable. And that is to grow this industry to a point where the service sector that supports oil and gas development whether it be rigs or servicing wells — whatever, I mean just name all of the industry that comes as a result of that activity — will take place here.

I want to say as well we have a number of junior oil and gas companies located here in Saskatchewan who play a very important role in terms of development.

But I think we need to be, I think — as a province and as people of this province — very watchful and mindful that there are going to be opportunities for growth and for development by support industry. So that is an area that I think we really can gain in and the other component of that I guess is in research and development and what we can do.

(2130)

The Petroleum Research Centre here on the university campus

in Regina, there's no doubt in my mind in a short, short period of time we have . . . the expertise that is there. The Dean of Engineering is a very well recognized person in this field. He is going to be able to attract other professors with similar reputations to his. We're going to be training people here in Saskatchewan with new technology and new ways of developing that technology, and I think over a short period of time we're going to be exporting that expertise. And I think that's a role that many of the oil and gas companies see us as playing and they're very supportive of it. And the fact that they've been able to . . . we've attracted some very major players in the oil and gas sector to sit on as board of directors and partners with us in that.

Those are the areas that I think we can really grow in and I think those are the areas where you can see and you can identify opportunities and we just got to go out there and make sure they happen and make sure we capture all of those opportunities and we're doing that.

Mr. Osika: — Thank you, Mr. Chairman, and thank you to the minister. I hope that his excitement that he's feeling and expressing about the Montmartre area may perhaps seep through north . . . and to the north side of the valley as well because we'd like to see some excitement and some activity in that area as well.

I want to thank the minister and his staff. Thank you, Mr. Chairman.

Hon. Mr. Lautermilch: — Mr. Chairman, I'm just going to . . . (inaudible) . . . members joined in the discussion. And I want to thank my officials for their help tonight and their work throughout the year and I want to thank members of the third party for their thoughtful questions.

Subvote (EM01) agreed to.

Subvotes (EM02), (EM05), (EM04), (EM03), (EM06) agreed to.

Vote 23 agreed to.

**Supplementary Estimates 1998-99
General Revenue Fund
Budgetary Expense
Energy and Mines
Vote 23**

Subvotes (EM02), (EM05), (EM03), (EM06) agreed to.

Vote 23 agreed to.

**General Revenue Fund
Saskatchewan Water Corporation
Vote 50**

The Chair: — I would ask the minister to introduce his officials, please.

Hon. Mr. Sonntag: — Thank you, Mr. Chair. Seated to my left is our president, Ron Styles. Immediately behind him is Dave Schiman, manager of financial planning. And seated directly

behind me is Wayne Dybvig, vice-president, water resource management.

Subvote (SW01)

Mr. D'Autremont: — Thank you, Mr. Chairman, not yet. I'd like to welcome the minister and his officials here this evening. And since it's raining out perhaps it's a good day to be talking to Sask Water.

Mr. Minister, I wonder if you could tell us the number of employees in your department, whether or not that's a change from previous years, and if so, in what direction and for what reasons?

Hon. Mr. Sonntag: — The full-time equivalent we have is 247.7. That's up just ever so slightly from years past.

Mr. D'Autremont: — Ever so slightly, Mr. Minister. Does that mean point seven? That's slightly . . . or the minister is the new employee at the department.

Mr. Minister, I wonder if you could tell us of any new projects, significant projects, that Sask Water undertook in the last year.

Hon. Mr. Sonntag: — There were a number of small projects, but the two major projects that were started in '98 and will be completed in '99 are the Lumsden dike reconstruction, and also the Buffalo Pound outlet is being completely replaced.

Mr. D'Autremont: — Thank you, Mr. Minister. What would the value of those two projects be and what is the date of completion on those two particular projects? As well, what were the environmental impact studies? Were there any done on those two particular projects?

Hon. Mr. Sonntag: — The first project, the Lumsden project is approximately \$500,000. The Buffalo Pound is substantially larger at 1.6 million. And they are screened by the Department of Environment, our provincial Department of Environment, and also by the federal government through the . . . or I should say, by virtue of the navigable waters Act.

Mr. D'Autremont: — Were there public hearings dealing with these two particular projects and when is the completion dates for them?

Hon. Mr. Sonntag: — Both projects are slated for completion in 1999. While there is no requirement for public consultation, we advertised and also there was consultation with, as far as we are aware, with the RMs (rural municipality) and some of the public . . . some of the community and the public, primarily through the RM.

Mr. D'Autremont: — Thank you, Mr. Minister. I'm surprised that you got away so easily on public hearings when you talked about navigable waters.

I remember a small project that occurred in my area, the Rafferty-Alameda project, that needed intensive scrutiny by Environment Canada because it dealt with navigable waters. And I'm surprised that you managed to do these projects so quietly, without any intervention by Environment Canada into

those particular areas. And I'm surprised that the Minister of Environment wasn't bringing forward some concerns about these projects because he was quite involved at the time on the small bit of water that I think it was one of your ministers said you could stop it with a briefcase. And yet it was classified as navigable waters and therefore had to have intensive public hearings across southern Saskatchewan and Manitoba because of where the water flowed to. So perhaps the minister is more effective than some ministers in the past have been in keeping the issues quiet and under wraps so that there is no scrutiny of those particular projects.

What were the results of the discussions with Environment Canada or with the federal government on the navigable waters? What environmental statements did they come up or require from your department?

Hon. Mr. Sonntag: — Okay, first of all, both the — this sort of goes back to your first question — both projects were reconstruction, so they weren't new projects. So that's probably part of why the requirements may not have been for a full impact study. And also the size of the projects, they're not anywhere near the size that you referred to.

But some of the requirements from the federal government, under the navigable waters Act, they would simply be looking for hazards, navigation hazards on the water. Fisheries, both Department of Environment provincially and federally . . . That would be reviewed. And lastly Department of Environment provincially here would be interested in the wildlife impact as it pertains to these projects.

(2145)

Mr. D'Autremont: — Thank you, Mr. Minister. This spring at both the Alameda and Rafferty reservoirs, there is a significant amount of water in there. I wonder if you could give us the latest report on what is happening on those reservoirs and what levels that they're operating at now and what levels they'll be operating at this summer.

I know that in the past, various members of your government have said that there would be no water in there in even longer than the foreseeable future. I remember attending a number of meetings around southeast Saskatchewan and Manitoba where, in 10-year projection blocks, the department at that time was stating that there would never, ever be enough water in those reservoirs to fill them.

I wonder if you could give us some indication now of the levels of the water and the amount of water that has been passing through those reservoirs.

Hon. Mr. Sonntag: — Okay. For the Rafferty, it presently is at 0.8 metres above full supply level. We want to draw it down to full supply level through the spring. Currently the outflow is at 40 cubic metres per second.

For Alameda, it is presently 1.5 metres below full supply level, and we would want to get that up to roughly 1 metre below full supply level.

Mr. D'Autremont: — Thank you, Mr. Minister. So in actual

fact, Rafferty is over full based on the full operating level. Isn't that amazing? Isn't that amazing? I believe it was the Deputy Premier who said that that dam will never, ever fill up with water, ever in his lifetime. And I do believe that the Deputy Premier is still alive because I saw him in the House.

So, Mr. Minister, perhaps it's your good doings that have allowed this dam to fill up because it certainly had nothing to do with your government, because they did everything they could to prevent those dams from proceeding.

In fact, downstream from the Rafferty Dam this spring there was flooding because there was so much water coming into Rafferty that water had to be released from Rafferty and from Boundary Dam to keep the dams in place. And yet can you imagine what that flooding would have been if those dams hadn't been there? And that flooding would have taken place right straight through the Souris, down through Minot, and back up into Manitoba.

There's a large amount of water in there, Mr. Minister, and I think that it was through good foresight and planning that that flood protection is in place and that the water supplies are there for the power stations at Boundary and at Shand, Mr. Minister.

So those have turned out to be valuable contributions even though the member from Regina Victoria still doesn't agree with them. But nevertheless, Mr. Minister, he doesn't live along the Souris River and get flooded every year. But the people that are there are thankful that those dams are there because they have provided the necessary protection to the people living along the Souris River.

So, Mr. Minister, the member from Regina Victoria says they're going to name them after my former leader. I'm sure he would appreciate having a reservoir named after him, particularly one in which there is a large supply of water and excellent fishing. The fact is we've been inviting the member from Indian Head-Wolseley to come down and do some fishing at Alameda, which has excellent fishing opportunities there. But for some reason, he seems reluctant to do so. Perhaps it's a situation of denial. He can't admit that there's actually water in that reservoir.

Mr. Minister, I wonder if you could tell us in feet — so that the general public can understand — just how deep the water is in those reservoirs, how deep the water is at the deepest point in Rafferty and how deep the water is, in feet, at the deepest point in the Alameda reservoir.

Hon. Mr. Sonntag: — First of all, just on a point you made just at the beginning. In actual fact, the flooding, the water that was let out of Rafferty this year actually represented virtually the natural flow levels had there been no dam there at all so you would have experienced almost the same flooding experience whether the dam would have been there or not this year.

With respect to Rafferty, at the deepest spot it's 42 feet by the dam, and Alameda would be approximately 100 feet right beside the dam.

Mr. D'Autremont: — Thank you, Mr. Minister. You know 100 feet of water in southern Saskatchewan is certainly

something to be marvelled at and welcomed. And there is a lot of recreational opportunities that will be created around these reservoirs, that is if the department co-operates and we're able to maintain decent water supplies in those areas.

I think now that the agreements with the Tetzlaff brothers have stabilized, and that the dams can now be operated as proper reservoirs and dealing with them as any other reservoir would be dealt with, will allow an opportunity to start some development in those areas and hopefully the department will see fit to allow that kind of development to take place.

One of the situations though that's been an irritant, particularly in the Alameda area dealing with Sask Water, has been grazing rights. In negotiations with Sask Water, in conjunction with SERM, as to what kind of grazing should take place and what kind of intensity. Mr. Minister, I've had a number of complaints from constituents that the requirements set out by Sask Water to have 10 head of cattle per quarter section once every three years is really not realistic in operating a cattle herd when you have to find locations for your animals for two out of the three years.

And, Mr. Minister, have you given any consideration to amending that requirement to be more realistic and allow for a long-term sustainable usage of that land rather than a usage of 10 head per quarter once every three years?

Hon. Mr. Sonntag: — To the member, the policies are designed in conjunction with the Department of the Environment and the Department of Agriculture. Primarily our concern is around sustainability of the grassland. We have been — excuse me — we have been consulting with the folks out there and we actually have two pilots going right now where we've allowed . . . because of a concern for fires, we've actually allowed some additional grazing just to keep the grass down and we'll be monitoring that to see how that works.

Mr. D'Autremont: — Thank you, Mr. Minister. One of the other concerns that was expressed to me was by leaving the lands — you might say fallow even though they are in grasses — unused for grazing for two out of three years that you could develop a potential monoculture in that area where you have only one particular type of grass that's growing rather than the variety that is there currently. And that was a concern to some of the landowners in the area that if the land wasn't grazed, if you didn't get that hoof action stirring up the soil and reseeding the plants, that you could end up with a monoculture.

So I think that there need to be some consideration given to amending the operations there to provide more constant use which would reflect the natural state prior to the arrival of the white man, and that the buffalo herds would move through there and keep the grasses grazed and the hoof action would stir up the soil and reseed a number of the plants. So I think it's important that that kind of understanding take place and be included in the thought processes for the uses of this land.

One of the other subjects that I wanted to broach this evening is one that I'm sure that you are looking forward to and that is SPUDCO (Saskatchewan Potato Utility Development Company). I wonder if you could explain to us just what Sask Water's investment in the potato industry is through SPUDCO?

Hon. Mr. Sonntag: — Our involvement in the potato industry is around the provision of agronomic services. We participate in some limited crop sharing and certainly we are involved in the development and operation of storage facilities.

Mr. D'Autremont: — Thank you, Mr. Minister. We'll get back into that area here after a bit, but I wonder if you could tell us how many private potato growers there are in Saskatchewan today and if that number has changed since SPUDCO came into the industry?

(2200)

Hon. Mr. Sonntag: — First of all, we don't deal with any dryland producers so we're not sure of numbers there at all. With respect to the Lake Diefenbaker Development Area, there was in '96 about 2,000 acres and three . . . There were three farmers that represented 2,000 acres of production. In 1998 there were approximately 8,500 acres and six farmers. Now recognize that that's not . . . that's roughly the irrigated acres, that's not necessarily the ones that Sask Water, through SPUDCO, has any relationship to at all.

Mr. D'Autremont: — Can you tell us what financial input Sask Water or SPUDCO has in the proposed flaking dehydration plant at Lucky Lake?

Hon. Mr. Sonntag: — Absolutely no involvement at all.

Mr. D'Autremont: — Well I guess if you have no involvement you wouldn't know what the current status of that project is, or perhaps you do because of just working in the area. Is that project going ahead or what's happened with it to the best of your knowledge?

Hon. Mr. Sonntag: — We're only referencing articles that appeared in the local paper out in that area that suggested that the Lake Diefenbaker Potato Corporation has put the flaking plant on hold for the time being.

Mr. D'Autremont: — Thank you, Mr. Minister. Well doesn't SPUDCO have some involvement with the Lake Diefenbaker Potato Corporation?

Hon. Mr. Sonntag: — Our relationship with them is that they rent storage space from us. And in the second instance — this was a matter of an order-in-council which you are probably aware of — we sold to Lake Diefenbaker the Lucky Lake storage facility.

Mr. D'Autremont: — Yes, Mr. Minister. I have here an agreement. It says, to the Honourable Lieutenant Governor in Council. It's an order-in-council basically with Sask Water involvements and the Lucky Lake Potato Storage company and the Lake Diefenbaker Potato Corporation. And it outlines some financial arrangements. Also it deals with the sale and purchases of property and debentures.

According to this, the southwest quarter of section 25, township 23, range 9 west of the third meridian, shown as parcel B in the plan, including minerals, was . . . I'm just checking to see whether it was bought or sold — and the buildings located on that must have been sold, I believe. Yes, sold to the Lake

Diefenbaker Potato Corporation by Sask Water for a price not exceeding 6 million.

What was the price of this sale, Mr. Minister?

Hon. Mr. Sonntag: — The sale price was the actual cost of construction which was \$5.81 million.

Mr. D'Autremont: — Thank you, Mr. Minister. Did Sask Water originally pay for the cost of this construction or was it the Lucky Lake potato terminal that paid for those costs?

Hon. Mr. Sonntag: — Yes, Sask Water paid for it.

Mr. D'Autremont: — Was the work on this particular construction tendered out, and if so, who was the contractor on it?

Hon. Mr. Sonntag: — We actually don't remember that between us. We don't have the name of the general contractor with us but we'll certainly supply that for you. It was developed in a partnership with Con-Force construction and largely due to their unique expertise and the new technology that they incorporated into the facilities, Con-Force was the contractor that was used.

Mr. D'Autremont: — Thank you, Mr. Minister. I wonder if you could give us an indication of when these buildings were built and whether or not you had an appraisal done on them before they were sold.

Hon. Mr. Sonntag: — First of all, there wasn't an appraisal done. Our interest was in recovering the actual cost so we sold it at the cost of construction which was, I think I said, 5.81 million — yes, 5.81. The two facilities — phase 1 was built in 1997 at a cost of 2.661 and phase 2 was completed in 1998 at a cost of 3.12 million.

Mr. D'Autremont: — Was phase 1 and phase 2 similar? Were they identical buildings or was there some reason why the difference in the price between 2.6 and 3.1?

Hon. Mr. Sonntag: — Our belief is that the increased cost on phase 2 is simply because of the increased construction costs, just inflationary factors.

Mr. D'Autremont: — Well, Mr. Minister, wouldn't then the value of the first project have been of similar value to the second project so that both buildings at the time of sale should have been worth at least 6.2 million rather than 5.8? I think if an appraisal had of been done you may have been able to have done better on that than simply turning them over at the cost of the construction.

Mr. Minister, when I look further on in this OC (order in council), I find that Sask Water has provided financial assistance to the Lake Diefenbaker Potato Corporation and the Lucky Lake Farm & Water Limited Partnership of a value of not to exceed 2.5 million. Was that the amount of money that was transferred from the Saskatchewan taxpayers to the Lake Diefenbaker Potato Corporation or the Lucky Lake Farm & Water Limited? And what did Sask Water take as security for these monies?

Hon. Mr. Sonntag: — We essentially provided the financing, I guess would be the best way to say it. Three million of that was done through a long-term debenture, and 2.81 was a mortgage receivable.

Mr. D'Autremont: — Could you give me those numbers again, Mr. Minister?

Hon. Mr. Sonntag: — Three million was by virtue of a long-term debenture, and 2.81 million was by way of a mortgage receivable. So we secured the ... that was our security on the facility.

Mr. D'Autremont: — Okay, thank you, Mr. Minister. On the sale at 6 million or 5.81, was that money collected by Sask Water or is that money still outstanding?

(2215)

Hon. Mr. Sonntag: — Again I just want to repeat. We essentially provided the financing and LDPC (Lake Diefenbaker Potato Corporation) will or is required then to make at a rate, I should say at a rate of 10 per cent, equal monthly payments of principal and interest back to Sask Water.

Mr. D'Autremont: — Thank you, Mr. Minister. Now I understand why you didn't want to raise the price up on the value of the buildings and the property because you were putting up all the money to pay for them. So you lent these corporations, Lake Diefenbaker Potato Corporation, the full amount of the money that they turned around and paid you for those buildings. So it was just going to cost you more money in lending if you charged them more money for that property.

Mr. Minister, what is the financial due diligence on these corporations to ensure that the monies that you have lent them, the 3 million debentures and the 2.81 in mortgage, are secure and are going to be paid?

Hon. Mr. Sonntag: — Our interest in protecting the taxpayers of Saskatchewan was to take the mortgage on the buildings and also of course the debentures that I mentioned earlier, and also on other assets as well.

Mr. D'Autremont: — What kind of a return ... now you're saying 10 per cent on debentures. What about ... what's the return on the mortgage and what kind of rents are being paid on those buildings?

Hon. Mr. Sonntag: — There is 10 per cent on both the debenture and the mortgage, and of course we don't charge rent on the buildings. They own the buildings now.

Mr. D'Autremont: — Thank you, Mr. Minister. What other involvement does Sask Water have with any of the organizations out there: be it Lucky Lake potato terminal, Lake Diefenbaker Potato Corporation, Lucky Lake Farm & Water Limited. ... I'm not sure who all else might be operating out there. I believe there is a corporation, some river's name from Idaho that's also operating out in that area.

What involvement does Sask Water have with any of these corporations and, based on what's happening presently in the

potato industry and particularly with the Lake Diefenbaker Potato Corporation, how viable are those operations and what is their long-term projects?

Hon. Mr. Sonntag: — The only other arrangements we have is we lease storage . . . some other storage facilities, I should say, to Lake Diefenbaker along with storage being provided to five other farmers out in the Lucky Lake area.

The committee reported progress.

Hon. Ms. MacKinnon: — Mr. Speaker, with leave to make a motion with respect to the order of business on Tuesday, April 27, 1999.

Leave granted.

MOTIONS

Order of Business in the Assembly

Hon. Ms. MacKinnon: — Thank you, Mr. Speaker. Mr. Speaker, I move, seconded by the member from Cannington:

That notwithstanding rule 8(3), the order of business on Tuesday, April 27, 1999, shall be to proceed to government orders following private Bills.

Motion agreed to.

The Assembly adjourned at 10:25 p.m.

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