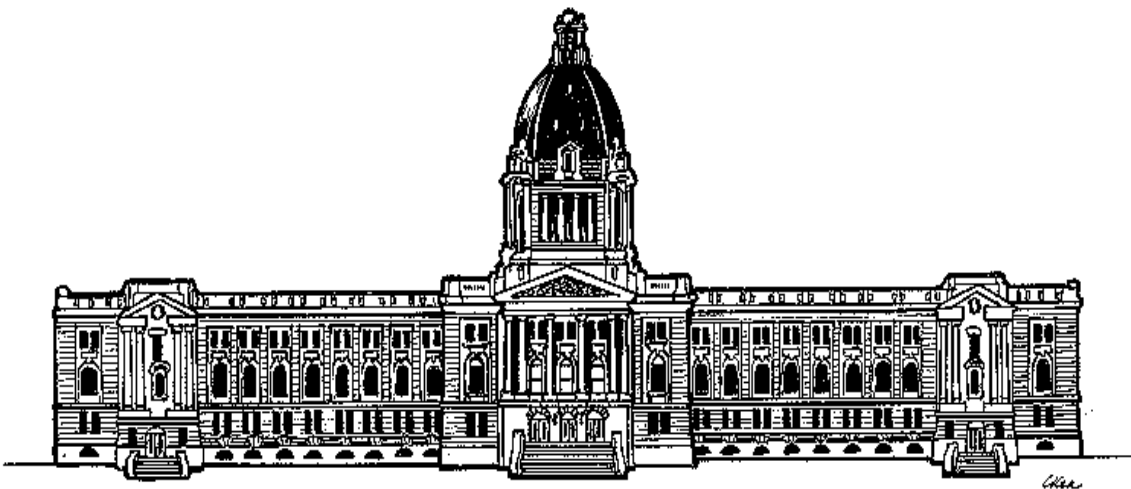




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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[The committee met at 10:00.]

The Chair: — Thank you. I want to welcome the members today for the meeting today. I see that there are no substitutions. I believe the members have a copy of today's agenda. If members are in agreement, we will proceed with the agenda.

SaskEnergy Incorporated

The Chair: — On today's agenda is the consideration of SaskEnergy Incorporated and its subsidiaries of 2008, '09, '10, and '11 annual reports and financial statements. Today we have the minister, Tim McMillan. We'll have him introduce his officials. And I'll just ask the officials, the very first time they come to the mike they can just say their name for Hansard. Just once is good enough. I'll ask the minister . . . if he has an opening statement he may make that now, and then we'll proceed into questioning. Mr. Minister.

Hon. Mr. McMillan: — Thank you, Mr. Chair, and thank you to the committee for reviewing these reports here this morning. I'm joined by senior officials with SaskEnergy: Doug Kelln, president and chief executive officer; Dean Reeve, executive vice president, sitting behind me. We have Dennis Terry, the president of finance and chief financial officer; and Colleen Huber, vice president of corporate support. I'd like to thank the group for assisting the committee and I look forward to the discussion.

We've been called here today to review the annual reports for 2008 to 2011. As we discuss these reports, I'd like to note how much demand for natural gas services increased during this period. Between 2008 and 2011, SaskEnergy added more than 26,000 new residential, businesses, and industrial customers each year at a level three times higher than the 10-year average. This period of exceptional customer growth is directly tied to the province's economic success. No longer was customer growth limited to the major cities, but new services were connected in more than 300 communities across our province.

Productivity measures and efficiency initiatives from 2009 to 2011 achieved annual savings of \$16 million. This helped SaskEnergy achieve the lowest delivery rates in Canada. Providing safe and reliable natural gas service to a growing customer base remains a top priority.

SaskEnergy increased annual funding for safety and system integrity programs from 50 million in 2008 to 58 million in 2011. These programs were delivered by SaskEnergy's professional staff, where more employees are dedicated to safety-related tasks than any other job within the organization.

These are just a few of the highlights of the work done during these years. We'd be pleased to take any question that members may have about these annual reports. Thank you.

The Chair: — Thank you, Minister. I'll open to questions. Mr. McCall.

Mr. McCall: — Thank you very much, Mr. Chair. Welcome, Minister, officials. Good to have SaskEnergy before the Crown and Central Agencies Committee here today. Four years' worth

of annual reports is a fair amount of activity, as certainly referenced by the minister's opening remarks. And accordingly we have a fair number of questions for the minister and officials, Mr. Chair, under those headings. Given that there are four years involved, some of them may be a bit repetitive, some of them may get a little elliptical, but I'm sure we'll all follow along.

I guess in that regard, starting off with the 2008 report, if you could give us just an overview of the sort of dashboard features of the corporation. What was the debt to equity ratio like? What was the customer base like? What was the employee base like? If the minister could get those items on the record for us.

Hon. Mr. McMillan: — Thank you. The number of new customer connections in 2008 was 6,094. The staffing equivalents, FTEs [full-time equivalent] was 1,186. The consolidated net income was \$30 million, and the debt to equity ratio was 66 to 34. That's 66 debt, 34 per cent equity.

Mr. McCall: — What was the overall debt for the corporation in that year?

Hon. Mr. McMillan: — The total debt as of December 31st was 869 million.

Mr. McCall: — What was the borrowing limit for the corporation in that year?

Hon. Mr. McMillan: — In 2008 it was 1.3 billion, was the authorized borrowing limit.

Mr. McCall: — In terms of the customer base, what was the breakdown between residential and industrial?

Hon. Mr. McMillan: — I'm going to give you . . . The accurate number for the number of customers, total, was 342,606. Now these numbers are, this one's as accurate as well, but big industrial customers, 129. Now these two are close, ballpark numbers. If you want more specific, we can certainly endeavour to get those for you. But about 35,000 commercial customers and approximately 300,000 residential customers.

Mr. McCall: — And the new customers referenced by the minister in his opening remarks, what was the breakdown between the classes in those new customers?

Hon. Mr. McMillan: — Of the 26,000 new customers, 23,000 would be residential, roughly, and about 3,000 would be commercial.

Mr. McCall: — New industrial of the large scale?

Hon. Mr. McMillan: — There would be a few. If you'd like . . .

Mr. McCall: — I guess what I'm trying to get at is in terms of the volume of business. You know, certainly it's a good indicator in terms of the difference between the classes, but what sort of volume of business was involved with each of those? What do those new customers represent, and how is that volume of business distributed between the classes?

Hon. Mr. McMillan: — I could probably get you the number of growth of gigajoules that year. Whether we could break that down in class right here, I'm not sure. This is in petajoules: residential in 2008 utilized 33 petajoules; commercial, 30 petajoules; farm, 3 petajoules; and industrial, 72 petajoules; for a total of 138.

Mr. McCall: — Thank you, Minister, for that. In terms of the pricing within the corporation, what sort of activity did the corporation have in terms of any changes on the price put forward to customers in the year under consideration?

Hon. Mr. McMillan: — In the three categories, I'll start with the commodity rate, so the price of the gas itself. In October of 2008, it changed from \$6.57 to \$8.51. The basic monthly charge went from \$12.50 in November to \$14.50. And the delivery charge did not change. It was static through 2008.

Mr. McCall: — Within the corporation certainly over the years, SaskEnergy has made good use of the practice of hedging gas storage. If the minister or officials could tell us about the activities undertaken on those fronts by the corporation in the year under consideration.

Hon. Mr. McMillan: — Just before I reference with my officials on that question, I just want to clarify the numbers I gave you for the last questions were residential rates. Those aren't global rates. Those are what the 300,000 customers that get the residential get.

Mr. McCall: — Well I guess I would thank the minister for that. And if you could . . . I'm presuming then no change in the commercial and industrial classes, or if there's more information forthcoming for the answer, please let me know.

Hon. Mr. McMillan: — The numbers for the commodity rate reflected the exact same as they do for the residential. So in October it went from 657 to 851. The time frames remain the same. Now there's two commercial classes: a general service II and a general service III. And the way that was described is the II would be the strip mall, the III would be a large hospital or a very large user. So general service II in November increased from \$20.65 to \$24.50, and that is the basic monthly charge change. General service III basic monthly charge change, in the same month of November, went from 43.50 to 64.10. And again there was no change in the delivery charge.

Mr. McCall: — Thanks to the minister. Again to reference the question around general policy in the corporation concerning the hedging of gas purchases, the storage of gas purchases, just in a general sense and then we can get into more specifics on those two fronts.

Hon. Mr. McMillan: — Sure. So the general comments would be that the gas price management strategy is something that SaskEnergy endeavours to moderate, the changes in gas. It's the same strategy which has been utilized for roughly the last 10 years.

On the hedging side, they would hedge prices forward 85 per cent in the coming year. But then as you get further out, they take less and less hedges as a proportion of their hedging portfolio.

The storage side is another tool that SaskEnergy uses. And that is they're able to store large volumes of gas when they can buy it in summer, when demand is low and price is historically lower than in winter, and then utilize it through the winter as they sell back to customers.

On the gas side, SaskEnergy does not charge a premium on the price of gas. They make revenue on the transmission. So the hedging strategy is purely for the benefit of citizens.

[10:15]

Mr. McCall: — Well I'd certainly acknowledge that, Mr. Minister, and historically it's served the citizens quite well. And I'd certainly compliment the corporation historically for the way that that has translated into benefit for the customer base.

In terms of the 85 per cent, is that a standing practice, and has that been carried through the other years under consideration? Or is that subject to review and change for each of the years under consideration here today?

Hon. Mr. McMillan: — Historically it floats between an 85 and 95 per cent of hedges are one year out. It is something that is reviewed annually by the audit and finance committee of the board and approved by the board as a whole. It usually is affected by the volatility that's seen in the market: as the volatility changes, the hedging portfolio changes. And the audit and finance committee ensure that it is meeting the goals of the board and approved by the board as well.

Mr. McCall: — For the four years under consideration . . . And again my apologies for jumping back and forth between the years before us. But for the years under consideration, were there any . . . How did the strategy work out? Were there any positions locked in that seemed like a good bet at the time only to be subsequently overtaken by the drop in the price of natural gas, or how did the hedging strategy work out over the four years under consideration?

Hon. Mr. McMillan: — I guess I would start my comments by the hedging and the storage done by SaskEnergy is not done with the intent to beat the market or to guess what the market is going to do, but it is done in a manner to provide stability for their customer base. The mechanisms that are in place by storing large amounts of gas, by hedging prices forward, when prices are going up, it traditionally reflects a lower price for the customer. And when prices start going back down, customers follow the market and pay higher prices until it gets back down. And that mechanism is really standard for the history of this type of . . . for SaskEnergy's history or any other company that would do hedging and storage of a commodity.

What we've seen since 2008 is in the early part of 2008 the price was going up which would leave SaskEnergy trailing the market with a lower price. When 2008 the world economy changed and the price of gas and the technology around gas fracking and the availability of gas in North America has taken the price of gas back down, SaskEnergy's price again follows the market back down. So I guess the bell curve on gas would be the same one on the price that we would have, and it would just follow behind it at a period of time.

Mr. McCall: — I appreciate that the primary objective in the hedging strategy has historically been price stability, but certainly there's a cost involved in, you know, how much farther behind the market the corporation is, either going up or down. Can the minister talk about how that is kept track of in terms of the corporate side of SaskEnergy.

Hon. Mr. McMillan: — Could you just clarify, how we keep track of which? I'm sorry.

Mr. McCall: — In terms of ensuring that you're not too far behind the market either when the price is going up or when the price is going down, can the minister talk about strategies undertaken by the corporation to ensure that it's not too far one way or the other.

Hon. Mr. McMillan: — This metric would be tracked by the gas cost variance account. And that is, we set through the rate review panel an appropriate price; they approve it. Then if the price of gas goes up or down, it builds or eats into the gas variance account, and there's parameters as to how large a surplus could be or how deficient it could be as well.

This gas variance account is not reflected in these reports, but it is audited by the auditor and would be available through the auditor's reports. And the rate review panel reviews it quarterly as well, and that information could be accessed there.

Mr. McCall: — Well I'm glad you've referenced the gas cost variance account because of course that's the point of the thing. And certainly I appreciate that that information is available in other quarters, but we're here to discuss the business of SaskEnergy for the four years under consideration. And obviously it's a pretty important metric in terms of how those safeguards that are employed by the corporation, which has been referenced, can accrue as a benefit for the people of Saskatchewan, for the customers of SaskEnergy. So if you could talk about how things have gone under the gas cost variance account over the past for the four years under consideration here today.

Hon. Mr. McMillan: — To follow on my earlier answer of how the, I guess, the mechanism works. On a rising market, our prices would be lower than. That builds the gas variance account. When you're in a market where it goes down, we're trailing the market, and customers would owe us by the numbers in the gas variance account.

Through the time period in question here, '08 to '11, we went from 657 very shortly up to 851 per gigajoule. And then we declined really from October 1st of '08 until the end of this reporting period that we're reviewing here, a steady decline all the way down to 455 per gigajoule.

In that time frame . . . And you know, before I go into that time frame, the guidelines we have from the rate review panel is the gas variance account should be, have a \$20 million threshold to the good or to the bad. In that time frame, it never got more than 6 or \$8 million of customers owing SaskEnergy in the account. Now this is just an accounting mechanism. The customers don't actually owe that amount, but it will, thinking through which direction the account was, that's the direction it would be in. And it was about 6 to 8 million was as high as it

was.

Now the gas prices have hit bottom and kind of started going the other way. It started, the gas variance account, just by the mechanism . . . But I, Mr. Chair, I apologize. I am straying past the 2011 numbers with the end of that answer.

Mr. McCall: — Not to speak for the Chair, but no apology necessary, Minister. Certainly I guess something we're interested in on the opposition benches, having seen something of the evolution of the gas cost variance account, and again its introduction is a mechanism to guide against, guard against these price shocks and the way that translates into impact on the customer base of the corporation.

Are there improvements to be made to that practice, I guess is my question to the minister and officials.

Hon. Mr. McMillan: — As you say, the mechanism I think does provide stability to the customers, and that is something that the customers, I believe, value. There is always the option that customers don't need to buy their gas through SaskEnergy. You can go through one of the other providers which could do spot pricing or many different options. SaskEnergy, providing the stability, is by far and away the preferred choice of most citizens, and the gas variance account and the way it balances is certainly part of that.

I think as far as improving its mechanism, one thing that we have done in this time period is providing more forecasting out of what things might look like going forward to the rate review panel, that if prices change, this is where the gas variance account will go. I think that has helped the rate review panel in their decision making. I think it likely has informed SaskEnergy in the requests they've made in the past as well. Now is there room to improve beyond that? Very likely. If this committee or others have suggestions they'd like to bring forward, we would certainly be willing to entertain them.

[10:30]

Mr. McCall: — Thanks for that answer, Minister. I guess, and again you know, certain of the information that we're looking for in this exercise of scrutiny and accountability of the corporation's exercise of activities is to again look at the practices and get the minister or officials on the record as to the relative efficacy of those practices. So, glad to get that on the record.

Just carrying, I guess laterally, into the question of storage, if the minister or officials could acquaint the committee with what's happened on the storage front, if there have been any, you know . . . What was the baseline at in 2008? And has there been any additional capacity brought on stream in those, for the years under consideration, and what sort of challenges or opportunities have arisen therein?

Hon. Mr. McMillan: — Okay. In that time period the number of caverns has increased from 26 to 27. The volume is roughly 40 petajoules is what TransGas has for volume. Of that 40 petajoules, SaskEnergy contracts about 17 of them for utilizing in their operations for commercial and residential. The other 23 would be contracted by private companies, private enterprise

for their own — and SaskPower — for managing their own gas needs and supply management.

Mr. McCall: — Could the minister tell us a bit more about how that, I guess the . . . If the minister could describe for the committee or clarify for the committee what the relationship is of SaskEnergy to the storage capacity itself. So I'm gathering from what the minister is saying that the caverns, for example, how many of them would be owned by SaskEnergy outright or by a SaskEnergy subsidiary? How many are contracted? Is there somebody in the natural gas cavern storage business that the corporation contracts with? If you could let us know about that, Mr. Minister.

Hon. Mr. McMillan: — There is again the 40 petajoules, all of which are owned by TransGas. They have published rates. And the published rates for storage, SaskEnergy contracts 17 per cent of it . . . or 17 petajoules. SaskPower utilizes it. Industrials and marketers utilize it.

In the 2011 you'll notice that there is a joint venture — is that the appropriate word? — with FaroEnergy to develop a new cavern that adds 1 petajoule. That isn't reflected in the storage numbers I've given you because in 2011 it wasn't operational. It was a work in progress.

Mr. McCall: — If the minister could for the committee describe the terms of that joint partnership with Faro.

Hon. Mr. McMillan: — It is a 50/50 partnership. It is a depleted gas field that the other partner was in possession of. After depleting the gas, it then became an asset to be utilized for gas storage.

Mr. McCall: — What are the dollar figures involved in the terms of the partnership? And how is the profit sharing structured? If you could flesh that out for the committee, Mr. Minister.

Hon. Mr. McMillan: — It is roughly about a \$10 million project. As I said, it's a 50/50 partnership. That means that 50 per cent of all costs will be . . . or all costs will be split 50/50. Capital will be split 50/50, and when it's in operation in years following these, again it'll be split 50/50 for revenue.

Mr. McCall: — So the corporation, how did this opportunity arise? I imagine there's a certain amount of vigilance on the storage capacity and requirements for the corporation. Did SaskEnergy go out and look for this opportunity or did it come to the corporation? If the minister could characterize how this came about for the committee.

Hon. Mr. McMillan: — The background on this cavern is currently there are four caverns that TransGas has for storage . . . [inaudible interjection] . . . fields that are depleted reservoirs. One of them is no longer utilized because it doesn't have the pressure that . . . It is quite rare to find a depleted field that can be utilized in this way. And one of them is marginal and is no longer used, that when you push the gas down, it won't push it back up in a meaningful time frame. The return coming out is too slow.

So to find a field that has geological qualities to be utilized

effective for this type of storage is rare. In this case, the company that had the field came forward to SaskEnergy with it to say, is this something you're interested in? A substantial amount of due diligence, geotechnical geology has been done and continues to be done to ensure that this field is going to be appropriate for storage for the system. And it allows . . . When these things are working properly, it is a very low-cost form of storage. And this looks like a very, very good geotechnical site.

Mr. McCall: — The partnership has been concluded and the work is ongoing to operationalize the field. Am I taking that from the minister's remarks correctly?

Hon. Mr. McMillan: — In 2011 the work, the geological work had been completed, and had affirmed the quality of the basin, and the agreement had been struck to move forward with the development.

Mr. McCall: — Okay. Thank you, Minister. In terms of the maintenance of the storage capacity overall and different issues that might arise from that, could the minister, or officials, describe for the committee any incidents that have arisen for the years under consideration in terms of perhaps citizens, residents, located adjacent to the storage caverns registering any sort of complaints or commentary with the corporation? Could the minister or officials describe that for the committee for the years under question?

[10:45]

Hon. Mr. McMillan: — In relation to our storage, we have an annual integrity program that requires us to treat this type of storage with the same due diligence we would a pipeline or any of our other assets. Some of these storage caverns are from the 1960s and our annual integrity program is to code, meaning it follows a risk-based approach. So an older cavern will get the due diligence it requires relative to a newer cavern. The code would also prescribe that closer to a community would get a different level of scrutiny than one that was in a very remote area.

In the time frames under consideration there was no . . . Maybe I should also say that if there ever was an incident, they are regulated by the Ministry of Energy and Resources and would have to be reported to the Energy and Resources ministry. There was no incident in these years that required reporting, no incident that had adverse effects on neighbours or communities either.

Mr. McCall: — Thanks for getting that on the record, Mr. Minister. In terms of the risk assessment tool itself, have there been any changes or modifications to the practice by the corporation for the years under consideration?

Hon. Mr. McMillan: — In the time frames in question, the code, which is a federal code, it changes over time and modifies. We don't believe there was a substantial change in that. In the formal integrity program that SaskEnergy does, what we're currently working with was really initiated in 1998. And on a yearly basis, that is revised and upgraded with best practices from across Canada but really around the world. And I understand that France has some of the longest and best experience with caverns and the storage of gas in caverns. And

taking their experiences, as well as best practices from really anywhere else on an annual basis, allows us to ensure we're using the best practices we possibly can.

On a financial number, not just related to caverns but just the integrity program in general with SaskEnergy, the spending has increased on the safety side from 50 million to 58 million over these time frames.

Mr. McCall: — I guess it begs the question in terms of the dollar figure involved, the 50 to 58 million, that's surely not just for the storage caverns.

Hon. Mr. McMillan: — No. I want to be clear that that is for the integrity system of SaskEnergy's safety programs in general, and part of that is with the caverns in specific.

Mr. McCall: — So what portion of that spending would be related directly to the storage caverns?

Hon. Mr. McMillan: — Through the '08 to 2011, it would fluctuate on a yearly basis, but it would likely average around 5 million a year specific to caverns and cavern integrity.

Mr. McCall: — What would make for a spike in the spending on it, Minister?

Hon. Mr. McMillan: — On an annual basis, the integrity work cycles through different caverns, and at one facility there may be four caverns and that work would be done on those four. The next year the intensive work might be done at a different site and there might be eight caverns there, and it would just require that much more work to ensure the integrity of the larger amount at a different facility. And on each year, their program rolls along and would be taking on different facilities.

Mr. McCall: — We'll turn to broader sort of questions around the network and maintenance, safety, risk assessment and management generally. But again for the 2008 year, it was the first full year of a new government and various sort of changes made to the corporate guidelines for the activities of SaskEnergy and the associated entities. One of those changes was the introduction of the Sask-first policy on the part of the government. Could the minister describe the way that the Sask-first . . . Well I guess if the minister could clarify for the committee first so we're all sure of what we're talking about, how Sask-first impacted . . . what the Sask-first policy was? How that impacted SaskEnergy for the year 2008?

Hon. Mr. McMillan: — I guess just a general comment about the Sask-first because that doesn't specifically pertain to these reports. But you're right. It does, it is reflected in some of the years in some of the out-of-province sales. I guess the . . . It was recognized that the best place to invest capital in North America was Saskatchewan — that we had the strongest economy in Canada, that we saw the growth in our province or the potential for growth in our province and thought that it was very important that we had the infrastructure in place to meet that demand.

Shortly after the change in government in '07, a private sector accounting firm was tasked with looking at worthy out-of-province investments made by the former government, in

fact the financial successes or not. And it came back with, I believe, a number close to \$100 million or a couple hundred million dollars worth of losses when you add up those that were successful — and there were some that were successful — and those that were not successful. It meant, I believe, it was hundreds of millions of dollars of Saskatchewan funds that could have built infrastructure in our province had been lost on markets in putting infrastructure into other places around the world that for many different reasons were not successful from earthquakes to political instability to just bad decisions.

Following the change in government, yes, it was a policy change that Saskatchewan is in our view . . . was going to be a fast growing economy likely leading our country in growth with the need for the type of infrastructure that our Crowns provided. And in the past five years, it has been one of the fastest growing economies in North America with one of the biggest needs for infrastructure. And by focusing here at home, SaskEnergy in these annual reports have been very successful in building that out and building their asset base.

Mr. McCall: — I guess to clarify my question for the minister, what assets were identified under the change in policy pursuant to the activities of SaskEnergy and were there any divestitures in the year 2008?

Hon. Mr. McMillan: — In 2008 there were no divestitures.

Mr. McCall: — For the year 2009, were there any holdings of the corporation divested?

Hon. Mr. McMillan: — Heritage Gas in 2009 from Nova Scotia was sold for 73.3 million.

Mr. McCall: — If the minister or officials could characterize the status of that investment and whether or not it had been a net gain, net revenue generator for the corporation, if the minister or officials could comment on the status of that investment at the time of its divestiture.

Hon. Mr. McMillan: — There were three sales in this time period of assets. In 2009 was Heritage Gas in Nova Scotia. It sold for 73.3 million. There was 54.9 million invested, meaning that there was a net gain of 18.4 million. The two other assets were sold in 2011, and we can go into those as well if you want to go down there.

Mr. McCall: — Sure. I guess again I'd ask the minister if he could characterize for the committee on the outset in terms of the characterization made of external investments on the part of Crown corporations — pretty broad sweep attached there — was Heritage Gas a profitable investment?

Hon. Mr. McMillan: — Yes. In relation to my earlier comment that, looking at the whole, there were some that were successful. There were a great many that weren't. Heritage Gas would fall into the category of those that were a successful investment.

Mr. McCall: — Thank you for that, Mr. Minister. The year 2010, what sort of activities were undertaken under the aegis of Sask-first?

Hon. Mr. McMillan: — There were no sales in 2010.

Mr. McCall: — In 2011, Mr. Minister, if you could characterize that activity for the committee.

Hon. Mr. McMillan: — The two remaining out-of-country assets were Gas Sur in Chile and IGASAMEX in Mexico. Fifty per cent ownership in both?

A Member: — Thirty per cent in this, 40 per cent in that.

Hon. Mr. McMillan: — The Gas Sur asset in Chile, SaskEnergy was a 30 per cent shareholder. In Canadian dollars, there was \$13.6 million invested. And in 2011, it was sold for \$5.9 million, a net loss of \$7.7 million.

IGASAMEX in Mexico was invested, 40 per cent ownership, 10.7 million. Total cash proceeds was 17.3 million, meaning a net gain of 6.6 million. And that was also in 2011.

Mr. McCall: — So are there any other investments that remain on the docket with SaskEnergy or does this bring you, bring the corporation into compliance with the Sask-first policy of the government?

[11:00]

Hon. Mr. McMillan: — Under the Sask-first policy, their tie-in to our provincial network is the Swan River gas going into Manitoba. It is a direct tie from our provincial network. And when the Sask-first policy was contemplated, it was recognized as an asset which made sense for our provincial infrastructure to maintain.

Mr. McCall: — So the minister's saying, for the committee, that the docket is pretty much cleared in terms of activity on the part of the corporation that need to be sold off or divested?

Hon. Mr. McMillan: — What is reflected in these annual reports are these three, and these were the three that were identified by the Sask-first policy.

Mr. McCall: — In terms of the timing of the sale for the two in 2011, if the minister could describe for the committee what sort of process was undertaken there? You know, was there an RFP [request for proposal] put out or was there an ongoing sort of search for purchasers or how did that process work?

Hon. Mr. McMillan: — In both cases, it was at least a 12-month process. An external financial firm was hired to advise on the sale of both. In both cases, a public statement . . . public offering memoranda, was put forward to the public where offers would be taken. The short list was then put together in both cases. And in June of 2011, Gas Sur was sold and in September IGASAMEX was sold.

Mr. McCall: — So again, Minister, if you could clarify, who was the entity contracted with to pursue the sale of these assets?

Hon. Mr. McMillan: — It was KPMG. The financial firm was advising on the sale of both IGASAMEX and Gas Sur.

Mr. McCall: — What kind of dollar figures were involved in

terms of the services of KPMG in this regard?

Hon. Mr. McMillan: — The entire transaction costs of the sale of both assets: of Gas Sur, this is lawyers and accountants, was \$400,000. If you want it broken out into suppliers, we could provide that.

Mr. McCall: — Sure.

Hon. Mr. McMillan: — Okay.

Mr. McCall: — In terms of the other investment, what was the dollar figure involved? Was it a comparable amount or what was it, Mr. Minister?

Hon. Mr. McMillan: — In this same note, this is all lawyers and all accounting costs, transaction costs of \$1.2 million for the IGASAMEX.

Mr. McCall: — Why the . . . If the minister could talk about it being 400,000 on the one hand and 1.2 million on the other?

Hon. Mr. McMillan: — Compare these two deals. Now maybe I will start . . . We have, specific to IGASAMEX, the accounting and advising charges by KPMG was \$562,000 Canadian for the IGASAMEX. The other charges would be for other professionals through the transaction. The reason that IGASAMEX had a higher transaction cost than Gas Sur were a couple of different reasons. In the case of Gas Sur in Chile, the majority shareholder bought our position, a relatively straightforward deal and savings on the transition cost. With the IGASAMEX, it was sold to a third party, and there's two other shareholders of IGASAMEX. So there's three parties in the deal and neither of those other two parties bought our share. It went to then, I guess, a fourth party that came in. And the costs of getting every, all the work done that was required to get the legal hurdles through is what drove the costs in that transaction.

Mr. McCall: — In terms of the whole approach of the government in terms of putting up a for sale sign outside of these assets and then going seeking the buyers, is the minister confident that there wasn't any kind of a hit that the corporation took in terms of getting the best possible value for those assets?

Hon. Mr. McMillan: — Yes. I can tell the member opposite, and I think it's been articulated many times, that the Sask-first policy was contemplated very purposefully, that we felt investing in Saskatchewan was the best opportunity for our Crowns and our citizens required. But in the contemplation right from the start, it was that the transition of investing in foreign countries, transitioning from that to investing here at home, would be done in an orderly and responsible manner that was responsible to the financials, to the citizens, and to the companies.

Mr. McCall: — Thanks for that, Mr. Minister, but my question remains. Was there any kind of a haircut involved in terms of the value of those assets, in terms of putting up the for sale sign first and then going to seek out interested buyers? In the one case, the joint partner indicating a willingness to sell, usually it's a pretty good way to drive a bargain that is less than advantageous to the owner. Was there any kind of a haircut that the corporation took in terms of the value of those assets?

Hon. Mr. McMillan: — I think that the challenges were more on the . . . And now we're getting into, should these investments have been made in the first place. I think that that was maybe the better question I'd ask, as far as were these assets disposed in a businesslike manner. Yes, they were.

Mr. McCall: — Thanks for that, Mr. Minister. In terms of the corporation as it stood, and certainly SaskEnergy's incorporated, there are different sort of entities attached with it. If the minister could describe the corporation as it existed in 2008, and then the different sort of iterations of the corporation for the years under question.

Hon. Mr. McMillan: — So I will run through the 2008 company organization chart and then I will point out what is different in 2011.

So under SaskEnergy Incorporated there's TransGas Ltd., Bayhurst Gas Ltd. with, underneath that, Bayhurst Energy Services Corporation. Back up to the main line — and I'm right now on page 3 of the annual report — Many Islands Pipe Lines (Canada) Ltd., Swan Valley Gas Corporation, SaskEnergy International Inc. and under that is the Chilean and Mexican investments. And we'll go back to that when I'm talking about what has changed. Back up to the top line, we have Saskatchewan First Call Corporation and SaskEnergy Nova Scotia Holdings Ltd.

So now if I go to 2011, I will just talk about what has changed since then. The SaskEnergy Nova Scotia Holdings Ltd. you will notice has been sold in the earlier years. And the SaskEnergy International Inc., which includes SaskEnergy Chilean Holdings Ltd., SaskEnergy Chilean Holdings II Ltd. and underneath that the SaskEnergy Chilean Holdings Limitada and the SaskEnergy Mexican Holdings Ltd. would be all of the entities that would have been wound up under the sale of Gas Sur and IGASAMEX.

And I will also point out that Bayhurst Gas Ltd., in 2008 had Bayhurst Energy Services Corporation, that is still in place on the org chart on page 2 of the 2011 report, as is BG Storage Inc.

Mr. McCall: — Thank you very much, Mr. Minister. In terms of the wrapping up of the activities of SaskEnergy International, are there still any activities, any full-time equivalent positions in the corporation that are associated with that entity? And what is the status of the enabling legislation for that entity? Is that slated for being wrapped up? In terms of the . . . If the minister could update the committee as to where those assets being sold would presume a need to address the corporation assets that had been invested in SaskEnergy International and internally. If the minister could clarify what's happening on that front for the committee.

[11:15]

Hon. Mr. McMillan: — At the end of 2011 there were zero FTEs allocated to SaskEnergy International. They had been transitioned to other growth in the company, but the entities were not fully wrapped up legally until into 2012 which is the next annual report following the 2011.

Mr. McCall: — So again, how many FTEs had been associated

with SaskEnergy International in 2008? And again if you could tell us a bit more about the internal reallocation of those resources that the minister has referenced.

Hon. Mr. McMillan: — Just to clarify, in 2008 or 2011?

Mr. McCall: — 2008 to 2011. I'm presuming that there may have been different activities undertaken in each of the years under question, but if the minister could use 2008 as the starting point and get us to 2011.

Hon. Mr. McMillan: — I think it is accurate to say that four FTEs at the most, and that would be in 2011 . . . in 2008. By 2011 it had . . . and the sale of the companies had gone to zero. That would be FTEs directly allocated to the international work. But I think it's also fair to say that a substantial amount of work by others in the company that weren't directly allocated to SaskEnergy International then had more of a focus of their in-Saskatchewan operations as well.

Mr. McCall: — I thank the minister for that answer. I guess another question I've got relating back to 2008 immediately pertains to the governance of the corporation. Certainly one of the things that has been of great value through the years at SaskEnergy has been that partnership with the workers, and certainly the workers represented through different of the unions that they have chosen to work together and represent their interests. 2008 would have been the first year after the change being made to no longer appoint representatives of the workers or of the unions representing the workers to the corporate board. Could the minister describe how that took effect for the year 2008 and how that has played forward?

Hon. Mr. McMillan: — I can report that in the time frame covered by these annual reports that SaskEnergy monitors, on an annual basis, employee engagement, employee satisfaction. It's part of their balanced scorecard which their board takes forward to CIC [Crown Investments Corporation of Saskatchewan] each year. They, in that time period, were recognized as one of the top employers in Saskatchewan for a couple of years. They have successfully moved that company from an asset base of \$1.4 million worth of assets to 1.9, and it is with union and non-union workers that have worked very hard to make this company the success that it is at the end of 2011.

Mr. McCall: — Again though, Mr. Minister, why take the workers' rep off the board? How is that good for employee engagement, as you've referenced the importance of?

Hon. Mr. McMillan: — As I say, the company works very hard to ensure . . . And we're in an environment in Saskatchewan today where having employees that want to come to work . . . It's an employer's world and SaskEnergy works very hard to measure employee satisfaction, to measure employee engagement, and have been very successful at ensuring that their company is one that is a leader in this field and is recognized as such, as one of the best employers in our entire province.

Mr. McCall: — So am I to understand the minister correctly? The labour rep was removed from the board of SaskEnergy and other related Crowns as a means to better engage the employees

and to work for worker satisfaction. Is that what the minister is telling the committee?

Hon. Mr. McMillan: — I'm telling the member of the committee that SaskEnergy is a leader with their employees. They think that . . . they recognize that a strong engagement of employees is essential for any company and that this is one of the best companies in our province and will continue to put forward aggressive targets in their annual plans and will continue to achieve them.

Mr. McCall: — How is the task of employee engagement served by taking the rep of those employees off the board? If the minister could explain that to the committee.

Hon. Mr. McMillan: — To the member, that I guess SaskEnergy is a company that has refocused itself from operating outside of the borders of Saskatchewan to ramping . . . to growing substantially inside the borders. That they are supplying more customers now than they were four years ago. That in the years that are contemplated in these reports, it was triple the 10-year average, the amount of new customers that they are bringing on. That is done by the employees of this corporation, and ensuring that the relationship is strong is something that the company has worked very hard towards and will continue to.

Mr. McCall: — Again though, Mr. Chair, Mr. Minister, if those employees have been the driving force in this tremendous period of expansion for the corporation, if those employees are to be valued and not just in lip service but in practice by the corporation, if those employees are to be engaged, how are those causes served by taking the employee rep off the board of the corporation?

Hon. Mr. McMillan: — I think that the employees are represented, some by union, some not by union, that they are crucial to the growth of the organization and the union members have successfully negotiated contracts with the corporation twice in the period contemplated by these annual reports. And it is something that SaskEnergy will continue to ensure that that relationship is strong and they will do it many different ways.

Mr. McCall: — Again though, Minister, you're not answering the question. If those employees are crucial to the organization, how is it that they were cast off the board of the corporation? How does that work?

Hon. Mr. McMillan: — Again to the member's question, there are many ways in which the employees of SaskEnergy are engaged by the company. It is something that they measure actively, that they work towards consistently. There is no one way that you engage an employee. There is many. And SaskEnergy has done a very good job of engaging the employees they have, and it's been recognized as such as one of the best employers in Saskatchewan for a couple of the years in the time frame that we're today discussing.

Mr. McCall: — How do you better engage employees by throwing them off what is a central sort of institution of the corporation, which is the board?

Hon. Mr. McMillan: — Okay. The member asked in what

ways does SaskEnergy engage their employees to get the success they've had. Yes, Mr. Chair, I believe that is the root of his question, Mr. Chair.

Mr. McCall: — Mr. Chair, he's putting words in my mouth . . .

Hon. Mr. McMillan: — Mr. Chair, the corporation has many different areas in which they engage their employees. They have an awards of excellence which is voted on by the employees as well as management. They have a leadership network which sits down with employees and managers to work through business plans, to recognize employees, to work through the challenges that SaskEnergy approaches on a daily basis. They have specific initiatives around safety.

And, Mr. Speaker, I referenced earlier some of the successes they've had. In the 2011 annual report, I'm just going to quote from page 35. It says a ". . . vast majority of employees continue to take great pride in working for SaskEnergy (81 per cent), which is an extremely positive indicator."

Mr. Speaker, Mr. Chair, SaskEnergy has worked very hard and will continue to ensure that the employees that work there, 81 per cent of them, will continue to recognize the value of it. And I believe they'll continue to work to get that number higher and higher.

[11:30]

Mr. McCall: — Mr. Chair, at the start of his last attempt to answer the question which I've asked repeatedly now and not had answered, my question is, you know, first that that minister put words in my mouth that did not come out of this mouth.

So I guess if the minister didn't understand the question, I'll ask it for him one more time, Mr. Chair. If the employees are important to engage and if they're crucial for the success of the organization and if you can engage them on all these other fronts, how is it that you threw them off the board of the corporation? How does that add up? How is that consistent?

Ms. Wilson: — Mr. Chair.

The Chair: — Ms. Wilson.

Ms. Wilson: — Point of order. I believe the minister has been very valuable giving information and has answered the question. The member on the committee has asked it several times and the minister has graciously answered it several times as well. I think he's answered the question.

The Chair: — I have listened to the engagement, and you're right. The member has asked about the employees being removed. That's acknowledged. The committee's acknowledged that. The minister has answered how other ways they're engaging it. So I think the question is being asked, but I will let you finish your . . . You'd finished your question. If you would like the minister to answer, to add some more information to that, he may if he so chooses.

Hon. Mr. McMillan: — Mr. Chair, yes, in the past, under the former government, they had ministers that sat on the boards of Crown corporations as well. When a government changes, the

board of directors of corporations often change as well. And, Mr. Speaker, there were changes to the board made following the '07 election. We have a very strong board in place. There are no ministers that sit on these boards as well.

But, Mr. Speaker, in no way does that . . . I just want to be very clear that employees are something that SaskEnergy has worked very hard to ensure are proud of the organization they work for, that are recognized for that, and SaskEnergy takes that responsibility very seriously and has been successful and works to continue that success.

Mr. McCall: — Mr. Chair, I've asked for an explanation of what the rationale was in throwing the worker reps off the board of the corporation. I have not received an explanation of the rationale for that, and I've not received an explanation of how that is consistent with a corporation and with a government that says that yes, the workers are important; yes, we want to engage the workers on a number of different levels. But when it comes to the board of the corporation, their first action was to remove them. I've not had an answer to that question, Mr. Chair, and it's certainly due this committee.

The Chair: — Through the information that I've got, you've asked, and the minister has informed that they have removed the ministers from the board. There is a change of board. He's acknowledged that. He's also acknowledged to this committee how they've engaged it the other way, bringing the members in.

I don't know how else he can answer that. I mean, he's right. Boards, to myself and to this committee, boards change. The structure has changed. The reasoning for it may be various, whether it's remove the ministers . . . As I understand you used to sit on it at one time, and also maybe they had a member sitting on it. We're looking at the structure of the board here, and I think the committee has that information. Once we're getting into the debate now whether of who should sit on the board, that's starting to get maybe outside the purview of this committee. We were reviewing the annual report.

Again, I let this go back and forth. I will let it go back a couple more minutes. If you two want to exchange again, try it. But I will ask that pretty soon that we move on to another report, because sometimes there may be just a point of to agree to disagree between the two committee members. So I'll let . . . if the minister wants to add any more to the member's questioning, I will let him. If not, we can refer back to the questioning again of whatever line you'd like to take.

Mr. McCall: — I'll ask the question again to the minister. Could he describe for the committee what the rationale was in the removal of the employee representatives from the board of the corporation, and could he further describe how that's consistent with the expressed intent of wanting to engage the employees and how crucial they are to the success of the corporation.

Hon. Mr. McMillan: — Mr. Chair, as I stated in my previous answers, the boards changed in '08. At that point, different than what the former government had done in certain circumstances, we did not appoint ministers to the board. We put forward new board members but in no way did it change the outlook of SaskEnergy on the importance of engaging their employees.

That work has continued, and that work has been successful. And SaskEnergy has been recognized with employee engagement numbers, Mr. Speaker, that reference that the employees are very proud of the organization they work for.

And SaskEnergy, on a yearly basis, puts forward business plans that continue that work, continue that engagement. And, Mr. Speaker, they've been recognized as one of the top employers in our province for two of the four of the years that we are discussing in today's annual reports. And that's very important to this organization and will be as they continue their good work.

Mr. McCall: — He's not answered the question, Mr. Chair. He can't provide a rationale for why the worker reps were removed from the board. Board changes happen all the time, absolutely. But this is a result of a policy decision made by this government in terms of wanting to remove the worker representatives from the boards of the major Crowns, and that effect took place for SaskEnergy, Mr. Chair, in the years under question. The minister has not provided an explanation of why that decision was made.

Hon. Mr. McMillan: — I don't know if there's a question there.

The Chair: — Well I believe there may be a point to agree to disagree on it. I see the structure has changed. We've got that information. The minister I believe has answered the question. There's still how they bring employees and work with them. I don't know if you want to go forward some more on this or move to another line of questioning.

Mr. McCall: — I guess I'd just state for the record, Mr. Chair, that obviously you're here for the whole committee. You're here to ensure that this committee is able to do its work. You're here to ensure that questions are put in the proper way and that they're answered in the proper way. And I have not received an answer to my question from the minister, which is a pretty straightforward question. So if the Chair is satisfied that the questions are being put in a proper way and answered in a proper way, I don't see how that squares with the fact that this minister has refused to answer this question.

The Chair: — I don't believe that, that the minister is evading the question. He's answered on the structure of the board, on the, you know, on different things. I will . . . not going to push the matter. I believe that he's answered. I've never heard from the other board . . . the committee members. They seem to be satisfied with the structure. And I will ask the member if he has some other questions to keep going or to keep asking. We're still reviewing the annual reports of SaskEnergy.

Mr. McCall: — Mr. Chairman, I've got a lot of questions for this corporation because, of course, we've got four years of activity of SaskEnergy under consideration here before the committee. Of course I've got a lot more questions. And I guess I'll ask the question one more time. Can the minister provide a rationale specifically related to why worker representatives were removed from the boards of the major Crowns, and in this case, SaskEnergy?

Hon. Mr. McMillan: — Mr. Chair, I will again inform the

member that the board changed in 2008, that new members were put forward. I will also inform the member that the employees of SaskEnergy are something that SaskEnergy has worked very hard and continues to work very hard to ensure they are fully engaged. Their success in this matter has been, has been shown through these annual reports on an annual basis of high levels of engagement, satisfaction, and pride in the organization that they work for.

And, Mr. Speaker, they've been recognized as one of the top employers in Saskatchewan. And, Mr. Speaker, that, that is something that SaskEnergy will continue to work towards and continue to . . . I will endeavour to be successful in.

Mr. McCall: — Well again, Mr. Chair, he didn't answer the question. He didn't provide the rationale to the policy change — which is, you know, not an unreasonable expectation of this committee to have explained before it. So that, I think, speaks volumes about the way this government approaches the Crown corporations. But it's pretty clear we're not going to get a straight answer from the minister, Mr. Chair, so I guess we shall move on.

The Chair: — I would ask the member to choose his words carefully. We are in discussion of the annual report. You know, we're not here to decide who or not's on the board, also to dictate policy. This is more of dealing with the annual reports and informational. Just like I respect the minister's answer, I respect your questions too. I would just ask that the member choose his words carefully when he's addressing this committee.

Mr. McCall: — Well thank you very much, Mr. Chair. And I'd certainly expect that care in the choice of instruction and words to be returned. What I have asked is a question about policy change that has been made and, you know, played out in the years under question — which is entirely within the accountability and oversight provisions of this committee, which is part of our job in this committee, Mr. Chair.

So if the Chair wants to call me out of order for asking a question that is squarely within the purview of the work of this committee, I don't understand how that works. Is that what the Chair is suggesting to me?

The Chair: — Now you know better than that. It was how you addressed the minister. Not on your question. I never said that you couldn't answer the question. You inferred something to the minister that he probably wasn't totally truthful or hiding. That's what I'm just saying. Just choose your words carefully just like I would with the minister. I expect respectful dialogue between the two of you and, with that, that's what I meant. Just to clarify that, Mr. McCall.

Mr. McCall: — Thanks, Mr. Chair. And if you will review the record, I've asked a straight question to which I have not received a straight answer. So I don't know how else you put that. I'm not inferring that. I'm saying that straight out. But apparently we're not going to get that straight answer from the minister, so we'll carry on to some other areas of discussion.

Could the minister describe for the committee what's happened for the years under review in terms of major incidents as related

to public safety? And how the corporation has been involved in both the immediate response and have there been any changes to policy and practice in the corporation for the years under consideration? And if he could start with a specific sort of discussion of any events that might have taken place in 2008.

[11:45]

Hon. Mr. McMillan: — Mr. Chair, we have two incidents. The first is in 2008. There was an explosion in Nipawin which was related to the demolition of a building. In regards to this, what has changed or what actions have been taken, SaskEnergy has changed the process for demolitions. And they now require the removal of the natural gas lines before demolition can take place. This is an industry-leading practice. The standard in the rest of Canada would still be that demolitions would still be allowed with natural gas lines still in place. Saskatchewan has made that change in regards and learnings from this incident.

The other one I would bring to the attention of the committee, in south Regina there were natural gas leaks that migrated due to geotechnical challenges of the Regina soils and the type of moisture we had in that year. Because of the geotechnical challenges and leaks, what SaskEnergy has done, is in 2011 increased their, elevated their integrity spending by 6.5 million to upgrade service components to help address the changes and ensure that the safety which is required is in place.

Mr. McCall: — As regards the 2008 incident, could the minister describe more fully for the committee what happened in that circumstance.

Hon. Mr. McMillan: — The details of the Nipawin incident in 2008 is during the demolition, a backhoe operator snagged a line and pulled it away from the mainline or pulled it enough that it caused a leak right at the joint of the mainline and this line that was snagged. This leak allowed gas to migrate, which built up in a building nearby. The gas then caused an explosion which ultimately caused the death of two individuals.

There was civil action and occupational health and safety action in regards to this. I understand that both of those proceedings have now concluded, but SaskEnergy wasn't involved in either of those.

Mr. McCall: — The minister says that SaskEnergy wasn't involved in either of those proceedings. Is that entirely correct, Mr. Minister?

Hon. Mr. McMillan: — I would like to clarify the previous answer for the members in the committee. The occupational health and safety review following the incident, SaskEnergy was named, but they were stayed, was the appropriate way that the charges were stayed in that case. In the civil suit, SaskEnergy was again named and was one of the contributors to the settlement in that one. So I would like to clarify those remarks from my previous answer.

Mr. McCall: — Well while we're on the subject of clarification, can the minister clarify for the committee how the stay of proceedings with occupational health and safety came about and what role SaskEnergy played in that proceeding?

Hon. Mr. McMillan: — In relation to the occupational health and safety, when charges were put forward, SaskEnergy put forward our practices and how SaskEnergy operates. When that information was put forward by SaskEnergy, the charges were stayed. And maybe I should just say that what information we put forward was that we were using the procedures and processes that were consistent and recognized as acceptable across Canada. And since that time, we've reviewed them and changed to the highest standard which is really industry-leading.

Mr. McCall: — Can the minister describe for the committee what the initial charges were brought by occupational health and safety and how that process took place?

Hon. Mr. McMillan: — The nature of the two charges, where one was in relation to the protection of the line, the charge was that identifying it was not adequate, that protecting it was the nature of the charge. The other was in relation to training. But again when SaskEnergy was able to put forward what their practices are and put that information forward, those charges were stayed and presumably recognized that they were adequate. But again SaskEnergy has subsequently said they can do better and has changed their practices to the industry-leading.

Mr. McCall: — Can the minister describe for the committee how those charges were put from occupational health and safety to the corporation? How were those charges initially served?

Hon. Mr. McMillan: — Following the incident, occupational health and safety does a review and prepares a report. That report is then delivered to us. Following that, the charges take that information and the charges follow. And that would be through the legal officials at SaskEnergy that would receive those charges.

Mr. McCall: — What was the time frame involved between the incident taking place and the report being conducted? And was the report provided simultaneously with charges? How did that process work? If the minister or officials could explain to the committee.

Hon. Mr. McMillan: — It's a two-year window between the incident and when the charges would need to be filed. In that period they work, they do their investigation and put forward their report. As they're working through their investigation, they would have interviewed the people at SaskEnergy which had relevant information and it was when the report came through and the charges were getting close to the two-year window which is close to the end of 2010.

Mr. McCall: — When the charges were preferred, what happened then between the corporation and occupational health and safety? Can the minister describe how that process went?

[12:00]

Hon. Mr. McMillan: — Okay. Following the investigation, occupational health and safety puts forward charges. At that point, the charges are then handled by Justice.

Our officials, our legal counsel and officials, put forward our

information in response to those charges back to Justice. And the officials responsible for safety continued to work with occupational health and safety to better the safety for the future, to have learnings for the future.

Mr. McCall: — I guess, if I could . . .

The Chair: — Yes, okay.

Mr. McCall: — Well obviously we've got more questions to go, Mr. Chair. So I would thank certainly the officials and the minister for their participation in the proceedings today. We've got four years of activity of the corporation to consider and so obviously more time is required. So with that I would say, over to you, Mr. Chair.

The Chair: — Okay. Mr. Minister, do you have a quick comment?

Hon. Mr. McMillan: — Yes, I'd like to thank the member for his questions and the committee for their time this morning. And I'd like to thank my officials for coming prepared and working through these annual reports. I think it's an important part to ensure that we get through these in a timely manner. So thank you for taking the time this morning. And I'll be waiting for your call to follow up on this. So thank you.

The Chair: — Thank you, Minister, and thank the officials for attending today. The time being 12 o'clock, time being that we've allotted for this committee, I would ask a member now move adjournment of this committee.

Mr. Parent: — I so move.

The Chair: — Mr. Parent has moved adjournment of the committee today. All in favour? Agreed. Carried.

[The committee adjourned at 12:04.]