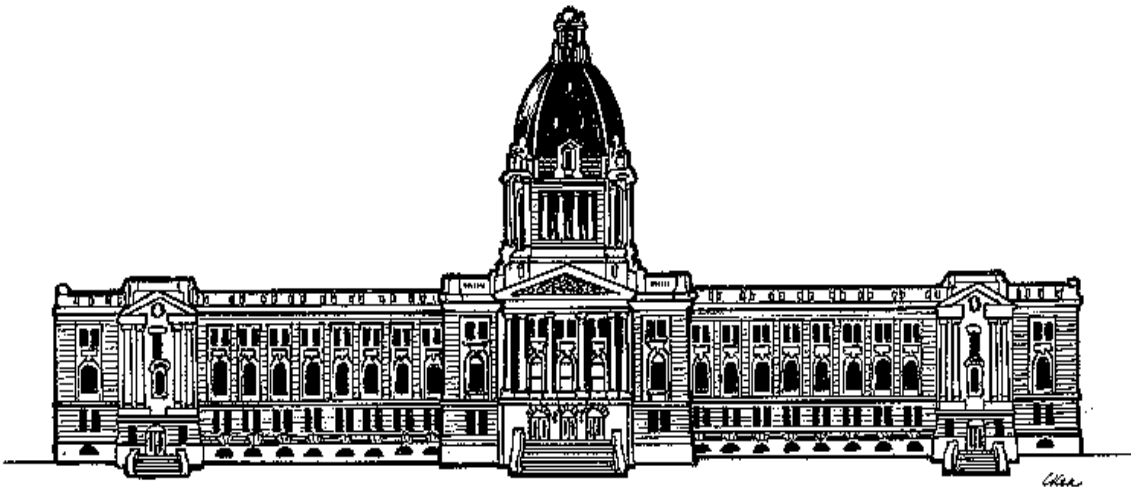




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

Mr. Greg Brkich, Chair
Arm River-Watrous

Ms. Cathy Sproule, Deputy Chair
Saskatoon Nutana

Mr. Bob Bjornerud
Melville-Saltcoats

Mr. Darryl Hickie
Prince Albert Carlton

Mr. Gene Makowsky
Regina Dewdney

Mr. Scott Moe
Rosthern-Shellbrook

Mr. Roger Parent
Saskatoon Meewasin

[The committee met at 20:30.]

The Chair: — Welcome, everybody, to this meeting. We have one substitution, Warren McCall sitting in for Cathy Sproule. Pursuant to rule 148(1), the following estimates were deemed referred to the Standing Committee on Crown and Central Agencies on November 27th, 2013: supplementary estimates for vote 152, Saskatchewan Power Corporation, and vote 153, Saskatchewan Telecommunications Holding Corporation.

The committee will be considering supplementary estimates for the Saskatchewan Telecommunications Holding Corporation. We will now begin our consideration of vote 153, the Saskatchewan Telecommunications Holding Corporation's loans, subvote (ST01). Is there any questions? Mr. McCall, you have the floor.

**General Revenue Fund
Lending and Investing Activities
Supplementary Estimates — November
Saskatchewan Telecommunications Holding Corporation
Vote 153**

Subvote (ST01)

Mr. McCall: — Thanks very much, Mr. Chair. I defer to the minister though, if he's got any opening remarks. Wouldn't want to, you know, step out of bounds.

The Chair: — No. Thank you. That's in the Christmas spirit. Merry Christmas. I'm sorry about that, Minister. I just thought we wouldn't, but if you do have a few opening remarks.

Hon. Mr. McMorris: — My remarks will be very, very brief, other than the fact that I have Ron Styles, president and CEO [chief executive officer], on my left, and Mike Anderson who's the chief financial officer for SaskTel on my right. This will be very, very quick, I think, because probably relative to the expenditure, what we're talking about today, which is \$1.9 million over and above what we thought we were going to have to take out as far as borrowing. So it's from \$123.1 million to \$125 million, which in the overall budget is a very minimal figure. But having said that, this is a process we need to go through, and so we're here.

The Chair: — Thank you, Minister, and sorry about that. Now I'll turn the floor over to Mr. McCall.

Mr. McCall: — Thank you very much, Mr. Chair. Mr. Minister, officials, welcome this evening. And again in the grand scheme of the borrowing activity of SaskTel, obviously 1.9, estimated 123.1, is relatively small in grand comparison but, as the minister rightly points out, still worthy of accountability and consideration. So I guess our question for the minister and officials: what is entailed in that \$1.9 million of additional borrowing?

Mr. Styles: — Essentially it's just an increase in working capital. So we're just a little shorter than we'd anticipated, you know, for us in terms of the amount of dollars that we pull through the system; 1.9 is essentially just rounding error. But it's essentially working capital. We needed a little extra.

Mr. McCall: — In terms of the tranche borrowing, could you describe to the committee how that . . . how SaskTel goes out to the markets and gets that money? Is it from one particular vendor or are there multiple sort of sources for the borrowing activity represented here tonight?

Mr. Styles: — Our borrowing is done initially with a sort of short-term promissory note. So we'll be out to the market and pick up 30- and 60-day notes that will allow us to begin to accumulate a large enough borrowing requirement that we can then work with the Department of Finance to actually be part of an issue to the market. Most of the time the Department of Finance will be looking to issue 250 million at a time. And so if we need 120 or \$125 million, we'll maybe be half of that particular issue or share it with a couple of other Crowns as well. So at some point in the near future, late this year or early next year, we would anticipate the promissory notes, okay, be flipped over to long-term borrowing. And it'll go through the Department of Finance as a, we're hoping, a long-term issue.

Mr. McCall: — Thank you for that answer, Mr. Styles. In terms of the . . . It's I guess normally just a mistake in terms of estimation of what's required. Could the minister or officials describe to the committee what the assumptions that go into the borrowing activity in a given year are and how a variation like this might result.

Mr. Styles: — Maybe I'll turn it over to chief financial officer. Be a better idea of the methodology that goes with it.

Mr. Anderson: — Our borrowing requirements are determined from looking at our forecast for revenues and expenses inside the organization and then our capital requirements for investing in our programs. Effectively the reason for the increase is, as Ron said, we've just got a working capital issue. So our revenues are not quite as strong as what we thought they were going to be in the forecast. We've done a fair bit of work on managing the expenses to try and reduce expenses to minimize the borrowing, and the net effect is we're basically short by about the 1.9. So it really boils down to not having the strong revenues as what was in the original forecast.

Mr. McCall: — I thank the official for that answer. In terms of project management and managing the different activities of SaskTel, if you have projects going over time and presumably over budget, it would impact borrowing requirements for the corporation. Is there any of that sort of . . . Does that play any sort of a factor in terms of the borrowing requirements again represented here tonight?

Mr. Styles: — Yes. Capital ventures are part of the cash requirements for the corporation. So whatever point in time you're required to make the capital expenditures, you know, you'd be required to have the amount of cash available to meet that particular obligation. An example for us, okay, would be the spectrum auction which is going to occur in 2014. And at that point in time, you know, we'll need whatever number of dollars we have to utilize to complete the spectrum auction and pick up additional frequencies.

So yes, capital programs do play into it. If capital programs are delayed, then you won't need as much cash in a particular year.

Now you know, there is a little bit of a delay in there as well. So you start a project. Depending upon the arrangement you might have with the contractor, the progress payments, okay, might be stipulated on a quarterly basis or a bimonthly basis. So again there's a lot of things that go into cash requirements. But generally, okay, if projects are not completed on time you would save yourself cash, and if they're accelerated it would cost you more.

Mr. McCall: — But from the earlier response from Mr. Anderson, the main sort of factor here is cash flow essentially being the problem and the need to bolster the cash on hand. Is that a correct characterization?

Mr. Styles: — Yes. Cash flows are made up of both the revenues, expenditures, okay, as well as on the capital side, you know, what you're spending to initiate and to run projects. What Mike has referred to is the fact that our revenues are a little short this year. And so if you were to look into the General Revenue Fund financial statements, okay, that are in the documents, we're projecting a year-end net income of \$80.1 million versus the original number I think was \$94 million. So it's a good example of the fact that revenues are off right now, and so we're going to have a lower net income. It also means you have less cash as well.

Mr. McCall: — Of course we have the global figures in the documents. That \$14 million reduction in terms of realized revenue, what is that attributable to? Is it one particular factor, or how does that break down across the activities of SaskTel?

Mr. Styles: — There's a wide variety of things that play into the numbers so it's both revenues and expenses. So revenues are off in areas such as wireless is a good example of that. Okay, the amount of market penetration has been less than we'd expected this year plus the federal government's move to a wireless code of conduct has froze the market for a period of time. So when people were moving from three-year contracts to two-year contracts, they waited until the wireless code was actually implemented, which it happens to be today is the actual day when they're implementing it.

So that has created some challenges and some changes to the market. On the expense side, you know, we've done a number of things to try to manage our expenses. Okay. So again, it's a combination of both sides, revenue being down plus we've actually reduced our expenses to try to get things to match up a little better.

Mr. McCall: — All right. That's about it for me, for questions for the minister and officials. So, Mr. Chair, I thank the minister and officials for joining us here tonight to consider these dollars under consideration.

The Chair: — Thank you for the questions. Does the minister have any closing remarks? Okay. Well I want to thank you.

Upon completion of the questions and answers, on questions and answers, we will move to vote 153, Saskatchewan Telecommunications Holding Corporation. As this is statutory, there will be no vote. So the loans subvote, (ST01), is in the amount of 1,900,000. And I think I mentioned before, there is no vote. This is a statutory.

I think with that we will have a quick recess as there is one more item before this committee. So I want to thank the minister again, his ministers for appearing. Thank you. And a short recess until the other minister and officials come in.

[The committee recessed for a period of time.]

The Chair: — Thank you. The committee is now reconvening. For this part of it there will be no substitutions. We are dealing with vote 152, Saskatchewan Power Corporation, loans, subvote (PW01) in the amount of \$354,200,000. I will ask the minister, Mr. Boyd, if he wants to introduce his officials, and if he has any opening remarks.

**General Revenue Fund
Lending and Investing Activities
Supplementary Estimates — November
Saskatchewan Power Corporation
Vote 152**

Subvote (PW01)

Hon. Mr. Boyd: — Thank you, Mr. Chair, committee members. Thank you for the opportunity to be here with you this evening with representatives from SaskPower. Seated to my right is Robert Watson, president and chief executive officer of SaskPower. On my left, Sandeep Kalra, the chief financial officer of SaskPower, and behind me is Troy King, the controller with SaskPower.

Just a few introductory remarks and then we can go right to questions, Mr. Chair. On behalf of SaskPower I'm pleased to be here in front of the committee to discuss SaskPower's borrowing needs for 2013-2014 time frame.

I want to note before I begin that SaskPower's financial year is based on the calendar year, January to December of each year, whereas the Government of Saskatchewan's budget cycle is April to March. SaskPower officials have made the necessary adjustments to reflect the borrowing required for 2013-2014 government cycle from April 1st, 2013 to March 31st, 2014.

SaskPower is forecasting borrowing requirements for this period, April 1st, 2013 to March 31st, 2014, are \$949.7 million. These funds are needed to finance SaskPower's capital expenditures of \$1.35 billion for the year ending December 31st, 2013.

The capital funds are being used to renew the province's electrical infrastructure, increase generating capacity, and maintain reliable electrical service for the people of Saskatchewan. Borrowings will come from both long-term issues through the Ministry of Finance and floating rate debt.

I'd like to point out a few highlights of the 1.35 billion in capital expenditures during the 2013 calendar year, which would include \$577 million on the \$1.36 billion carbon capture and storage demonstration project at Boundary dam power station near Estevan; \$89 million on the \$500 million project to expand the Queen Elizabeth power station in Saskatoon; \$394 million on new customer connects as well as capacity and sustainable investments in SaskPower's transmission and distribution infrastructure; 96 million to renew SaskPower's

generation infrastructure; and \$194 million on smart meters and other initiatives such as buildings, vehicle, and information technology initiatives.

Record high investments in the electrical system will continue over the next decade as SaskPower works to renew an electrical system that was built some 30 to 50 years ago. In fact over the next 10 years, SaskPower plans to spend another \$9.4 billion. These ongoing investments in the electrical system are critical because SaskPower plays such a key role in supporting the province's economic momentum.

[20:45]

We've seen evidence of the province's growth through a record number of SaskPower service applications and a record high amount of power being used by our customers this year. Electricity demand for SaskPower industrial customers is expected to double over the next 10 years. Between the years 2000 and 2010, electricity demand in general grew by about 1.4 per cent per year but the forecast in the future is growth of 2.6 per cent over the next decade. That includes 8 per cent in 2013-14 alone.

The province is growing. The electrical infrastructure needs to be in place to support that growth. SaskPower continues to look at a mix of generation and transmission options to meet the province's future electrical needs while balancing costs, social factors, and changing environmental regulations. These decisions come at a cost to everyone in the province but thanks to the planning and investment taking place today and into the future, we will benefit from a sustainable, efficient, and reliable electrical system for the years to come. Mr. Chair, we'd be happy to take questions.

The Chair: — Thank you, Minister. Any questions? Ms. Sproule.

Ms. Sproule: — Yes. Thank you very much, Mr. Chair, and thank you, Mr. Minister, for your comments and thanks to the officials for coming out in what I understand is some winter weather. Haven't been outside for a few hours but that's what we're told.

I guess the main question we have tonight is perhaps starting with the projected budget estimate that was provided of \$595.5 million and now at mid-year . . . This was at the beginning of the government's fiscal year at the beginning of April. Now we're looking at \$949.7 million as the current projection for borrowing requirements, which we see is a change of \$354.2 million. That's an increase of almost, well of 60 per cent basically, from what we were told at the end of April. So that's where I'd like to start tonight is maybe a discussion of that increase.

Mr. Watson: — Thank you very much. I'll start and then I'll have the financial people. It's mostly made up of timing, quite frankly, the timing of the capital spent throughout our calendar year versus your fiscal year. And we've explained that.

There is an additional cost, as we had reported, of \$115 million that we expect on the Boundary dam project. And there's an additional \$84 million on projects that we have brought

forward. The customer connects are another \$27 million. And Elizabeth Falls, the environmental and financial evaluation of Elizabeth Falls, which is Tazi Twé — that's the hydro project in the Far North — is part of that project, part of that financial thing. So again you have \$115 million plus \$84 million is . . . 115 million is an extra cost. The other things are projects that we've moved forward and the rest of the money is simply a timing issue between our fiscal year and spending the capital versus the government, and moving projects forward or backwards.

Ms. Sproule: — I just want to confirm some of that because you threw a lot of numbers here very quickly. So \$84 million for projects that were brought forward within the six-month time frame. You didn't know you were going to bring them forward in April but now you've decided to bring them forward? How does that work?

Mr. Watson: — No. First of all the customer connects, you have to do them when you get them. We try and project them as best we can but the activity in the province quite frankly is still, in the residential or small-business side is very, very active. We decided to move forward on the logistics centre that we want to get moving on and there came an opportunity to move forward on that. We'd had that in a 10-year plan. So we decided to move that forward. And then we wanted to move forward on Elizabeth Falls, move it forward. So the real surprise was only the new connects, which is a good news story.

Ms. Sproule: — So how much was the Elizabeth Falls . . .

Mr. Watson: — About 14 million.

Ms. Sproule: — So 14 million for Elizabeth Falls, 27 million for new customer connects, and was the remainder the logistics centre?

Mr. Watson: — Yes.

Ms. Sproule: — And how much was that?

Mr. Watson: — 27 million.

Ms. Sproule: — New connects, 27 million; logistics centre, 27 million . . .

Mr. Watson: — Connects, sorry, was 25 million; logistics centre 27 million. Elizabeth Falls, it's Tazi Twé, which is the correct name, is 14 million.

Ms. Sproule: — 14 million. So I get 66 million there.

Mr. Watson: — Oh yes, there's the small stuff that we identified before that we are moving forward on, was the building of the CO₂ pipeline and the purchase of the CO₂ disposal well.

Ms. Sproule: — And that's Aquistore?

Mr. Watson: — Yes. We call it CO₂ disposal well.

Ms. Sproule: — So how much was the CO₂ pipeline?

Mr. Watson: — \$9 million.

Ms. Sproule: — And the disposal well?

Mr. Watson: — \$9 million.

Ms. Sproule: — That's 18, so we're getting up to 84 now, I think.

Mr. Watson: — Should be close.

Ms. Sproule: — Okay. I'll ask more questions about those specific projects in a minute, but then you said there was 115 for cost overruns at the Boundary dam, 84 million for the other projects. That's 199 million, and we're looking at 354 million. So there's still another 150-some million dollars that weren't accounted for since April.

Mr. Kalra: — The BD3 [Boundary dam 3] project, some of the work that was expected to be done last year, in the last fiscal year, could not be done because of weather conditions and other delays, so that would amount to roughly 126 million. So this is not incremental costs. This is just costs following from one fiscal to another fiscal year.

Ms. Sproule: — So 126 million for the BD3 project. You were going to spend it last year and you didn't know April 1st it wasn't going to be spent last year?

Mr. Kalra: — No. Our budgets were, you know, put together. We still expected to spend it in the government's fiscal year and it wasn't spent. And it will be spent by March 2014.

Ms. Sproule: — Okay.

Mr. Kalra: — I mean we are moving it from one fiscal to the other. The amount being spent is exactly what we had planned.

Ms. Sproule: — Okay, thank you. I just want to go to the logistics centre. Can you describe that centre and where it fits in to your operations?

Mr. Watson: — Yes. We are going to, for efficiency and cost savings measures, we're going to have a southern Saskatchewan logistics centre to bring all our sites together. In and around Regina, we have as many as 27 different locations that SaskPower is occupying, rental space. Facilities that we own are not capable of handling our new equipment nor our warehousing any more.

So the idea is to build a logistics centre out at the Global Transportation Hub. Why that location? It's already serviced. It's got the transportation that we'll require, and it's ready to go for our time frame.

Ms. Sproule: — The total cost of the build there is 14 million. Is that right?

Mr. Watson: — Well with logistics so far, we've spent \$27 million on it.

Ms. Sproule: — Thank you. I'm getting my . . . \$27 million to build and construct the new logistics centre at the Global

Transportation Hub.

Mr. Watson: — No, that's just the initial cost. The total cost by the time we're finished, \$230 million.

Ms. Sproule: — When do you anticipate it will be completed?

Mr. Watson: — In five years.

Ms. Sproule: — So is that administrative offices as well, or is it more facility for mechanical?

Mr. Watson: — It'll be all our warehousing. It'll be a large what they call cold storage equipment. It'll be a big warehouse for warm. It'll be a facility for our trucks. And yes, it will house our office staff, everything except for existing head office and the grid control centre down in the Southeast.

Ms. Sproule: — Grid control centre?

Mr. Watson: — Grid control centre. That's our facility down in the Southeast.

Ms. Sproule: — Has construction started on that? No. Okay, so you're basically looking at \$27 million in this calendar year?

Mr. Watson: — Yes.

Ms. Sproule: — Okay. And that's for a logistics centre. What do you anticipate next year's costs? Like I guess 230 million over five years is what you're saying is the project.

Mr. Watson: — Yes.

Ms. Sproule: — Okay. Elizabeth Falls then, what has changed since April in terms of that 14 million?

Mr. Watson: — We decided to move forward on the environmental and financial studies of it as well as we've done some consultation and actually participated in some training with the Black Lake community. It looks like it's a project that we need to go to the next step in order to finish our investigation so we can come forward with a recommendation to our board.

Ms. Sproule: — In the next step, what do you mean by that?

Mr. Watson: — Well we'll finalize the recommendation of the project itself. It'll approximately be a 50-megawatt, true run-of-the-river project in the Far North. It is in partnership with the Black Lake community. They will be putting in 30 per cent equity into the project, and the 50 kilometres is desperately needed in the Far North to stabilize the communities, most important, but also supply power for the future to stabilize the grid.

Ms. Sproule: — So when do you think construction will start on that project?

Mr. Watson: — We hope to get it started within 18 months to two years, and then it'll be about a five-year project.

Ms. Sproule: — So that 14 million then, can you give a

breakdown generally of the types of expenses.

Mr. Watson: — Well again it's generally for mostly for environmental and financial modelling and studying, mostly for environmental. We had to do core sampling because it is a tunnel that'll drop the water down from the falls. So we bypass the falls; we leave it in the one place. So you have to do lots of sampling. You have to do lots of surveying. You have to do engineering papers and everything.

We have gone out with initial RFQs [request for quotation] in order to get estimated pricing on the total project. So it seems to be, quite frankly, that if you do a project, a hydro project that's 300 million or 3 billion, it still costs you about 20, \$25 million to do all the investigations in order to do it. We actually would not spend the money, to be honest with you, unless we thought it was a good, viable project, and we think it is.

Ms. Sproule: — And how much was spent on consultations?

Mr. Watson: — I can't separate that number out. We have to give you that number.

Ms. Sproule: — I'm sorry. Could you repeat that?

Mr. Watson: — Can't separate that number out for you right now. We'll have to get that for you.

Ms. Sproule: — Okay. Thank you. Just on the James Smith project, is there anything going ahead with that at this point in time?

Mr. Watson: — No, not at this point in time. We've talked to James Smith and we've told them that it's not a priority for us now. We'll keep it on the list for consideration, but it's not a priority right now.

Ms. Sproule: — Go ahead.

The Chair: — Mr. McCall.

Mr. McCall: — Thank you very much, Mr. Chair. Just a few more questions following up on the Pehonan project, the partnership between SaskPower and James Smith First Nation. It was a 250-megawatt estimated run-of-the-river hydro project and I guess we raise it in this, at this conjunction. The Tazi Twé project, Elizabeth Falls, the official is exactly correct. That's much needed power. And we're hopeful that that will be a genuine partnership between the corporation and Black Lake First Nation and provide that benefit for the North.

But it wasn't a few short years ago that down the hall from this room we got to see a signing ceremony between this government and James Smith to pursue Pehonan, and didn't hear a whole lot about that project thereafter.

An Hon. Member: — Point of order.

Mr. McCall: — So what we're wondering is where this shows up in the borrowing requirements of the corporation.

The Chair: — Mr. Hickie I guess has made a point of order.

Mr. Hickie: — Thank you. Tonight we're here to talk about this current loan increase. I don't believe I heard any of the officials or Mr. Minister Boyd talk about anything about James Smith First Nation in this increase at all. So I would indicate that the members opposite should stay on topic, and this is not part of the approved supplementary estimates tonight.

The Chair: — As the member has pointed out, we're just dealing with supplementary estimates today and I just will ask the minister and the officials if they can indicate when we've wandered off of that so that myself as Chair will know if we're . . . Because we're just dealing with the supplementary estimate today. So I will just ask everybody to stay in that context.

[21:00]

Mr. McCall: — Thank you very much, Mr. Chair, and I thank the colleague for the reminder of the subject at hand. And I guess I'm asking that question because one of the things we're considering here tonight is the fact that the change from budget is on the order of \$354 million in terms of the borrowing requirements of SaskPower, a nearly 60 per cent increase in terms of what was initially budgeted. And as officials have described why we're here considering that tonight, there have been different things moved in and out of the year under consideration. So what we're looking for is a precise idea of what's in and what's out. And certainly I gather from the official's comments that Pehonan is out. And I guess if you could just clarify a little bit more. When was it ruled out and how was that communicated?

Mr. Watson: — First of all, a very important technical clarification is, Pehonan was not a run-of-the-river power facility. It was a damming power facility which actually would dam the Saskatchewan River all the way back to P.A. [Prince Albert], which technically and environmentally became a huge issue. It also became a huge issue with Environment Canada that that seems to be a favourite spot for the sturgeon to spawn and there is no hydro ladder in the world yet to handle a sturgeon going up and down rivers. So therefore the project itself, although Saskatchewan River is a mighty river but it is a fairly flat river and it flows very slow, right now what we're looking at is any facility that we possibly can do that is a true run-of-the-river. In other words you do not impede the flow of the river at any time when you do that.

So that's the difference between the two of them. We have all the engineering studies that we did for Pehonan and the financial models that if any time in the future, if we open that project up again, that we will go back to those models and look at them.

Mr. McCall: — I thank the official for the clarification, but just one more point of clarification. When was that decision taken and when was that decision made public, the stand-down on Pehonan?

Mr. Watson: — We had indicated to the partners at Pehonan, that would be James Smith and Brookfield, I believe it was the end of last year that we would not be moving forward on that project at this time. However we would keep it on the list of projects to consider at some time in the future for SaskPower.

Mr. McCall: — And it was made public at that time?

Mr. Watson: — I believe yes. I believe it wasn't . . . We weren't hiding anything so we certainly let them know and I'm sure they would publicly tell you. I know that James Smith has been here quite often talking to people since that day. So we certainly did indicate to them officially that we would be stopping the project, yes.

Mr. McCall: — I thank the official for the clarification.

The Chair: — Ms. Sproule.

Ms. Sproule: — Thank you, Mr. Chair, and thanks to my colleague for those questions. I'd like to move now into the CO₂ pipeline acquisition and the acquisition of the disposal well. I think you indicated about 9 million for each one of those. When did SaskPower decided to purchase those projects?

Mr. Watson: — We decided to actually seriously purchase the project, the well to begin with, earlier this year. It must have been about six months ago I guess. Not even that, I guess.

A Member: — I think it's quite recent.

Mr. Watson: — Quite recent in that we felt that it was very important for SaskPower to hold that asset. We had been the same as other investors, invested in the well. As you remember, before that we had, as like other investors, put \$760,000 into the project. We did an audit to make sure that that money was spent on the project. We were satisfied that it was and then we subsequently made an internal decision that we wanted to hold that asset within SaskPower for risk reasons, in other words to evaluate the risk that at any given time if in fact Cenovus, which was the CO₂ off-taker, was not able to take the liquid CO₂ from us for any reason, that we needed a place to store at least a portion of it so that we could keep the plant running, in production. So we felt that it was. We will be honouring all scientific research that will be done on the well through PTRC [Petroleum Technology Research Centre] and the university. However we felt it was an asset that was very important within SaskPower in order to mitigate any possible risk for the storage of CO₂.

Ms. Sproule: — In terms of the capacity of those . . . I think there's two deep wells, if I understand correctly, and the output of the carbon capture project at Boundary dam, how many years of liquid carbon can be stored in those two wells?

Mr. Watson: — Yes. Just for clarification, there's two wells. However there's only one production well. The second well is just a monitoring well. And in fact they are the two deepest wells in the province. They go down through I think it's seven permanent layers of rock. What happens when you go down into the . . . When you put CO₂ that far down, it almost goes into a semi-solid form. But then it goes through, the plume goes through, under whatever it's called down there . . . [inaudible] . . . technical, but it goes down there. And the geologists are saying there could be as much as a 500-year supply that we could send down there of CO₂ and be permanently stored.

I do want to clarify because it's very important for the record, we do not call it an Aquistore project anymore because this

does not impact any drinkable water at all. So therefore we do not want to call it that anymore. So I will not call it that anymore.

Ms. Sproule: — Thank you, Mr. Watson. Certainly I will make every effort to refer to it as a disposal well. So a 500-year supply is the estimate at this point for that site. So if Cenovus decided they weren't interested in your output from the carbon capture project, then you still have lots of room to store it for the foreseeable future, basically?

Mr. Watson: — Yes, we believe that, and actually the facilities would do other possible projects. We don't believe that will happen. We believe that there's a very good market for liquid CO₂, and a significant market for it.

Ms. Sproule: — If I understand correctly, Cenovus has been injecting liquid CO₂ since 2000. Like this isn't new for them, right? This would just be a new supply.

Mr. Watson: — Well again, just for clarification, yes they have been doing it in the Weyburn facility for approximately 10 years, and they actually purchase anywhere from 2 to 3 million tonnes a year from the Dakotas and bring it up, and this 1 million tonnes per year will be on top of that. So therefore yes, there is a big requirement for liquid CO₂, particularly enhanced oil recovery, and there is a great opportunity worldwide for enhanced oil recovery technology with CO₂.

Ms. Sproule: — Okay. Thank you. And then the pipeline itself is connecting I presume to the Boundary dam project and the disposal well. Is that what the \$9 million pipeline is?

Mr. Watson: — Technically the \$9 million is because yes, we have to take the liquid CO₂ from the wall of the plant and have an option either to deliver all or part of it to the well or deliver all or part of it to Cenovus. So we actually purposely took over the engineering and construction of that part of the pipeline because we wanted to ensure not only the ability to do the two directions for the CO₂, but also the engineering integrity. At no time did we want to lose the engineering integrity.

Ms. Sproule: — Okay. Who did you purchase the . . . The \$9 million, is that new construct or did you purchase it from someone else?

Mr. Watson: — That's new construct, and it's because we insisted upon engineering and constructing it ourselves.

Ms. Sproule: — You have high standards.

Mr. Watson: — Well we felt . . . To be honest with you, the two projects — Boundary dam 3 particularly and the well and the pipeline — probably are a bit overengineered, but we didn't want any mistakes with the first one. We have learned some lessons from it, and the next time around we probably can save significant amount of money. But yes, we did ensure that the ultimate engineering was put into the project. Yes.

Ms. Sproule: — In terms of Cenovus, are there opportunities for sale of the liquid carbon? Do you have any sort of projections for the rest of the year or for new clients — I don't know how else to refer to them — or is Cenovus the only client

you're going after at this point?

Mr. Watson: — We already have a guaranteed 10-year contract with Cenovus to take 100 per cent of the CO₂, and they actually have an option for a further extension to that. And we've had significant interest from other parties for more CO₂.

Ms. Sproule: — Now the new connects, I think you said \$25 million more from what you projected at April 1st? Or again, could you explain why there's such a big jump? And I know you said there's more connects, but are those projections something that just simply weren't foreseeable or how could it be out by that much?

Mr. Watson: — Well I'll start. No, we spent a lot of time with all the jurisdictions around the province to get a feel as to what building permits are there, what building permits may be coming up, etc. We spent a lot of time. We go through a lot of logistics to our estimations. But I could tell you that this year we were . . . Lots of extra work has been done in the province with connects.

Another factor, quite frankly, is that we put in an internal metric in within SaskPower that once we had a request for a new connect, that we would do that within 45 days. So we hurried up the process within SaskPower. We're not hitting the 45 days as often as we want, so we're going to hurry that up even more, so that when a new connect comes through, our intention is 80 per cent of the time to get them connected within 45 days, which would be industry best practices.

Ms. Sproule: — New connect. I just had a thought here. Oh yes, what percentage of those new connects would be residential or commercial or industrial, I guess?

Mr. Kalra: — I have numbers, year-to-date numbers. So year to date . . . Now these are . . . This is SaskPower fiscal year. So at the end of October, we had 103 million in distribution customer connects. So these are generally, you know, residential customers, the small commercial. And 27 million in transmission customer connects. These would be for bigger customers. So that gives you a rough ratio between the two.

Ms. Sproule: — The smart meters was . . . I don't know if you mentioned that in terms of new costs. Is that part of the new connects, the smart metering, or is that a . . . That's a separate project. Is that on budget or has there been extra costs involved with that as well?

Mr. Watson: — The smart metering program is on budget and it is being implemented. We expect to have the province smart metered by the end of 2015, and it's going quite well actually. We now have over 15,000 smart meters installed.

Ms. Sproule: — [Inaudible] . . . target?

Mr. Watson: — 500,000 smart meters? About 500,000.

Mr. Kalra: — [Inaudible] . . . 100 per cent. We may not get 100 per cent. We're close to 100 per cent.

Ms. Sproule: — Who's the main company that's installing those?

Mr. Watson: — Grid One is the main one, yes. Now the Grid One is the company that logistically is co-ordinating it; however, they'd use a significant amount of Saskatchewan labour to do that. They have done big projects before. They won a competitive RFQ, and so they're doing the logistics of it.

Ms. Sproule: — We get lots of calls about Texas plates pulling up to peoples' houses. Okay, I think we've covered the first 84 million. The Boundary dam overruns, \$150 million, could you give me a breakdown of that please?

Mr. Watson: — The \$150 million will be made up exclusively from the power facility. We had two main facilities in what we call the Boundary dam carbon capture facility — the capture facility and the power facility. Quite frankly, the capture facility is done. We are now commissioning it. We are now physically . . . SaskPower is systematically taking over the building, room by room right now, and commissioning. We will take our time to commission it. The facility is ready but we will take our time to commission it. We don't have to deliver CO₂ until, not until July. We will be producing CO₂ before that but we will take all the time to ensure it's done right, and it is under budget.

[21:15]

The power facility is the one that's unfortunately has caused a surprise. It was everything from the asbestos situation that delayed us in the summertime to . . . Technically we thought we could refurbish the boiler when, after inspection, we literally had to rebuild it. The facility itself, after inspection, we had to put more structural steel in the whole infrastructure of the building because of inspections of new criteria. We thought when we built the . . . started to construct the power island, we could actually literally start from both ends and build towards the turbine. We weren't able to because of, literally, space requirements. So we had to start from one end to the other.

We did have an issue with skilled labour, particularly pipefitters and welders, and having to do that. So that's been a lot of the cause of delays. And when you're retrofitting it, then we've actually had to do some re-engineering as we go to get it done.

So the project is moving along. It will be ready to go on time, but making sure that we get it done properly in that, it will cost us that net amount 150 million, even to the fact that the turbine itself won't . . . Before we took out the old turbine, it was running perfectly — nothing, no vibrations, no nothing. When we took it out, after inspection we had to literally rebuild the whole base in order to set the new turbine in, which was unexpected.

Ms. Sproule: — Okay. And then the \$126 million you said was the Boundary dam 3 project. What does that I guess expansion and debt expenditures entail?

Mr. Kalra: — [Inaudible] . . . shifting it from the last fiscal year to this fiscal year. The overall cost of the project hasn't gone up. It's just being done a little bit later.

Ms. Sproule: — It's also the carbon capture project, but it's just the way . . .

Mr. Kalra: — It just comes in a different fiscal year.

Ms. Sproule: — I know it's 126 million overall is a small percentage of this project, but it seems like a lot of money so it's, like it's \$126 million. So I just . . . How could this not have been anticipated in the previous budget framework, or how did that happen?

Mr. Kalra: — [Inaudible] . . . together early during the year, and at that time it's based on what we think we'll be able to do. Weather conditions change, you know. Some of the approvals we may or may not be able to get at the right time. We may not be able to get the contractors in, you know, when we want. So that has, you know, caused a delay. Once again, the cost hasn't gone up. We're still spending the same amount of money. It's just being spent a little bit later.

Ms. Sproule: — Just a couple more questions. In the mid-year review that was just released, mid-year report, the 354 million was shown as, you know, I guess changes in the projection to the borrowing estimates for this government fiscal year. There's also a reference to a surplus in terms of the mid-year projections and SaskPower is estimating now a \$140 million surplus, which is up about \$14 million. How does that factor into your decisions in terms of borrowing, or is that a completely different area? Is there a connect and, you know, is that 14 million going to be used to reduce your debt load or is that different?

Mr. Kalra: — I'm not sure what you're looking at. It's the income projection for the year?

Ms. Sproule: — [Inaudible] . . . surplus from the Government of Saskatchewan. And it's from Crown Investments. It says SaskPower Corporation. So I assume it's a surplus?

Mr. Watson: — Yes we will, our net income for 2013 was to be \$126 million net income. We will be above that, and we will be above that considerably. We know that already. Three main factors. First is the fuel supply . . . you know, the fuel mix, sorry, in that we've had a very good hydro year again, and quite frankly we've been able to burn coal flat out. The last couple of years we've had problems with flooding and wetness and everything.

The second major issue is that effectively from '12 to '13, we've added about \$2 billion. We will be adding \$2 billion on in assets to the corporation, and our operating cost to do it is the same as '13 as '12. So we'll have run the business with the same operating cost effectively — there's puts and takes of one-time charges up and down and stuff like that — effectively run it the same. That'll be the first time since '95-96 that the company's kept the operating expenses flat year over year.

And the third aspect, I forget. What was I going to say?

Mr. Kalra: — The other thing I could also add is these extra profits over our earlier projections basically help us increase the cash flow from the operations. Cash flow from the operations are roughly 500 million for us, and the capital investment is, you know, roughly one point to 1.3. So we borrow roughly 60 per cent, 50 to 60 per cent, and the cash flow from operations funds 50 to 60. So if we have more profits, our need for the borrowing would be that much less. That's how, you know, it comes into play.

Mr. Watson: — I do know the third aspect is that we made very, very good money from selling power into Alberta through the summer months — very good money. We were selling power sometimes at \$999 a megawatt into Alberta. We couldn't get enough of it to sell in there quite frankly.

Ms. Sproule: — I think . . . I forget which year it was, Mr. Minister, but was it four years ago or three ago when there was essentially a good year with hydro because there was so much water and that was when this government chose to take a dividend? Would that be something you'd be looking at again based on these projections?

Hon. Mr. Boyd: — Well I think this sort of falls outside of what we're talking about here tonight, but that would be a consideration I suppose in the future.

The Chair: — Just to remind the member to work within the confines of what we have. You know, the annual reports will be coming up, so we can always start, you know, more questioning on dividends then. But just to deal with the funding that's in front of us today.

Ms. Sproule: — Okay. Thank you for that reminder. I guess my last set of questions then is just to ensure that I understand the reporting here. The projection for borrowing is now at \$949 million. We see in the General Revenue Fund there's two forms of debt. There's government general public debt, and then there's the government business enterprise specific public debt. And I just want to make sure I understand where this borrowing that's being discussed right now, under the statutory votes here, how that fits in.

And if I could be more specific, on page 2 of the mid-year report, we have SaskPower Corporation showing a budget estimate of \$94 million for the general public debt, and then we have 3.8 billion for the budget estimate for business enterprise specific public debt. Does this 354 million fit into here somewhere, the change in estimates?

Hon. Mr. Boyd: — I'll take that. I honestly don't know. We would have to get advice from Finance with respect to how they account for that. You know, I'm not sure, specifically to answer your question. But we can get that information and get it to you with respect to where that would be.

Ms. Sproule: — I think if I could figure it out, it would be helpful if I could understand it myself, but if it ties into the long-term debt and sort of the gross overall debt I guess of the corporation and not just this year's estimate for debt. But I would appreciate that information if the minister could contact the appropriate officials and get that for me.

I think, Mr. Chair, that is the extent of my questions, other than I understand one of the members opposite is wondering about, Mr. Watson, whether the purchase of your Hamilton Ticats sweater came out of any of this money or not?

The Chair: — I'll get a point of order on that one. I want to thank the member for her questions and thank the minister. Does he have any closing remarks?

Hon. Mr. Boyd: — No, other than to say thank you to

committee members and to Ms. Sproule for her very in-depth questioning. Thank you.

The Chair: — Ms. Sproule, did you have a closing remark?

Ms. Sproule: — None at all. Thank you very much to the minister and his officials for braving the stormy weather and spending some time here tonight. Thanks.

The Chair: — Thank you. I also want to thank the minister and officials for appearing here tonight.

We're on vote 152, the Saskatchewan Power Corporation, loan subvote (PW01) in the amount of 354,200,000. There is no vote as this is statutory.

Committee members, you have before you a draft of the fourth report of the Standing Committee on Crown and Central Agencies. We require a member to move the following motion:

That the fourth report of the Standing Committee on Crown and Central Agencies be adopted and presented to the Assembly.

Mr. Parent has so moved. All those in favour?

Some Hon. Members: — Agreed.

The Chair: — Carried. Being that all the business is completed before this committee, I would ask a member to move adjournment of this committee. Mr. Hickie has so moved. All those in favour?

Some Hon. Members: — Agreed.

The Chair: — Carried. This committee now stands adjourned until the calling of the Chair.

[The committee adjourned at 21:25.]