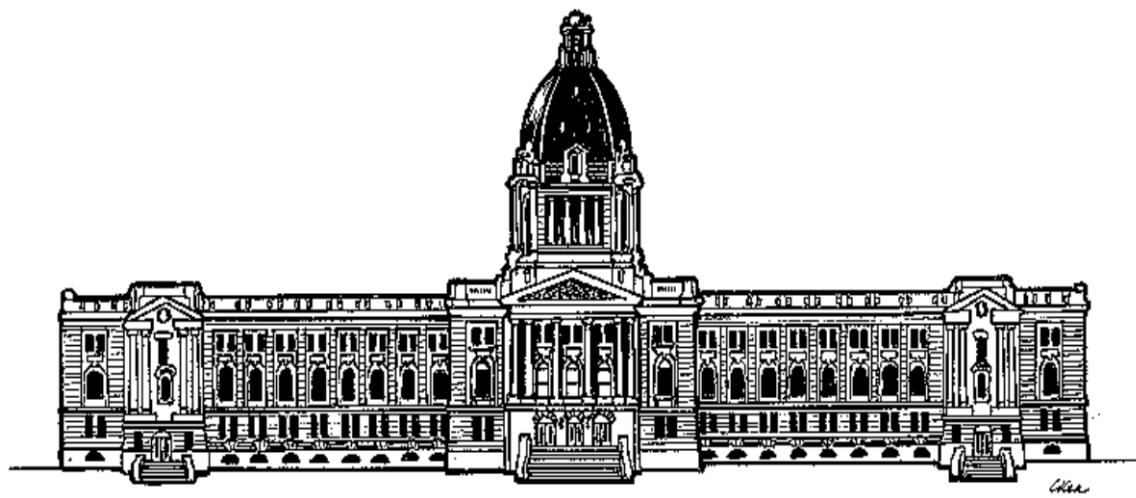




Standing Committee on Public Accounts

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS
1998**

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Kelvington-Wadena

Ned Shillington, Vice-Chair
Regina Northeast

Rod Gantefoer
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Redberry Lake

Mark Koenker
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Ron Osika
Melville

Violet Stanger
Lloydminster

Andrew Thomson
Regina South

Grant Whitmore
Saskatoon Northwest

Public Hearing: Saskatchewan Opportunities Corporation

The Chair: — Welcome everyone. It's nice to see everyone raring to go. I imagine they've got a lot of burning questions that have kept them awake for days that they will expect to get answers to today.

So welcome to everyone and I'll ask Mr. Douglas to introduce the official with him.

Mr. Douglas: — Yes, Madam Chairperson. I have with me Dale Johnson, our communications officer from the Saskatchewan Opportunities Corporation, and momentarily Glenda Bruce, our director of finance, will be along I hope.

The Chair: — Thank you. Mr. Strelloff, you have . . .

Mr. Strelloff: — Good morning. I have some new people with me. Phil Creaser is going to lead our discussion on the results of SOCO (Saskatchewan Opportunities Corporation); Bill Hill is a partner with Hill McKillop and is the appointed auditor for SOCO; as well as Jolene Beblow is from our office and Corinne Maier from our office.

The Chair: — Welcome and good morning, everyone. We'll start and ask the Provincial Auditor to do his overview on this chapter.

Mr. Strelloff: — Okay. Well I'm going to turn that over again to the gentleman beside me, Phil Creaser. Phil, please take it over.

Mr. Creaser: — Thanks, Wayne. Madam Chairman, fellow members, or members, we're going to be discussing the chapter 5 of our spring 1998 report on Saskatchewan Opportunities Corporation.

The Saskatchewan Opportunities Corporation has a mandate to facilitate the economic growth in the province, to direct investment and businesses and development of infrastructure, and in the year under review had \$8 million in net income; had a net income of 2.3 million and held assets of 92.6 million.

We worked with the firm of Hill McKillop, and Mr. Bill Hill was the representative, to form our opinions on SOCO. And during the year under review we found that the financial statements were reliable and they complied with all relevant financial authorities.

We had under our internal control opinion, one qualification that we had agreed to was there was a lack of control procedures, documented control procedures, of certain transactions within the corporation and over certain reconciliation and financial management reports that were prepared for the auditor, and we felt that those matters were significant enough to report in our report.

We felt that the documentation of control systems is key to the communication, and review of controls in communicating these controls ensures the staff know the control system and the review of the controls ensures the control system is working effectively. We're not saying that the controls weren't there; we

just were saying that the documentation of them could be improved.

We felt that they should document their independent review and approval of certain transactions including loan loss provisions and the accuracy of key information used in preparing financial statements. And we recommended that they improve the documentation of this review and approval procedures and that SOCO should ensure these review procedures are communicated either through the use of job descriptions or in their procedures manuals.

We also reported that they could improve their comparison of plan versus actual results in their annual report. You note that the CIC (Crown Investments Corporation of Saskatchewan) approves performance targets for the Crown corporations and these targets should be outlined in their annual report and they should be showing results compared to those targets.

SOCO has also had some of their targets set out in the *Partnership for Growth* document and again those targets should be, in our view, compared to their actual results to see how well they performed.

SOCO had done some work on their performance work and had done some positive things in their annual report on performance, including listing of all their investments and the number of jobs that they've created as a result of those investments over the years. So we'd like again to recommend that they should ensure that the annual report includes a comparison of planned results to actual.

Finally SOCO did not disclose all people who had received money, public money, through the corporation. Again we'd like to give them credit for listing all their investments in their annual report. And that of course takes care of a lot of the money that they've used, but their administrative money has not been disclosed in the annual report.

So again we're asking that they disclose . . . publish a list of persons who receive money from them and the amounts the persons receive following the PAC's current minimum disclosure requirements and discuss different public disclosure requirements with PAC or with the Assembly so . . . or if the Assembly so directs, with the Crown Corporations Committee.

That's all I have to say.

Mr. Strelloff: — Okay, thank you, Phil. Madam Chair.

The Chair: — Thank you very much. Before we ask Mr. Douglas to continue and give us some further information, I'm going to read to you the statement by the Chair for testimony of witnesses appearing before this committee.

Witnesses should be aware that when appearing before a legislative committee your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as a subject of a civil action.

In addition, I wish to advise you that you are protected by

section 13 of the Canadian Charter of Rights and Freedoms which provides that:

A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put forward by the committee. Where a member of the committee requests written information of your department, I ask that 15 copies be submitted to the committee Clerk, who will distribute the document and table it. You are reminded to please address all the comments through the Chair.

So thank you, and I'm going to ask Mr. Douglas to give us any further information that he feels that the members should have before we go on to questioning.

Mr. Douglas: — Certainly, Madam Chair. Thanks very much and thank you for forewarning us.

I just have a couple of brief observations actually. With respect to the first point and the matter of documentation of our internal control procedures, we certainly accept the commentary of our auditor and of the Provincial Auditor on this point. And I'm happy to inform the committee that that matter has already been remedied and we do follow those procedures now.

So it was essentially a documentation issue, not an issue of safeguarding and control of assets or accuracy of financial statements. It was a matter of initialling a review of monthly reconciliations and other documentation of the control procedures in the corporation.

So I'd be happy to answer any further questions on that topic before turning to the other two points, if you like.

The Chair: — Mr. Gantefoer has some questions.

Mr. Gantefoer: — Thank you very much and good morning to you, Mr. Douglas, and your officials.

I would like to talk a little bit more general than the specific recommendations of the provincial auditors to begin. And I would like, if you would, for the committee in order to gain a little bit of better understanding of the mandate and the role and purpose of SOCO, to ask you if you would go over in brief what do you see your mandate and the responsibilities that you have within your organization?

Mr. Douglas: — Most certainly, and in fact we brought along some kits which I'm going to ask Glenda to circulate to members of the committee that include some documentation on some of these issues for background purposes. But I'll speak to it.

The mandate of the corporation as established by legislation . . . or the powers of the corporation, the object as established by the legislation which was passed in 1994, is to create, encourage, and facilitate business opportunities in Saskatchewan through a range of mechanisms. The board of

directors has established by policy that the Saskatchewan Opportunities Corporation mandate is to facilitate economic growth in Saskatchewan through investment in viable businesses and in infrastructure which supports the development of businesses.

And there are a number of ways that we do that. Essentially we are a provider of investment capital and financing in support of net economic growth in the province and we are a provider of infrastructure, in particular research parks which also support economic activity in the province.

Mr. Gantefoer: — In terms of the financial support, does that take the form of both loans and investments or strictly investments?

Mr. Douglas: — We have the ability . . . we use a range of investment tools, whether it's equity loans, guarantees, or some of the vehicles that are kind of in between.

Mr. Gantefoer: — When you're considering projects for support — I'll use that to start with because I guess at that stage it probably wouldn't be determined if it's loan, investment, or combinations depending on the individual circumstance — do you have a set of criteria by which you judge the merits of the project or how does the project move forward?

And I'm thinking in terms of: is there a minimum size; is there a maximum size; is there policy objectives that you have in order to be willing to consider participation and support for a business project?

Mr. Douglas: — Well there are two sets of criteria. There's the mandate criteria and then there's the criteria around the quality of the investment. And on the mandate side, of course, in a very general way it's contributing to net economic growth in the province in some form, net economic activity or job creation, and heavy emphasis on the net.

We try very hard not to do business financing which simply results in competition for limited local markets, rather something that's going to add to the overall gross domestic product of the province, new activity.

Mr. Gantefoer: — In terms of other criteria then, are there . . . like what are the . . . what I'm getting at, is there a minimum project size in terms of dollars? Are there minimum project size in terms of jobs, net jobs created? Are there debt-to-equity ratio minimums, or like those type of technical criteria?

Mr. Douglas: — On the minimum size or maximum size issue, we have no hard and fast rules about that although we have an understanding with Crown Investments Corporation that we'll do the smaller deals up to approximately \$5 million and CIC tends to be involved in the ones that are larger than that. So the smallest one we have done I think is for \$10,000 and the largest one would have been for Limagrain at \$6 million.

In terms of the criteria, I'll direct your attention to page 10 of the annual report where we talk about the criteria we use, commercial and financial viability, quality of management, equity commitment by project proponent, participation of other financial institutions, adequate security, and return on our

investment, and community support for the activity as well.

Now in the decision making around any individual product there's a balancing of these . . . or project, pardon me, there's a balancing of these criteria. And we try quite hard not to have hard and fast rules. We try and tailor our activity to the needs of the business project as opposed to establish a firm set of criteria that companies are therefore required to jump through to get SOCO support.

Mr. Ganterfoer: — In these criteria — and I appreciate that you talk about net jobs — I assume that if you're supporting an individual business in a competitive environment, that that net job criteria, although you haven't said it and that's why I'm leading that direction, has to take into consideration that if you make a significant investment with one business in a given field and if that is going to have an adverse impact on a competitor in that same general field who doesn't have the support of SOCO investment or whatever form the support would take, that that net job criteria, I'm assuming but I would like you to tell me a little more about it, would take into that competitive situation between businesses in the same general field of endeavour.

Mr. Douglas: — Most certainly. And we try very hard not to be, as I say, financing one business to compete against another for limited local markets. And that's one of the reasons why we have tended to stay away from the retail and service sector.

I think past experience has shown governments in Saskatchewan and other jurisdictions that general business financing of small business really doesn't do much in the way of net economic activity in the province. So we try and stay away from that — financing a restaurant at one end of Main Street to compete against one at the other end and that sort of thing.

So you'll see from our list of investments that we try very hard not to do that. And we try and focus on sectors where they're either export-oriented activity or import-replacement activity. So from time to time we may find ourselves financing a business that has other competitors in Saskatchewan but they are competing in the sense that they're both exporting into a large enough market that it doesn't unduly harm one or the other.

Mr. Ganterfoer: — What about investments in the ag manufacturing business, for example, where a number of, you know, fairly significant players in the province are not one end of Main Street or the other but quite often they have similar lines of product that they're producing. How, for example in that general type of an environment, would you consider the net job criteria?

Mr. Douglas: — I guess the key is to focus on the notion of a limited local market as opposed to something for export. So I don't think, even though we've done some investing in ag implement or short-line farm equipment manufacturing, that the effect of our investments has been to the detriment of any of the other businesses in the province.

Mr. Ganterfoer: — I haven't looked in the list at great depth but I can recall a comment made by one ag manufacturing business who complained fairly bitterly about the fact that investments in

a competitor generally tended to drive the inventory price down. That that increased injection of capital made the competitor able to discount some of their equipment easier because their financial picture improved fairly substantially, which ended up driving everybody's inventory price down.

So while it may have in the short term helped out the one business, it had a very damaging effect on all other businesses in the similar field. And I'm hopeful that your sensitivity factor is maybe a little more acute about those type of things that potentially can happen even though you quite often make the investment for the right reasons of saying, oh well, this will create opportunities for you to go into an export market. Potentially the way you go into that export market, if it means by discounting inventories, has a very negative impact on competitors.

And I'm suggesting from this individual's comments that perhaps the sensitivity factor through the impact of investment is perhaps something that needs to be reviewed.

Mr. Douglas: — Well I think you made a very good point, and I think we try very hard to be sensitive to that. We have to be very careful in our investing activity, as I say, not to unduly harm competitors.

I haven't seen personally any evidence that our activity has had that kind of an impact. There may be examples that I'm not aware of where other investments made by other entities have had that impact, but I don't believe that we would have done that with our investing.

Mr. Ganterfoer: — The business community quite often uses a phrase that I'm sure everyone has heard maybe too often, the idea of a level playing field. And the accusations or the concerns are at least raised — I think accusations may not be the correct word — but the concerns are certainly raised that a vehicle such as SOCO runs a certain amount of risk, perhaps a high risk of upsetting that level playing field concept.

And I think that probably in your discussion with the business community you've heard those comments as well, and I would encourage you to be very, very sensitive of those issues because they're something we hear a lot.

Mr. Douglas: — We're aware of them and we do try very hard to be sensitive to it.

Mr. Ganterfoer: — Thank you.

I'd like to turn if I could to questions that I've been raising in a number of areas this week, certainly the Department of Finance, Economic Development. And I think because it's timely on people's minds, the financial turmoil that's happening globally and the impacts that that potentially would have on our province and our economic future and strength and growth.

I wonder from SOCO's standpoint if you could give us an overview of how you see the turmoil in the world's economy right now and the impact that it has potentially on commodities. Certainly we hear people . . . I've just in glancing noticed that there's investments in the agricultural area and hog production I believe, and things of that nature.

The commodity prices on hogs, as you're undoubtedly aware, are very low right now. The net return is red ink I believe, and other areas as well. The ag manufacturing sector is having some difficulties. There are these types of challenges across the piece. I would ask you to give an overview from SOCO's perspective of what's happening and what is perhaps in your crystal ball likely to happen.

Mr. Douglas: — Heck of a question, but I will offer a few observations. We monitor conditions in the global economy and Canadian markets as well very closely and try to look on a regular basis through our investment managers at our individual projects and the effect of developments in those arenas on our investments. And we do see some cause for concern now. It would be impossible not to if you're out there looking and aware of what's going on.

We therefore have taken extra caution in dealing with our accounts over the last while. I think we have a mandate to support economic growth and we can't shy away from doing that just because the global economy is looking a little doubtful and we'll continue to fulfill our mandate. But we'll be perhaps a little bit more cautious about some of our investing as a result of conditions in the global economy.

Mr. Gantefoer: — In terms of some of the investments, and I don't want to focus on any specific investment, but if I could in categories. If we look at investments in the hog industry as one category, what provisions . . . certainly, potentially, if you undertook projects two or three years ago or even as late as last year, the market outlook, and I'm sure the balance sheets and the projections moving forward, were probably significantly different than the reality that is on the industry right now.

And I believe that industry analysts are saying that this downturn in prices is pretty severe and probably longer lasting than the normal hog downturn cycle. That would indicate to me that there is at least a potential for business plans going pretty significantly off the rails compared to a year or two ago when the projects were approved and analyzed and approved.

What process does SOCO have to adjust to those changes in an economic medium, short, medium term, if you like, to the investments or the businesses that you have loans with?

Mr. Douglas: — The key to this in my mind at least, is to ensure that the business that you go into in the first place has an appropriate capitalization debt/equity ratio to be able to weather market cycles. And we looked at that issue very carefully when we made our decision to invest in some of the hog projects that we have done.

We, as I say, monitor conditions; we're very aware of the situation in the pork industry. And we have gone back and looked at our investments in that sector in the light of the current market trends and we are comfortable that our position is secure as can be under the circumstances. And we'll continue to do so on an ongoing basis.

But I should say that our experience so far has been fairly positive. One of our clients — again I have to be a little cautious about being specific because there's some rules around the reporting — but one of our clients paid us out in full

yesterday as a matter of fact. And the others seem to be capitalized appropriately to handle the situation in the current market. But we see this as part of a cycle and that they're strong enough to withstand the cycle.

Mr. Gantefoer: — I noticed in your summary sheet where you have loans and equity guarantees as vehicles for support. Is the equity in a number of categories? And what I'm getting at is, is there equity investments that are what I would call patient capital or are there redemption . . . are there generally redemption clauses that have a set equity redemption program that's put into the business plan? Or how does the equity thing work? Are there different ways that they work? And would you please sort of outline the different types.

Mr. Douglas: — Sure. Equity by definition tends to be more patient than term debt or other kinds of debt financing. And we have a variety of arrangements with each of our investments but every time we make an investment we look at an exit strategy as to how we will exit the investment at the appropriate time. That can come from public offering, it can come from clauses within the unanimous shareholders' agreement as to when we can put back our investment to the shareholders and they have an obligation to buy us out. There's different mechanisms you use in each project and they're tailored to suit the project and the pro formas for that project.

Mr. Gantefoer: — In the possibility of the changing economic times, is there usually built in or do you consider the possibility for example . . . and again I don't want to pick on the hog industry but it's one we've been using by way of example. If, for example, the downturn is perhaps somewhat longer, perhaps somewhat more severe than what would be projected in terms of a normal debt to equity ratio or enough security there from what was envisaged two or three years ago, do you consider converting some loans to equity or do you consider plans that may defer principal paydown on a loan so that, you know, that it creates the cash situation so that it makes it easier for the company to weather a downturn. Is there that flexibility in your programs or is that negotiated on a case-by-case basis?

Mr. Douglas: — Negotiated on a case-by-case basis. You have to be very careful when you do that kind of stuff though that you're not just — how should I put this tactfully — fooling yourself about what's happened to your investment. Sometimes the business situation has declined to the point where a simple conversion to equity is not going to save that business and you're just postponing the inevitable. But we haven't faced that situation yet so we'll deal with it on a case-by-case basis. We've not had to do that or consider it as yet.

Mr. Gantefoer: — The auditor makes mention that there should be some comparison of the economic targets that are set out in *Partnership for Growth* and how your investments and the projects that you've undertaken have met some of those targets. Have you done that or you considered doing it or . . .

Mr. Douglas: — That's a question that we think is a policy issue that I think is under discussion, under consideration through Crown Corporations Committee and by our holding company, by Crown Investments Corporation, so it wouldn't be appropriate for me to answer the question other than to say that we try very hard to be open and accountable through our

documentation, our regular SOCO reports and our annual reports, and I think the Provincial Auditor's office recognize that we do that.

As for specifically putting into our annual or . . . annual report criteria and so on, as I say, that's our objective. And how we've done against those objectives, that's a matter for discussion I think between the Crown Investments Corporation and the Crown Corporations Committee as a policy issue.

Mr. Gantefoer: — Do you interface with other agencies of government? I'm thinking of not necessarily our provincial government but the federal government agencies like Western Diversification, the Business Development Bank. What are the relationships that SOCO has with federal agencies that attempt to perform similar functions?

Mr. Douglas: — We make a very strong effort to work with those agencies and to co-operate and sometimes share in investments. Each of those agencies tends to have a slightly different mandate. So while there may seem on the surface to be a number of players doing similar things, once you get to understand it, each of us has sort of a separate little niche in the economic development investment market, if you want to put it that way.

But we work with WD (western diversification), particularly on the research park infrastructure side; we've talked to them with respect to the petroleum technology research centre and the western economic partnership agreement, and that sort of thing.

Business Development Bank we run into on a regular basis and have a good working relationship with. And similarly with some of the other private sector sources of the same kind . . . similar kinds of capital to SOCO, everything from working ventures to ventures west to Saskatchewan Government Growth Fund to some of the others that are in the field.

Mr. Gantefoer: — Finally, again one of the obvious questions this week of our deliberations, what is the status of SOCO in regard to the Year 2000 compliance?

Mr. Douglas: — We have had the good fortune of being a late starter. We were created in 1994 and our computer systems were all acquired after that date and were all Year 2000 compliant when we acquired them.

We have reviewed within our organization some of the software applications we have and whether or not they are Y2K compliant, and we think we're in good shape. And now what we're doing is talking to some of our suppliers and people who we do business with to find out if they're addressing the problem as well.

But all in all, I think compared to some other organizations, we're very fortunate to have been recently created and not have some of the older systems and issues to deal with.

Mr. Gantefoer: — Thank you very much, Madam Chair.

The Chair: — Thank you. Questions from any other members? I just have a couple of questions.

In the *Partnership for Growth* . . . And I'm not trying to get into policy but I do recognize that the film industry and the hog industry are two that have been targeted as potential growth areas for the province, and also it seems that there's significant amount of funding through SOCO has been given to those two areas. Do these policies of Economic Development, they are working then with SOCO's decisions on where the monies will be lent or equity positions given to?

Mr. Douglas: — Not directly. The investments you see in front of you are a response to demand in the marketplace.

So these are the people that have come forward to us, that we've worked with, and found viable business projects in those sectors. So it wasn't a conscious effort to weigh to one sector or another particularly, other than to try and support the overall provincial economic development strategy and the six sectors that are in it. And we've done that since our inception. And as we've been out there doing business, this kind of a portfolio structure has emerged.

Now we do spend a little bit of time making sure that we balance our portfolio so that we don't get unduly exposed to one sector, and we haven't yet experienced that situation.

The Chair: — Is there any formula or criteria given? How is the decision made when money is given to a company, whether it's given out as loan or an equity position?

Mr. Douglas: — There's no formula for this kind of thing. It's a bit of an art and a science. It all starts with an assessment of the commercial viability of the business. That's the first priority. And then second, the role that we might play in financing that business. And then finally some of the economic development benefits. But it's very important to get the order right.

And so we assess the quality of the management that I spoke about, the financial structure of the business — does it have the strength to survive — and some of those issues, and then move on to issues around the terms of our investment and what kind of investment we can put into that business that will help it grow and survive, and then finally consider the economic development benefits.

The Chair: — I think, when I've been watching the documents that are sent out reporting, I think it was every three months and now it's every six months, is it?

Mr. Douglas: — There's no firm schedule. It's when we have a sufficient amount of activity to report is what it amounts to.

The Chair: — Oh, I see. Okay. From watching it over the years, I've noticed at least one and I'm wondering if there's more than one time when loans have been converted to equity.

Mr. Douglas: — I'm only aware of the one instance.

The Chair: — And when we talk about the film industry, there is a number of different films that have been . . . it's usually named by company and sometimes by film. Has most of the companies in Saskatchewan in the film industry been given some type of help through SOCO?

And I guess this is a follow-up to what Mr. Gantefoer was talking about, if one company is given help and not the other, it could be seen as an unfair advantage. So are you trying to make sure that everyone gets the same advantage?

Mr. Douglas: — It is, as Vi is mentioning there, very much a case by case decision on those kind of investments as it is with all of them. We are actively out there with our investment managers talking to potential candidates for investment and making them aware of what we have to offer.

Applications come in and then we assess them along the lines that I've already talked about. So accessibility is there for everybody in industry but that doesn't mean that everybody in industry is going to get the benefit of a SOCO investment. It has to be assessed on a case by case basis.

The Chair: — In looking at the different companies — and like I said it was either named by company or by film — in a number of cases the shareholders in the companies are the same. So is there any . . . so one person, one individual can receive funding through a number of different companies for different films?

Mr. Douglas: — Yes. For film projects, they often set up a special purpose company for that particular production. Now we've done some of that kind of investing. We also have done some direct investment in the production company itself and there's where you would see some overlap. I guess that's the best way to explain it.

The Chair: — Thank you.

Mr. Osika: — Thank you, Madam Chair, and Mr. Douglas. I just want to clarify a couple of things. The projects that Calgary, Vancouver, Toronto, those loans are based on the operations within Saskatchewan.

Mr. Douglas: — That's correct.

Mr. Osika: — Okay, I just wanted to clarify . . .

Mr. Douglas: — Under our legislation we are empowered to do business with companies in Saskatchewan or are proposing to do business in Saskatchewan. So some of those that you'll see are companies who we're working with to attract a certain amount of their activity to Saskatchewan using investment as a tool.

Mr. Osika: — Okay. The other . . . just to pick up on what Mr. Gantefoer had mentioned earlier, other government agencies, both federal and provincial that are involved in similar business that you're in, people that are investing in a business would they . . . do you have any way of knowing that they've gone to one of these other operations and been denied loans or assistance and then wind up on your doorstep? Is there that opportunity for . . .

Mr. Douglas: — It's on an informal basis. There's very much an informal network out there. So if a potential client is seeking funding elsewhere we would tend to know about it and we also ask them as part of the application process if they're doing so. And we talk amongst each other from time to time on who's

doing what.

Mr. Osika: — In your organization then you do not partner with the federal government for example in any of these projects.

Mr. Douglas: — Some of those companies that are listed in the SOCO report would have BDC (Business Development Corporation) money in them or other types of federal support. So there's the possibility that some of them are in fact clients of them as well.

Mr. Osika: — I see. Thank you.

Mr. Goohsen: — Yes. Mr. Douglas, you were talking about the long-term survival and the methods that you use to limit the exposure of SOCO by being sure that debt to equity ratios are proper.

I'm wondering, does the debt to equity ratio vary from enterprise to enterprise or from case to case? Or do you have a range of debt to equity that you work within for all of the clients that you deal with?

Mr. Douglas: — We tend to — there's again no hard and fast rules — but we tend to compare to industry standards in successful businesses in that sector. There are tables published of debt-equity ratios of people in the ag implement manufacturing business tend to be successful, and when we do our financial analysis or commercial credit analysis we look at that issue.

Mr. Goohsen: — I see you're invested in quite a lot of hogs, so let's use that as an example. And one that isn't of course might be something like used tire recycling which might come up some time in the near future. So what debt to equity ratios, just as an examples, would you be looking at say for a hog industry as compared to a recycling tire industry?

Mr. Douglas: — I can answer the first part of that quite easily. In the hog industry the range of debt equity is 45 to 55 more or less, so roughly half and half, debt and equity. Used tire recycling, we have looked at one project like that and ultimately didn't participate in it for commercial credit reasons.

In a start-up business in a new industry with markets that are difficult to access or to penetrate, you tend to look for a higher equity component to the business plan.

Mr. Goohsen: — So what you're saying is that if somebody wants to recycle old tires they're probably going to have to have most of their own cash.

Mr. Douglas: — We'd have to look at the project very carefully based on our analysis of that industry that we had done with another project.

Mr. Goohsen: — Well then that leads to the question, do environmental considerations and those types of things enter into the type of risks that you might take? And again I'll allude to recycling of tires because it's new on our horizon and we have to put them somewhere. If we're going to collect them, we have to have a place for them. Doesn't seem like a good idea

just to stack them up in somebody else's backyard. So if somebody comes along and says, well we'll take these off your hands by recycling but we've got no money, would that consideration for the environment enter into that process?

Mr. Douglas: — Yes, but only at the end stage under that category of economic development benefits or public policy objectives. It wouldn't be the primary reason for choosing to invest in a business. The net economic growth and the job creation would carry more weight in the particular sector that you're in.

You'll notice that we have participated in the used oil recycling facility. That loan worked out well and was paid back in full some time ago and we're certainly open to looking at other projects that have a positive impact on the environment.

And just as a sidebar to that, we also have as a condition of our investments that the investing companies have the appropriate environmental permits and so on in place to mitigate any potential negative impact on the environment.

Mr. Goohsen: — Would there be an example where another branch of government would say put up some of the money in order to get a project to go. For example again, I'll go back to environmental things and an entire recycling program where perhaps the Environment department or somebody might say, well we've got a need to do this so we'll put up 25 per cent of the cash or something like that. Has anything like that ever been done?

Mr. Douglas: — Not to my knowledge, other than in the petroleum technology research centre where the Western Economic Partnership Agreement, the federal-provincial agreement has committed a certain amount of capital to buy down the capital costs of the facility.

Mr. Goohsen: — So there is precedence already established. We wouldn't be breaking new ground if we were to suggest that something like that should be done?

Mr. Douglas: — I suppose not.

Mr. Goohsen: — Good. That's all my questions, thanks.

The Chair: — Further questions? We can move on to the recommendations. I believe the first one, on page 46, .10:

SOCO should improve the documentation of its review and approval procedures. SOCO should ensure these review procedures are communicated.

I believe when you were speaking, Mr. Douglas, you noted this was concurred, and you concur and complied with this?

Mr. Douglas: — Yes.

The Chair: — Everyone's in agreement?

On page 47, .18:

SOCO should ensure its annual report includes a comparison of planned results to actual results.

And that case, I believe, you said that was more of a matter of policy and you were waiting to hear with what . . .

Mr. Douglas: — Crown Corporations and CIC are doing.

Mr. Whitmore: — I guess in the light of that, Madam Chair, because it being a policy matter that I think the PAC (Public Accounts Committee) should refer that matter to the Crown Corporations Committee for their review.

The Chair: — I guess we have to recommend that the House refer it to . . .

Mr. Whitmore: — Okay, whatever the proper wording is required to do so.

The Chair: — Do you have a comment, Mr. Osika?

Mr. Osika: — No, I just wanted to clarify our referral to the CIC now about this particular issue. Does that have to be done in the form of a motion or is it . . .

Mr. Whitmore: — That's what I had moved, was a motion. Maybe that was unclear.

Mr. Osika: — Is that what you were putting forward?

Mr. Whitmore: — That's what I was putting forward but it had been corrected, the wording, after I had stated it.

The Chair: — So then basically what you're saying is our responsibility will be taken from this committee to CIC?

Mr. Whitmore: — I'll give you some wording then:

That the PAC note that this matter is a matter of policy and ask the Legislative Assembly request the Standing Committee on Crown Corporations to examine whether SOCO should ensure its annual report includes a comparison of planned to actual results.

Mr. Osika: — It should review whether it should or not?

Mr. Whitmore: — SOCO should ensure its annual report includes comparison of planned to actual results.

Mr. Osika: — Can we not in that motion not say whether or not it should, but suggest in more aggressive terms that yes, there should be a policy that should be implemented?

Mr. Whitmore: — I have no problem with that, to change it that:

We request the Standing Committee on Crown Corporations examine SOCO should ensure its annual report to include a comparison of planned to actual results.

I'm taking out the word whether.

The Chair: — But that we have to refer it to the House to ask Crown . . .

Mr. Whitmore: — Yes. That's what I said earlier in my

resolution.

The Chair: — Okay. We'll ask you to write it out then and then we can . . . To make sure to do it right, we'll just take a minute and make sure that it's written out. Depending on how fast he works, maybe 30 seconds.

Mr. Gantefoer: — I just get this sort of personal nervous feeling when we shuffle stuff off that it just disappears somewhere. The Crown Corporations Committee has their own priorities, their own issues that they want to deal with and you sometimes think it just ends up more often than not, not automatically, it just goes missing. You know?

Mr. Shillington: — That's another one that's at risk.

Mr. Whitmore: — My apologies to the committee for not having that written out properly.

The Chair: — So we have a motion before us:

That the Public Accounts Committee notes that this is a matter of policy and recommends that the Legislative Assembly ask the standing committee on Crowns that SOCO should ensure its annual report includes a comparison of planned to actual results.

This is moved by Mr. Whitmore. Is agreeance? Anybody opposed? It's carried.

So is this — this is just my question — is this a policy? Is this a policy that you do . . . you wouldn't do that.

Page 47.21

SOCO should:

publish a complete list of persons who received money from them and the amounts the persons received following the Public Accounts Committee's current minimum disclosure amounts; or

discuss different public disclosure requirements with the Public Accounts Committee or, if the Assembly so directs, with the Crown Corporations Committee.

I don't believe I heard what SOCO was saying when it came to this.

Mr. Douglas: — A similar kind of issue to the previous point in which you said this is a matter of policy that I think is appropriately dealt with with our shareholder or holding company, CIC.

The Chair: — Does anybody have a suggestion?

Mr. Whitmore: — Madam Chair, we again, as the discussion was and the question of policy and where we go in terms of that muddy world between policy and what has gone on before, I guess in an ideal world I would like to see a spirit of co-operation develop in such areas not just as Crown but in other Crowns where the Provincial Auditor could work more closely together with those Crowns in determining a disclosure

procedure, particularly in the area of SOCO.

With any disclosure procedure I think it has to recognize the sensitive business nature of such transactions. We have to recognize that too between that of the public and the private sector as we see other Crowns like SaskTel and SaskPower entering into a competitive world where disclosure becomes difficult at times, but at the same time has to recognize the minimum requirements of our PAC, the recommendations.

It's a difficult one to deal with. Personally I don't want to see it all disappear as a policy item but I'm not quite sure in terms of how our committee operates that our hands are somewhat tied in an issue like this. I guess I would say at this time that we would simply forward it on as a matter of policy. But I still feel that there has to be a spirit by which we deal with these business transactions on an ongoing basis. When we talk about evolution of auditing and those kind of changes, I think we have to deal with that too in terms of business transactions.

And so as I ramble on, I'm not quite sure the direction that we should take as other committee members have talked about it too earlier. But I guess at this time I would simply say that on the area of this that we simply request that this is a matter of policy and we forward it on, recommend to the Legislative Assembly, and forward it on to the Crown Corporations Committee at this time.

Mr. Shillington: — Yes. Regrettably — and I emphasize the word regrettably — I think this falls squarely within the jurisdiction of the Crown Corporations Committee as a matter of policy. That having been said, let me express a couple of thoughts, one of which I expressed yesterday with respect to WCB (Workers' Compensation Board).

Claims by the Public Service for confidentiality should be very critically examined to ensure that in fact it is the public we are protecting. I'm in no sense alleging this of the very able staff of SOCO. I'm going to make a comment on their achievements in a moment. But too often these claims for confidentiality are made not so much to protect the public as to protect the government from scrutiny.

And so in examining it, I would urge the Crown Corporations Committee and the Office of the Provincial Auditor and the staff of SOCO to examine such claims very, very critically and restrict so far as it's . . . so far as can be done the area which cannot be disclosed. And I believe there is some.

I think this . . . I have some passing acquaintance with the work of SOCO from a previous lifetime. And I think their work could stand public scrutiny and in fact would reflect well on them and on the government in office, and stand in very sharp contrast to the activities of SEDCO (Saskatchewan Economic Development Corporation) in its later years, in the '80s. So I'm in favour of both of these. I do think they should go to Crown Corporations.

But perhaps . . . This is not part of the motion, Madam Chair. I'm sorry. This is not part of the motion. It might be worth your . . . I think . . . I have been told we've received assurance from the Chair of Crown Corporations that these matters might be dealt with. But it doesn't have to be part of a motion.

But it might be worth your while to check with the Chair of Crown Corporations in due course to see what disposition was made of these matters and report back to us. That may give us some assurance or some reason not to be assured that these matters are being dealt with.

So I just leave that suggestion with you. I support the comments made by Grant Whitmore.

The Chair: — Mr. Douglas, I just wanted to make one comment before you speak. When you were speaking, it seemed to me that you had mentioned that it was the administrative part because you do now give information on all the investments and that type of thing. It's the administration part.

Mr. Douglas: — The Provincial Auditor observed it's only our contractual expenses and our payables and overhead admin expenditures that aren't disclosed.

The Chair: — That aren't at this time disclosed. And that part of it SOCO is . . . That part is paid out of general revenue funds. The administration part of SOCO is through the general revenue funds, right?

Mr. Douglas: — There's a contribution to our overhead and admin from the General Revenue Fund. It doesn't fully cover those costs.

The Chair: — So that's the . . . Okay.

Mr. Douglas: — Part of our operations are funded by net revenue as well.

The Chair: — So I was asking you questions and now you go ahead and have the floor.

Mr. Douglas: — If you'll permit me just an observation from the officials' point of view on this topic. We have to walk a fine line between freedom of information and protection of privacy, and particularly in relation to our investee clients and their business affairs. And it's a delicate balance, and we struggle with it from time to time, but we have I think from the outset tried to be very committed to transparency and accountability.

And so what we have decided is the balance that we can live with is the notion that as a condition of investment or receiving investment our clients agree to allow us to publicize certain basic details about our investment, and that when we're finished with that client either by way of being paid out in full or other disposition that we disclose what's happened with that client.

So we're quite prepared to disclose at the start and disclose at the end but we don't feel comfortable in terms of protection of client confidentiality and their commercial interest to talk much about the details in between times.

The Chair: — Then what was brought up I think in the Provincial Auditor's recommendation here is not so much more information on the clients, it's more information on the administration part of it. And I guess I should direct that question to the Provincial Auditor. What you're really requesting is more openness when it comes to the administration part?

Mr. Strelloff: — Madam Chair, members, yes. In our report we mention that, as Mr. Douglas said, they do disclose the nature of their business transactions. So that's the equity investments, the loans and guarantees which normally when you hear before this committee is the sensitive part but, as Mr. Douglas said, that's part of their lending agreements. So what's missing is more of the administrative, the basic administrative side.

Ms. Stanger: — Could you give us an example of what you mean, Mr. Strelloff, by administration then?

Mr. Strelloff: — Well the salaries that are paid to people, the contracts, the consulting work, the basic supplies and services that an organization purchases to function. That type of . . .

Ms. Stanger: — Thank you.

Mr. Thomson: — Well I guess my question, Mr. Douglas, then is why wouldn't we disclose that? Every other government agency does. Why would we allow SOCO not to.

Mr. Douglas: — Well Crown corporations don't and line departments do I think is the rough split that's been used up till this point in time. And I understand the matter is under consideration by the Crown Corporations Committee, and Crown Investments Corporation will be stating the government's view on that side. Not for me to say.

Mr. Thomson: — Okay.

Mr. Goohsen: — I'm just wondering if the auditor feels that his request, after listening to the debate here, is something that would cause undue hardship for anybody in terms of business practices and revealing anything that would be controversial or whatever?

Mr. Shillington: — I missed your comments. I'm sorry.

Mr. Goohsen: — I'm asking the auditor if he would comment on whether, after listening to this discussion, his recommendation would still be the same that he feels that this disclosure is something that is relevant to tracking the accountability of the corporation which the auditor does? Or if there'd be, in his view now having listened to this discussion, any possibility that he would change his recommendation because we might be infringing on some of the business principles that have to be protected?

Mr. Strelloff: — Madam Chair, members, no, my recommendation still stands. I always think that it should be you that decides whether something is sensitive or not and should not be disclosed. And that if a corporation or a Treasury Board corporation or a department would come forward and say, well here's where we spend our money, here's where we . . . what kind of loans and investments that we have outstanding, and here are five transactions that we don't think should be disclosed as part of the public record, and then you would hear the reasons for that and you would decide. In general, I still think that's the right practice.

The Chair: — I have one more comment. I guess the way that this differs a little bit from other just Crown corporations is because although SOCO isn't really a line department, it still

does get administration funds directly out of general revenue funds — I think around \$4 million or \$4.5 million. So that amount of money is directly from the public purse and so that might have more of an impact on why there should be some accountability or more openness for this than maybe some of the other Crown corporations.

Mr. Douglas: — Just an observation there. There are other mechanisms that provide that accountability and transparency around our overhead and admin expenses. We appear before the Committee of Finance annually in the legislature to talk about our budget and members vote on our budget in the legislature and have an opportunity to discuss it and criticize it at that time.

The Chair: — If, during estimates, somebody asked a question — How much do you spend on lights? How much do you spend on contracts? Who do you give the contract to? — would that be open?

Mr. Douglas: — Two out of three, I think, would be the answer.

Mr. Shillington: — Which two?

Mr. Douglas: — We wouldn't necessarily disclose the particular details of who received money for lighting or power or utility services, whatever.

The Chair: — SaskTel instead of Sprint or something.

Mr. Douglas: — It's a judgment call. It's a judgment call in each case, yes.

The Chair: — We have before us the motion that:

The Public Accounts Committee notes that this is a matter of policy and recommends that the Legislative Assembly requests the Crown Corporations Committee to examine whether SOCO should publish a complete list of persons who received money from them and the amounts the persons received.

Question? Agreement?

Mr. Osika: — Can there be an addendum or can we have some assurance that there is some immediate action taken with respect to this recommendation by the Crown Corporations?

The Chair: — Okay. First of all I want to deal with that. But, Mr. Osika, before I get . . . Do you want to add to this motion or do you want to make a separate motion?

Mr. Koenker: — Further to the comments of Mr. Osika, I'd like to indicate that we're going to move just such a motion to ensure that this gets dealt with.

The Chair: — Should we vote on this motion then?

A Member: — Question.

The Chair: — Question. Agreed? Who is in agreement with this motion?

A Member: — Agreed.

The Chair: — Okay. You have a second motion.

Mr. Koenker: — I'd like to move:

That the Chair of the Public Accounts Committee meet with the Chair of the Crown Corporations Committee with respect to the auditor's recommendation, paragraph .21, page 47, to determine the disposition by the Crown Corporations Committee.

The Chair: — We have this motion in front of us. Is there any comments before I call the question?

Mr. Thomson: — I just want to remind committee members we should not be too hard on Crown Corporations Committee. Its work was hijacked this spring, as you know, with a series of public investigations, which have thrown it dramatically off schedule. And so I think that our concern, while perhaps legitimate, should not be overstated.

If we had pursued different directions this spring, I assume Crown Corporations Committee would have dealt with its business. This committee instead would have been tied up in hearings. So I don't think we should feign too much disdain on the agenda-setting of the Crown Corporations Committee.

The Chair: — Any other comments before we call the question? Does anybody want this motion read again? Okay. Question. Agreed? Is anybody opposed to this? Okay, then this is carried.

I thank the officials from SOCO for attending this morning and thank you for your answers to the questions. We appreciate it. And members, we can recess a few minutes early to be back here at 10:30.

The committee recessed for a period of time.

Public Hearing: Saskatchewan Government Insurance

The Chair: — Welcome. Mr. Fogg, I ask you to introduce the officials with you this morning.

Mr. Fogg: — Yes. I'm Larry Fogg, president of SGI (Saskatchewan Government Insurance) and with me is John Dobie. He's vice-president of finance and administration and Earl Cameron is the vice-president of claims.

The Chair: — Welcome to you, and I'll ask the auditor to introduce the officials he has with him for your benefit.

Mr. Strelioff: — With me is Bashar Ahmad. He leads our work on all the different insurance, pensions, and gaming areas that we get involved in and he's going to provide the overview of our reports to you today. Also with us is Jamie Wilson. Jamie is a partner with KPMG and is the partner in charge of the SGI audit.

The Chair: — Thank you. Before we go any further, I'm just going to read to the witnesses the testimony of witnesses appearing before the committee.

Witnesses should be aware that when appearing before a legislative committee your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as a subject of civil action.

In addition, I wish to advise you that you are protected by section 13 of the Canadian Charter of Rights and Freedoms which provides that:

A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put by the committee. And where a member of the committee requests information, I ask that 15 copies be given to the committee Clerk, who will distribute the document and record it as a tabled document.

And please address your remarks to the Chair.

And we'll start by asking the auditor for an overview of the report that we're looking at this morning.

Mr. Strelloff: — Thank you. Bashar, could you take it over please.

Mr. Ahmad: — Thank you, Wayne. Good morning, Madam Chair and members of the committee. We will be doing chapter 8 of our *1997 Fall Report, Volume 2* and chapter 7 of spring report, 1998 relating to Saskatchewan Government Insurance.

My first presentation will be chapter 8 of our *1997 Fall Report*.

Madam Chair, we work with KPMG, as SGI and SAF's (Saskatchewan Auto Fund) appointed auditor, to form our opinion.

We found SGI and SAF's financial statements for the year ended December 31, 1996 were reliable. SGI had adequate rules and procedures to safeguard and control its assets and assets of SAF, the Saskatchewan Auto Fund, and SGI complied with authorities governing its activities and activities of SAF. We also did an in-depth audit of SGI's fraud management system and practices.

Madam Chair, SGI views its fraud management system important because significant effect fraudulent claims have on SGI's premium and coverage. Managing fraudulent claims is a key area that SGI must manage well.

Several years ago, a Canadian Coalition Against Insurance Fraud, estimated the cost of insurance fraud in Canada to be around 1.3 million, or between 10 to 15 per cent of premiums written. A more recent study indicates the rate is declining.

SGI asked us to do this audit and we commend SGI for taking this initiative ensuring its system and practices for managing this risk withstands public scrutiny. The objective of our audit was to determine if SGI has adequate rules and procedures to manage effectively the risk of losses due to fraudulent claims.

For this part of the audit, we developed criteria after reviewing relevant literature on insurance fraud management. We discussed this criteria with management and obtained their agreement that the criteria is reasonable and obtainable. We list our criteria in paragraph 15 on page 69 of our report.

We did our work in accordance with generally accepted auditing standard. KPMG, the appointed auditor, did much of the work for us.

In paragraph 18, we conclude:

Overall SGI's rules and procedures to manage effectively the risk of losses due to fraudulent claims are adequate.

Madam Chair, members of the committee, adequate rules and procedure for managing losses due to fraudulent claims are important because they enable SGI to provide higher coverage at lower premium. For this reason SGI needs to continuously improve its fraud management practices. Our recommendation in paragraph 20 to 23 are intended to help SGI to do so.

In our recommendation we ask that the board should approve management's external communications study. We note the board approved comprehensive fraud policy documenting SGI's culture and attitude toward external fraudulent claims and its policy dealing with conduct and ethics of its employees. SGI told us they will inform employees, brokers, and the public of its new policy in 1997.

We also say that management should provide the board better information to monitor SGI's rules and procedure. In 1996, the board did not receive the regular report from the management on statistics relating to fraudulent claims and investigation or on the effectiveness of the special investigation unit, SIU. After December 1996, management provided a brief report to the board about SIU's recent activities and a summary of the result after this investigation.

We think management should provide the board information about the fraudulent claims, claims risk for each type of policy sold by SGI, and its plans to control those risks. Also, the board should ask its internal auditor to provide regular assurance on the adequacy of operation of management plan.

We also recommend that SGI needs rules and procedures to ensure the staff leave clear evidence of work they have done to identify and assess the risk. We note that SGI has established rules and procedures to assess the risk of fraudulent claims occurring. However, SGI does not require its underwriting staff to leave clear evidence of what warning sign they identify, what follow-up procedure they did, and what conclusion they made. We think SGI needs to document this information for future reference.

We also say in our recommendation that SGI needs written rules and procedures for claims investigation by a special investigations unit. We note that SGI relies on the law enforcement experience and training of its SIU staff to appropriately investigate claims. We think SGI needs to establish written rules and procedures for investigation of claims. This will ensure all claim files are investigated consistently, clearly recording the work done, conclusion made,

and action taken.

We plan to follow up on our recommendation during our 1998 audit. We will report our finding in our future report. This concludes my comment on chapters on the *1997 Fall Report*.

I will now move on to chapter 7 of our *Spring Report*.

Again for our December '97 we worked with KPMG, SGI's appointed auditor. We found the financial statement of SGI, SGI CANADA Insurance Services Ltd., that's SCISL, and SAF, the Saskatchewan Auto Fund, for the year ended December 31, 1997 are reliable.

SGI had adequate rules and procedures to safeguard and control its assets and assets of SAF except for the matter we quote in paragraphs .09 to .15. SCISL had adequate rules and procedures to safeguard and control its assets. SGI complied with authority governing its activities and activities of SAF. SCISL complied with authorities governing its activities except for the matters reported in paragraphs .16 to .24.

In paragraphs .25 to .35 we bring certain other matters to your attention. In paragraphs .09 to .15, you'll note SGI needs to follow its rules and procedures to ensure its recorded bank balance is reconciled to the banks' record on a timely basis.

We note SGI began to use a new computer system. The new system required SGI to reconcile its recorded balances to the banks' records manually. SGI manually reconciled all its recorded bank balances to the banks' record except for two bank accounts. These two bank accounts were not reconciled during the period from April to December, 1997. These two bank accounts relate to lost draft and other claims payment, and they really have a lot of money going through those accounts.

SGI compared cheques cashed by its banks to the SGI's . . . that SGI issued on those bank accounts. All cheques charged to these bank accounts were proper. Management told us that it continues its effort to ensure all of its bank accounts are fully reconciled in a timely manner.

In paragraph .16 to .24 we recommend SGI should obtain cabinet approval before its subsidiary purchase shares in another corporation.

During 1997, SCISL — a subsidiary of SGI — acquired common shares of a hail insurance company. SCISL directly and indirectly controls 36 per cent of this company. Under the Crown corporation Act, SGI is required to obtain cabinet approval before it can purchase a share of the company. This approval ensures such purchases are made public. Crown Investments Corporation obtains the necessary cabinet approval.

SGI asked CIC to obtain cabinet approval to buy these shares. CIC told SGI, because SCISL bought shares, SGI does not need cabinet approval. Therefore SGI did not obtain cabinet approval.

Madam Chair, members of the committee, we understand CIC has now decided that all subsidiary corporations of Crown corporation need cabinet approval before they can acquire

shares in another company.

In paragraph .25 to .35, we bring to your attention two matters relating to public accountability. The first recommendation relates to the comparison of planned performance and actual result. SGI, SAF, and SCISL do not include a comparison of planned performance to actual result in their annual report.

We believe to assess the performance of an entity, it is essential to know what the entity planned to do and compare to what it did. We think a clear and meaningful comparison of planned performance to actual result will help the public and MLA (Member of the Legislative Assembly) understand and assess the performance of SGI, SAF, and SCISL. This will also provide SGI, SAF, and SCISL an opportunity to explain how the current environment influenced their performance.

The second recommendation relates to providing the Assembly a list of persons who receive public money and the amount they received all discussing different public disclosure requirement with your committee.

The Standing Committee on Public Accounts has recommended that Crown corporations should have the same public reporting requirements as do the government departments unless otherwise stated in the mandate of the corporation. The PAC has specified required details of disclosure for a government agency. The PAC has in the past recommended different disclosure for certain kinds of payment that PAC thinks it is appropriate and still achieve the objective.

Madam Chair, members of the committee, SAF — that's the auto fund — is different than SGI itself. SGI falls under the Crown Corporations corporation, while SAF is a Treasury Board organization. So there may be different requirements.

That concludes my comment on these two chapters. Thank you.

Mr. Strelloff: — Thank you, Bashar. Madam Chair, Chairs.

The Chair: — Thank you, Bashar. Mr. Fogg, I'd ask if you have comments on any of these recommendations or on this overview.

Mr. Fogg: — Well, Madam Chair, I guess we could start with the first one on the recommendations on fraud. And fraud is a difficult problem for insurance companies at the best of times. Clearly by its very nature insurance is open to fraud — it's a business of utmost good faith. And we have to try and walk a line between being overzealous and chasing down every case of fraud and doing extensive surveillance of people. On one hand we don't want to go that far; on the other hand we realize that we have to do some work. So there is a delicate balance there. As the Provincial Auditor indicated we asked him to come in and look at our fraud procedures, and they had made some recommendations.

I will make a comment on the first one, .20: the SGI Board should approve management's external communications strategy. We haven't had our board approve that. We can do that, and perhaps we will do that soon.

I want to make it clear though that we do a lot of external

communications. And I think you'll see in both of our annual reports we talk about fraud. In our internal publications — we have a number of them — we discuss fraud and the problems with fraud.

At our 1998 brokers' convention we had the people from the Canadian Coalition Against Fraud speak to our brokers and our staff. They made a presentation. And we put it in at work all the time.

So we quite an extensive job of communicating it, although I agree with the auditor that we have not had the board approve a formal communication strategy. And we can do that. We now have written rules and procedures for our special investigation unit.

The point about the underwriting staff leaving clear evidence, that is more difficult, more difficult for us to proceed with. The difficulty we have here is that when we get applications on a home, for example, we always — or virtually always — check on the past claims history. There's a computer program out that all the industry uses called HITS (Habitational Insurance Tracking System). It produces information on anybody who had insurance in Saskatchewan and their past history, whether . . . how many claims they've had, whether there were any fraudulent claims.

So we gather all that information. It's just part of our overall risk assessment. If we're doing restaurants, for example, we would get financial statements for any new risk that we take on.

And I think you have to remember in Saskatchewan, unlike some perhaps national companies, virtually every commercial risk in this province we either underwrite or have underwritten at one time. We know these risks very well. And we may not have to do the same extensive work as an insurer from perhaps another province that doesn't have the number of staff that we do.

So we think overall we've got a pretty good handle on insurance fraud.

The Chair: — Okay. Do you have comments on any of the rest of it? Thank you.

Mr. Shillington: — Before we go to the others could I ask a question? I think the auditor's recommendation if I understand it — and if not I would invite the auditor to comment — but I think the auditor's recommendation was concerned not so much with the steps you take to avoid fraud, but whether or not those matters at all have been discussed with and approved by the board.

And I'd ask you to comment on the management's relationship with the board. Not so much . . . I don't think the auditor was accusing you of being soft on fraud. I can't imagine an insurance company doing that. But I think he was more concerned about your relationship with the board.

Mr. Fogg: — We do take information to the board on an annual basis on our investigations, on our policies. The auditor is correct. Prior to his audit we perhaps didn't take as much to the board as we should, but now we take information to the board

regularly.

Mr. Shillington: — Thank you, Madam Chair.

Mr. Gantefoer: — Thank you, Madam Chair. Welcome, Mr. Fogg, and officials. I wonder if for the committee you would . . . you spoke briefly about your risk management in terms of what steps you take to try to ascertain I guess potential exposure to fraud before you write up a policy. I wonder if you would outline for the committee for our knowledge what the process is, how it starts. You know, what the process is, how do you flag potential fraud — you know, what steps do you take in order to investigate a fraudulent claim and take it through its worse case scenario step by step if you would?

Mr. Fogg: — First of all we would look at the risk itself, and we would determine whether or not there would be any problem with any fraudulent activities in that individual, in its history. Fraud is just one part of our overall assessment as we don't have separate sort of section for fraud in our manuals. It's just part of the assessment.

In the underwriting portion we would look at the risk and reject the risk, and part of it may be moral hazard, part of it may be fraud, part of it may be just the kind of risk we don't want. Where we really . . . our real investigation in fraud really takes place after the fact and in our claims procedures. I don't know, Earl, maybe you want to talk a bit about that.

Mr. Cameron: — I can give you a brief overview. When the adjuster receives the claim — and we'll take a normal one, a fire claim for example, the most common — he'll get a detailed statement and he'll check that statement after he's taken it against a set of indicators. Was the policy just new for example? Was the article insured for much more than its real value? All sorts of what we call red flag indicators.

Those indicators, one alone doesn't mean it's a fraudulent claim but if there's several of them it may raise that there's a suspicion of a fraudulent claim. We also work very closely with the police force, the fire commissioner's office, those sorts of things.

And when we look at all that information, the adjuster then will make an assumption on that information, take it to his manager and say, I think this file needs an in-depth investigation. And then it will be passed on to someone more senior or in a lot of cases of fire, to one of our SIU investigators that would actually do a complete fire investigation and try . . .

What we're trying to do in the fires is cause and origin first to find out how the fire started, why it started. And we have some experts, experts that are well-known in North America that actually work for us. So when that information is developed then the further follow-up comes, you know, was it or wasn't it. In lots of cases the investigator can clear the fire very quickly by finding out what the cause and origin is so that we can go on to paying a legitimate claim. And some of them of course it turns out the other way.

The investigator completes his investigation. He writes up a report. He writes a conclusion to the report, no recommendation about whether coverage should be paid or denied and it goes

back and some senior claims officials including the branch manager look at that and then determine whether the claim is paid or denied.

Somewhere in between there, on part of the investigation, there will be a lawyer involved from our legal department at some points depending on what type of fraud it is.

Mr. Gantefoer: — In an example that you give of fire, would that represent the biggest area of potential fraud investigation — fire claims?

Mr. Cameron: — Certainly dollars wise it probably is; numbers of claims, probably not. The potential for fraud — break and enters have a high potential. People will have their home broken into and claim equipment that they do not have or articles they do not have.

Car stereos are a very high area, high risk of fraud. The upgrading of that. There's all sorts. Staged accidents where there's an injury now. Someone's claiming an injury that really wasn't an accident or actually two people get together and collide their cars and claim that they were injured.

Mr. Gantefoer: — Did I hear that two people actually collide their cars and claim injury?

Mr. Cameron: — We've had a couple of those in Saskatchewan. It's very big in places like Vancouver and Toronto. It's very organized. And it'll involve sometimes a chiropractor, a doctor, perhaps whoever, so that the claim goes through.

Mr. Whitmore: — I'll meet you in the parking lot.

Mr. Gantefoer: — You will not. I don't trust you to give a gentle bump.

One of the areas, and you refer to it a bit in some of these personal injury claims, is that an area that becomes difficult to investigate because, you know, I think of something like whiplash or whatever. You know, my neck hurts like crazy, and how do you investigate if that claim is fraudulent or legitimate?

Mr. Cameron: — Usually those types of claims, what's happened there is if someone says, I have a sore neck, we're certainly not going to argue with them whether they have a sore neck or not. I mean the doctor said, they're complaining of a sore neck. What usually will involve there is if a person says, I can't do certain activities, I can't go to work any more.

So we may, in some circumstances, check to make sure that that person really is not doing what they say they can't do, and quite often we'll find someone who says they can't go to work is out building houses or playing hockey or doing all sorts of things.

Now it isn't whether they have the sore neck or not, it's just that they've said I'm unable to work and in fact they are working.

Mr. Gantefoer: — Do you use, like in those kinds of instances, do you use your own in-house people, or do you hire or contract other investigators, or how does that work?

Mr. Cameron: — If we're investigating and we're taking statements, we use our own in-house people. If we're asking someone to be surveilled or what they call an activity check to see whether they actually are active, we use outside contractors.

Mr. Gantefoer: — Does that amount to a significant expenditure or is . . . like I'm trying to get a sense of . . . I think the auditor said there was 10 or 15 per cent of premiums or something Canada wide. I wasn't sure what that was, but it sounds like it potentially is a fair bit of money.

Mr. Cameron: — It could be if that 10 or 15 is a true figure. I don't believe that that's a true figure in Saskatchewan because of how SGI operates. Because we have a compulsory plan. Because our brokers and our claim centres are regional, we have a better knowledge of our customers.

Mr. Gantefoer: — Do you have a percentage that would be applicable to our situation that would use the same measurement that was quoted?

Mr. Cameron: — Yes, there's no way of knowing because, if you knew that was a fraudulent claim, you'd be investigating it. So those ones in there, when they did their survey what they were saying, they took 100 files from each company — not from SGI by the way — and they looked at them and they said, well here's a chance of fraud, so that counted as a potential.

And there's always a chance of fraud on a lot of claims. I mean someone says they stole 100 CDs (compact disc) out of your home, or claim that they stole 100 CDs, and there isn't any verification that you really owned 100, then there's a potential there for fraud. Maybe you only owned 85. So that's how they come up with some of those indicators. Whether it's right or wrong, I guess it really doesn't matter; it's in that range somewhere probably. Some of these insurance companies that they look at also when they use that did not have SIU departments.

Mr. Gantefoer: — I guess if you catch someone who says he can't work shingling a roof, it's pretty obvious that it's a clear violation and a clear fraud. But I suspect there's also more grey areas. What avenues of protection does the insuree have if they're accused of fraud, or how does that process, is there an appeal process? You know if someone is investigated and you find in your best judgment that you believe that there is a case to be made for that person fraudulently getting benefits, but the individual disagrees.

Mr. Cameron: — We have those all the time. If it's an injury claim, I mean they can appeal the decision that we've cut them off benefits.

Mr. Gantefoer: — How does that appeal system work? I mean what are the . . .

Mr. Cameron: — There's an internal mechanism where it's reviewed by senior people; there's a mediation that they can go to or else they can go to Queen's Bench court.

Mr. Gantefoer: — For some people that might be difficult. And I'm thinking in terms of there is some similarity in my mind between what you're doing and what Workers'

Compensation, for example, would be doing. And we had Workers' Compensation visiting with us this week and they have a very defined process of appeal that there's a first step, a second step, and I believe a third step that escalates through the process. And I guess I'm looking for something similar and that doesn't get to Queen's Bench court. And I think that there might be a lot of individuals that that Queen's Bench court thing for practical, financial, whatever purposes is a pretty high standard or pretty high bar to reach.

Mr. Cameron: — The present legislation calls, in the case of SGI, for that three-step approach — the internal review, mediation, and Queen's Bench court.

Mr. Gantefoer: — Do you in this regard have people like the Workers' Advocate, Ombudsman's office, or things of that nature that would represent clients to this appeal process, or would . . .

Mr. Cameron: — No, we don't have an internal . . .

Mr. Gantefoer: — So you only have the internal system. In terms of the mediation, is there any external . . . I guess what I'm nervous about here and what you're saying, is it sounds like it's closed-house appeal system, that the fairness may be there, but the appearance of fairness might be suspect by individuals about saying well, this is sort of like a kangaroo court. I mean the people that are judging the appeal are the same people that potentially have to pay out the claim. Is this really fair and impartial?

Mr. Fogg: — I think it's fair to say that when we brought in the legislation we believed this would work. And I think we agree that this is not working the way we had hoped it would work.

There is a mandatory review of the PIPP (personal injury protection plan) legislation. A committee has to be established sometime in '99 and they will do hearings and I suspect this is one of the areas they will look at because I think from management's point of view and perhaps from the board's point of view, we agree it's not what it should be, the review process . . . the appeal process.

Mr. Gantefoer: — So having said that and this review is coming up, is management formulating some suggestions for the review process that might establish a better appeal process?

Mr. Fogg: — Well I think we would look at Manitoba who has a very similar system to Saskatchewan and Quebec and their appeal processes. Manitoba has an independent review panel, I believe — tribunal — that would look at these. There's a fair amount of cost to that but I think something like that would be fairer for the injured party.

Mr. Gantefoer: — Thank you. In terms of I guess risk management, you mention that you have on file or on file the potential of reviewing an applicant and their past history for a property or several properties or whatever. Is that generated from your own records or is there inter-company co-operation in terms of background information?

Mr. Fogg: — On habitational products, home products and tenant products — that type of thing — there's a database that

all companies feed their information into and then you can extract it once someone applies for insurance.

Mr. Gantefoer: — So it's not specific to your company at all. It could be shared between companies who underwrite home properties.

Mr. Fogg: — No, it's across Canada. It's a recent product that we've used. Up until then we would write to the . . . the insured would tell us I was insured with X company, we write to them and ask them about their record, and they would tell us. Now it's all on a computer system, yes.

Mr. Gantefoer: — How far . . . what is, I don't know, maybe there is no end or beginning to it, but is there a rolling record that you know that someone has had a claim for fire or break and enter or whatever, and does that sort of hang over their head forever? Or is there a rolling you know time that after which you sort of say, well that's 10 years ago or five years ago and it doesn't?

Mr. Fogg: — Each company would handle that differently. Certainly when you write habitational products you're expecting some claims and that's the very nature of it. You make certain judgments on the risk by looking at the claims history, and if there's been a number of break and enters for example, you may say to the insurer, well you know this is not acceptable, you've got to take some action, you've got to put on deadbolts or put up perimeter lighting.

And if it continues, then you might say, well we're insisting upon a monitored alarm system. And at some point at time, if nothing was done, you simply . . . SGI CANADA and another insurance company would say, well we just can't provide theft coverage anymore.

Mr. Gantefoer: — What happens to, and let's use a community neighbourhood where there is a, you know, a higher incidence of break and enters or vandalism or those kinds of things that really are out of the control of the property owner, that community situations or standards are such that this becomes temporarily perhaps but certainly an area where there is repetitive claims. How does that work in terms of the property owner?

You know, you kind of wonder if the person's gotten their house broken once a week and he may have the lights and some of these things that you indicate are reasonable but does that, does it get to the point where the person should be standing out in the back alley with a big stick instead of making a claim?

Mr. Fogg: — It could be. Usually we go as far as to say, you must install a monitored alarm system. And that works fairly well. Not because it necessarily prevents the break-in but the person who is, the criminal will see that they have a monitored alarm system and break into somebody else's house.

Mr. Gantefoer: — But does that just pass the problem down to another claim point for you?

Mr. Fogg: — Unfortunately yes, because these people who are doing break and enters, they are going to look for the most convenient and easiest home to break into to. And the ones with

alarm systems and lights and deadbolts and that type of thing or dogs or whatever they may have, it makes it more difficult for the criminal. But if they wanted to break in there, yes they could.

Mr. Gantefoer: — How does that affect the individual's claim or premium situation if in events of that nature where they've taken reasonable or all the requirements that you've made for deadbolts or these sorts of issues, and they have repetitive claims that are beyond their control?

Mr. Fogg: — If they have a number of claims . . . whether it's beyond their control, many claims are beyond their control. Hail things would be beyond their control or wind claims or even fire claims. Most claims are beyond their control.

I'm speaking for SGI CANADA, but this applies to most insurance companies as well. They would lose their claims-free discount.

At some point in time then there may be some surcharges put on and ultimately we would start reducing the coverage.

Mr. Gantefoer: — But doesn't that policy have the potential at least of encouraging individuals to take more dramatic action than they should if they're in an area that is subject to repetitive claims?

Mr. Fogg: — Although there's a lot of break and enters in Regina — I think it's number two, Earl, number one — we haven't had . . . we as a company, we haven't gone to the extent of cutting many people off, of removing their theft coverage if they've taken steps that we've asked them to take. And I can't think of any. There may be one or two but I can't think of any. It's not . . . usually if they'll take the proper steps it'll reduce the amount of claims.

They may have lost their claims-free discount, we may have increased the deductible, but we would seldom leave them without any kind of coverage at all.

Mr. Gantefoer: — And you hope that the problem moves on to a different underwriter.

Mr. Fogg: — Unfortunately that seems to be what happens. Somebody's got to pay for these claims, there's no doubt about it. You can try and pass it on to all of the insureds but that won't work because there's a competitive market and everybody's looking to insure the good risks. So unfortunately the insurance industry demands that in fact the higher risk individuals pay higher rates or receive less coverage.

Mr. Gantefoer: — Thank you. I'd like to turn to another area just to get an update a bit and that's the no-fault experience and to ask you for an update about how you feel the program is operating.

Mr. Fogg: — I'll give it a bit of an update and then Earl, who's more familiar with it than I, can talk about it.

We think and we believe that the personal injury protection plan is one of the most comprehensive injury protection plans in Canada. We have an average of, I think, about 6,500 people

injured a year. We don't have many complaints about the program and the way it operates. And I know there's a lot of high-profile complaints against the program. And I guess it's something you're simply going to have when people are receiving benefits and whatever reason the medical evidence would indicate they should be cut off and we cut off their benefits.

But overall we think that the program provides far better protection than almost anywhere else in Canada. We have far better rehabilitation facilities in the province. We put an average of about twelve and a half million dollars — SGI does — into the health care system every year. There's somewhere in the vicinity of 400 new jobs created in rehab centres across the province.

And so we believe that people are being rehabilitated much faster than there was under the old tort system. There's a major study being done by the University of Saskatchewan and the results will be released shortly — probably the most comprehensive study in the world — as to whether people have recovered better under the PIPP process or under the tort system. And I think that's really where we believe the money should be directed.

Mr. Gantefoer: — In assessing the program, I guess from an insurance point of view it's still relatively new, do you update and revisit the benefits and are they adequate on an actuarial basis from a claimant that has a disability and things of that nature that you know that . . . Is there a process of reviewing the levels of benefit that have been established initially to make sure that on an actuarial basis that they're going to be adequate on a go-forward timeline?

Mr. Fogg: — The benefits, as you're probably aware, they're all indexed. So they're . . . If someone was receiving \$1,000 a month last year, they'll be indexed to 1,000 whatever the cost of living is. So yes, they're indexed.

Mr. Gantefoer: — Is the cap indexed as well?

Mr. Cameron: — And the caps are all indexed; all the caps.

Mr. Gantefoer: — Thank you very much. Thanks, Madam Chair.

Mr. Osika: — Thank you, Madam Chair, and gentlemen. We've become somewhat of pen pals, Mr. Fogg, you and I, and I appreciate that.

I'm noting in .23, "SGI should establish written rules and procedures for claims investigations by its Special Investigation Unit." That special investigation unit has been in place for some time I believe.

Mr. Fogg: — Yes, it has. Since the early '80s.

Mr. Osika: — Are there no procedures that would have been written? Like, if I recall correctly, some of the people involved were my former colleagues. And the regimen there was to immediately have a process or procedure that is documented and in a manual to be guided by. I'm somewhat surprised that this recommendation is being made.

Mr. Cameron: — We had claims procedures, specific claims procedures — how we would handle a claim — and within there SIU was part of that. What these procedures will be is a little more detail, right to the investigator saying, when you go out to do a fire claim, you will do this, you will do this, you will do those sorts of things — more specific in detail.

Part of the reason that they weren't written in there before was there was a belief from . . . I mean these were all people with 20, 25 years experience in doing police investigations, that you don't tell each one of them how they do each individual investigation because they're all different. And I think you would probably agree with that part of being in the RCMP (Royal Canadian Mounted Police) and seeing how thick some of those manuals can be.

And we are more concerned about investigating on a claims basis than having a procedure manual where one of our investigators would take a whole year to investigate one claim because he had to follow some detailed process.

Mr. Osika: — Okay. Thank you for that.

I just want to follow up on something that Mr. Gantefoer had raised. Those injury claims that are perhaps difficult to perfectly assess as being real or not — and I'm thinking of people that might be self-employed and might have a neck injury or a back injury, not to the extent that it totally disables them, and they are in a situation where they need to attend to their employment or their . . . yes, farming for example, at a critical time of the year, the injury is such that a person can live with it but it's there — how do you deal with those?

Through your process do you just decide, well if you're able to work, you're not injured enough to be qualified for any compensation?

Mr. Cameron: — For the most part on those, the doctor is saying that they may be able to do some light duties, or quite often more so than the doctor, the individual is telling us that, and that's what Larry mentioned about utmost good faith. He's saying yes, I can do these things but some of these things, especially at harvest time, I'm not able to do them and I'm going to need either replacement labour or paid something for that.

So for the most part those are not problems. It's where someone says, I can't do any work and they're doing . . . building a home or, you know. Self-employed people especially are not as easy to monitor as say where I would go to work, you know, because they may be doing a variety of things.

Mr. Osika: — Would you have your investigators or special investigation units targeting some of those folks to determine whether or not they're exceeding the amount of light duty or whatever that they might be performing?

Mr. Cameron: — Probably not on those. I mean if someone's come to us and said, well this is what I can do and I've hired so and so here to help me, probably not.

If we have reason to believe that from what he's told us and what the doctor's told us are two completely different stories,

then likely that file would take some further review. And it may be an SIU investigator; it may be just the adjuster phoning up and asking the hired person, what are you doing, you know.

Mr. Osika: — I'm pleased to hear that you are looking at the appeal process within your agency within the department, Mr. Fogg. I think back to crop insurance, similarly with their insurance fraud claims and appeal processes that were in place for individuals who felt they were wrongly done by under those circumstances. Although it was a board of directors that they appealed to who were members, who were peer members actually from their agricultural community, it's now gone to a tribunal system and I'm not sure how that's working.

There's some concern about the tribunal not being totally familiar enough with the agricultural background or whatever, they don't have any agricultural background. But again I believe it's important that people do have not only a perceived but a real opportunity to make their honest and sincere appeals. And there will be those that will be attempt to hoodwink, but it seems with your SIU you have that in hand anyway. I thank you for enlightening me on some of those. Thank you.

Mr. Shillington: — One of the questions which Mr. Gantefoer, one of the comments which he made twigged my interest. Earlier this week, Tuesday morning I guess, we had the Chairperson of the Workers' Compensation Board who described the results of a changed, I think it's fair to say, a changed regime at the Workers' Compensation Board.

In the late '70s the nature of the Workers' Compensation Board was changed from essentially a compensatory scheme — you gave them an award, injured workers given an award and waved goodbye and that was it, they sort of went out on their own — to a rehabilitative scheme. And the immediate impetus for it was rising premiums and rising cost. However someone outside the Workers' Compensation Board, seems to me it was someone from the University, it may have been a student doing a Masters or Ph.D. (Doctor of Philosophy) thesis I don't know, someone did a review of it. It was very interesting. Not only were the costs reduced, but the effectiveness was vastly increased. I was startled to read the average income of severely injured workers went up after the injury because they were retrained with higher skills, and thus pizza delivery people became TV repair persons and so on. And their average income actually went up after severe injury. And the thing fell apart in the '80s, as so much did, but was re-established in the early '90s. We're now, according to the chairperson, experiencing the same results of lower premiums and a more effective scheme.

I say all this because I wonder if you've given consideration to commissioning a review of the no-fault, the results of no-fault, which might give you a similar read on how injured people are . . . it strikes me there's a lot of parallels between the two schemes. And I wonder if you've given any consideration to commissioning a study which might give us the same information about the no-fault system.

And perhaps in passing, this wasn't the point of my comments, but you might gladden the heart of the Provincial Auditor if you published an annual report because I think that's what he's urging you to do, to publish your goals and your achievements.

I think in this one, as I say I didn't start out with that as a recommendation, I think in this one however, if the experience of the WCB is any indication, it might reflect very well on not only the scheme but the way in which your staff administer the scheme. I wondered if you've given any consideration to that.

Mr. Fogg: — As I say, Madam Chair, Mr. Shillington, the major study that we've commissioned is with Dr. David Cassidy at the University of Saskatchewan. And that study began under the old tort system where people that were injured — especially whiplash injuries, people who have whiplash injuries — under the tort system, there was surveys sent out and it was determined how well they got back to their job, how well their pain disappeared, and that type of thing.

The same kind of study was done when PIPP was brought in to compare the two systems to . . . And I guess what it's comparing is simply the PIPP system against the tort system and whether or not the rehab procedures we've put into place are helping and whether the system is rehabilitating people faster than the old system.

And to date that's the only major study we've got going and I think the results of that will be out early in 1999 or sometime in '99.

Mr. Shillington: — We'll look forward to receiving it.

The Chair: — Mr. Koenker . . . Pardon me, are you finished, Mr. Shillington?

Mr. Shillington: — Yes, I'm done. Yes.

Mr. Koenker: — Further to the question that Mr. Shillington asked and further to your answer about the Dr. David Cassidy study, are you now securing permission from people involved in claims for release of medical information such that they — as a matter of course — such that confidentiality of their records does not become an issue if subsequent medical research wants to be conducted?

Mr. Cameron: — The information that our insureds are giving to Dr. Cassidy is informed. They know, and it's voluntary. They are giving that information. Presently we're not sharing that information with any other health services or medical providers. And it's de-identified information in the Dr. Cassidy report. I think there's 9,000 injured people, a little over 9,000 injured people in that. All that information is de-identified.

Mr. Koenker: — But that is standard operating procedure with any claim to request . . .

Mr. Cameron: — We request it for our own use, right. Correct. And they know that. But because of when we started this, we made sure that it's actually the information is going directly to the university, not SGI taking it and then giving it to the university so . . . And the customer makes that informed consent to the university to provide that information to them. And not everyone's participating.

Mr. Koenker: — Understandably so. I don't want to belabour this point but I know that medical researchers, not just across the country but across the world, are interested in your

initiatives with respect to PIPP and that there is a huge problem in terms of them being able to access the information because of some of the concerns that the Department of Health has respecting confidentiality.

Are there any . . . let me ask in a general way, are there any active initiatives underway within SGI to try to resolve some of the concerns that the Department of Health has with respect to confidentiality such that the results of the work you're doing with rehabilitation might be available to the larger medical research community worldwide?

Mr. Cameron: — We've met with Department of Health several times over the last year and looked at what opportunities would be there for linkages. And to date there hasn't been any that have been agreed to by the Department of Health.

Mr. Koenker: — And what is the stumbling block?

Mr. Cameron: — The stumbling block I think, and I'm not probably the right person on this, but the stumbling block is the Department of Health records, the medical records that they would have, to link those to the records that are in the research. The Department of Health is saying you'd have to go back and ask that injured person to release my old health records, my current medical records here, and link them, even though they're de-identified, with this. They're saying you have to do that on a one-to-one basis if you want to do that.

Mr. Koenker: — And my question again, and maybe I wasn't clear enough in the beginning, can you take . . . can you not take proactive steps now to alleviate the Department of Health's concern such that you can develop an appropriate waive or permission on the part of claimants?

Mr. Cameron: — We could go do it on a one-to-one basis.

Mr. Koenker: — Can you start doing that now though, so that in the future, if people want . . . if I sign for the release of my . . .

Mr. Cameron: — We could. The researchers tell us this — and again I'm not the expert in this research — the researchers tell us that if you do that and give an individual the choice then on that, you'll end up with skewed results; that the data that you'll be getting, because of the participation, certain people will not give their information. That will skew the results and most of that data will be worthless. That's what you have to overcome.

And I don't know how that's done, but it's still up in the air to be looked at.

Mr. Koenker: — Well I certainly want to applaud and commend the work you're doing in this regard and I hope that you can persevere and accomplish something with the Department of Health in this regard.

Mr. Cameron: — Thank you.

The Chair: — Are there any further comments from members? Mr. Gantefoer, sorry, then Mr. Goohsen.

Mr. Gantefoer: — I have one that I omitted to ask you in my

first series, and it has to do with the topic we're discussing this week and that is the Year 2000 compliance. Could you give us a brief update as to where you are with your systems on this issue?

Mr. Fogg: — Yes, I can. We looked at redeveloping all of our systems about five years ago. Certainly the auto fund systems, we wanted to redevelop because of customer service implications. We wanted to bring on point-of-sale issuing so that all of our issuers could actually issue a driver's licence on the spot.

We had to bring up our SGI CANADA systems; they were out of date. We couldn't do broker interface; we had to redevelop them. So that then at that particular time we did it for customer service reasons.

We had to have a better platform for our general insurance systems and to solve our Year 2000 problems. So it was about March of this year that the project was basically finished.

So our major general business systems are all Year 2000 compliant. Virtually all of our auto fund systems are now Year 2000 compliant, or 2000 ready, I guess is the term we're using — 2000 ready.

We have some problems with the buildings. Some of our imbedded chips in the buildings that monitor the heat and light, we've got to replace those. But those aren't a problem.

So now we're in the process of taking all of our purchase software . . . And we have sort of a lab set up; we've got to test each piece of software to make sure that it's Year 2000 compliant. I mean you can write to the manufacturer and ask them is this Year 2000 compliant, but then you've got to test it. So you've got to test each piece of software in that procedure.

And then we've got to take all of the . . . after we've tested each piece, then we've got to do integrated testing; we've got to run transactions through all of the software. And at that point we'll be satisfied that we're Year 2000 ready.

But this has been an issue with SGI for a number of years. We rely on our systems. It's an issue with the board. We report virtually monthly on our progress. We have a plan, as I say, just for our own systems. We write to all our external people that we deal with to make sure they are going to be Year 2000 compliant.

And as an insurance company, we issue policies that we have some concerns about whether or not there can be claims coming in after the Year 2000 that relate to date-related transactions. So we've had to change some of our wording in our policies to cover those off.

As the auditor mentioned about our bank reconciliations, one of the problems with why we didn't get the bank reconciliations is we had to get this GIS (General Insurance System) project done on time. Actually the GIS project, which was in excess of \$20 million I guess, overall, came in on time, on budget, so we're . . .

Mr. Gantefoer: — You did your major update at the same time

you're doing your customer service and all the rest of the update; I suspect it's probably difficult to extract what component of that would be a cost against the Year 2000 project. But do you have on some of the other things that you've identified as this testing, building, chip replacement, all of those sorts of issues — I would suspect that they could be costed more directly — do you have an estimate of the direct cost for the Year 2000 issue for SGI?

Mr. Dobie: — Yes, Madam Chairman, if I could answer that, just to replace the control systems in all the buildings will cost us about \$300,000.

Mr. Gantefoer: — And the other software testing that you're doing in the lab and those issues, would that be included, or is there a cost in addition to the \$300,000?

Mr. Dobie: — That's not included in that. The software testing and hardware testing that we're doing in that lab is really . . . we have to upgrade the software anyway. You get to the point where the software that we have purchased from vendors, it gets outdated anyway and it won't be supported by the vendors. So we have to go through there and upgrade it anyway.

Mr. Gantefoer: — So that's an ongoing project of software evaluation and updating irrespective of the Year 2000?

Mr. Dobie: — You always have a program of upgrading your software. Of course this has got a deadline so we have to make sure that everything is going to be ready or compliant, so we're doing a very thorough and complete test for . . . you know, checking for that Year 2000 issue specifically at this point.

Mr. Fogg: — We'd be doing it anyway, I think it's fair to say, Madam Chair. But it's just . . . we've kind of taken it out and it's kind of a special project. And we're using our . . . virtually always using our internal resources so it's sort of an opportunity cost — they're working on this and they could have been working on something else. And that's always difficult to cost out.

Mr. Goohsen: — Thank you, Madam Chair. I was wondering . . . On page 63 I'm noting under .17 that SGI obtained shares in a hail insurance company. Now I don't know if you're allowed to tell us what company that is or that sort of thing, but I'd be interested in knowing some of the details about that. But more specifically, I want you to go into the policy area when you buy this type of entity outside of SGI and expand.

Is this part of a long-term strategy that you've set up and you're meeting your goals? Or is it impulse buying?

Mr. Fogg: — No, we have a strategy to expand the SGI CANADA operations — not out of the country and not into businesses that we don't know.

We looked at it . . . we do it for three reasons. We do it partly to spread the risk because right now virtually all of our policies are in Saskatchewan; there's a huge concentration of risk and that's always a problem for insurance companies so we want to spread the risk. Secondly, we want to have job creation or protection of jobs in the province of Saskatchewan. And thirdly, we want to be profitable. So those are the three areas that we're concerned

with.

So as you know, we're now writing business in the province of Manitoba and to a lesser degree in the province of north-western Ontario. And we're writing products, very similar products to what we would write in Saskatchewan.

The hail company situation was somewhat different. One of the . . . There's a number . . . there were a number of small crop hail insurers. There was four of them and they wrote business — some in Saskatchewan, some in Saskatchewan and Manitoba, and some into Alberta.

The superintendents of insurance in Alberta and Manitoba required greater capitalization. In Manitoba, they wanted 3 million in capital and Alberta was getting up to 3 million in capital, and these companies simply didn't have it. So they couldn't then write business in Manitoba and Alberta, and as a result there would be job loss in Saskatchewan and so . . . At one point they came to us and we did a bit of a fronting operation for one of them.

But what happened is we called these four insurers in to our offices, and we said, look we have an interest in getting into the hail business. We think we could make some money at it. And what we will do is because you don't have enough capital, we will put up some capital, and you put up some capital and we'll form one reasonably-sized, crop-hail insurer in the province. And three of these four companies agreed with that. Because otherwise they would just be limited to writing in Saskatchewan and even then the Saskatchewan superintendent was going to want more capital.

So we put the money in. We put in \$2 million. We own 36 per cent of this company, the other three partners put in some money as well, and we've now formed just one crop hail company. And it has done what we wanted it to do. It has spread our risk across into Manitoba and into Alberta. It has protected the jobs in Saskatchewan — not in SGI but in these other crop hail companies — and it's made a profit in both years.

Mr. Goohsen: — I see a philosophical dilemma developing that I think our friend Walter alluded to yesterday when he talked about the direction that Saskatchewan Wheat Pool went. They had too were philosophically established to provide goods and services to the people of Saskatchewan at cost. And suddenly the realm of business world overcame them, and they realized, I guess, or thought that the profit at the end of the day and the protection of the potential to make profit needed to be addressed more than the philosophy of providing goods and services at cost.

And SGI I think was established under those same kinds of principles. And I'm wondering if you're going to end up privatizing as a result of this mad dash for guaranteed profit?

Mr. Fogg: — You know I really can't comment on whether there's any intent to privatize SGI or not. Certainly when they had the talking about Crowns and the Crown review the public seem to indicate that no there was no desire to privatize SGI. SGI you know, SGI CANADA is a competitive insurance company. We're competing with other insurance companies in

Saskatchewan, Manitoba, and we compete well.

There's certainly an intent to make a profit and I don't deny that. We also have public policy initiatives that we're required to undertake and it's not easy always balancing those two objectives. But in the particular case of the crop hail company we think we did a good job, that we think it is profitable. It has spread our risk and it has protected these jobs and allowed these other three crop hail organizations to become viable. In that particular case we feel that it was sort of a win-win for everybody.

Mr. Goohsen: — How do you decide that Saskatchewan is so much more high risk that you have to spread out and get away from Saskatchewan? And I'm thinking now back to the days when I was involved with municipal government, and SARM (Saskatchewan Association of Rural Municipalities) decided that the premiums for liability insurance were too high, and you'll recall that. And so they started their own insurance company and it has been the biggest roaring success that I've ever seen in my life. They've insured themselves. They decided that they were — because of outside forces saying that Saskatchewan was a high risk — they said that we don't believe. We're going against actuary correct assumptions, and we're going to start our own company, and we're going to protect ourselves. And they proved to be right. Saskatchewan wasn't a high-risk area because the bank account they've got right now is proof of that. They've made nothing but money.

Mr. Fogg: — No I don't mean to imply that Saskatchewan is a high-risk area because Saskatchewan frankly is a low-risk area. British Columbia is a high-risk area. But it's in spread of risk. It's not that Saskatchewan is a high-risk area, it's just you don't want all your insurance risks in one area because in a major catastrophe like a tornado or a hail storm, you can have severe losses; where if you spread out your risks across the province or even wider a field, you reinsurance rates for example will be lower. It's just spread of risk is one of the basic tenants of an insurance company. It's like a strip mall. I mean, one strip mall may be as good as another but you'd rather have one business in five strip malls that all five businesses in one strip mall. Because . . .

Mr. Goohsen: — Well correct me if I'm wrong though. SGI is basically government backed. It's government owned, controlled and operated. It's government backed. The treasury of the province is behind you. You don't need to spread risk. With the government of the province, you've got the province's treasury behind you. They could borrow money on the international market to back you up cheaper than what you can go out into the other jurisdictions and spread your company.

Mr. Fogg: — Well, I would disagree with that. I think in 1983, for example, we had sewer backup losses in this province of \$50 million. That would, you know, have been devastating for SGI to take a \$50 million loss in a competitive business. And the reinsurers picked up all of that except four and a half million. So I think anybody in any kind of a business, to protect the assets of the corporation, would buy reinsurance. We would.

If a tornado went through the city of Regina, downtown city of Regina, the losses would be I suspect in excess of a hundred million dollars. That would be more than SGI . . . we would

have to get money from the province to bail out our claimants. And I just don't think that would be practical. We can buy reinsurance, protect against that, for something like \$3 million a year.

Mr. Goohsen: — Who are your reinsurers, I guess that . . .

Mr. Fogg: — We have a large number of reinsurers. They're Munich Re, Hannover Re, Swiss Re — large European reinsurance companies and some of the Lloyds' companies as well.

Mr. Goohsen: — Do you find it difficult to get them to pay up or do you have any problems that way?

Mr. Fogg: — No, no. We haven't had. Mind you, we haven't had any losses since '85, '95, when we had . . . so, no. But '83 we had a major loss and in '95 we had the Pilot Butte loss. They always pay up.

Mr. Goohsen: — So is there an international standard of what they charge you or how do you determine the premium that you reinsure at?

Mr. Fogg: — No, there's not an international standard. Our rates are probably better than some other companies because of where we write business. As you indicated, Saskatchewan is a low-risk area. If you wrote business in Vancouver, or on the island in an earthquake zone, your rates would be . . . might be triple our rates.

Mr. Goohsen: — As it should be. That's all the questions I had, Madam Chair.

The Chair: — Any other questions from members?

On page 62 we have a first recommendation:

.14 SGI should follow its rules and procedures to ensure all of its recorded bank balances are reconciled to the banks' records in a timely manner.

Mr. Shillington: — Concurrence and note compliance.

The Chair: — Agreed.

On page 63:

.24 SGI should obtain Cabinet approval before its subsidiary purchases shares in another corporation.

Mr. Whitmore: — Yes, if my understanding is correct, this is now policy that has been outlined by CIC since then. That was mentioned by the Provincial Auditor today. Therefore I move that this is now:

That the PAC note that this is now present policy.

A Member: — Concurred and note compliance.

The Chair: — Agreed.

Page 64:

.29 SGI, SAF, and SCISL should include a comparison of planned performance to actual results in their annual reports.

Mr. Whitmore: — Madam Chair, in the same similar discussion we had this morning regarding SOCO. We enter now into that grey area of policy. And I think in keeping consistent of what we stated this morning regarding SOCO applies to SGI, and that I move:

That PAC note that this is a matter of policy, recommend that the Legislative Assembly request the Crown Corporations Committee to examine whether SGI, the Sask Auto Fund, the SGI CANADA Insurance Services Ltd. should include comparisons of planned performance to actual results in their annual reports.

The Chair: — Just noting what the auditor had said is that the auto fund is not part of CIC.

Mr. Shillington: — But what conclusion do we draw? Are you suggesting that we should not include Saskatchewan Auto Fund in the resolution then? I'm not sure what follows from your comment.

The Chair: — I guess we're actually then delegating some responsibility that's the Public Accounts Committee over to Crown Corporations when that fund isn't even part of Crown Corporations.

Mr. Whitmore: — Therefore then, I guess, would we require an amendment to remove auto fund from the resolution?

Mr. Shillington: — May I ask a question then of either . . . well I guess I should direct it to Mr. Fogg. The auto fund is not a Crown corporation at all, is it? It is a statutory fund established pursuant to an Act I think passed in '45 if my memory serves me correct. It's a statutory fund, isn't it?

Mr. Fogg: — It's a fund managed by SGI.

Mr. Shillington: — Then I think it should come out.

The Chair: — I think that . . . I have a gentleman that wants . . .

Mr. Paton: — Madam Chairman, if I might make a comment. While the auto fund itself is not a CIC Crown, I think it's my understanding that Treasury Board may have delegated certain responsibilities for the auto fund to CIC. And one of those things that's included is I believe the review and approval of their financial statements.

Now I may stand corrected on that but I think because there's a bit of an unusual situation here, I think Treasury Board has delegated that responsibility to Crown Investments Corporation.

Mr. Shillington: — I think that's correct. I think CIC does deal with that, now that you mention it.

I don't want to keep us past time, so I guess I'm begging a concise answer here. But I would appreciate a brief comment. I can understand — I'm not saying I agree with it — but I can understand the argument that publishing future plans may

impede competitiveness.

I'm wondering if you would state concisely for us the argument for not disclosing historical plans. It doesn't seem to me that the argument that that's going to impair your competitive position is quite as cogent when you talked about something in the past.

Mr. Fogg: — Mr. Shillington, Madam Chair, just to be clear on this. We take our directions from CIC. But I'll give you my own opinion on these things. We do try to indicate what our objectives are financially and otherwise.

In SGI CANADA we say that our intention is to — we publish this in our annual report; we used to — to make a 20 per cent rate of return on capital, and we intend to break even at the underwriting line. We say that. And that is what our overall intention is.

Now to put in information about premiums and claims. I don't know what you can judge by that in this short period of time. Some years we have big storms and some years like this we're going to do a lot better than our targets. But it's not . . . I don't think you can judge the corporation simply on those bases. I think you have to look over a longer period of time.

I think you have to look at other things that we do. I think you have to look at . . . everything can't just be a financial focus. You have to look at customer service indicators; I think you have to look at our internal business processes; I think you have to look at programs like employment equity.

So to publish that information . . . I mean you could publish it. I don't know what you would judge by it. It's not like a government department whether you spent or over-spent.

Mr. Shillington: — The question, Mr. Fogg, was not what use would it be but what harm would be done. I turned the question inside out. What harm would be done by publishing it?

Mr. Fogg: — I can't think of any harm it would do.

Mr. Shillington: — I just don't support the comments made by Grant because I think this comes squarely within the jurisdiction of Crown Corporations . . . (inaudible) . . . but the comments are interesting actually.

The Chair: — We have before us a motion by Mr. Whitmore:

That the PAC notes that this a matter of policy and recommends the Legislative Assembly requests the Crown Corporations Committee to examine whether SGI, the Sask Auto Fund, and SGI CANADA Insurance Services Ltd. should include a comparison of plan performance to actual results in their annual reports.

Question? Those in agreement? It's carried.

We have page 65, .35:

SGI, SAF, and SCISL should: publish a list of persons who received money from them and the amounts the persons received following the PAC's current minimum disclosure amount; or discuss different public disclosure requirements

with the PAC.

Mr. Whitmore: — Yes again, Madam Chair, following the discussion we had regarding SOCO applies to this. I certainly urge though through CIC a spirit of co-operation develop that we can come to some agreement here in terms of the whole disclosure process between CIC policy and the Provincial Auditor, that we can deal with these in a timely manner regarding our recommendations that we made earlier as PAC. But I would like to move this motion:

That the PAC note that this is a matter of policy and recommend that the Legislative Assembly requests the Crown Corporations Committee to examine whether SGI, Sask Auto Fund, and SGI CANADA Insurance Services Ltd. should publish a list of persons who receive money from them and amounts the persons received.

The Chair: — The motion that was put forward by Mr. Whitmore — questions? Those agreed? Disagree?

We have on page 70, .20:

SGI's Board should approve management's external communication strategy for informing brokers and the public about fraud ethics and SGI's fraud policies.

I believe it was . . . intent to comply was noted.

.21: SGI's management needs to provide better information to the Board to monitor SGI's rules and procedures to manage the risk of fraudulent claims.

Compliance? Planned compliance, agree?

.22: SGI should improve its rules and procedures to ensure that underwriting staff leave clear evidence of the work they have done to identify and assess the risk of fraudulent claims occurring.

Compliance? Agreed.

.23: SGI should establish written rules and procedures for claims investigations by its Special Investigation Unit.

Compliance? Agreed?

I notice this morning, taking into consideration what Mr. Thomson said earlier, that he thinks that we should give the Crown Corporations Committee a chance. They were very busy, and we shouldn't automatically think that they won't be doing their job and looking at what we've been putting forward to them immediately. But we have again allowed a lot of the duties, responsibilities, that we have as a Public Accounts Committee, we've put it in the hands of the Crown Corporations. So I'm just hoping that or noting that this committee itself has actually put a lot of responsibility that we had into Crown Committee.

Ms. Stanger: — Madam Chair, I don't think we've put off our responsibility. I would not do that. I think that as a matter of policy, we've put onto the Crown Corporations Committee what is their mandate, and we are doing our mandate. That's

they way I see it. I certainly would not move things of our mandate onto the Crown Corporations Committee.

The Chair: — I guess I was just wanted to make sure that we felt that anything that we could as representatives of the people keep in the public's eye to make sure that the people that we represent know what's happening at all times. I think that we should hold onto that as tight as we can.

Oh, pardon me, is there something else . . . (inaudible interjection) . . . I think that's it. They're part of those recommendations.

I'd like to thank SGI officials for coming this morning. We do appreciate it very much. Thank you for all your answers. And I guess we can meet again at 1:30.

The committee recessed for a period of time.

Public Hearing: Department of Highways and Transportation

The Chair: — Maybe we'll first take the opportunity to ask Mr. King to introduce his officials to members.

Mr. King: — Yes, my name is Brian King, deputy minister of Highways and Transportation. On my right is Barry Martin, the assistant deputy minister of operations. On my left is Lynn Tulloch, executive director of corporate information services, and Gary Diebel, the director of financial services.

The Chair: — Thank you, and welcome everyone. And I'll ask the Provincial Auditor to introduce the new people he has with him.

Mr. Strelloff: — With me is Bob Black. Bob Black has been here for the week and he's going to lead this presentation as it is one of his audits. As well as Karen Shorten. Karen is one of our very capable administrative assistants in our office.

The Chair: — I will proceed then and ask Mr. Bob Black to introduce the overview of this chapter.

Mr. Black: — Thank you, Madam Chair. Madam Chair, members of the committee. It is nice to see you from a slightly different perspective than I've had from the rest of the week, particularly the members on this side of the room.

I'll be briefly reviewing with you chapter 15 of our *1997 Fall Report Volume 2*, which presents our audit conclusions and recommendations, resulting from our audit of the Department of Highways and Transportation, and the entities that it is responsible for, for the year ending March 31, 1997. If you have any questions I'll certainly respond to any of them at the end of the presentation.

During 1996-97, the Department of Highways and Transportation managed the operation of the department itself, the Highways Revolving Fund, and the Transportation Partnerships Corporation.

On page 131 of our report we present a graph that shows in 1996-97, the government spent \$248 million on transportation.

Of this, almost 70 per cent was spent by the Department of Highways and Transportation, 16 per cent was spent by the Department of Municipal Government, and 15 per cent by the Saskatchewan Transportation Company.

The graph also indicates that from 1993 to 1997 total government spending on transportation increased by about 39 per cent. Spending by the Department of Highways and Transportation has actually been fairly constant over that same period.

The department's role is to develop and administer transportation policies and programs, and to build, preserve, and regulate the safe use of the transportation system in the province. The transportation system includes public highways, winter roads, bridges, and provincial airports.

In 1997, as part of fulfilling its role in developing transportation policies, the department released its long-term transportation strategy: *Investing in Transportation: A Transportation Strategy For Saskatchewan People*. The strategy describes the challenges that the department faces and the actions it has planned to address these challenges. I have brought a copy with me and it is also available on the department's web site.

Our office looks forward to the department providing members and the public with reports on its progress in achieving the strategy and thus its own goals and objectives. We encourage members of the public and members of the Assembly to use the information in the strategy and in the department's web site in its annual report to help them understand the issues faced by the department and to assess the department's performance.

In paragraph .12, on page 132 of our report, we provide our opinions regarding the department. In our opinion, the department had adequate rules and procedures to safeguard and control its assets, except for the matters referred to in paragraph .16 to .32. And the department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

In paragraphs .16 to .24 we inform you we think management needs to improve how it documents its systems and practices for preparing sound interim financial reports. We found that management does provide adequate direction to staff to prepare interim financial reports, except there are no comprehensive policies and procedures for preparing the interim financial reports.

The direction provided does not define who is responsible for preparing the internal financial reports or set out the necessary procedures to prepare these reports. The direction provided does not define the nature or extent of variances management expect staff to explain. We feel better guidance would reduce the risk of inaccurate reports and decisions.

We do note that the department was developing a new financial system with the intent of documenting its internal financial reporting as part of that new system. Therefore we recommended that along with the development of its new financial system, the department should clearly document systems and practices necessary to prepare sound interim

financial reports. The department has told us it plans to have this new system operating soon.

In paragraphs .25 to .32 we note that during 1996-97 the department had approximately \$44 million of inventory and equipment that it must safeguard. While the department has adequate systems and practices in place to track its assets, it had not formally documented its assessment of the risk of loss or damage to these assets. As a result, we were unable to assess whether the steps taken by the department were sufficient to ensure the risks are at an acceptable level.

Therefore we recommended the department should document the results of its assessment of the risk of loss or damage to its equipment and inventory. During 1997-98 the department did document its assessment of the risk of loss or damage to its assets, and as a result we believe this issue has been resolved.

The next section of the chapter beginning at paragraph .33 on page 137 deals with the Highways Revolving Fund. The department uses the revolving fund to distribute the cost of equipment, material, and labour to the department's programs and other custom work projects.

In paragraph .35 we provide our opinions. In our opinion, the revolving fund's financial statements were reliable. The rules and procedures to safeguard and control the fund's assets were adequate except for the matters referred to in paragraphs .36 to .51, and the department complied with the authorities governing the fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

In paragraphs .36 to .44 we report the department needs to improve its financial reporting system for the revolving fund. Staff cannot efficiently produce interim and annual financial reports for the fund with the current system.

The current system is made up of several manual and computer systems. These systems do not work well together to ease efficient record keeping. Staff must prepare numerous entries to update the general ledger. This process is time-consuming and increases the risk reports will not be accurate or complete.

Therefore we recommended the department should continue to develop a financial system that meets management's information needs efficiently. In April 1998 management completed implementation of a new system that is intended to address these concerns. We will evaluate that new system in our 1998-99 audit.

In paragraphs .45 to .51 we report we also evaluated the department's rules and procedures for preparing the fund's interim financial reports. We found documented procedures do not clearly set out the procedures necessary to prepare accurate financial reports.

The direction provided does not define the nature or extent of variances management expects staff to explain, and the quarterly financial reports did not show assets and liabilities of the fund.

We think better guidance would reduce the risk of inaccurate interim reports and adverse management decisions. Therefore,

we recommended that the department should establish adequate rules and procedures for preparing complete and accurate interim financial reports for the fund.

At the time of our audit management was developing a new financial system. As mentioned this system was implemented for the fund in April of 1998. Management has indicated it intends to establish new rules and procedures for preparing interim financial reports for this new system. We will evaluate the new system during our 1998-99 audit. And that concludes my remarks, Madam Chair.

Mr. Strelioff: — Okay. Thank you, Bob.

The Chair: — Thank you. And before we proceed and ask the deputy minister to actually give us some information from the department, I'm going to read the statement by the Chair for testimony of witnesses appearing before the committee.

Witnesses should be aware that when appearing before a legislative committee your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as a subject of civil action. In addition I wish to advise you that you are protected by section 13 of the Canadian Charter of Rights and Freedoms which provides that:

A witness who testifies in any proceedings has a right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, excepting in a prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put by the committee. Where a member of the committee requests written information of your department I ask that 15 copies of that report be submitted to me so that it can be given to the Clerk and tabled as a document. And I just ask to address all your remarks to the Chair. So thank you very much. And I'd ask that you would give an overview from the department's perspective.

Mr. King: — Yes. We were pleased to receive the assistance of the Provincial Auditor's office in identifying areas where we had to work harder in order to provide a proper accountability of the spending of the money of the people of Saskatchewan on the transportation system.

I believe that it has been stated to you that a large part of our strategy for addressing the problem, some of the problems has been the introduction of a new financial system. We had a bit of a hodgepodge of systems that were utilized to help us with our financial reporting and our accounting, and decided to — as part of a Year 2000 strategy — in addition to financial controls, to implement a full financial system. As you've heard the first phase of that was introduced in April of this year on the revolving fund.

We have involved very heavily the managers and the staff of the areas that will be using the new system so that they're fully conversant with it; so that they can undertake the training of the employees that will be using it, and so that they can identify the proper documentation that's going to be required in order to assure that we meet the recommendations of the Provincial

Auditor. So it's a joint process between the technical people, who actually do the work of implementing the software, and the managers and the employees of the department that we've gone forward with this project.

The second phase which will cover our general ledger and other areas of the financial system is slated for implementation in the following year if I recall correctly . . .

A Member: — Starting this fall.

Mr. King: — Yes, starting this fall. We believe we've substantially met the concerns or are on our way to meeting the concerns in the areas that were raised today. That's all I really had to say as part of an opening statement.

Mr. Ganterfoer: — Thank you very much, Mr. Deputy Chair. And welcome Mr. King and officials. Just following up on the technology side if I could before going to more general areas — I generally end with this but this afternoon we'll start with it.

In terms of implementing your computerized or your technologies systems, I would assume that you're placing emphasis on the Year 2000 compliance issue, and I wondered if you could update us on where your department's at in terms of the information technology equipment that you use for the Y2K (Year 2000) issue.

Mr. King: — Yes, the financial system is only one of the aspects of the Year 2000. We have a very comprehensive approach towards Y2K. The first area we're looking at is to make sure that we can meet all critical emergency situations on January 1. In other words, we will make sure that all of our winterized equipment is functioning properly for Year 2000; we'll make sure that suppliers are available to provide the gasoline or diesel fuel or that we have backup supplies of those on hand.

We have looked at our buildings to make sure that the heating and the alarm, the air conditioning, the elevators are going to be Year 2000 compliant. We have — we're quite a technical department — we have a lot of computers. We're not necessarily going to insist that everyone of those is compliant. If my computer doesn't work on January 1, that isn't a disaster; in fact it's sometimes a disaster when I turn it on.

But what we're doing is we're taking a balanced approach that we don't overreact but we're going to make sure that all functions of the Department of Highways that affect the public usage of the highway system will be available on January 1 and following.

Mr. Ganterfoer: — Thank you. Thinking in that regard, I think of issues, and they may be municipal or both, I'm not so sure where the jurisdiction would be, but things like traffic control systems, traffic lights, things of those natures, are there issues, technological issues in that regard and who takes the lead on that. You know I don't know if you do have traffic lights that you're responsible for and others that municipal governments might be, but it's part of the whole transportation system.

Mr. King: — I'm going to hand to Barry Martin the assistant deputy minister, operations.

Mr. Martin: — The things like traffic signals are essentially 100 per cent urban. They'd be within in the city of Regina, Saskatoon and any other cities, and it would be the engineering departments in those cities that would respond to any potential Year 2000 problems in the electronics.

Any highway such as No. 1 or 39 that passes through the city is the responsibility of the city within their urban limits, so it's their problem in terms of fixing. But we have not talked to them to see if they anticipate a problem or a need to replace equipment.

Mr. Ganterfoer: — Thank you. I would like to switch now to more of a general discussion of the transportation system and a lot of the pressures and changes that are facing the transportation system in Saskatchewan. I think we would all be very much in agreement without commenting on if it's a good idea or bad idea that many things are changing in Saskatchewan. Business is changing. Industrial development is changing.

The grain collection system is having pretty dramatic changes facing it. And without debating the merits of these changes being good or bad, they're a fact. I think that certainly these changes to the face of our province is putting some challenges in front of the transportation system because transportation is pretty essential in most of those changing industries and changing systems.

I wonder how your department is working to keep abreast with that — how you are responding and trying to have a go-forward plan, if you like, that identifies these changes, and what the implications are going to be on the transportation system and building a model or plan to address that reality?

Mr. King: — We're involved at so many levels. I'll have to take a little bit of time here.

The first thing to do is to go back and look at the transportation strategy where we said we had to work together to solve these challenges that face us as a community called Saskatchewan. We have worked with SUMA (Saskatchewan Urban Municipalities Association) and SARM on the issue on railway abandonment for instance. And together with them and with some assistance through the federal CAIP (Canada/Saskatchewan Agri-Infrastructure Program) fund we have now got a plan which will help provide some equity towards the purchase of short-line railway.

This has not been without a good deal of information delivery out in rural Saskatchewan about what the options are for producers as they face the closure of elevators and the closure of branch lines. We have an active short-line rail unit that has been out in all areas where the railways have announced abandonment. They go out. They provide information on the type of a business case that would have to be put together to determine whether or not a line was going to be able to be preserved by the local producers through such a program.

We provide funding for business . . . for private consultants to do business cases for areas that are interested in short lines. We've been assisting people with negotiations with the railways on trying to get revenue splits that would make these lines

commercially viable. And I think we're quite a long ways along in seeing the viability of the short-line railway taking off.

Last week out in Avonlea, Saskatchewan there was a public ceremony where the Southern Rails Co-op announced the successful leasing from CN (Canadian National) of an additional 46 kilometres of track I believe between Avonlea and Moose Jaw. And it continues to run as the Southern Rails Co-op. So in the area of the abandonment of branch line and alternate loading facility studies we've done that will help producers if grain elevators close down. So that's in the area of railway.

In the area of working with communities, we have succeeded in working with SUMA and SARM in setting up area transportation planning committees in most of the areas of the province now. Some of these are more advanced than others, but generally they're going in all the major areas of the south and the central part of the province.

These are committees composed of interested urban and rural municipalities. We provide technical advice. Several of them have finished their reports on the transportation changes that are occurring out there in their particular areas. What is the likely change in the haul of grain that's going to occur if the lines close down? And they're getting support in helping them plan for their future transportation needs together with us as a Department of Highways and Transportation.

Right now we're going to be working towards moving that forward to operationalize so that we do our planning for our system in conjunction with the area transportation planning. Perhaps if we can work with Municipal Government which is what we're doing right now to develop some additional grants that we could use in order to help with that transportation planning out there, actual alternate hauling routes, etc.

We've been successful in working with several municipalities to develop alternate trucking routes to try to keep the heavy loads off of the thin membrane highways that simply weren't built for the weights that are starting to be out there. And so we have two or three trucking route agreements with RM's (rural municipality) where we will work with them to provide additional funds to help with the additional upkeep that might be required on the grid system if more heavy traffic goes out onto it.

We've reclassified our highway system and we've worked with SARM to reclassify their road system. Our highway system used to be classified as gravel, thin membrane, and pavement, which for planning purposes don't work very well. From engineering purposes it works well. But in terms of planning what type of service you should be providing such a road, you should know what it's being used for.

So we've reclassified into a national system which is that system which joins us east-west and north-south, a provincial system which joins most of the larger centres, the economics, the manufacturing, the tourism, and it's listed as a provincial system. And then we've also identified a collector system which does much the same as the grid road system in connecting rural Saskatchewan with the major shopping and tourist centres.

SARM has also gone through and done this particular classification and it helps us better understand our levels of service that we should be providing.

So that's a brief, brief answer. We have been extremely busy working to try to get information into the hands of people about what's happening out there and what we might do together to try to preserve and enhance the system of transportation.

Mr. Gantefoer: — Thank you. Something of what you said as I understand it, these area transportation committees — do they encompass a number of municipalities, rural and urban, in sort of a regional model? And as I understood you saying that they look at . . . would they see the future of the transportation network within their region. Is that somehow linked interregionally as well so it becomes part of a provincial map?

Mr. King: — Yes, the transportation planning, area planning are large, large areas. For instance the south-west goes from the Alberta border till approximately Assiniboia, Saskatchewan, which is south of Moose Jaw, from the U.S. (United States) border up to the South Saskatchewan River.

So that's a large transportation area, but it makes sense because it's all served by the CPR (Canadian Pacific Railway) main line. And the branch lines that run south off the CPR main line are threatened as are some of the lines that head north up to the South Saskatchewan River. So as a geographic area, it makes sense for them to understand what's going to happen if those rail lines go out.

We meet with SARM to try to co-ordinate the cross-jurisdiction but there are three of them running across southern Saskatchewan, which are south-central and then a south-east. There's a west-central which runs from the river north up to about Kindersley, as I recall, and a north . . . east-central — sorry, I'm getting mixed up — and then a north-central. We're also working with Northerners to work on area transportation planning up there.

The co-ordination, as I said, usually comes in regular meetings with SARM so that SARM directors are usually at these transportation planning committee meetings.

Mr. Gantefoer: — Okay thank you. I think that makes a whole lot of sense.

When you're looking at this . . . it's often quoted that there's a rule in life, it's called the 80/20 rule, and I wonder if the 80/20 rule applies. It sort of is that, you know, 80 per cent of the work is done by 20 per cent of the volunteers in a service club. And I wondered if 80 per cent of the traffic occurs on 20 per cent of the system. I know I'm not trying to be precise, but is there that kind of prioritization going on as well when you look at these area or regional planning process?

Mr. King: — Well the national system would be the heaviest volume highways that we've got. They're our main tourism links down into the United States and to the East and to the West. As a part of public policy, the transportation strategy indicated that we would be twinning the No. 1 and No. 16 Highway between Saskatoon and the border. And so that has to be put into our priority book because it is the main economic

driver of the province. It's where our main exports through trucking occur and our imports through trucking occur.

The second priority system is the provincial system again because it's the second most busy system in the province. In very rough terms our 10-year plan — and it has to be subject to iterations each year depending on how much work we get done in a season, etc., whether one project we thought we could do could get done because of gravel or something — but our 10-year plan for expenditures of two and a half billion involve about five hundred million going towards that national system, that's the No. 1 Highway, the No. 16, the No. 7, the No. 39, No. 11 up to Saskatoon. About a billion dollars towards the provincial system and about a billion dollars towards the collector system. So we do have a long-term outlook on where the money has to be spent over the 10 years.

Mr. Gantefoer: — You speak about the national system and the twinning. Can you tell me how much of a contribution the federal Liberal government is making towards the national highway system, particularly the twinning projects in Saskatchewan?

Mr. King: — That's easy — nothing.

Mr. Gantefoer: — Can you also tell me does the federal Liberal government make contributions to national highway systems in other jurisdictions of this country?

Mr. King: — There is still some money being spent this year on the national system. New Brunswick has reached some agreement with the federal government on building a toll road. Barry might be able to add to that, but I don't think there's very much going on other than in New Brunswick.

Mr. Martin: — Yes, all the provinces were getting some federal money under the program; it was called SHIP, or the strategic highway improvement program. Saskatchewan ran out of that last year. There are some of the provinces this year are still collecting under that agreement. But particularly New Brunswick and some of the other Maritime provinces have got bilateral agreements with the federal government; they're getting as high as 300 million in some provinces for national highways, or roads that are designated as part of the national system.

Mr. Gantefoer: — Is that part of a program that we were eligible to participate in or it that a special deal?

Mr. King: — No, those are sidebar deals. We met with . . . all the ministers of Transportation from the provinces and Territories met with Minister Collenette two weeks ago in Regina at the Transportation Association of Canada meeting — the councils, the ministers met. All ministers spoke in favour of the federal government getting involved in a national transportation plan.

One of the dilemmas we face is down in the United States the federal government just announced a \$216 billion — I don't quite . . . maybe the accountants here know how big that is, it's so much money — \$216 billion U.S. will be spent on the U.S. national highway system. This causes an enormous strain because we've met with Montana officials and with North

Dakota officials. They have money they don't really even know what to do with it. So they're going to be building some rather some significantly highly engineered highways north up to the Saskatchewan border with U.S. federal money.

And this is going to put enormous strains on the north-south flow of goods because the Americans will be there all across Canada at all the border sites. They will have up-to-date transportation facilities by way of better highways and we haven't got anything that's the equivalent.

I know that the only jurisdiction that was smiling was the Yukon Territories because the U.S. government gave them 93 or \$94 million U.S. to fix up a portion of the Alcan Highway through the Yukon. And we just shake our heads. I'd ask the Americans if they wanted to give us some too.

Mr. Gantefoer: — We have the CanAm Highway going through my community. Can we make application for federal funding or federal U.S. funding then to improve that north-south road?

Mr. King: — I think Alberta is probably building their highway north-south that links up so the Americans will have a way of getting up to Alaska through Alberta.

Mr. Gantefoer: — Thank you, and I trust in your comments that all of the Transportation ministers or departments across this country are lobbying the federal government to get in the game and to respond to this American project which will put us at a rather significant disadvantage.

Mr. King: — We had commissioned a study of the national highway system that had last been studied in 1988. At that time it was felt that something like \$13 billion would be needed to bring the system up to the standard that it should be at through a defined set of criteria. This was commissioned to update it. And we've lost some ground and some inflation has taken over. It's estimated that it would cost about \$18 billion right now to upgrade the national system across Canada to the level it should be according to the criteria as chosen.

What we did for the first time though was try to put a cost/benefit analysis behind the spending on a national system. And it was determined that something like \$31 billion benefit would be returned by the spending of the 18 billion, leaving a net benefit of \$13 billion to Canadians. That report is being prepared for publication right now, so that should be available shortly. But Minister Collenette indicated that he didn't believe there would be any program announced in the coming budget.

Mr. Gantefoer: — Thank you. In terms of . . . returning briefly again to this grain system and the fact that there are significant grain collection structures and facilities being built, are there negotiations that occur between your department and the companies that own these facilities in turns of some cost sharing of upgrading of the transportation network or the feeder roads or things of that nature that service that kind of facility? Or could you explain, is there a program of that nature and what form it might take?

Mr. King: — We are trying to get partnerships with the grain handling facilities and other large facilities on sharing some

safety features that arise because of the construction of these sites, turning lanes and merge lanes coming out of the facilities. For the most part we're usually able to get them to agree to a 50/50 funding of these types of safety features. They're to the advantage of the facility as well. But I've met with most of the major grain companies on whether or not they want to enter a more aggressive partnership, and they're not very interested in doing that.

Mr. Gantefoer: — Thank you. I guess we can understand why. I wonder on the question of the repair and maintenance or, you know, resurfacing and things of that nature or rebuilding — whatever repair work to the system that needs to be done. And I understand that we have the three main systems — the national, the provincial, and the feeder system or collection system.

Within those broad categories do you have a methodology of prioritizing and deciding, you know, what gets, you know, just a paint job and what gets more major work. And could you please share with us how that system would work?

Mr. King: — There are two main tools that are used — three, three. The first of them would be a cost benefit analysis that's done by the engineering department on capital projects. In other words, what would the most likely biggest bang for your buck be on new construction? And they do that through viewing of accident costs and travel costs in terms of trying to figure out where they should prioritize their capital spending.

Secondly, we have something called an asset management system which was developed to . . . Each year basically the road system is measured. It's measured objectively in terms of things like cracking and failures and what's the condition. Then the available dollars for preservation are made available to the software, and it identifies where you would get the best expenditure of your money to preserve your asset in the best way. And so that gives us the objective as to where we should be spending our money.

But we also have area managers and we have executive directors responsible for regions who bring in the local knowledge, who say I've go to do something over here as well. So those are the three main ways that we identify our priorities.

Oh, there's one area of public policy, and that would be the strategy called for the twinning. And so we have to put that into our mix as well.

We will be working with area planning as I had indicated in my earlier remarks. They may have priorities which differ from our priorities as a utility I suppose, a road utility. And so we will be taking into account the recommendations of area planning and trying to operationalize it more and more as we move forward.

Mr. Gantefoer: — Over the summer, I believe there was a bit of a war of words between yourselves and the road builders in terms of their capacity or ability to meet the challenges of accepting higher levels of highway funding, you know. Again, I mean we can get into saying who said what, and that's not really what I'm suggesting here. But have there been discussions with the road builders and the construction industry that would result in systems being in place whereby more work could potentially be done.

Certainly, statistically it seems to be quite clear that there has to be some catch-up to meet the \$2.5 billion commitment over 10 years that's fallen somewhat behind, at least in raw numbers. Arguably you could say, well, we never intended to spend that in these first two years, we've got to get things going. But somewhere down the road there has to be systems put into place so that the industry can respond to increased funding to meet the challenge as laid out.

Are those discussions ongoing? And has the verbal war called a truce? Or where are we at with that one?

Mr. King: — We have had this year the most exceptional road building and construction season in memory. Barry was telling me that he would have to look back a long time to think of another year when there was so little downtime. What basically happened is we had planned our expenditures and let that me known to the construction industry. We give them a list of the tenders and the schedule that'll be coming out. So they know well ahead of time what work is going to be available on the market. They all got their work done. They all got their work done with no downtime. And so they were sitting there saying, well we can do more work.

I believe we've kept . . . we've put a lot more work on than we had originally planned. I'm not too sure how far I'm supposed to go here but we're not going to be within budget this year because of the exceptional season. We've added more work for the road building industry.

The main area that was concerned was the paving area. And we had done all the work we'd announced we were going to do but they finished it all right away. And what happened is we had to hustle around to find enough asphalt on the market so that we could put this in more work. So we did have a little bit of noisiness there while we were looking to see whether we could actually do more paving this year.

The other thing that's happened as we put more work on the market, we're seeing contractors who have not been out there bidding for some time. They're getting their machinery back going again. So in the gravel crushing area we're seeing people coming back into gravel crushing who had not been involved in it for some years.

In terms of the earth moving that had been of some concern to us, but an Alberta firm came along and won the first bid on No. 1 West for half the work out there. So our earth moving contractors got very aggressive with their prices and they won the second bid. But I believe it's an out of province that's won the third one, Barry?

Mr. Martin: — No, it's still Saskatchewan.

Mr. King: — Okay. But the industry we meet with them regularly. They did quite rightly say they could do more work about August because the season just didn't shut . . . they didn't get shut down at all this year.

Mr. Gantefoer: — In terms of the winter we also had a pretty exceptional winter last year — winter season — that probably was reflected in less costs of snow removal and things of that nature. One of the concerns that has been expressed is that

because the season was so unseasonably mild that some of the new structures in terms of organization of the amounts of miles of road, each kilometre of road, each jurisdiction is responsible for has been fairly significantly increased such that some communities may end up potentially being prioritized so that they're a day or two waiting for the roads to be opened. Last year that didn't happen by and large because of the mildness of the season.

Have you reviewed your plans for winter snow removal and community access in light of the concerns that were expressed when this was first proposed?

Mr. King: — Yes. The new winter maintenance plan went into effect two winters ago. It's fair to say we did have some growing pains especially in the south because of the inordinately heavy snowfalls in the south part of the province.

We sat down actually with our union and our union is very tough because they want as many people to work as they possibly can. And we went through a detailed analysis of the winter maintenance program such that there was an agreement between ourselves and the union that by adding 13 more positions around the province we could adequately handle the winter maintenance. So we are adding more employees into the plan this winter. We will be laying off 13 fewer summer employees and they'll be on winter maintenance.

Mr. Gantefoer: — Thank you, Madam Chair. I understand my colleague has a commitment later and would like to get in so I'll defer right now.

The Chair: — Mr. Osika has to leave so if this is okay with committee members, let him ask his questions. Okay?

Mr. Osika: — I thank you, Madam Chair, and my friends on the committee. Gentlemen and lady from Highways, I guess it's a concern to all of us and I'm sure it distresses each and every one of us, the fact that we do have a situation facing our highway system that is difficult obviously to resolve in the immediate future.

You had mentioned earlier that Saskatchewan ran out of a program. Which program did you elude to earlier? I'm sorry I missed it.

Mr. King: — The federal government had a strategic highway program where they would fund 50 cent dollars for strategic highway construction. So part of the twinning of No. 16 was done under that program. Part of — is it No. 12 north of Saskatoon — was . . . (inaudible interjection) . . . Oh, we already ran out of the money before we did that one, Barry informs me. But part of the strategic part of Highway 16 was done under that program.

Mr. Osika: — Okay. And what . . . when did this happen? When did that program end?

Mr. King: — Well it ended at various different times. We ran out of it last year. We spent our last money on that program. I think there's still some provinces who have some money under that program.

Mr. Osika: — Our highway, our provincial highway system has deteriorated considerably over the last number of years, perhaps during the last decade. What would the reason be for that?

I'm wondering, is it as a result of inadequate annual maintenance from a year to year basis, that now we've arrived at this point on our provincial highways that there needs to be some very aggressive programs to bring them back up to speed? Is that what's happened?

Mr. King: — We commissioned an independent consultant to do a road cost study related to the changes that are occurring in grain and in rail. We presented that report to Justice Estey in Winnipeg October 1, I . . . no, September 29.

We have been saying, as the three western provinces mostly affected, that the changes that are occurring through the deregulation of transportation, the railway deregulation, the Crow rate going off, the consolidation of the elevator system.

We used to have 900 elevators in the province; we're down to around 650. And we're going to be down to probably 60 main points and a few little feeder points around the province if we continue to go the way we are. What that means is that tens of thousands of tonnes of grain that used to be on the rail system is now out on our rural system, both the grid system and on the thin membrane highways.

I remember when the first thin . . . Well my mother showed . . . my mother sent me some old university letters I used to write her from university actually, and Highway 334 had actually been . . . got a thin membrane back in about 1962. It served that country really well until the big trucks started to go on it and it just was never built to that standard. And so it's the changing flow of what's going on out there in rural Saskatchewan that's driving our roads to ruin.

And it's not just as our roads get bad and as we try to fix them, trucking will shift over to a different road. And that road, it might be a RM road, and that road starts to get banged up then. And once it's banged up, they might come back to our road. So we're in a catch up position all the time.

That's why we're working with rural Saskatchewan to try to identify: can we choose trucking routes and keep the trucks on those routes? Keep your school buses off of those routes, you see, and try to get grain to move in an orderly fashion through the countryside to these large collection points that are coming up. Or start a short-line railway and keep the grain off your roads.

Mr. Osika: — But this didn't just happen overnight; I mean it could be seen as coming. And were there any plans in place? So I guess now at this point, because of what's happening, are there plans in place?

And I appreciate what you're saying. You're working with the rural municipalities to determine and perhaps target some specific roadways and to handle all this heavy truck traffic. But I guess it still bothers me that when a problem starts, you address it and you work at it so it doesn't become a major problem that we have now. And I know it's difficult.

You mentioned that Alberta is going to build, rebuild their north-south. Are they getting any grants from the federal government?

Mr. King: — No.

Mr. Osika: — And how are they going to . . . how have they been able to maintain their highway system to the extent that they have with this new project?

Mr. King: — We have the most extensive highway system in Saskatchewan of any province. We have over, when you include the rural municipality roads, we have about 185 to 190,000 kilometres of road. That's twice as much road per capita to look after in Saskatchewan as any other province. The next closest is Alberta.

So number one, Alberta has far fewer roads per capita to look after so it's easier for them to look after fewer kilometres. The second is they do spend more money on roads per kilometre than we spend, and so their roads are in better shape.

We have been working for years out there in the countryside, by the way, trying to get people to understand the changes that are happening and that we have to work together to plan. It's my experience that people don't believe it till it starts happening to them. They can conceptualize, yes, well maybe it'll close down some day. Until the railway says we're shutting the line down, people just won't believe that it's going to happen. Till the Wheat Pool says we're going to close 235 elevators, people just don't, they just don't believe it.

Now it's starting to come. We're well positioned. We've been working for two or three years out there in the countryside, giving people information, giving them the tools to take charge and to try to manage the change that's occurring. We don't have allies necessarily in the railways. And the grain companies have their own business plans.

Mr. Osika: — I guess that's a concern to a lot of the producers, as you can appreciate, that are now going to be delivering their grains to these major terminals. I guess, I expect, you said that you're working with rural municipalities — are there targeted plans in areas to create a road system to ease some of that pressure off the thin membrane highways? I guess the other thing too, are there plans to put some of those thin membrane highways back to gravel?

Mr. King: — Okay, two questions. The first one — are there plans? Several of the transportation planning areas have published reports on the changing traffic patterns.

They're having difficulty going to the next step which is prioritizing the roads because, do I say my road's less important than this road over here? So we're having difficulty with that next step of cull prioritization.

But we are also developing the plans to deal with that prioritization. Likely it will involve having an independent objective consultant brought in to help them go through it, and therefore they can deal with whatever local problems they've got in terms of agreeing to the priorities by having a third party saying that this is the best prioritization of the road system.

And so we're just working on that next step. They've got all the information but it's tough to say, I'm going to go build his road before I build my road because I've got to get re-elected back out there.

So we need to get them to that next step and it's probably going to have to be through third-party intervention.

I think I forgot your second question. Oh, gravel reversion. We have no plans for gravel reversion. We do in some areas revert a section to gravel if it's wet, gets wet, and it won't hold together; that's the thin membrane. So we have turned some of that back to gravel. As it dries out and as our budget allows us, we're re-hard-surfacing it.

Mr. Osika: — Okay, I thank you. Again as I said earlier, this is a concern for everyone to ensure our economic development through tourism, our grain transportation systems. And just to follow up on what Mr. Gantefoer had asked with respect to ongoing pressure and negotiation with the national federal government to try and convince them that there is this desperate need. Has there been any indication whatsoever that the twinning of the highways will receive some assistance through this province?

Mr. King: — No. Mr. Collenette . . . At a meeting last month in Regina, there were 12 jurisdictions represented along with Ottawa, and the provinces unanimously asked to sit down and talk about a program which would help. But Mr. Collenette's explanation was that they're just coming out of their fiscal situation and that he didn't think he got highways onto the radar screen. It was still the big issues of the millennium fund for education and health care.

I just think that as a country we have to have some national leadership here because . . . Ontario, their priority isn't on No. 17 Highway between Manitoba and Sudbury. They don't see that as a high priority. So without federal vision to help us we can't connect Canada east and west. All Ontario's money is going to connect down into Michigan where their main trade occurs. So we need to hold together; as a country we need that national vision of transportation. And it just isn't quite there yet.

Mr. Osika: — Not easing up on the pressure. Not unlike . . . and I can go through a lot of letters that I've sent through to your department. And I find that if you write enough and if you continue to pressure, that you do get some results and some responses eventually.

Mr. King: — I'm very hopeful that Judge Estey will identify roads; as I indicated we provided a major road impact study to Judge Estey explaining how much it was costing us with the changes to the grain handling that's occurring. Everybody else seems to be getting savings. The railways are getting savings and the grain companies are getting savings. And the producers are getting a bill for new roads that have to be constructed with no guarantee they're going to get some of the savings that the railways and the grain companies are getting.

And so that's the point that we're trying to make to Estey — you've got to get some of this back to the people who are being served by this system. The shippers really are the customers and

they should be looked after better. So I'm hopeful that Estey will identify road funding as a major recommendation flowing from his report on grain handling. I mean there's hundreds of millions of dollars of cost going out onto our roads because the grain isn't moving on the branch lines.

Mr. Osika: — Thank you very much; thank you, Madam Chair, committee members, for allowing me that.

The Chair: — Mr. Gantefoer, you have a question left?

Mr. Gantefoer: — Thank you, I have just one general little area to finish up on. It's a question of — I don't know if the right word is liability or responsibility for damage to vehicles. I recall an article where it said one RM or something is trying to send you a bill for an ambulance because of the fact it got wrecked on your roads. There's instances where there has been documented damage to vehicles and things of that nature.

Would you please outline the policy or the criteria for you taking responsibility for the condition of roads in terms of vehicle damage.

Mr. King: — If we have very clearly signed an area with a proper warning to slow down and drive carefully, then we would in all likelihood deny liability for someone who drove through and had damage to their vehicle. If on the other hand we had neglected in our duty to put up a warning sign and someone had hit something, then we would accept liability for damage caused to a vehicle.

Then there would be a third grey area where it was uncertain as to whether we had properly alerted people. We instituted a neutral adjudication of those types of cases. I have talked to four or five lawyers who are used to doing arbitration, simple arbitrations. And for a relatively modest fee we will agree to send cases where there is a dispute between ourselves and a party that is in the grey area to this third party for resolution.

So that's generally it. If we feel we provided adequate warning, we would deny damage. If we didn't provide warning, we would pay. The grey area we will arbitrate. We will let a third party decide whether it's us or the other party that is responsible.

Mr. Gantefoer: — Thank you. One final area, and I stand corrected if I'm mistaken, but I believe the program that was announced in terms of permitting to have roadside memorial markers put on the highway, is that administered through your department?

Mr. King: — Yes. We're a department that was heavily technical. It was run by manuals and rules and this is the way you do something, and so the rules said you don't allow memorial crosses. I'm trying to bring a public policy approach towards highways and transportation to the department so that we're not quite so technical, so that we're more understanding of people's concerns.

Signage is a whole other area that I think I spend more time on signs than I do on roads sometimes because, you know, the rule book says you can't have a sign here. And I'm saying, what makes sense under the circumstances? You don't want to clutter

up the system with all kinds of unnecessary signs and you don't want billboards all over the countryside because it's probably a visual pollution.

But what is good public policy between having a rule book that's inflexible and meeting legitimate needs of people for either remembering when they're grieving or for identifying something that might help a person like an arts and crafts store or something that people might stop and purchase something at.

So I'm trying to bring more flexibility. And we are the department. We introduced a new policy which does allow the commemorative crosses now, taking into account public safety.

Mr. Gantefoer: — Thank you very much.

Ms. Stanger: — Just two short questions and a comment.

I just want to thank you and say thank you to the department, the people that work there, for your diligence and your work the last seven years that I've been elected. I've had nothing but co-operation from your department. I'm not saying I got everything I wanted but that's beside the point. I'm especially impressed the last few years in your work and what you're trying to do for rural Saskatchewan.

I just want to put this on the record and I want to hear what you have to say, so I've asked two questions. Have you been meeting with grain companies to determine what their devolution will mean to rural Saskatchewan? That's number one. Number two, has your department been kept up to date by the grain companies and the railways so that they can make plans into the future?

It's pretty hard for you to make plans if these folks are keeping you in the dark and I have to have 15 different ways that I'm trying to get information from private people and everything, in this area. And of course, are they providing you the information so that we can make some of the plans.

And my last comment is, I think Alberta, Saskatchewan, Manitoba, but especially Saskatchewan because we're an export province, we are hampered because we're land-locked. The north-south corridor is very, very important to us. And I just don't know if . . . by the abdication that the federal government — they've abdicated, as far as I'm concerned, rural Saskatchewan and Saskatchewan because they have to put in the money that we need so that we can export our products.

I'm just really distressed by this, to tell you the truth.

So I just want to say that I concur with colleagues that we have to keep pushing for a national transportation policy, which we don't see. And I think that the Crow rate was a condition of Confederation; we lost that battle.

But I think that we are suffering under Confederation. The middle part, at least the middle part of the United States is being helped by the government. We aren't. And I just want to emphasize to you how deeply that is affecting rural Saskatchewan, which I represent.

Mr. King: — I have met with most of the major grain

companies. There are a couple who have made announcements recently — Archer Daniels, who I haven't yet had a chance to meet with. In some cases they will share their plans for their expansion with us; in other cases they're insisting upon a secrecy agreement so that we don't utilize it for competitive reasons. They would be concerned. So we are having difficulty getting information from these companies.

I'm meeting with the largest company on the 8th, which is tomorrow. We have asked for the location of the 235 elevators that are being closed down. We haven't received that information and I don't know whether we will get it. If we do we may have to do so on the basis of a confidentiality agreement, which may or may not work for us if we have to work with RM's (rural municipality). You see, because it's all right for me to know what to do with the highway system — but, if I can't partner with the RM's, then it's not much good.

The fact of the matter is my officials can sit down and probably identify 230 of the 235 just by their knowledge as to where the big terminals are coming in. If you drive down to Assiniboia, Saskatchewan, you'll see a monstrous big elevator going up down there. And it's not too hard to figure out where there are going to be elevator closures down there.

Interestingly enough, we've had some significant dialogue with the CPR. The CPR are actually working with us, partly because they are western based in Calgary now and they're trying to improve their corporate image with the west. So the CPR has been relatively co-operative in working with us and with communities. They go out into the communities. They're not afraid to go out even though they're getting heck out there.

We're actually starting to see some potential for them to actually be partners with short-lines. We're coming very close.

The CNR, on the other hand, are just awful. They are just absolutely stonewalling us. They're trying to burn down the forest as they leave, you know. It really is a scorched earth policy the CNR is conducting. It's just the most aggressive thing I've seen.

Ms. Stanger: — They don't want to co-operate with the short-lines, do they?

Mr. King: — We've managed to, we've managed to lobby Ottawa and Mr. Collenette told us at the last meeting that he had warned the railway companies they would be in trouble unless they acted a little bit better. So actually we're getting a bit better co-operation from the railway.

On the other hand we're having to take the CNR (Canadian National Railway Company) to the Canadian Transportation Agency because the line between Prince Albert and Birch Hills, they're putting a price of \$500,000 on that, roughly. And we think it's probably more like a 100,000 because they haven't added in the cost of taking a major bridge out, and that would cost a lot of money. They basically neglected that in their price for the thing, so we're having to take them to court on that.

With respect to the north-south, our minister and the Montana people had a double exchange. Montana came up here to a courtesy visit and explain their program and we went down and

talked to them. Barry, who's my chief engineer, blanched when they told us about the road they were going to build from Plentywood up to the Canadian border because he knew what the engineers were talking about in terms of the standard of road. It was something beyond what we could ever hope to afford here because of all that federal money they're getting. But that would be the route No. 6 south of Regina.

And so we're now having to see how quickly we can respond with the sections of No. 6 that aren't in good shape, basically south of Highway 13, down through the border need work to anywhere near match what the U.S. is building. We've had some discussions on Highway 4 but that's going to be a hard one — that's the one south of Swift Current. Even though Montana's going to be doing some work getting the road from north up there.

And we're having discussions on border crossing issues at Portal to try to get a one building/one location border crossing to make it more convenient and cheaper for everybody, and probably have one set of officials, except the U.S. one, its guys have guns and ours don't. So I don't know whether we can do that.

Ms. Stanger: — Thank you.

The Chair: — Are you finished?

Ms. Stanger: — Yes, I'm done. Thank you.

Mr. Goohsen: — Thank you, Madam Chair. I was kind of wondering, in listening to this discussion, at what point in our society did we come to the revelation that grain is moved cheaper by trucks than it is by rail. And why did the railroads, you know, find themselves not competitive with truck traffic. Do you have any assessments that you've done to determine that, to try to figure out why we made the switch to trucks away from rail?

Mr. King: — The changes to the Canadian Transportation Act, that occurred approximately two years ago basically indicated that the railways were free to abandon line under a totally new process. Before they had to prove that a line was non-economic, go through a real rigamarole in order to be allowed to abandon line.

Lines have been abandoned for years and years and years, but they've had to go through a very rigorous process. There's no process required, except to say we're going to abandon this section and leave it open for the private sector to see if they want to try to run it as a short-line, for the province to see if it wants it, and for the RM to see if it wants it. And if you follow that time frame and nobody picks it up, they can abandon it.

We've had to intervene in a couple of areas where they've picked out short sections of track — it's called segmentation. If they're able to abandon a short section it makes the whole line uneconomic.

In our discussions with the railways and with the grain companies, it's a chicken-egg argument. It's them who are saying, you know, we're building them a \$10 million grain handling facility, you've got to shut the branch line versus the

railways identified their strategic lines to us and we're only building in response to that. So don't ask me who's telling the truth, but this dates back probably five years when grain and when transportation started to think about how to become more efficient.

From the railways point of view, they're providing huge incentives for the grain companies by saying, if you give me a hundred cars of no. 2 durum on Wednesday, if you load them up, I'll give you \$8 a tonne kick . . . reward, rebate. And so the grain companies — it pays for them to have that hundred cars of grain.

What's more disturbing almost than the fact that grain is now moving instead of 12 kilometres on average, it's going to be moving 40 kilometres on average to get to an elevator. What's more disturbing is it's going to be trucked between the big elevators. Because if they need a hundred cars of durum, they're going to have super bees running durum down from Kindersley to Rosetown in order to get a hundred, or vice versa. So not only is your grain going to go from farm gate to elevator, it's going to go from elevator to elevator. In fact there are some estimates now that as much grain is being moved between elevators right now or will shortly be as is being moved from farm gate to elevator.

Mr. Goohsen: — Well just to press this a little bit further, I talked to a farmer who has decided to supplement his income with truck. His fuel costs ran about 10,000 a year and now he's up to 35. An increase of 25,000 to run his truck to do custom hauling. In the meantime, he's talking to me about getting the potholes fixed up on 37 Highway which is his main road of transport. Now he's not the only one on that road, of course. Lots of trucks getting into the business.

So it triggered my mind to thinking that if it's costing him, personally, that kind of money, and the Department of Highways have heard from me a few times about the holes in the road as well, and they're having to send a crew out to fix them and they're doing that but the whole thing gradually gets a little more bumpy all the time, so it's breaking down. So there must be a study then where we've done some cost estimates as to what it's going to cost to replace those roads and to fuel up his truck and to buy the truck and all that.

And then use that as an argument to keep the short lines and I'm wondering if those kind of arguments are available to the government when they consider, for example, putting money into a short-line and retention of a short-line that would go out to, say to Shaunavon and to Consul. The Notukeu Line of course has been scheduled for abandonment. It seems to me that it's going to cost the government hundreds of thousands of dollars to keep those roads up. Maybe some of that money would then be justified if you have a good argument, on paper where you've done some cost analysis, to put that money into a short-line and have the government as a participant through SOCO or something like that, you know. Have you got any of that kind of numbers?

Mr. King: — The problem we've got is that the government doesn't grow any grain. It's producers that grow grain and make the decisions about whether they're going to truck their grain to a big elevator or whether they're going to keep it on a

short-line. So we hold meetings all over the countryside and we explain to people that, you know, giving you money to buy this thing isn't going to work unless you've got some skin in it as well because you're going to make choices based upon either your wish to maintain your community or upon economics. One of the two. And you're the only one that can make that choice.

So what we have done is we have worked together with the RMs and with the federal government to say, here is a program that will provide up to 40 per cent of the equity funding for a short-line railway. In other words, a local group can pick up to 40 per cent of the costs between some CAIP (Canada/Saskatchewan Agri-Infrastructure Program) money from the Canadian agriculture infrastructure program — that's a federal program, the province and a 10 per cent additional equity — 8 per cent I guess from local interests. So the local people have got some skin in it as well.

Things are looking very promising in some areas of the province where we will use that program to develop short-lines. But the people in those communities have got to make that decision.

I mentioned the Southern Rails Co-op having signed an agreement to pick up 46 more kilometres of rail from Avonlea to Moose Jaw. There's a big, huge ConAgra facility at Corinne which is about 30 kilometres away.

The people in those communities of Parry and Truax and Avonlea and Briercrest are going to decide whether that short-line will continue to haul grain, by their decisions as to whether they haul it to Moose Jaw or whether they haul it to Corinne or whether they keep it on the short-line. And they're keeping it on the short-line because they own the short-line. It's theirs.

We helped. We helped develop the Brandt road railer, which allows this big truck which has the ability to run on rail and haul up to 15 cars. That was part of the Department of Highways and Transportation's contribution initially to make that thing go.

And that's the kind of advice we're giving in the countryside. And as I say, it looks very promising in some areas. But just to go to people and say, here's your short-line, they're the only ones that can decide whether that thing will make a go of it.

I went down to South Dakota because I heard they had bought some rail line back in the '80s, and they had. But half of it had never seen a railway on it after they bought it because it just wasn't going to be utilized. It's a very similar situation, agricultural, but by the time they bought it people's patterns had developed. They were trucking.

And so we can't get into that. We don't have the ability in this province to buy a bunch of track and let it sit there and rust.

Mr. Goohsen: — Well certainly that wouldn't be productive but I think when you take a look at the maps of the abandonment that are going to occur, as you have alluded to, in the south part of the province and then realize that even though compared to the whole province this doesn't look like a big area, it is in fact hundreds of thousands of miles of trucking

that's going to be done.

And the demand on the highways is going to be higher. There's no question about that. So, you know, I just kind of wonder how we've come to this state of affairs.

I wanted to ask you about the twinning program you alluded to earlier. And I seem to have heard — maybe I'm wrong here — that this is a sort of a separate plan, the initiative to twin the highways. Is that in fact true, that you have a separate plan that you have targeted for so many years and so many dollars to go into it, to finish it over a certain period of time?

Mr. King: — Two years ago when the transportation strategy was issued, the promise was made that we would have No. 1 twinned from the border of Manitoba to Alberta, and No. 16 from Saskatoon to Lloydminster in 15 years. We're now two years into that.

Twenty-seven kilometres of earth was moved on No. 1 west this year. We have a contract ready to let on No. 1 east. It just rained two and a half inches. I'm not too sure what that means and whether or not any work will get done on that side of it until next spring. All things being equal, we'll have some work being done on No. 16 next year.

So it's part of a strategy which says that we should have our major routes that contain the majority of our traffic should be twinned for safety purposes.

Mr. Goohsen: — Yes, I think you're right about that. I just wanted to let you know that it's perfectly dry in the south-west. So that if you can't work down on the east end, you could transfer that contract over to the Alberta border. And it's actually just moist enough to make the dirt pack well, so you'd have a good chance to get ahead this year.

The north-south flow — I think I see a trend coming, an announcement made by the Americans that they're going to underpin their farm community with several billions of dollars of support, and with their floor prices guaranteed by the government for grains, has created a situation where the Americans literally can bring barley into Saskatchewan and Alberta to the feedlot industry and give it away and still be guaranteed a profit. Because, you know, they don't really have to get any money, so the dollar factor is not a factor any more.

And we're told that there's hundreds of thousands of tons of grain coming up into Alberta over the last few weeks, truckload after truckload. In fact they were more worried about having the Americans shut off than they were about the Saskatchewan people and Manitoba people taking stuff south as a result of that blockade, which was probably political. But nevertheless they were bringing more in than we were taking out so it had to be resolved apparently. But this is going to continue.

And as you've alluded to No. 6 and No. 4 Highways being interconnected by American superhighways, I'm thinking that probably there's a tendency for the Americans to think that this is going to continue for sometime and they're providing themselves with good roads to be able to do that.

So if our markets are going to be flooded with traffic coming

from the South for that or other reasons, do we comply then and try to match that, or what's your plan?

Mr. King: — We've been doing quite an intensive study of border crossing issues between North Dakota and Montana and ourselves. We're doing surveys with the trucking industry, for instance, to determine where the traffic originates and where its headed to get a better sense.

I think if you looked you'd see running down Highway 39 to Estevan and Portal, you'd see an awful lot of traffic originating from Edmonton which is using our highway system to get down to Minneapolis. And so that's another reason for having some national money into it is because we're having Alberta industry using our highways, and we're not getting anything other than possibly some gas tax; although that's not even necessarily certain. If they've got a big enough tank they probably fill up in Alberta.

The aforementioned New Brunswick plans on making something like \$300 million profit on a toll road that P.E.I. (Prince Edward Island) traffic has to go across in order to get to market. So that's another reason why our federal government has got to help us with our transportation, so we don't become a series of little duchies who charge each other to come through our territory.

We've met with the Government of North Dakota regarding the border crossing at Portal because it's being rebuilt and we want to have the most seamless crossing we can have to help motorists, and tourists, and traffic. We're working on so called "smart border crossings" so that people might have a card-lock that they can use if their truck has already been sealed and approved. They can just put a card-lock in and a video camera will come on and somebody sitting 200 kilometres away can approve the gate opening up and the truck going through. We're working on that with the state of Montana.

We've had an exchange with Montana officials about their plans for the next few years so that we can try to match up. I can't guarantee because this is additional sort of strain on a very difficult budget situation we're in whether . . . We won't be able to match the level of engineering of their road. Montana, from Plentywood to the border, is building something that Barry tells me is engineered to the level of our No. 1 Highway. And that's just too prohibitive. It cost us \$186,000 a kilometre to build one of those TMSs (thin membrane surface) up to where it can stand grain haul. That's an enormous amount of money and we've got 13,000 kilometres of those TMSs.

Mr. Goohsen: — Well you've just alluded to the fact that you're running over budget. Where did you get the money for that?

Mr. King: — I'll have to get a special warrant when the appropriate time comes, but the Minister of Finance is the one that indicates that . . . the Treasury Board is the one that indicates whether or not we can exceed expenditures.

Mr. Goohsen: — Well if it's that easy you might just as well just keep on going.

The Chair: — I noticed the time is 3 o'clock and we really

appreciate . . . I have one short question before we go into recommendations. This is probably the shortest question you'll get. I'm just wondering about why if you're complying with all the Year 2000 problems, and more specifically provincial airports are probably something that is a concern. I'm just wondering if they're ready.

Mr. King: — Transport Canada is leading the push on the airport safety issue. We, in terms of our Year 2000, may not have everything fixed because we're doing a cost/benefit analysis of what is our risk versus our reward. And so for instance if we have a computer that's four years old it might not be worthwhile to upgrade it if we have a three- or four-year turnover program for computers.

So we're doing our full Year 2000 compliance. We were subject to an audit by an external third party who identified one area of weakness and we've since corrected that area.

The Chair: — So the airports are covered then?

Mr. King: — Yes, they're covered by Transport Canada.

The Chair: — Okay, thank you. The recommendations, I understand there's a number of them but I've been told that all of them we can basically say they're either complying, complied with, or complying with.

Mr. King: — Or we're working towards being in compliance.

The Chair: — Should we go through them individually? Okay then, concurred or compliance on .24. Concurred or compliance? Agreed.

On .31, it's concurred. Is that one being complied with or it has done, with results of its assessment of the risk of loss or damage to its inventory and equipment. Is that . . . it's complied.

.43 The DHT should continue to develop a financial system that meets management's information needs efficiently.

Complied?

Mr. King: — Yes, it's complied.

The Chair: — Concurred, complied? Agreed? Agreed.

.51 The DHT should establish adequate rules and procedures for preparing complete and accurate interim financial reports for the Fund.

Mr. King: — Our financial system will be completed in the spring of 1999 and the documentation will occur following the implementation.

The Chair: — Agreed?

Thank you very much to the officials. I have to tell you this was very interesting and I think that it was informative. It was great for everybody to be able to talk about the future and we really appreciate all of the information. Thank you very much.

I think we are late, but we'll still take a 10-minute break.

The committee recessed for a period of time.

Public Hearing: Saskatchewan Telecommunications Holding Corporation

The Chair: — . . . the new people that are here. We're only a couple of minutes late. Well actually 15 to be exact. But we appreciate your waiting for us.

And before we get started, I'll ask Mr. Ching to introduce the officials with him.

Mr. Ching: — I have with me today three of my staff. On my immediate right is Randy Stephanson who is the chief financial officer for the corporation. On his right is John Meldrum who is the corporate counsel and VP (vice-president) of regulatory affairs. And on my left is Sean Caragata who is the general manager of corporate affairs.

The Chair: — Thank you, and welcome. And again I'll ask the Provincial Auditor to introduce people with him just so everyone is aware.

Mr. Streljoff: — Thank you. With me is Judy Ferguson — she's going to be leading our discussion on our results of SaskTel — as well as Jack Grossman from Deloitte & Touche. He's a managing partner of Deloitte & Touche in the Regina office and leads the . . . has the overall responsibility for the audit of SaskTel at Deloitte & Touche.

The Chair: — Welcome. Before we get started I'm going to read a statement by the Chair to witnesses that are appearing before this committee.

Witnesses should be aware that when appearing before a legislative committee your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as a subject of a civil action.

In addition, I wish to advise you that you are protected by section 13 of the Canadian Charter of Rights and Freedoms which provides that:

A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, excepting in a prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put forth by the committee. Where a member of the committee requests written information of the department, I ask that 15 copies be submitted to the committee Clerk, who will distribute the document and record it as tabled.

And I just ask that you address all your comments through the Chair.

So welcome. And we really start by asking the Provincial Auditor or Ms. Ferguson to do an overview by the provincial

audit.

Mr. Strelioff: — Thank you. I'm going to turn it over to Judy.

Ms. Ferguson: — Thank you, Wayne. Madam Chair, members, good afternoon. I've got the privilege this afternoon of presenting chapter 6 of our *1998 Spring Report*. I'm going to sort of do it in two, really two phases. First I'm going to try to provide you with a little bit of insight and overview of SaskTel, the communications holding corporation, and then discuss our audit findings and recommendations.

I realize this is quite small and that you'd almost have to have bionic eyes to read it. But what I want to do is briefly take a look at really what SaskTel Holding Corporation is. And I'm sure Don Ching and company can speak to this more eloquently than I, but just to give you a flavour of the organization itself.

SaskTel Holding Corporation is that — it is a holding corporation with many subsidiaries underneath. The ones that I have presented here are only the active companies within the corporation. There is a number of other ones that are inactive.

The key ones are SaskTel, which everybody's familiar with. It's wholly owned, 100 per cent owned. SaskTel International Inc. — that's an organization that they use to carry out international activities. Again it's wholly owned. And it has a subsidiary, SaskTel Consulting Inc. SaskTel (New Zealand) Inc. — you may not be as familiar with it, but you probably have heard of Saturn Communications of which it owns 35 per cent.

Then there's two numbered companies, again which you may not be familiar with, I'll read them: 3339807 Canada Limited and 3363381 Canada Limited — those two are both 100 per cent owned but you probably are familiar with DirectWest Publishing Partnership, which those two numbered companies own.

And the last one, again which is 100 per cent owned, is SaskTel New Media Fund Inc. And you've probably heard of it in the form of funding that's provided to the production industry.

So what I'm trying to do with this overhead is really to give you a flavour that SaskTel Holding Corporation is not equal to SaskTel totally, okay. SaskTel itself is a part of it.

The inactive ones are actually set out in the chapter that you have before you, and they include a couple other number companies, and SaskTel U.K. Holdings Inc., which owned Leicester at one point in time.

And then the very last one that's important to recognize is that SaskTel is also affiliated with SaskTel superannuation plan, which is a defined benefit point-based plan for its employees, currently a closed plan that you as members of the Assembly are probably familiar with in that you dealt with a recent enactment in the spring to make changes to that plan.

The chapter itself deals with audit results for five different organizations and they're reflected on the overhead there: SaskTel Holding Corporation, SaskTel, SaskTel International, DirectWest Publishing Partnership, SaskTel superannuation plan.

In carrying out this audit, we worked with Deloitte & Touche on the audits of SaskTel Holding Corporation, SaskTel, SaskTel International, SaskTel superannuation plan. And we worked with Ernst & Young on the audit of DirectWest Publishing Partnership Corporation to form our opinions.

I'd like to take a moment to thank all the organizations involved, because there's a lot of them, for the co-operation extended during all of the various audits. As you can appreciate, they're all December year ends with fairly tight closes.

What did we conclude as auditors? Well for the five sets, we concluded that their financial statements are reliable. That their systems of internal controls again are adequate. Lastly that their compliance with the law with respect to revenue borrowing, lending, spending, and investing activities et al, there's only one area that they need to work on and improve on.

Again it's not a new issue for this committee. It's the issue as to Holdco meeting an order in council before it sets up or buys or purchases in new companies. That issue has been discussed by you as legislators and we understand that CIC now has a new policy where it's asking its CIC Crowns to do just that — to go and get an order in council before it does any of these investing activities. And we as auditors will report back in future years to make sure that the organizations do comply with that policy — right, Jack?

The other matters that we'd like to bring to your attention are the ones that relate to improving public accountability. There's really three areas there — it's reporting on performance, publishing lists of persons who receive public money, and financial reporting on subsidiaries.

I realize that your committee has discussed the expectations of disclosing information on these three related areas in February of '98, and I note at the time that your committee agreed that accountability is an important fundamental of the government.

In February your committee moved to ask the Assembly to refer . . . Let me try that again. In February your committee moved to ask the Assembly to refer CIC Crowns to the Crown Corporations Committee and for that committee to consider these matters. We also note that the committee has not reported to the Assembly on this matter. And what I'd like to do is just take a couple of minutes here to recap these issues as it relates to SaskTel so that you can have the context of that for when you do your report to the Assembly.

I'll just go through them really quite quickly.

On the first two which is really performance reporting and the payee lists, we are pleased to note that Holdco, SaskTel Holding Corporation, has improved its annual report in recent years and encouraged continued improvements. We notice with the implementation of the balanced score-card approach and the philosophy that follows behind that, that the reporting continues to improve.

For example, if you go to the 1997 annual report, SaskTel indicates that it received 28 per cent of its revenues from non-traditional sources and hopes to derive 40 per cent from these sources by '98. It also provides five-year comparisons on

a number of key areas, both financial and operational. Those include return on net assets, debt ratios, long distance minutes, numbers of employees, etc., etc. We think these are all very good initiatives that SaskTel has undertaken, and provide legislators and the public with good information on SaskTel's performance.

We encourage them to continue to experiment with ways to publicly report on their key plans, performance targets, and results for their activities and the activities of their subs. And we do look forward to further progress in this area. We've been impressed to date and we're hopeful that it will continue.

With respect to payee lists, we asked the committee to consider the matter not only in the context of the parent company, SaskTel Holding Corporation, but also in the context of its subsidiaries. So when you are considering the issue please deal with both aspects of the issue.

Moving on to our last two recommendations, and those two recommendations really deal with financial reporting of the subsidiaries of SaskTel. We make two recommendations.

We recommend that for active subsidiaries that SaskTel Holding Corporation publish and table audited financial statements. For its other subsidiaries, we're recommending an option but basically further disclosure of financial information perhaps by publishing audited financial statements or other forms of financial information. We're not being prescriptive in this matter.

We ask the committees of the Assembly to consider what your requirements for public disclosure are carefully. As you know public disclosure reminds all government officials they're spending money entrusted to them by the public. It adds rigour to decision making as those who spend money know that their use of money will be made public. It also makes the activities of the organization more transparent and open.

We recognize that CIC has asked its Crowns to table the financial statements of their subsidiaries with one proviso, that they don't have to table in a situation where there's agreements with outside parties that permit the disclosure of such information.

In SaskTel Holding Corporation's situation, we note that not all of the active subsidiaries currently table financial statements. Some of them do and some of them don't. Actually most of the active ones do. SaskTel does, SaskTel International does, and its affiliated pension does.

Currently though we note that DirectWest Publishing Partnership does not. And we are not aware of any outside agreements that prevent the disclosure of this information at this point in time. So we encourage that SaskTel provide the Assembly with audited financial statements of all of its active subsidiaries.

For the second aspect of the recommendation, really what we're trying to do is, for those other activities, encourage SaskTel to look at the information that they provide and to enhance that information. Again it can be done in a number of different means. It can be done by providing segmented information

within the consolidated statements of SaskTel or other forms of information within the annual reports.

So we do encourage them to look at the financial information provided for the other subsidiaries and improve it. We think it's important that this information be provided to the legislators and the Assembly for it closes the accountability loop. And it provides legislators and the Assembly I think with a better appreciation of the diversity and the complexity of the organization and an ability for them to assess the overall performance of the organization.

So hopefully what my brief presentation has done this afternoon is help you figure out how SaskTel really fits together, what the different pieces of the puzzle are and how our concerns with the accountability process fits into those pieces of the puzzle.

I'd be pleased to respond to any questions. Thank you very much.

Mr. Strelioff: — Thank you, Judy, and Madam Chair.

The Chair: — Thank you very much. We appreciate the information. And I'll ask Mr. Ching if he has anything he'd like to present to the members before we go into questions.

Mr. Ching: — The only thing that I would add to what Judy's already said is that when she refers to our active subsidiaries filing financial statements, it's not that we don't financially report on them. They are aggregated into the consolidated SaskTel statements. So all of the operating subsidiaries are caught up in this particular document.

I think more properly what I think Judy is indicating is that the operating subsidiaries should be broken out and have a separate financial report, because we do financially report on them. It's not that they're sort of out there in limbo and they're not reported to the legislature. It's that the operating subsidiaries other than STI Inc. (Saskatchewan Telecommunications International Inc.) are wrapped into the consolidated statement of SaskTel and treated as an integral part of SaskTel.

And I think what Judy is saying is that we should consider breaking those out and giving separate financial statements, separate annual reports on them as a separate document to this, or with an identifiable area within the annual report that focuses on that particular operating subsidiary.

And I should tell you that in a couple of cases I think that that makes eminent good sense. And in particular if I could I'll just direct a few comments to DirectWest which was one of the ones that she made reference to and which operates as a stand-alone management structure operating to some extent at arms-length from the parent company Holdco. And you'll know that originally that was a company which was largely sold off at one time. And then SaskTel reacquired 50 per cent and we held that 50 per cent as a subsidiary.

We then in the year under consideration acquired the other 50 per cent. The people who were involved in the other 50 per cent of DirectWest wanted to exit that investment for personal reasons. I think some of the people who are critical to their side of the operation had some health problems. And so they

approached us and asked if we would like to buy their half interest.

We did that and we've held that company . . . even though we own 100 per cent of it, we hold it through two subsidiaries. And we have not treated it like a free-standing corporation entity in some respects and in other respects we have. We've held it in that particular fashion for a specific reason.

We, I think, are very receptive to the idea of having another partner in that particular investment. And so we've set it up in such a manner that if we can obtain another partner within the near future that we would rearrange the corporate structure so as to permit that other partner to take their place within the investment. And that in turn will dictate how we deal with it as a subsidiary insofar as setting up separate financial statements and separate reporting and that sort of thing.

So far we've not been able to arrive at a deal to accept a partner in that transaction that we've been comfortable with, and as a result we still own a hundred per cent of it. I should tell you that if we are not in a position to report back to you that we have in fact taken a partner into that particular part of our business by the end of the next fiscal year which is the end of '99, that it is our intention in fact to deal with it in the same way as we do SaskTel International which is to prepare a separate annual report and separate financial statements, and set it up as a separate corporate entity from the point of view of reporting.

What we'd like to do is beg the indulgence of the committee and the Provincial Auditor between now and the end of '99. Because what we don't want to be is in a situation where we start down one road of reporting and setting up an annual report and going through all the processes involved in that, and then find out that a few months later we've taken in a partner and want to go back to a structure is more akin to the one that we're in right now.

So if it meets with the approval of the committee and the Provincial Auditor, we will continue to report DirectWest as an integral part of the annual report and treat them as if they are part in the same way as we have in the past for this present year that we're in and next year. And if we don't have a partner by the end of '99, by the end of '99 there'll be a separate annual report for DirectWest in the same way as there is for SaskTel International.

The Chair: — Thank you very much. Mr. Gantefoer.

Mr. Gantefoer: — Thank you very much, Madam Chair. Welcome, Mr. Ching and officials. And I should state, I think, for the record in beginning that I've had the distinct pleasure of observing two of your officials in my area, and I have to tell all of your officials that the reception you receive here is probably a lot more amicable than what some of the receptions you've received in some of the regional telephone meetings that you were attending at. I do have to compliment you on the fact that you were there though and listened to people that were not necessarily all that complimentary about past service.

And I think it goes a long way into making the corporation seem accessible and open when you do weather some pretty hostile individuals with some rather unkind remarks directed at

the corporation and you people as individuals. So I do compliment you and congratulate you on sticking it out.

I would like to start first of all in an area that we've been talking about pretty generally this week and that's the area surrounding the compliance with the Year 2000 issue. And certainly it would strike the committee that there perhaps is no entity within Saskatchewan or the general government structure that may be impacted more significantly than a high-tech organization with a fair bit of technology than SaskTel. And I wonder if you would update the committee in terms of your work and preparedness for the Y2K issue.

Mr. Ching: — We'll do that. Unfortunately our chief technology officer, Kelvin Shepherd, who is the person within our management team that is responsible for the Y2K issue, was not able to be here this afternoon. But we'll try and give you as much information as we can, and if there are questions that you have in this area that we can't answer, perhaps we can get back to you with a written answer from Mr. Shepherd.

You're right in this respect that being a company which is incredibly dependent upon technology, especially communications technology, we are very susceptible to the problems that are out there related to the issue of Year 2000. We have a lot of pieces of our equipment and of our structure that have got within them the electronics that generally have imbedded within them the problem of Y2K.

Recognizing that, a number of years ago — I think in 1995 or thereabouts — the corporation started the planning process. I think that probably we are as far along in identifying what has to be done and getting it done as anyone of the telcos across Canada.

Every one of the telecommunications companies across Canada is like SaskTel — they're very susceptible to dangers in this particular area. And we are very susceptible to the dangers which arise from third parties, suppliers, and people that we interconnect with not being Y2K compliant as well. We believe that our particular system, our telecommunications system within Saskatchewan, is not in a position where if somebody in Mexico or in the United States or some place else in Canada is not Y2K compliant, that that will take our system down or anything of that nature.

We do however believe that if there is a telecommunications system somewhere else in the world that, after the Year 2000 has some difficulties with Y2K, that there will be a problem if you, the user of our system, want to access somebody by telecommunications in their jurisdiction. But I don't think the fact that the telephone company in Uganda is Y2K compliant will bring down our system so that the person in Nipawin can't phone the person in Regina.

The issue of whether or not we're going to be able to have our system continuing to run without any glitches will be a function of how well we're able to cope with the Year 2000 problem within our particular system. And we are terribly dependent upon our suppliers. Companies like Newbridge and Northern Telecom supply us with a lot of our parts to our system. And we have relied in large measure upon assurances which they've given us that a replacement piece of equipment that they are

supplying to us will be Y2K compliant.

We do as much checking of that as we possibly can, and rely upon not only what checking we do as a corporation but also what we observe being done by our sister telcos who have similar types of issues and problems as we do. But there's no question that we are in many respects dependent upon suppliers who are looking after the Y2K problem and then supplying us with updates of software where Year 2000 is a significant issue.

We've had an outside auditor from, I believe someplace in the United States — is it Calgary? Okay — from Calgary come in and do a third-party external audit of our preparedness for Year 2000. I've got to tell you that that report was done some months ago. I've got to tell you that it was not a wholesale endorsement of our preparedness. As a matter of fact they identified a whole number of things that we should be doing that we were not doing.

We have reacted to that particular report by intensifying our efforts to cover off all the things that we'd already identified, plus the things which the auditor identified. And we think we're on top of it. I know that the person who did that audit is back in the corporation sometime this week or next and is going to be reviewing the status of our further preparedness, if I can put it that way.

And we're going to keep in touch with that particular person to make sure that if they can come up with anything, anything at all, that might be a problem for us in the area of Y2K, that we've got on to it as quickly as we possibly can.

I guess where I'm coming from I think is this. I think that insofar as our base system is concerned, the ability of a person to be able to phone from Nipawin to Regina or from Regina to Swift Current within the province, I feel very comfortable that we're going to be compliant on key issues, and that our system is not going to be tripped up on January 1 of Year 2000. I feel very comfortable that most of our subsidiary systems which support the essential telephone system — if I can put it that way — are also going to be in good shape. I frankly feel that by the time this problem arrives at our doorstep, we're going to be in very good shape.

Mr. Gantefoer: — Thank you. When you speak of auxiliary systems, would that be things like your billing systems and things of that nature that are essential to the critical operations as well.

Mr. Ching: — That's right. Things which aren't necessary to the day by day operation of the telephone system but which are necessary for the ongoing financial and corporate stability within SaskTel. Plus there are other things, I mean our backup systems and things of that nature. We feel that all those things are going to be ready to go by the end of . . . we hope that most of them are going to be ready by the end of '98, but some of them are probably not going to be fully compliant until the first quarter of '99.

Mr. Gantefoer: — Speaking of I guess this issue, but it leads us to another issue in terms of relationships with other companies, telecom companies in Canada, and you indicated that you're not concerned about the impact of companies

outside of our borders not being compliant messing up our systems. But potentially if they're not up to speed, we would have difficulty accessing their system. I guess that would be the fairest way of describe it.

Mr. Ching: — That's right. Probably more significantly from our vantage point where they've got their core systems compliant — somebody phoning from here to Lethbridge, and the connection being made and the phone call being done, but the billing system within TELUS, if it doesn't work, then we don't get our share of the revenue that we normally would expect from that call. That's probably one of the significant dangers.

There's also the danger that if something happens within TELUS's system that the call wouldn't be completed. Those two problems probably there will be less of the completion of the call problem. If there's going to be a problem it will probably be the back room problem of not being able to make sure that you get paid properly and that there's proper distribution of the revenue that comes from it.

Mr. Gantefoer: — I believe your national organization is Stentor and do they . . . and from reports that that may be falling apart or diminishing in its relationship — that may or may not be accurate — but is there an ongoing work between organizations on that basis or through that umbrella that are addressing these among other issues, I assume?

Mr. Ching: — You'll know that one of the most effective parts of the Stentor alliance has been what we call SCNM (Stentor Communications Network Management) — I even forgot what the letters stand for — but it essentially it is the part of Stentor which runs the national backbone of the telephone system across Canada. It makes sure that there is compatibility between our system and the other systems.

The people in SCNM have been working with all of the individual telcos to prod them along to be Y2K compliant in the same way as they prod us along to be compliant in a whole number of other areas where we have to have interconnectability. So there's been a lot of work as between the telcos, and under the umbrella of Stentor, most of it has taken place.

Mr. Gantefoer: — While we're on the national scene I guess, with deregulation and competition of course, that's pretty much changed the face of competition nationally. And there has been some reporting in the media and perhaps you'd comment on it because of shifting alliances and priorities by members of Stentor. What was quoted was the possibility of TELUS making a special deal with another company and it seems to be putting some strain on the Stentor alliance. Is that at jeopardy with this deregulation in competition of coming apart or what's your assessment of the Stentor alliance?

Mr. Ching: — The Stentor alliance has been a very significant alliance of SaskTel, probably — in a lot of respects — probably our most important alliance because it has been the alliance within which all of the nine traditional telephone companies across Canada interconnect and go about their business of providing a ubiquitous, uninterrupted, open system of telecommunications across Canada.

And you're absolutely right. The news media has flagged the fact that that alliance is going through some changes at the present time.

First of all, I think it's important to realize that this alliance and its predecessors have been around for 50 years or so, driven as you can imagine by the demands of our customer base as people were no longer happy simply phoning from Oxbow to Frobisher and wanted to now phone to Winnipeg too, or maybe even to New York city for heaven's sakes, as that was the evolution of the usage of the telecommunications system. There came a demand upon all of the telephone companies across Canada to have a more effective and structured working relationship.

And prior to Stentor there was a thing called Telecom Canada and prior to Telecom Canada there was a thing called the Trans-Canada Telecommunications System. The alliance structure has ebbed and changed and evolved over time partly as a result of what the telephone companies were doing, partly as a result of what the telephone companies and their customers needed by way of a national interconnect.

So I don't think that we should be surprised that the alliance is in some state of change or flux at the present time, and I don't think you should assume, as some people have portrayed, that there used to be an alliance and now there isn't going to be an alliance. That isn't the nature of what's happening.

What there has been is that there has been a dynamic alliance for the last 50 years that has changed and rearranged itself and adjusted its activities and its scope and reach a number of times and we're going through one of those changes at the present time.

Clearly over the last six or seven years, under the umbrella of the word Stentor, the alliance has experienced a period of time where we've tried to do things on a collective basis as a group of telephone companies. And so that in addition to having this thing called SCNM which bolts together the various telephone systems across Canada to provide a national network, we've also had other parts of the alliance called STPI (Stentor Telecom Policy Inc.) for instance, and that's the part of the alliance which looks after public relations on behalf of the entire industry lobbying with the federal government on behalf of the industry. In fact STPI not only encompasses the nine traditional members of the Stentor alliance, but it also encompasses Mobility Canada, I think it encompasses some of the organizations in the cable industry. There's a number of companies and organizations outside the traditional telephone companies that also participate in STPI's activities.

But there has grown a belief on the part of some of the telephone companies that they would rather do that function themselves, or they would rather make subagreements between groups other than the entire group, than do those functions for themselves.

In addition there's a whole area called SRCI (Stentor Resource Centre Inc.) which looked after market analysis, market planning, actual market and sales on behalf of the Stentor companies, especially for major companies which were present in each one of the jurisdictions of the various telephone companies. Again that's an area where some of the telephone

companies have felt that they would like to take over that responsibility themselves.

So what we are seeing with the creation of Stentor in the early '90s, was a move by the various telephone companies to aggregate into Stentor a whole host of functions which they would do collectively within Stentor on behalf of the nine members of Stentor. What you're seeing now is a re-examination of that and a downloading of those responsibilities back into the individual Stentor operating companies.

But that doesn't mean that the alliance is going to go away. It doesn't mean that there's going to cease to exist to be something — we may or may not call it Stentor — but there is going to be something there which centrally operates the part especially called SCNM, which as I say bolts together the various telephone companies across Canada to provide a national network.

And there will be other things which we will do on a collective basis within the alliance and that's what's up in the air right at the present time. We've got working teams representing all the telephone companies going through and looking at the various parts of Stentor, trying to decide which ones should continue to be done on a collective basis and which ones should be downloaded for the individual operating companies to decide how they want to go about it.

And that area is just being examined right now. We're participating in that. We've got three or four people participating in the working teams that are working on that particular problem.

And coincidental with that restructuring and refashioning of the Stentor alliance is the fact that Bell has set up a company called NatCo (National Company) which you've probably also heard about in the newspaper. And some of the other Stentor companies are setting up companies which they think will operate on a more national basis. And the rest of us are going to have to decide whether or not we perform those functions for ourselves, or whether or not we turn them over to NatCo to perform on our behalf on some sort of contractual basis or whether we turn them over to one of the other Stentor operating companies to operate on our behalf.

And all of that is up in the air and in play at the present time. We're going through a fairly significant period of reorganization as an alliance.

Mr. Gantefoer: — One of the issues that I believe is being discussed is the whole issue of how the communication system deals with — I don't know the right word — it's cross-subsidization where you have the increased costs of providing service in remote areas and traditionally tel companies have used revenues from long distance to offset costs in the remote areas. And I understand that that issue is being moved to a different agenda whereby it's being considered that there be a national pooling, if you like, of this effort and that a broad based group of people may participate in creating a national fund or something of this nature that would provide some relief in terms of a number of agencies providing remote services.

Would Stentor and that type of lines be involved in those discussions to the CRTC (Canadian Radio-television and Telecommunications Commission) or powers to be or how does that work?

Mr. Ching: — I don't think that I would tangle up the issue of the Stentor alliance and what's happening within that with the issue related to high cost of serving areas and the issues surrounding that. They're basically two separate phenomenons that may be occurring at the same time.

What's happening in the area of competition is that traditionally — and I'm going back now maybe 10 to 12 years — most telephone companies did two things. They provided long distance and they provided local service. And they made a lot of money on the area of long distance and they always cross-subsidized local service.

And this isn't simply true of SaskTel in Saskatchewan, it's also true of every telephone company in Canada, and indeed I would say every telephone company that had both lines of business throughout the North American continent. It was sort of a universal phenomenon.

And 12 years ago, most telephone companies were that simple. They were simply long distance and local. And if you didn't make any money on local, you had to make it on long distance. And if you would have had a fall-off of long distance revenues — which wasn't a phenomenon that anybody experienced — then you would have to have an equivalent uplift in the cost of local.

What's happened over the last 12 years from SaskTel's point of view is that we've engaged in a whole series of diversification programs which has made that simple equation of local and long distance much more complex. If we hadn't have done that, in effect what would have happened is that every time long distance dropped — and as you know over the last 18 months or 2 years it's dropped by about 60 per cent in Saskatchewan — you would have seen local rates shoot up quite smartly.

As it turns out, we have been reasonably successful in our diversification programs and that success has allowed us to mute that process — not stop it — because those two things are still the biggest part of our business — long distance and local. And whether you like it or not, you can do a lot of things to mute the effect of this one coming down in price and this one being forced up in price. You can ease that a little bit but you can't completely stop the phenomenon. And traditionally it's been that simple: local, long distance.

It's not becoming that simple any longer. What's happening now is for all intents and purposes the ability of companies in the telecommunications to cross-subsidize local is becoming very, very difficult because the margins in long distance are being squeezed mercilessly. And that phenomenon is not going to go away. It's going to be with us for some period of time.

So what you've had is you've had an acute focus on the local side of our business and as you can imagine, the local business is not uniform either. There's local service in the central part of Regina, there's local service on the edge of Regina, there's local service in Yorkton, and then there's local service in my old

hometown of Oxbow. And those are startlingly different pieces of business.

As you can imagine, local service in Regina for the capital that you put in to the investment, you have a lot of revenue streams that come back to you. A lot of people there.

When you go to the edge of Regina, you have different equation between investment and revenue. When you go to Yorkton, you have a different equation and when you go to Oxbow, you have a different equation.

And in each one of those moves, you have an increasingly large amount of capital investment invested and an increasingly smaller number of customers with which to develop revenue to sustain that capital.

And so you have both factors operating to your detriment as you move out of the centre part of the cities. Your costs of capital are going up, your cost of operating is going up, and your revenue is going down.

So what is developing is the concept that because if it is not sensible for long distance to cross-subsidize local, then it doesn't make a lot of sense either for local in the central part of Regina to cross-subsidize local in Oxbow.

And so everybody is thrashing around and saying, well, what are we going to do here? I mean, are we simply going to allow local service in the centre part of Regina to be excellent and on the edge of Regina to be a little less than excellent and in Yorkton to be a little lower grade even yet, and poor old folks in Oxbow or Frontier to really have quite an unacceptable level of service insofar as local service is concerned altogether?

We are a country and, I think, probably a continent that has been raised on a concept of equality between the services that are provided, especially in local service amongst all of those groupings of people. And so to break away from it means a fairly substantial change in our way of operating and our way of thinking about telecommunications.

In addition to that, I think there's sort of a belief — certainly a belief that I share anyway — that there is a very useful purpose within our society to have excellence of communications regardless of whether or not you're living in Frontier or whether you're living in the centre part of Saskatoon.

And so that has driven people to start thinking that if we're going to have the competitive system which doesn't provide for a lot of cross-subsidization between groups, whether it's long distance or whether it's various component parts of the local system, if we're going to have competition which drives subsidization out of the system, then we've got to have some other way of keeping the cost of excellent service to the more thinly populated and high-cost areas reasonable and affordable.

And so the CRTC some months ago, early part of the . . . or in the mid-part of the summer came across Canada and spent some time in Saskatchewan hearing briefs and presentations on this whole question of whether or not there should be some sort of a national fund set up which would allow for a method of cross-subsidization to the high cost serving areas without

necessarily loading that on long distance or on some other part of the local system. And the CRTC's got that under active consideration right now.

And frankly, it's a very important issue to Saskatchewan because as you know more than any other province in Canada we've got people who live in the rural parts of our province, and those tend to be the high-cost serving areas.

And we've got to hope that that decision of the CRTC is forward-looking in its result. Or alternatively we're going to be in a situation where SaskTel is going to be hurt deeply to try and sustain a quality level of service in the rural and remote parts of Saskatchewan. Or alternatively the financial integrity of SaskTel will be maintained but the levels of service and the cost to the customer in those rural remote areas are going to be bad in so far as service is concerned . . . high in so far as cost is concerned.

Mr. Gantefoer: — This is an intriguing discussion and there's so many areas that it leads to.

Does technology . . . while in so many ways provides answers to so many things, it also has its limitations. One of the things that I wonder in terms of this whole issue of services to remote areas, is technology potentially creating the opportunity for what I would call a wireless system that overcomes some of those capital costs that you indicate to remote systems?

And I think of two technologies — the cellular system is one, and I would like to as an aside remind myself to ask you the status of going to digital cellular in the province. But also the idea, and I'm not sure I have the right word, but I believe it's the Iridium system that is based on low orbit satellites that potentially gives you worldwide connections. And I would suspect in the initial stages that it would be significantly expensive.

But as in many things with technology, you see a dramatic downturn in the cost as utilization picks up and as technology improves. And, you know, are there some answers to the remote access potentially in the non-wired systems that seem to be evolving?

Mr. Ching: — The short answer is that probably technology is going to provide some of the answers. But I think on the short term, looking out five years, I don't see wireless systems of communications providing the level of service that we're used to with regard to our fibre optic systems.

To oversimplify it — and understand that this is a labour lawyer trying to talk to you about high-tech communications, so please bear that in mind — the easiest way to explain it is this. When you have communications travelling through the air, it's basically travelling at the speed of sound. Where you have it travelling through fibre optics, I think it's travelling at the speed of light. And therein lies the nub of much of your problem. That if you want wide band width and speed and no echo in the conversation, you're almost inevitably in a situation of where you have to have a fibre optic system.

If you have one-way communications, for instance cable TV or off-air TV, there's only one way of flowing in information. And

if it starts a split second late and ends a split second late, you don't know; you don't care. But if it's a two-way communication where somebody's talking to you and then before you talk to them you're not sure if they're going to keep on talking — you know that problem. Remember we used to have it a number of years ago when you phoned over to Europe or something like that, it was going up to a satellite and down, and when it was going up to a satellite and down, you had the sense that they were a long ways away and nobody knew when the other guy was finished talking. You almost had this desire to say, over and out at the end of when you were done so that the other . . .

When all of a sudden, when you're talking to a person in Paris and it seems like they're in the next room, what you're doing is you're in a fibre optics system going under the ocean. And the difference in quality is quite significant and the ability to communicate in a meaningful way is really quite significant.

So there's no question that there's a lot of technological advancements being made in the area of wireless, and I may say that they are not cheap. And therein lies another aspect of the problem.

Yes, wireless can . . . if you put up a tower, you can get a whole area without ploughing in fibre to everybody but the truth of the matter is that it's not without its costs. And in thinly populated parts of North America, many of which are in Saskatchewan, you're going to find that wireless has only a limited ability to mute the problem that arises from the way in which the disciplines of competition work on a marketplace which has concentrated people in one area, and thinly populated parts of the province in others.

Mr. Gantefoer: — Thank you. I think you've done an admirable job explaining a technical issue in a very understandable way, not necessarily coming from you as a labour lawyer but recognizing who we are receiving the information and not technicians as well.

Again, before I leave the wireless area in terms of the cellular, I believe that the current system is largely an analog cellular system, and that you're moving towards the digital cellular system.

Two parts to the question. Again in your good way of explaining the advantages of moving from analog to digital and also some time line in terms of when you expect to move the cellular system, are you moving it all over to digital and if so, what your general calendar is for doing that.

Mr. Ching: — Well as you know, we've got a fairly extensive cellular system within the province right now. I should tell you, and you as politicians probably know this better than I do, that there's still significant parts of the province that would like that analog system expanded in their particular regions. And it would be odd if in one or other of your constituencies, you don't have somebody who is chomping at the bit to either get an expansion of the cellular system, or perhaps some form of an upgrade.

To give you an example, for instance, I think out of Wadena, we've got a particular problem where a person phones from one

side of the town to the other side of the town, and when they phone, their call goes out to the tower in that direction and goes on to our long-distance system, comes around, accesses the tower on the other side in the opposite direction, and then comes back to the other side of the city or in the town. It turns out that to call across town you've engaged in a long-distance telephone call. And that might be eminently reasonable in some respects, but it is not what we're used to. We're used to phoning across town and that it is not a long-distance call.

So we've got a lot of issues of that nature which we've got to do. So looking at the, what I call the old system although it's only been here for eight years, sometimes we have to pause and scratch our head about that because cellular phones have become so endemic to our daily life that we forget that it's really only eight years old in Saskatchewan.

But that old system, that analog system, there's probably more pressure on us to expand that old system, than there is for us to move to the new generation which is PCS (personal communication service) or digital.

Nevertheless both CANTEL and SaskTel have ruled out digital systems, in again starting in the central part of Regina and the central part of Saskatoon. And incidentally that's a phenomenon that you're going to be seeing more and more of that those two concentrated areas of population are going to be the areas that receive more and more attention within a competitive system — for better or for worse that's almost a corollary of a competitive system. But I think — not to speak for CANTEL — but I think maybe they have also experienced some of this. That rollout of our digital system has not been without some difficulties. It's a new technology to us, and we're working our way through it. But I think that we're in a position where we've turned up the digital system in Saskatoon and in Regina. And as a matter of fact, if people want to plug into that particular system they're probably using it now.

The digital system gives you a smaller footprint per antenna, per tower, but it gives you certain capacities that you don't have with the analog system. Because it is a digital system with bursts of energy, it's much more versatile. It can give you a broader band of services. There's a lot of data services that you can access through a digital system that you can't through an analog system. And it gives you a higher degree of privacy because it's much more difficult to eavesdrop on a digital cellular user than it is on an analog cellular user. For better or for worse, the analog system is very open to being captured by anybody who has the proper equipment, and that really doesn't take a whole lot of equipment nor very expensive equipment to listen in on other people's conversations.

Nevertheless, the fact of the matter is the analog system is a very good system with some flaws in it, and it isn't going to go away for awhile. And as a matter of fact I would rather suspect that we probably are going to have a hard time in ever making an adequate business case for having a digital system in some of the rural parts of Saskatchewan. It simply isn't amenable to it, and I suspect that there will probably always be only an analog system in some of the less populated, rural parts of Saskatchewan.

Mr. Gantefoer: — Thank you. And from what you said in

terms of the footprint, it would require extra towers and things of that nature to cover the same area with digital that you're currently covering with analog so the cost would be much, much greater it would seem.

Mr. Ching: — It's kind of tricky in that respect because as I said the footprint for the digital system is smaller than the analog system. And so what . . . You might not have had any open spots with the analog system, and you might all of a sudden have a grey area with the digital system.

Mr. Gantefoer: — Can you give us some . . . You mention in the cellular system, I recall in Melfort — it's how many years ago that it came in — but they started with six or eight channels and that seems to have been expanding almost exponentially and probably the same is true across the province in terms of the expansion and utilization of the cellular system. I recall talking to SaskTel employees when it first came in and saying, oh, I don't think it's going to be a big deal. And I think you see everybody driving, everybody walking, talking, cellular. How does the cellular subscription or usage compare? You know, what are the sort of the raw numbers in comparison to land lines?

Mr. Ching: — I think you're right. When the cellular system was first being contemplated, and this is not only true in Saskatchewan but virtually every jurisdiction across North America, there was sort of a belief that this was a bit of a novelty and that it probably wouldn't really catch on that much. The truth of the matter is that it's had a growth line like that. It has been incredibly well received by the customer base everywhere in North America. One of the figures that I've heard — and I may have this wrong — but it gives you a sense of where things are at. I think there was an anticipation that maybe in by the year 2000 there would be 50,000 or so users in the United States. Now there's sort of like 20 million of them and it's incredible how it has taken off.

In Saskatchewan here, if you count the FleetNet and the cellular we have something like 150,000 customers in the province which if you think of a million people, I mean that's 15 per cent penetration and add on to that CANTEL's people over and above that. So there's probably, you know, somewhere . . . 18 or 20 per cent penetration.

Now the Scandinavian countries think that we are barbaric. Because in Norway and Sweden and Denmark, their penetration levels range anywhere from 50 to 75 per cent. And so I mean, we're not even sure where the upper limit of this is. Clearly, as our whole society becomes a lot more mobile and given to wanting information even though they are mobile. It used to be, you know, if you were in your car driving from one city to the other, you gave up the idea of having access to the public telephone system. Today, a lot of people don't want to give that up and they don't have to.

And frankly, it's a real nice feature, it's . . . despite the fact that it is a relatively expensive way of engaging in communications, it has been incredibly popular and most companies have scrambled to try and keep ahead of the growth curve on it.

The other thing is that there was always a belief that there was going to be a trade-off that as cellular grew, suddenly you were

going to see land lines abandoned or no longer growing and that we've simply not seen that phenomenon in any significant way yet. Land lines continue to be highly utilized, all of the cellular usage seems to be an add-on to what people expect from their hardwire or land line system.

So I can't give you the precise figure but I mean the growth rates are phenomenal and don't seem to be dampening.

Mr. Gantefoer: — Thank you, Mr. Ching. Madam Chair, I have a whole list of other areas that I would like to talk about. I don't want to monopolize the questioning so I am willing to stand aside for other members of the committee to ask questions for awhile.

Mr. Ching: — Can I make one additional comment?

Mr. Gantefoer: — Oh sure, sorry.

Mr. Ching: — I think on page 31 of our annual report, you'll find some additional information about cellular growth.

Ms. Stanger: — Mr. Ching, you know we heard a few months ago about Sprint's deal on long distance — \$20 a month. Then we heard there's problems. The telephone lines are being plugged, people can't phone hospitals. This is identified in Alberta. Just expand on that and where that's going. I hear they've had to pull back on that deal.

Mr. Ching: — I want to be a little careful here because Sprint is a competitor and I don't want to venture out into some water that I'm going to find is a little over my head.

I think it is certainly our perception that when Sprint embarked upon their \$20 unlimited calling in off-hours program, that they did not anticipate either one of two phenomena which appears to have occurred. They didn't anticipate the degree of growth in their particular business, that is customers that would switch over to them to get that particular plan. But I think even more significantly, I don't think they appreciated that the people who did switch over to their plan would start using, or one might argue abusing, the telecommunications system in the way in which it did.

One might argue that they should have properly planned for that. That's always clear in hindsight, but what is obvious is that it has created some problems. First of all, within our system Sprint does not have facilities within the province. They rent the facilities which they use in the province from us. And so within our system, if they don't rent enough space, then they get blockage on their particular system.

They didn't rent enough space and they started to get blockage because I don't think they had subscribed for enough space to accommodate the people who switched over from our system to theirs or from AT&T to them or from some other company to them.

Certainly I don't think anybody anticipated that people would start using the telecommunications system altogether differently where they didn't have to pay anything other than their flat rate for it. And that has resulted in loading onto the system which has produced a new calling pattern. And that too has brought

difficulties to our system.

They have pulled back in the sense that it used to be uncapped usage and now they're capping it at 800 minutes per month within that time period. And we're not surprised at that. I think our immediate analysis of their program was that it was going to be unsustainable.

We think that even at the capping they've probably got themselves a problem as a company in the sense that it's probably costing them as much or more to provide that service as it is that they're making from it. And in the short run that may be a very good bit of business from the consumer's point of view, but it may be a very bad piece of business from the point of view of their company.

And certainly when we looked at it, the thoughts of simply matching the Sprint plan was not attractive to us because first of all we thought they were going to have to make some changes in the plan relatively quickly, and from our vantage point we felt the need to not only balance the issue of looking after the people in Saskatchewan as customers, we had an obligation to make sure we looked after them as owners of the company as well. And we didn't want to embark upon a program that we thought was going to be financially unsustainable and that was going to financially wound the corporation, no matter how good of a deal it was to the people of Saskatchewan as a customer.

I should tell you however that it's caused, and I think this is true all across Canada, every telephone company in Canada has backed up and looked at what the Sprint plan has done, and has decided how they're going to respond to it.

And some time in the last days of October or the first few days of November, SaskTel is going to be making a public announcement of some changes to our telephone plans which we think is going to be very attractive to the people of Saskatchewan, and adequately respond to what Sprint has put into the marketplace.

Ms. Stanger: — Thank you.

Mr. Shillington: — Thank you. I just have a couple of quick comments. With respect to the abuse of the system, I may say the advertisements on TV tended to encourage the abuse of the system. The Sprint ads which I saw had people talking on and on and on as if the telephone service was like fresh air — it was free and unlimited. And it strikes me that their advertising system brought it on themselves.

I want to make a comment with respect to the auditor's report, if I may digress in that sense. We have this week witnessed a variety of people coming before the committee, some of whom have been highly secretive and have jealously guarded information which is not much more esoteric than the time of the day in my view. And some of who have been much more open.

The extent to which, as related by the auditor's staff, to the extent to which you have published performance standards and measured yourselves against them, to the extent to which you're open with information as for instance publishing the financial statements for subsidiaries — I think I speak on behalf of all

members that we applaud that. We are sceptical of those who come before us and are secretive, and I think we should applaud those which are earnestly trying to be much more open.

You didn't comment on the subsidiaries which are inactive and the request of the Provincial Auditor for some information. Now the request was so flexible that it may be that you feel a little difficulty complying with it. But I would appreciate just a brief comment on the second part of his suggestion.

Mr. Ching: — I think that what we've got . . . we've got a number of companies which perhaps operated at one point and are no longer operating, or which we created and then the project for which we created them didn't go ahead or something of that nature.

I think that what we will do in the future is that we will have a short section within the annual report which simply itemizes the inactive companies and then makes a clear statement to the effect that they are inactive, and that there's no financial activities during the year under review which will simply take that group and sort of put them over to one side.

So that I think when the Provincial Auditor or for that matter anybody who looks at our affairs looks at a structural chart of all the corporation, they see all these companies and they wonder why isn't this one . . . where's the report on this one and there's nothing. If there was something there which listed the inactive companies and indicated that they're inactive and that there's no financial activity occurring within that company within the year under review, that would simply take those off the list; you could just simply ignore them. And then it brings a person's focus down to those parts of the corporation which are active, and then it becomes a question of whether or not they should be set out in the consolidated report or set up in their own separate report or within a separate section within the annual report of SaskTel.

And I think that we've got a very simple answer to the issue of the inactive companies. It's just a matter of listing them all, making it absolutely clear that there's nothing happening there and that there's no financial activities anybody's got to worry about.

Mr. Shillington: — One of the questions . . . one of the issues which I think the Provincial Auditor raised was the issue of, I believe if I'm not mistaken, the Provincial Auditor raised the issue of publishing the names of payees as the line departments do. And I would appreciate a comment on that, recognizing it's probably more complex for a company in competition than it is for a line department.

Mr. Ching: — I've heard a number of observations which I must say I put a lot of credibility to. They may be overly simplistic, but there's a lot to them. And that is that most companies, especially in the fields that we're involved in of high technology, that in truth their only real sustaining asset is their people.

That overly simplifies things because the truth of the matter is there's a lot more to SaskTel than just our people. We have a lot of plant out there and we have a lot of trucks and we have a lot of other things that you reach out and touch.

But there's no question that on an ongoing, forward-looking basis the most critical element of our company is our people. And I know it may sound a little secretive but the truth of the matter is we don't want to be in a situation where we offer any more encouragement or incentive to our competitors to come in and have access to information about how we're going about our business, and more importantly, access to how they would approach raiding our personnel, than they already have from the sources that are available to them.

From our vantage point I think that, like you, we're very desirous because we are a public company, and it's not just from our vantage point a question of making sure you as the legislators know a lot about us. The truth of the matter is we think that it's a good marketing strategy for the people of the province to know a lot about us and to feel comfortable with us and to feel like they know us well enough to call us their own. That's good on our marketing side and our customer retention side.

But sometimes there are things which worry us about the competitive side of our business. Certainly disclosing our internal workings, our planning, and our budgeting in advance, that is an area where we feel acutely sensitive. And certainly disclosing information about our people — names, addresses, salaries, fringe benefits, things of that nature — is in our mind something which is of a competitive nature that we would really like to avoid if we possibly could, knowing full well that there is an acute responsibility upon us as a publicly owned Crown corporation to be as open as we possibly can about our internal workings.

Mr. Shillington: — Finally, just one quick comment about the rate equalization fund, if that's what . . .

Mr. Ching: — The which?

Mr. Shillington: — The fund to equalize rates between remote and settled areas which was being proposed to the CRTC.

I just relate for the benefit of members a personal experience. During the years in opposition I had a branch office in Coronach and — a law office — there were quite a number of Montanans actually owned land in Canada and so they were clients. I got to know them.

The people who lived in northern Montana, in those days, a lot of them got their telephone service from co-ops, local co-ops. The service was expensive and it was nowhere near the quality which they got on their . . . north of the 49th. Many of them had telephones, both north and south of the 49th, and there is no comparison in terms of the cost, and no comparison in terms of the quality.

So I think if the CRTC does not accept some kind of fund to equalize rates we're going to face some very serious problems in maintaining the quality of the service we provide to rural people, because I think the quality they get now may be close to unaffordable.

And I just heartily endorse your comments that we . . . I don't think this necessarily needs response unless you want to do so, but I heartily endorse your comment that we really have to hope

the CRTC adopts this ideal.

Mr. Ching: — It's not just a question of telephone service either because some people would argue that five years from now nobody will even own a telephone as we now know it. There's no danger that the good folks in Frontier are going to get a lower level of service with their present telephone system than what the folks in downtown Saskatoon are going to get.

Where the danger lies, is that in all of the new technologies like Internet, and high-speed Internet . . . as we construct it now the high-speed Internet system is already rolled out in Regina, and Saskatoon, P.A. (Prince Albert), Moose Jaw, Weyburn, and Yorkton, and North Battleford, and Estevan. And probably every one of the small cities in Saskatchewan will eventually get high-speed Internet as it is now constructed ADSL (asymmetric digital subscriber line).

But without some other financial paradigm other than user pays, there's no chance, just no chance that folks in Spiritwood or in Frontier are ever going to have access to that level of service. And yet the fact of the matter is that probably to our children, maybe even earlier than that, the Internet is going to be more important to them than the telephone ever was to us or to our parents.

Mr. Shillington: — Thank you, Madam Chair, those are my comments.

Mr. Goohsen: — Madam Chair, one of my questions alludes to this business of these companies that aren't being used on page 53 and I'm noting 62006 . . .

Mr. Ching: — You're looking at page 53 of . . .

Mr. Goohsen: — Whatever we've been given.

Mr. Ching: — Of the Auditor's report.

Mr. Goohsen: — Yes. Anyway it alludes to Holdco and 100 per cent ownership of these numbered companies and what not, and they're stating here of course, as Mr. Shillington has pointed out, that they have no activity. What were they ever set up for, would be one of my questions? And if they're not active why don't you simply sell them for a dollar so that somebody else can use the company and carry on and be rid of them?

Mr. Ching: — Do we even know what they were?

Ms. Ferguson: — 620064 was part of the initial DirectWest ones and that was the one that fell off the shelf in all of that amalgamation, John. And I think you can answer on the other two.

Mr. Meldrum: — Certainly SaskTel UK Holdings is the entity by which we owned our shares in Leicester Communications in England and it still has some liabilities that exist as a result of the sale, or potential liabilities that might exist as a result of the sale. There were some warranties that had to be made. So we've left that entity hole in terms of being able to step up to anything that might arise. We don't expect anything to arise but in the event it does, it's still existing.

And 604408 has some interests in a couple of companies. One is Hollywood at Home which at this point is totally inactive. It was our old video pay per view trial that we had in Regina. And we're essentially keeping the Hollywood at Home because it has a good name. We may yet some day utilize that name again, but at the moment it's totally inactive as is 604408.

To your question of why we don't sell them for a dollar is that at some point we may require a company. So it has a value and I think the cost of incorporating a company in terms of time and registration fees and the like would be about a thousand dollars. So we're keeping them in the event some day in the future there's some corporate need to have a corporation.

Mr. Goohsen: — Well thank you. I appreciate getting an answer that makes some sense. Because the problem being that most of us in our society, when we see numbered companies, start to suspect that something is amiss. I guess it's our skeptical nature. Obviously everyone agrees, I take it from the laughter.

I was wondering as well, another follow-up to previous questions, the CRTC plan. Do you have a backup plan in case things go against us in that ruling?

Mr. Ching: — Within SaskTel, I don't think we have a plan because this isn't just going to be a SaskTel problem. If the federal government does not institute a high cost serving area fund of some nature which would draw upon all telephone usage to create a fund which would then in turn be used not simply by us but any provider of service in a high cost area, if they don't go down that particular route, frankly I for one am at a loss to know how there is going to be affordable high-class, high-quality service of the future telecommunication systems in the rural and remote areas of Saskatchewan or any other place in Canada.

Mr. Goohsen: — I agree with you. That's why I think that maybe we should be looking at a backup plan.

For our own province, you know, if your interests outside of the country and what not are justified, fine and dandy. But I still have the feeling that SaskTel originally was set up to provide service for Saskatchewan people. And with that kind of thought in mind, I'm thinking that maybe we have to be a little bit — I don't know — jealous of guarding the use of that service for ourselves rather than the international plays and use our monies and our efforts to provide low-cost service to people in rural areas.

And obviously I'm prejudiced because I come from a rural area and Frontier is a town in my constituency and we still want to have a phone there. So we would hope that you will look at some kind of a backup plan because I am not that sure that we can trust CRTC to continue to protect us for ever. Maybe this time around yet, but I'm worried.

I'm also wanting to ask a little bit about one of the recommendations which is on the auditor's report on page 55. Maybe the auditor would want to get involved into this — but it looks to me like some of the activities that have been going on in SaskTel are potentially, and I certainly wouldn't accuse you of doing anything like this, but potentially have the same effect

as the Channel Lake situation had.

And having sat on that committee earlier this year, it would seem to me that if you could find a way to be sure to not have that happen it would be most advantageous to do that. So have you protection? Have you protection for not getting into a Channel Lake situation with SaskTel being spread throughout our international scene and all kinds of other activities that don't seem to be getting watched too closely?

Mr. Ching: — The committee obviously knows more about Channel Lake than I either know or want to know, so I'm not going to make any comment on Channel Lake as such. What it seems to me is that it's vitally important that SaskTel do the things that the concept of an order in council was intended to accomplish. Because simply getting an order in council, clutching it in your hands, is of itself I would argue not of any great consequence.

The two critical things that getting an order in council cause you to do is to make sure that you obtain the proper approvals from the proper levels of the executive side of government. And the second thing that it causes you to do is to make public transactions for which an order in council is required.

That's not to say that I suggest in any way, shape, or form that if the law says you're supposed to obtain an order in council that I'm arguing that you shouldn't obtain one, that they're not that important. If the law says you're supposed to get an order in council, you should get an order in council.

But if you look through the device of an order in council what you really are trying to do is two things: get proper approval; and make public the essence of the transaction that you're engaged in. And I can assure you throughout all of the transactions here where the issue of order in council arises as a debating point that I think it's correct to say that in all cases we have sought and obtained the proper approvals within the executive arm of government, and secondly that all transactions that require public scrutiny have been made public.

So there may be some debate about whether or not we complied with the letter of the law in getting an order in council but the essential underpinning reasons for getting the order — I think they were obtained in all cases. I think that's the important point to start with.

There has been a debate, ever since I've been associated with the government this time around, over whether or not a subsidiary was entitled to get an order in council. And you remember when I was in CIC this was an issue which was on my platter front and centre in those days.

And I was of the belief, which I think parallels that of the Provincial Auditor, that a subsidiary may in the strict terminology of the law be able to do things which the parent can't do, but that in my mind it is bad administration for a organ of government to do things through a subsidiary that they are limited or stopped or inhibited from doing through their parent organization. I strongly believe that because regard of the legality, there's a reality behind it too.

So we're one of the organizations that have, whenever we've

been buying companies or creating companies like this, we've sought to obtain the order in council. And the way in which we were constructing it was in ordinary, sensible terms which was asking for an order in council that the subsidiary could do A, B, and C. And Justice would come back and say, I'm sorry, there is no power for an order in council to issue under those circumstances.

What has been done in the last little while as I understand it is that the CIC (Crown Investments Corporation) has recommended that we follow a practice of obtaining an order in council whereby the parent is authorized to instruct or to permit or to cause the subsidiary to do A, B, and C. It's not an order in council that allows the subsidiary to do it, but it's an order in council that allows the parent to instruct the or permit the subsidiary to do it. And apparently the Department of Justice finds that that is in accordance with the statutory authority of the Lieutenant Governor in Council, and as a result an order in council issues under those circumstances. And I think that's the repair mechanism that has been instituted and certainly we will follow that rigorously.

Mr. Goohsen: — I think there might be a third entity that is created in this scenario, and that being of course that you ensure and encourage at least if not ensure due diligence on the part of people that are involved in these transactions when they know that they are going to have to go through this accountability process. So I think it has a comfort level for the public to think that at least there will be due diligence caused as a result of somebody watching what is being done. Whether that can happen or not, who knows. I guess if everybody in cabinet is asleep one day maybe a lot of things will happen that shouldn't anyway.

But in terms of subsidiaries it always makes me wonder why a company like SaskTel has to have subsidiaries. Now liability, perhaps you might allude to some of that sort of thing. But it just seems to me that when I talk to people and they hear about a whole bunch of numbered companies and a whole bunch of subsidiaries that again — I'll go back to that comfort level — that they suddenly start to feel that maybe there are things going on that are in the grey area of the law or somehow dark and shady. So I'd just like you to comment on that. And that will be my last question, Madam Chair.

Mr. Ching: — Well, I know that there is a tendency to think in terms of sort of numbered Swiss bank accounts and numbered companies in the same grouping.

A Member: — Especially since the '80s.

Mr. Ching: — But the fact of the matter is a lot of people out there in the business world use numbered companies because it's a simplified way of encapsulating a transaction within a corporate entity without having to bother worrying about a name. Sometimes you want to have a name. Saturn Communications is a named company down in New Zealand because we don't want to have the anonymity or the who-cares-about-it aspect of it that comes with a numbered company. We want a name. We want people to remember the name. We want it to be connected to the business that we're doing.

But sometimes you have a purpose for a corporate entity where you don't care whether it's called this or called that or called the other thing, and rather than even bothering about the name you simply use a numbered company because it's simpler. So I understand what you're saying that some people draw the conclusion that a numbered company indicates that there's no good up to here, that there's a nefarious purpose. But in truth there's good and reasonable reasons for having a numbered company from time to time.

The reason for having subsidiaries themselves is because it provides a degree of corporate flexibility; sometimes you have a partner, it's not a wholly-owned entity. Saturn's a good example of that, we only own 35 per cent of it. That couldn't actually be SaskTel.

Secondly it may very well be that since our corporate name is identified with this particular province, that we don't particularly want, because we're doing business in another jurisdiction, to be identified with this political jurisdiction. So it may very well be that if we were doing business for instance in Vancouver, that we would prefer to be operating under a different name other than SaskTel, and we would do that probably through some sort of a subsidiary that was either a numbered company or a named company that had a different name.

But probably the most significant reason for doing it is that it does provide a degree of limited liability. I don't think one should overestimate this, but one shouldn't also underestimate it either. We very often set up subsidiary companies to try and insulate the parent from a conflagration in the investment that they're involved in. And so that it's not an unusual practice for a company to do something through a subsidiary knowing full well that if that thing goes all awry the liabilities for it aren't going to find their way right back into the parent company and perhaps undermine the financial integrity of the parent company. And that's a device which we use to do it.

Mr. Gantefoer: — Thank you. A few questions. I appreciate the opportunity to ask some more questions. I would like to ask the question, you referred to Saturn in New Zealand, the company you hold there, reports of the Asian flu extending to Australia and New Zealand particularly severely are reported in the media and I wonder if you could indicate: has there been any substantial increased exposure or risk to the activities of Saturn in New Zealand as a result of the turmoil in the markets, in the commodity markets, and the economies of those countries?

Mr. Ching: — I'm not an economist by any stretch of the imagination so the opinion I'm going to offer you, I qualify to that extent.

I don't believe that Australia and New Zealand have experienced the negative effects of the so-called Asian flu to the extent that many of the countries in Asia have. That's partly because there is an economic reason for the flu and there's also some administrative or governmental or financial administrative issues that interact with the flu. And those problems don't beset Australia and New Zealand perhaps the way in which they beset countries like Indonesia or Malaysia or Thailand, or for that matter, Japan.

So there is no question that the Asian flu is reaching out and touching everybody in the world, including Canada. I don't think it touches New Zealand and Australia much more than it touches Canada. So the short answer to your question is, to what extent has it increased our risk associated with that investment in New Zealand. It has negatively affected it to some extent. If that investment had been in Saskatchewan in Canada it would have negatively affected it. I think SaskTel the parent is negatively affected by the Asian flu. I think that our subsidiary or part subsidiary in New Zealand is negatively affected. There's probably a larger degree of effect in New Zealand than there is in Canada, but it's not anywhere near the effect that you would have if that was situated in Indonesia or some of the other countries in the Far East which have been much more affected by Asian flu than we have or New Zealand have.

Mr. Gantefoer: — This company is a partnership, a private company; it's not traded on the exchange?

Mr. Ching: — That's correct.

Mr. Gantefoer: — Thank you. One other area that I would like to ask you briefly about is the status of the 911 system.

Mr. Ching: — 911 has not been without its problems. We . . . and this is not exclusively a SaskTel issue as you can well imagine, and in some respects our part of the 911 project is the easiest part and the clearest part. The issue of providing on one side the communications infrastructure on which a 911 system works is complex but it's our business. We do it in other instances and doing it for the 911 project is relatively straightforward and relatively easy for us to do — that simply is to provide the structure on which the whole system operates.

To provide the other part which is to collect a fee to fund a portion of the 911 project, that too is a relatively straightforward thing. It's not without its complexities but it's like all the rest of our billing problems; it's something which we do for a living and so we can solve that problem. If it were only the question of providing the communications infrastructure and providing the billing system I think 911 would be already in place everywhere without any difficulties whatsoever. But that isn't really where the problems are.

The problems are in organizing the police, ambulance, fire, and other emergency systems that would make the 911 project work to get them well integrated, to get a central area to provide the dispatch function, to make sure that that's running very well, and to make sure that the calls are routed to fire and ambulance or ambulance or fire. That part of the project is proving to be a much more complex bit of business than I think most people anticipated.

So in so far as SaskTel is concerned, the parts of the puzzle that we supply I think are there, available, ready to go. There are certain things we have to do to sort of get them switched on, stuff like that. But we've got the easiest part of the whole thing even though in some respects it's the most complex but it's our line of business.

Getting the agencies and getting the proper people doing the proper things within the structure that we provide, that's a much

more difficult and tricky piece of business. But that's really not our part of the puzzle to supply. That's really the other agencies that are supplying that. And getting the police and the fire and the ambulance and all the various component parts working, and getting a facility that handles the dispatch, that's something which we can help with but it's really not our bailiwick.

Mr. Gantefoer: — Coming briefly out of an emergency type of situation, I believe that the outage that was experienced in Regina a week or two ago indicated some potential problems. If your phone isn't working it's tough to access 911 even though it might be working, but there's also the vulnerability of health institutions, emergency institutions on the same — I think the word is switch, and I think they're more simple than an on and off switch like we think of on the wall — but a computer system that handles or controls the switching of calls in a geographic area.

Are there some learnings that are coming out of the Regina situation that you might comment on in terms of the emergency status of a community?

Mr. Ching: — Actually I don't know what the members of the committee have been hearing but one of the nice things about the difficulties a week or so ago in Regina was that everything that I've heard has been either surprise or astonishment, which I think attest to the fact that by and large our system is robust and strong and doesn't give very many problems.

Nevertheless we had a major outage here in Regina about a week, 10 days ago. Approximately a third of the lines in Regina were down for about two hours. It appears to have been a glitch in the software package from NorTel that runs one of our major switches.

To tell you the honest truth, the last time I inquired, which was within the last 24 hours, we still didn't know what the problem was. And that of course drives the engineers within SaskTel crazy because they just can't believe that there's something that's happened of that magnitude that they can't pin right down and do something about. We're actively looking at the whole question of whether or not we can understand what happened.

NorTel has got people here working on trying to understand what happened and what took our system down. It appears to be similar to some problems that they've had in the U.K. (United Kingdom) with the switches that they've got over there. But NorTel is about as mystified I think as we are by what took place.

In addition to working on trying to understand what actually caused the outage, we're also looking hard at the question of trying to make sure that next time, if something like this happens again, that instead of bringing our system back up in two hours, it will bring it back up much, much quicker than that.

During the outage, I should tell you that our customer service people really tried to cover off the situation very well. We've got a number of critical customers that were on that particular part of the switch, including some of the hospitals here in Regina. And our customer service people were quick to get cellular phones out to these critical customers. Some of our

customer service people went home and got their own personal celluarls and made sure they were out in the hands of the customers so that they weren't left without some service and some usage.

I should tell you that during all that time the 911 system was not down. It was not affected by this.

But nevertheless it was a serious problem which our people are scrambling around to try and understand so we can stop it from happening again. And also we're working on procedures to make sure that next time we can bring it up even quicker than we did this time, and procedures also to perhaps institute some of the alternative strategies to make sure people had communications even though the system may be down.

Mr. Gantefoer: — I promised John in the hallway I wouldn't ask any specific questions but could you give us an update on your progress on the regional exchanges.

Mr. Ching: — Yes, in broad terms and maybe if I get off base here either John or Sean will help me along here, because we've had a group within the management team chaired by John Meldrum, our corporate counsel, that has been looking after this entire program. We had something like 350 or 346 local exchange areas within the province. These are the old exchange areas that were operated by the small rural telephone companies that were gathered in to SaskTel in the late '60s, early '70s. And the problem of course as you well know, is the cost of long distance in phoning from one to the other.

And there's been a lot of pressure for us to look at those local exchange areas because some of them made a lot of sense when they were created in the 1920s and 1930s and 1940s, but because of the shift in trading patterns and in where people are living and where they're not living, some of the local exchanges were bordering on nonsensical. I think there was one local exchange that you had the glorious ability to phone 19 other people, or 18 other people — I think there was a total of 19 in the local exchange area. And that simply wasn't fair.

And so we've gone in and we looked at all of these. We discovered when we did our analysis, because we can track the calling patterns, and what we were trying to do obviously was to merge and amalgamate local exchange areas in such a way as to enhance the phoning patterns that people had. And if 80 per cent were phoning to the next one in this direction, merging with that one rather than with some other, made only common sense.

And so we could see that from some of the data and information that we could take from our switches. But in some cases it was reasonably close as to whether or not they wanted to go into this exchange or into that one. And so we actually went in, in a very informal way through our billing system, tried to conduct a vote within that exchange area and then to follow the advice that that vote gave us.

We conducted a large number of meetings; some of them very exciting meetings, other of them straightforward and no problem type meetings. But, John, if you ask him, can tell you about a few exciting ones because he was at them. But we actually got a surprisingly large amount of input from ordinary

citizens. Most of it was straightforward and sensible and usable by us; we tried to follow it as much as we possibly could.

We've made a fair number of changes. Can you tell me off the top of your head, John?

Mr. Meldrum: — Ninety-eight.

Mr. Ching: — Ninety-eight that have gone out of . . .

Mr. Meldrum: — . . . exchanges have been eliminated.

Mr. Ching: — So 98 of the 340 have been eliminated. What we're hoping now — and there's some additional phases of the plan which will kick into effect in the next short period of time — what we're hoping is that having gone through this process that we'll put the lid back on it for a little while. It's very disruptive within our organization to be changing exchange areas around all the time.

We haven't solved everybody's problems. There are still people out there even though 80 per cent phone in that direction, there's still 20 per cent phone in this direction and are not happy about being amalgamated in that direction.

So when we set out on this particular venture we knew darn well we weren't going to solve everybody's problems. Truth of the matter is if we turned the entire province of Saskatchewan into one large exchange area we wouldn't solve everybody's problem because there'd still be somebody four miles from the Manitoba border and they would wonder why they couldn't phone to Winnipeg the same way as their cousin across the road can phone all the way to Regina.

So there's no sense fooling ourselves. There is no absolutely, pristinely wonderful answer in this area. But there was an unnaturally large number of problems and I hope we have cut the level of problems down significantly. But I should tell you that at the end of what we're doing which will wrap up some time later on this calendar year, we're hoping to put the lid back on exchange area boundaries for a period of five years. And then they'll be reopened again and we'll go through something similar to what we have gone through. Because the truth of the matter is that trading patterns and regions of where people live in this province are always changing and our structure should be amenable to changing with that. And the only way we can do that is to open up those exchange area boundary issues every once in a while no matter how horrendous it is for us within the telco to be able to do that.

Mr. Ganterfoer: — Thank you.

The Chair: — I'm going to ask Mr. Ching, it's a few minutes after five and I have two short questions that I don't think are going to take very long, but we have to go through the recommendations. I've talked to the committee members except for Mr. Osika, Mr. Goohsen. The committee members have agreed to stay on. I'm not sure what you feel about it, but the recommendations could probably take 15 to 20 minutes I would think. Would you prefer to stay on or . . .

Mr. Ching: — Sure that's fine. None of us get overtime.

The Chair: — Mr. Osika, do you have a problem . . . Okay.

Mr. Goohsen: — The time for adjournment is what, Madam Chair?

The Chair: — When we're finished.

I've probably . . . SaskTel New Media Fund Inc. says in the auditor's report said they were committed to spend up to 1.8 million. I'm just wondering if that was actually committed and it said there was no financial statement. I was wondering if maybe there was no statement because the money was never committed or never spent?

Mr. Stephanson: — As Don had pointed out earlier the financials of New Media are included in here so it's not a question of there are no financial statements. I could only guess at the exact number. We had committed I think \$800,000 out of the 1.8 to the end of '97. I think that's fairly — oh I'm getting a nod so it must fairly accurate. So the remaining one million is still committed but had not been dispersed at the end of '97.

The Chair: — And do cellular . . .

Mr. Ching: — But I should add that is an amount which was part of a program all across Canada. Every telco participated in a certain ratio. That was our share and we will do everything we can to wind up deploying all of those funds. There's no intention on our part to discontinue the program or to reabsorb that million dollars. That's committed to the program. If there is laudable programs to make use of it, it will continue to be spent.

Mr. Caragata: — Maybe if I can also just note that the amounts that were allocated previously from the fund were publicly announced. And as further allocations are made of course the public announcements around those allocations will be made in order to wrap up the complete allocation of the fund that was committed.

The Chair: — Thank you. On the cellular service obviously there's an increasing revenue from it probably more than you had projected a few years ago because of the increased use. Does this help to subsidize the basic rental of home services?

Mr. Ching: — There's no question that . . . you remember I said earlier that as long distance drops there's a natural tendency, if it's the only thing around, for a local rate to go up. The other diversifications within the telephone companies including SaskTel have muted that particular process. And the biggest contributor in Saskatchewan to that particular muting has been the cellular or the mobility part of our business.

It has grown, like Topsy. It has generated revenue . . . net revenue for the corporation. And it has contributed in large measure to the fact that long distance has come down like a stone and local rates, while they've gone up, have not shot up in a similar fashion.

The Chair: — So cellular coverage is helping to do that.

Mr. Ching: — Yes. And one of the things that I would say to the committee, because I'm sure you and many of your constituents come forward and say, you know, we'd sure like to

get more cellular coverage and more cellular coverage and more cellular. We've been very careful over the years to try and make sure that as we expand our cellular coverage that that is done so on the basis of a solid business plan. And where we have said to people, I'm sorry we can't put cellular coverage in that area, it's not because we're trying to be truculent or difficult. It's because frankly we just can't find through our analyses a satisfactory business case for locating that expanded area of cellular coverage.

And that's important because if we simply expand our cellular operation willy-nilly, the fact of the matter is that its profitability will not sustain itself, and we'll wind up in a situation where probably the biggest reason why local rates have been kept low in Saskatchewan, despite the fact that long distance is dropping, will be taken away from us.

And so it's one of those things where to some extent the trade-off has been having total and complete cellular coverage or having a sustainable, relatively cheap, local coverage in the rural areas. There's a bit of a trade off in that particular area. It's not as simple as one goes up, the other goes down, any more than it's a trade off between long distance going up.

But you can see the point I'm trying to make. And that is that we've been able to make up for our local shortfall largely from what we've earned from cellular. And if we expand our cellular network without having a sustainable business base, it takes away from our ability to do that.

The Chair: — Thank you. My last question is you talked about Sprint renting space from SaskTel system for their new program, and it was used more than Sprint had anticipated. Does SaskTel realize more of a projected profit because of this overuse or more than use than . . . more use than Sprint had anticipated.

Mr. Ching: — Yes. We charge Sprint obviously for the usage of our hardware facilities. And in some cases we may charge them less, we may charge them more than what they're charging the customer — that's Sprint's business. But there's no question that as usage goes up and as Sprint asks for more availability, that increases our revenue from Sprint accordingly.

The Chair: — Okay. If there's no more questions then we can go on to the recommendations. The first one I believe is on page 55, recommendation .19:

Holdco should obtain an order in council before it or its subsidiaries sets up, buys shares of or invests in companies.

Mr. Whitmore: — Thank you, Madam Chair. I guess first a question to Mr. Ching. Mr. Shillington asked a question regarding this area, and I sensed in your answer that there has been some resolution here in this area regarding CIC. Or is it premature to say that yet in terms of the OC in terms of a policy?

Mr. Ching: — Well, let me add a caveat here because what we have been trying to do is wrestle with this whole question of what is the requirement in The Crown Corporations Act. And I invite the committee to examine that part of The Crown

Corporations Act carefully. Because the problem has always been here that there's a belief that it's not clear as to exactly what is required, and complementary to that, what power there is vested in the Lieutenant Governor in Council to issue an order in council.

There's been a belief I think on the part of the Provincial Auditor that The Crown Corporations Act requires an order in council. There's been a belief on the part of the Department of Justice that there is no power to grant that order in council. And now we think we might have found a way to carefully word our request for an order in council so as to accomplish what the Provincial Auditor wants and still satisfy the requirements of the Department of Justice that in fact the Legislative Assembly has given to the Lieutenant Governor in Council the authority to issue an order in council.

But certainly I would invite the committee to stop and examine whether or not the Act shouldn't be repaired a little bit to make clear (a) the obligation, and (b) the authority.

I also draw to your attention another issue because paragraph .19 says that the:

Holdco should obtain an Order in Council before it or its subsidiaries sets up, buys shares of or invests in companies.

Setting up in a subsidiary. That's clear, and I think that parallels the Act. Buying shares of the company is clear parallels the Act. The words or invests in raise a rather dicey little additional problem and it's less clear exactly what is happening here. Clearly, when we put our funding into Saturn we obtained an order in council I believe.

We're in the process of investing further money in regional cable. In that particular instance we are not setting up a new subsidiary. We're not buying any shares. We're not engaging in any debenture, and the Act doesn't say you have to obtain an order in council.

And I think one might question whether it's reasonable one should obtain an order in council under those circumstances. In that particular instance, we're putting in our money, and this is the decision of the majority shareholder because we're the minority shareholder in that particular investment.

To put in the money in the form of contributed capital which doesn't result in a debenture, or a share being issued, or a subsidiary being created, and so the Act simply doesn't require us to get an order in council under those circumstances. But the wording of .19 would appear to contemplate us having to get an order in council out of those circumstances.

Similarly you might very well wind up in a situation where we as the shareholder of that company decide to spend some of the net revenue of that company or the cash flow of that company to reinvest within that company. Is that an investment that garners the necessity of an order in council? I don't think so under the Act. I don't think so in so far as what I think the proper rule should be, but the wording in .19 may contemplate that.

So I offer a cautionary comment in relationship to .19 to this extent. The Act needs clarification, and I would ask the committee not to necessarily support that recommendation as it now stands because of the words "invests in". And I think what the Provincial Auditor is getting at there I have no problems with. I think the wording maybe cast a little too wide of a net and it gathers in some things that maybe they didn't intend to gather in. Maybe they did. I don't know. That's something I'm not sure of — but I think that they shouldn't have gathered in.

Ms. Ferguson: — I'll just speak to that first for a moment. The intent on that is to capture transactions such as DirectWest partnership corp. where it's actually not a share, where they're actually not buying shares, and things that are created under not-for-profit organizations where in essence there's not a share transaction occurring too.

So there's types of investments in companies that can occur other than what Mr. Ching was describing that we're trying to capture, that captures the essence of the approval and the public disclosure elements that were discussed earlier on.

Mr. Ching: — I think that area is probably best captured by the rule that the committees have stated, which is that any significant transaction has to be reported because there'll be a lot of smaller transactions where there's an investment; but no, it's not a significant transaction.

Mr. Whitmore: — Yes, I think clearly when you said we needed to review the CIC Act it put it into another purvey which was the Crown Corporations Committee. We're then entering into the area of policy and trying to determine where we need to go there, so I would therefore move:

That the Public Accounts Committee notes this matter is a matter of policy and recommend to the Crown Corporations Committee to examine . . . recommend to the Legislative Assembly that the Crown Corporations Committee examine whether Holdco should obtain an order in council before it or its subsidiaries set up, buy shares, or invest in companies.

I so move.

The Chair: — Okay, we have a motion before, does anybody have a comment on it? Question? Everyone's in agreement with this motion? Agreed? It's carried.

We have a recommendation on page 57, .30:

Holdco should continue to improve its annual report to clearly report on the achievement of its plans.

Comments?

Mr. Whitmore: — Yes, noting in some of the questions and the comments that were made in this area today and again we're entering into that area of competition among other businesses and trying to determine what should be stated there. I think this also moves into the area of policy, which has been my favourite resolution today.

That the Public Accounts Committee notes that this matter

is a matter of policy and recommends that the Crown Corporations . . . that the Legislative Assembly ask the Crown Corporations Committee to examine whether Holdco should continue to improve its annual report to clear reports on the achievement of its plan.

The Chair: — We have a motion before us. Any comments on it? The question — all those in agreement with the motion? It's carried.

.36 recommendation:

Holdco should provide the Assembly with audited financial statements of its active subsidiaries.

Comments?

Mr. Whitmore: — I would like to combine, if I could, recommendation .36 and .37, of a similar nature.

The Chair: — .37 is:

For its other subsidiaries, Holdco should provide the Assembly with either audited financial statements or with adequate financial information on the financial condition and the results of operations of each.

Mr. Whitmore: — I would like to incorporate, if I could, with permission, into one resolution.

The Chair: — Okay.

Mr. Whitmore: — I would move:

That the Public Accounts Committee notes that the auditor's recommendations .36 and .37 are a matter of policy and recommend that the Crown Corporations . . . that the Legislative Assembly ask Crown Corporations Committee to examine whether Holdco should provide audited financial statements of its active subsidiaries; and for its other subsidiaries, whether Holdco should provide the Assembly with either audited financial conditions and the results of the operations of each.

I so move.

The Chair: — Any comments on the motion? Question on the motion? Agreed? Those in agreed? Opposed? The motion is carried.

.40 Holdco and its subsidiaries should:

publish a list of persons who received money from them and the amounts the persons received following . . . (Public Accounts made its current) minimum disclosures amounts; or

discuss different disclosure requirements with the PAC or, if the Assembly so directs, with the Standing Committee on Crown Corporations.

Mr. Whitmore: — Yes thank you, Madam Chair. In consistency of other motions that we've passed in this area

today regarding SOCO and in the area of SGI, I would move similar to what we've done today:

That the Public Accounts Committee notes that this is a matter of policy and recommends to the Legislative Assembly requests the Crown Corporations Committee to examine whether Holdco and its subsidiary should publish a list of persons who receive money from them and the amounts the persons have received.

I so move.

The Chair: — Any comments on that motion? Question on the motion? Those in agreement? Those opposed to the agreement? Okay.

Thank you very much to the officials that came today. We appreciate your attendance and look forward to seeing you again.

And thank you to the committee. See you tomorrow at 9 o'clock.

The committee adjourned at 5:23 p.m.