



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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Peter Prebble
Saskatoon Greystone

Kevin Yates
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The committee met at 9:30 a.m.

The Chair: — I guess we'll call the meeting to order then. The agenda before you is that we will have two operational briefings this morning: the first one from SaskEnergy and the second from SaskPower. Is there a motion to adopt the agenda? Moved. Is there any discussion? Those in agreement. Agreed. Okay.

I'd like to start by welcoming the officials from SaskPower. It's a pleasure to see Mr. Ron Clark here. Ron is the president and CEO (chief executive officer) of, sorry of SaskEnergy.

And I understand we're also joined by officials from the Provincial Auditor's office this morning. Perhaps I could ask Mr. Martens just to introduce yourself and your colleagues.

Mr. Martens: — I'm Andrew Martens, a principal at the auditor's office, and with me is Leslie Wendel, the manager, and she has participated in the audit of SaskPower this year. I participated in the audit of CIC (Crown Investments Corporation of Saskatchewan).

The Chair: — Excellent. And with that, perhaps what I would suggest, Ron, is that I just turn it over to you and you can introduce whatever officials you have brought with you and proceed with your presentation.

SaskEnergy Incorporated

Mr. Clark: — Well thank you, Mr. Chairman. I very much appreciate the opportunity to be here this morning and I hope that we can have a wide-ranging discussion. I will introduce the officials I have with me who I know can answer all the hard questions: Doug Kelln is the vice-president of our distribution utility; Dean Reeve is the vice-president of business development and market services; Ken From is the vice-president of gas supply; Mark Guillet is our general counsel and corporate secretary; and Ron Podbielski is the executive director of corporate affairs — who'd I miss; ah, I missed the CFO (chief financial officer) I can't do that — and Greg Mrazek, our chief financial officer and vice-president of finance.

I also — with the indulgence of the committee — would make a hopefully a very speedy presentation. You do have some of the copies, all of the copies of which I will present in overhead form. And I also want to, Mr. Chairman, apologize to the committee. I have an unavoidable conflict and will flee here about 10:30. So if it's getting really hot and heavy, maybe that'll be a good time for me to exit anyway.

So thank you, Mr. Chairman.

Well I will try and quickly get through an overview just to provide, I hope, an appreciation of what SaskEnergy does in our province and for our customers, and many of the issues which I'm sure are familiar to you and come through to you from your consumer and constituents.

Quickly, SaskEnergy . . . You can follow — if the screen is not clear — on the hard copy that you have. The corporate profile is that we have a number of subsidiary companies under the

SaskEnergy Incorporated umbrella: TransGas which is the . . . just a transmission and storage business which is a vital business in our province. The other large players are the Many Islands Pipe Lines which is our federally regulated pipeline as you will see in a few minutes. We have 11 interconnections into Alberta and interconnections into the United States as well. And those interconnections are regulated by the National Energy Board and we must have a federally-regulated pipeline company.

Bayhurst Gas Limited is a royalty interest from old holdings in the province, and SaskEnergy International which is a consulting and equity investment arm of our company. As the slide indicates Many Islands and Bayhurst have no employees. They are managed . . . their affairs are managed through the parent company.

Quickly the corporate profile. We have assets of about \$1.2 billion. Annual revenues as you can see, about 350 million. 1998 net profit of just over 36 million; 55 per cent of that paid in a dividend, and about 1,000 employees working in those two major companies, TransGas and SaskEnergy, located in 50 communities throughout the province.

Just the map and the copies that you have I think are interesting, I won't again bore you with all the numbers. I think it's important to appreciate here in Saskatchewan that the 64,000 kilometres of pipe we have in this province with a million people is one of the largest distribution systems in the world.

And that's quite an undertaking where the geography, the scale of Saskatchewan, and 317,000 customers, which may seem like a lot of customers but in our business that's makes us a relatively small utility when you look at ATCO Gas in Edmonton and Calgary, and Consumers in Toronto, etc.

And we have, along with Alberta, the largest market penetration in the world. Texas, Oklahoma, California, no one comes close to providing 90 per cent of its residents with natural gas. And we add about 3,700 new customers each year. You can appreciate when you have 90 per cent market saturation — as the cliché goes, there's no low-hanging fruit left. Most of the customer connections we have now are difficult in the sense that they tend to be somewhat more costly which is always a difficult issue for consumers, or they're a long way from our distribution system and our transmission system.

Quickly, Chairman — I want to be able to allow lots of time for questions — a very rudimentary sketch. I hope not to insult you. Perhaps you know as much about this business as I do. But we move the gas obviously from the private producers in the field through our transmission and storage system inside the province; that's TransGas. If it happens to be outside the province that might be TransCanada or NOVA — the old former NOVA, through to your town border stations which you will find in every city or small community where we reduce the pressure and then distribute it throughout the streets and homes of our communities.

You can see there's a . . . the bar chart shows the connection and the approach we take with working with our customers. We think we have a pretty good track record of having a

customer-sensitive approach to working with our customers and trying to connect them. As I say, they're not easy. They're not beating down our doors now. There are no Moose Jaws left, there's no North Battlefords left, there's no Rosetowns left to be hooked up, so we have to really get out there and try to work with the community, whether it's a summer resort village or a cluster of farmers who want the service, and try to drive the costs down in a way that is attractive.

So we've had some pretty good years in the last few with over 4,000 connections, and as I say, that's been productive given the challenges that we have with the customers that are remaining.

One of the other things we do in terms of trying to connect with our customers is make it as easy and seamless as we can to connect and to get gas appliances and services, and we have in the last two years, I think, fashioned a typically made-in-Saskatchewan kind of relationship with the private sector.

We have a SaskEnergy natural gas network now across the province with almost a hundred plumbing shops and natural gas equipment dealers across the province who . . . We work together so customers have a seamless opportunity to go into their local plumbing shop in Biggar or Lloydminster, or wherever, Regina, and order perhaps a natural gas fireplace or natural gas barbecue or get a natural gas heater put in the garage, have it financed, have it installed, and have it all seamlessly connected with the aid both of the private sector and what we bring to the table.

And I can tell you that the private sector is enjoying this synergy, this relationship. And you might ask why. Well I'll tell you that there's enormous competition in their business. You ask even the big players in Regina about the impact of somebody like Home Depot — and I don't say . . . I don't use their name pejoratively in any way — but they have financing, they have installation, they have a very cost competitive environment. And what we bring to the table is a billing system, the opportunity to use a billing system to finance, to step behind them and help them and help the smaller shops who can't get a line of credit and can't step up and do the financing that we're able to do with them.

So I can tell you this is a typically . . . this is a nice little success story. I don't say that in a self-serving way, but it's working very, very well for our customers but I think for Saskatchewan.

Quickly, Chairman, we have a lot of interaction with those 317,000 customers, not always positive I suppose. We have 750,000 interface calls every year, which is a lot of interaction. And we try to facilitate that with after hours availability — the 1-800 number, our web site, etc.

I'm going to turn quickly to an issue that I think is perhaps of critical interest to the committee, is the whole issue of where does the gas come from; why does it cost what it costs; why is it so volatile in terms of price which of course always impacts on our consumers. And so I thought I'd touch quickly on that.

We get about 80 per cent of our natural gas sourced here in Saskatchewan. That's a change over the last 10 years where it

used to be about 75 per cent came from Alberta. So I think it's obviously advantageous to have a robust oil and gas sector in our province. I think we all wish it was larger, but we've had a very good year. Last year was over a thousand and twenty-three natural gas wells which is an all-time record, which is good for our province.

We purchase about 65 billion cubic feet each year to supply to the residential sector and the small-business sector. That's our biggest cost item. Last year gas cost us about \$195 million.

We do not own any gas fields to speak of and certainly not in the way that supports the consumer industry. We have to buy it.

And I want to make a comment, Mr. Chairman, not at all to be provocative. There are comments made from time to time that gee, when there's a commodity price increase, what a tax grab; what a gouge; what back-door taxation, I think I've heard that phrase.

I just want to say in fairness, because I don't think it's of any real help to have our consumers believe that, is that our utility, like every utility in North America, publicly owned or privately owned, irrespective of your views on that, gas is sold to the consumer at cost.

SaskEnergy does not make one nickel on the commodity. That doesn't mean we enjoy being out there explaining why commodity prices are going up or we enjoy the fact that it impacts on our customers' pocketbooks. We don't. But I do want to make the point that irrespective of the debate, this is not an area where SaskEnergy makes a nickel, therefore the owner doesn't make a nickel either. I just wanted to make that point.

The next overhead is a depiction of your bill, of the bill that any one of you get in this room or your constituents receive. As I say, it's a depiction thereof. We have a couple of years ago broken the bill up to try and improve transparency and improve understanding of what's in the bill, what's impacting me.

There is a gas delivery component which is all of the charges not related to the commodity. And I'll speak a bit about that in a moment.

The gas supply cost, which is the commodity. And we have full competition right to the residential level. We have always been open. Our industry's been deregulated, as you know, since 1985, and has been aggressively deregulated at the industrial heavy commercial sectors for years and years and years. And like every other province in Canada, over the last three years we've gone to full competition even at the residential level.

Quite frankly from our point of view we would welcome door-to-door residential competition because I think it would demonstrate, as I will show you in a minute, the fact that our prices are competitive. And nothing proves that better, not the me saying it, than the consumer being able to make choices in the marketplace.

But we do not have any right now. Our market is small. But we believe that's coming and certainly Sears has indicated that they're going to get into the national gas commodity business. They're clearly a national brand name so we'll see what

happens when they arrive in Saskatchewan.

The municipal payment is the 5 per cent surcharge we pay to municipalities, when they gave up their franchise rights many, many years ago. And we pay federal GST (goods and services tax); we do not pay provincial PST (provincial sales tax) on energy bills.

I mentioned the components. The cost of delivery includes: that transportation; the storage; the system maintenance; the getting the gas right to your meter, right to your furnace. That is the area where we make our money and we don't apologize for being a commercial enterprise. And I think I'll show you in a minute that our rates are competitive.

And we have had one rate increase, Mr. Chairman, in six years — that really is, from the point of view of the company, making money on behalf of the owner — and of 2.3 per cent. We feel we've done a very good job containing costs.

I've got to tell you the commodity has been a different ball game. We've had three pretty sharp years of commodity spikes and I'll address that in a moment as you can see on the next overhead.

Natural gas is a commodity. It is freely traded in the continental marketplace. The price is established . . . unlike other commodities that are global, oil for example, it is a North American price and it's very volatile. Natural gas is the most volatile commodity traded on the New York Mercantile Exchange. And right now as you can see — if you look historically, we've had some years where it's been down as low as a dollar — it's dropped back down to a dollar.

And I know our consumers don't always remember but we had 11 per cent price reductions in those years. It's a straight pass through, so there's no interest in us not passing it all straight through; we do. But I can tell you, the last three years, for all 4 million — this isn't a Saskatchewan phenomenon — all 4 million natural gas consumers in Canada in the last three years have really have felt the effects of some pretty rapid price increases. Natural gas is at a 15-year high. It's driven by a robust economy, particularly in the United States and Canada where there's a great deal of demand. There's a great deal . . . Since gas was deregulated in 1985, natural gas is a large export. We export about 16 per cent of all the natural gas that's used in the United States and consumed in the United States. And so you have a continental price.

And that continental price, based on the supply and demand dynamics, as you can see from that chart, we've had three pretty significant price spikes and that's no fun communicating to your customers, particularly when you can't do very much about it. In fact you can't do anything about it except try to mitigate that as best you can, as you'll see in a minute. And it's not like somehow we can rub our hands together secretly and say, well gee, you sure make a lot of money anyway, because we don't.

This chart, I think is a fair reflection I believe, of our efforts to try to look after our consumers. It is absolutely fair to say that last year we had the lowest residential natural gas rates in the country. We don't always enjoy that to be perfectly fair; it's a

tussle with Alberta, because we do have some transportation costs downstream that they don't have. But we have, I think, bought wisely through our purchasing program and three of the last five years we have had the lowest rates in Canada.

But if you go back 10 years it's fair to say we probably sometimes are one and sometimes are second lowest. And even when we're second lowest, we're about a Big-Mac-a-month different than Calgary. And we all know everybody says if that's what's happening in Calgary, it's got to be good . . . (inaudible interjection) . . . I didn't say I agreed with that, I just said lots of people say that.

One of the issues, Mr. Chairman, and it's always been difficult for us, is when we operate in a non-regulated environment as we have historically until recently with the creation of SIRR (Saskatchewan Interim Rate Review Panel), is having meetings or having town hall sessions. It's hard to convince a consumer. Maybe it'll be hard to convince this group that we are, I think, a competitive and efficient company.

So in 1998 we engaged Ernst & Young to take a look at what we're doing. It gets back to that issue of commodity price pass through and are you putting money in your pocket and how's the consumer fairing in all of this. And I just want to leave this with you is that, if we've erred in terms of commodity price and the protection of the consumer, we've actually left \$13 million in the pocket of the consumer. So if we erred at all over the four years, we've erred on the side of the consumer.

I'll move along quickly, Mr. Chairman, it is important to understand, I think, a really good part of our business, irrespective again of how you feel about who should own it, TransGas is a very, very viable business in our province. We have about 13,000 kilometres of high pressure — it's up to 20 inch. But we're not as big as the NOVA, as the old NOVA or the TransCanada that have 42-inch pipe running through our province.

But we are an interconnected transmission system in a seamless web, continental web. We're downstream of Alberta. We have a lot of storage. We are well positioned. We are a low cost provider, which is obviously important in any industry you're in, again, irrespective of who owns you. And we have a lot of interconnects as I mentioned.

It's important to move gas. At the end of the day, nothing matters but moving gas in our system. We're interconnected with Alberta at 11 points across the border, and into the United States, both through the northern border interconnect and the Williston basin and the Havre pipeline system — very important to us. And of course interconnect within our province to TransCanada Pipelines.

Just briefly, I only threw this one up on storage because I have to tell you I lived in this province most of my life, and until I got into this business I didn't know you stored natural gas underground. And you probably drive around your province, and maybe you don't know that either. But we store about 37 billion cubic feet of gas underground in largely underground salt cavern formations.

We have the leading technology in the world on underground

salt cavern natural gas storage. We mine caverns about a mile underground just as the potash miners do, through solution mining. And then we fill those caverns. Think about them as balloons about a football field high and a football field wide, and we pack them full of natural gas at 3,000 pounds per square inch.

It's absolutely crucial to us in terms of our winter peaking. We could not supply Saskatoon and Regina in the middle of January and February — mind you if we don't get some cold weather we won't need storage — with the pipeline system. Storage is absolutely crucial to what we call our load balancing and our winter peaking.

Anyway, I do not mean to lecture you on storage, Mr. Chairman, I think it's . . . I always find it interesting myself that that goes on in our province.

We have a lot of industrial customers. I talked a lot about the residential sector, but we have a robust industrial sector which TransGas serves. And again this is an area which is totally deregulated. These people . . . we move the gas. They buy from us sometimes when it's a full service that we think we're very competitive in.

Customers like IPSCO have tried private gas marketers and have come back to us because of our service and price. So we feel we're quite competitive, and certainly Roger Phillips isn't inclined to let nickels slide away from IPSCO.

So we serve about 112 to 115 billion cubic feet of gas to the industrial and commercial sector. And of course, you get some very large consumers in our province — the potash mines. And Saskferco uses about 20 billion cubic feet a year, and if you remember that number I said of the residential sector — of 65 billion — Saskferco uses about a third of what all the homes and small businesses in Saskatchewan use in a given year. And it's one of the top 10 users of natural gas in Canada. So important, and important in our marketplace.

Again I won't, I won't bore you with some of the other numbers. We do a lot of export; we export over 130 billion cubic feet, as I mentioned, both through the TransCanada system to Eastern Canada and through the northern border and Williston Basin into markets in the United States. We have a lot of producers who we depend on for that 80 per cent of the natural gas that's produced; and a lot of marketers are active in our province which . . . it's healthy, very healthy.

I mentioned the TransGas. I showed you some charts where . . . how I think we stack up on the residential sector with respect to price competitiveness. It's obviously crucial — I don't care what business you're in, you'd better be competitive.

And this shows our export price versus what we call NOVA here, is the old NOVA, now part of . . . rolled in TransCanada Pipelines and our export toll is lower and continues to be lower. We've frozen our tolls for two years — in this year and 2001 — and just last month TransCanada announced a 13 per cent toll increase. So we believe we're very competitive.

Quickly, Mr. Chairman, just on some other ancillary issues which the committee may find of interest, we obviously have to

be part of the solution with respect to climate change and greenhouse gas emissions. We think our company must hold up its end. And we are.

As you know the Kyoto Agreement, whether it's ratified or not, suggests that we . . . all of industry has to lower its output of greenhouse gases by 6 per cent over 1990 levels. We will, in our company, make that requirement. And just last month we received the award from the Climate Change Voluntary Challenge Registry — which all companies are registered in this country — for our efforts to reduce greenhouse gas emissions.

Quickly, Mr. Chairman, I want to touch on SaskEnergy International. I say I spent . . . I said earlier I spent most of my life in this province so I'm not unaware of the fact that investments outside our borders often provoke a fair degree of interest.

We have some modest and fledgling activities. When you have 90 to 92 per cent of the market, you either find ways to grow or — in my view — if you stand still, you die. And I think the challenge, Mr. Chairman, the fair challenge, is to say: are these prudent investments? I'd like to suggest that we have moved cautiously and prudently, and I think time will fairly reflect that.

We have one equity investment, I think quite small by our industry standards. We purchased 15 per cent in a new distribution . . . greenfield distribution company in the southern part of Chile with a population of a million people in the Concepción region, which is the same population of our entire province.

I think all of you around the table know that often business deals are a function both of good due diligence and the quality of your partners. We're partners with TransCanada out of Calgary, and I think they're good partners. And GASCO is a 135-year-old extremely successful company in Chile.

We expect over the life of this project to see a return . . . internal rate of return of about 15 per cent, which I think is very admirable, and that our \$7.4 million in terms of enterprise value at year 20 will be worth about \$75 million Canadian.

If I'm right — I can tell you won't be here in 20 years and I certainly would like to be here to be held accountable — but I can tell you, if I am right, and I believe I am, in 20 years I wish I had 10 of those. Because it would be \$750 million.

I will also say that you have to appreciate that the energy business, the utility business, is not a dot-com business. You're in for the long term. And I don't care whether you build a pipeline from somewhere near Rosetown or somewhere near Concepción, Chile, you get your returns over the whole 20 years. And we're going to see those returns, but we're not going to see them in year 1 or year 2, no differently than when we build a pipeline in Saskatchewan.

The key is, did we make a wise and prudent investment? I believe we have, and time will tell.

Quickly, we do some consulting work. I think one of the things

that we tend to do in Saskatchewan, and I say this not in my role here today but as a citizen, is that I think in Saskatchewan we tend to have just a wee little bit of an inferiority complex. It's always better somewhere else.

And I can tell you, I take absolutely no credit for this, Mr. Chairman, there are some simply . . . not some — the men and women of SaskEnergy are outstanding. One can be critical of my leadership, and that's why I'm here today. But I say to you fairly, the men and women in your communities across this province . . . and that's who do a lot of our consulting work. This isn't our vice-presidents flying off to these seemingly exotic places; these are our field people coming back and saying, Jesus, we run a better system than that; we can do this; we can do that.

I can tell you, it's good for our province and it's good for our psyche once in a while to be able to do that. And so we've had some successes with our consulting activity.

Just quickly. We are conscious about living in a province with a diverse population and we try to play a progressive role in those areas and in those issues. I'll leave you with some of the numbers. We try very hard. We have been identified as a best practices company in Canada for our work in First Nations, with First Nations business. And these are not handouts, Mr. Chairman. This is our good business relationships. I think those are the way on which we build a better province.

It's important to work internally. I will say to you, Mr. Chairman, you show me a successful company and I'll show you a company that looks after the men and women in the company. We have an outstanding relationship with our union, a very progressive union who have made it possible.

I leave you with this one thought, all of you. Large province, geographically speaking. Small population, very distributed. Sixty-four thousand kilometres of pipe, 317,000 customers. You do not have to be an M.B.A. (Master of Business Administration) graduate to figure out that there's something about that that shouldn't work and have the lowest residential rates in Canada. I'll tell you, how did that happen? Because our board asked the same question fairly.

It happens for two reasons. We've used technology very wisely. We have a very advanced SCADA (System Control And Data Acquisition) system. And I won't get into all the acronyms and details, Mr. Chairman, but would welcome anybody who'd want to come up and tour our facilities. And we've got from the men and women in our company, both the union and non-union, a work ethic and a focus not on their individual welfare only, but on the welfare of the organization. And that's stood us in very good stead, Mr. Chairman.

Well health and safety, always important. I'm pleased to say that we've just been advised that we've won the 1999 award from the Canadian Gas Association for best safety performance. I'm pleased about that, to be very candid with members of the committee, because we've worked hard. Because if you looked three or four years ago, we were not at the top of the pack; we were in the middle of the pack. And we weren't very happy about it and I can tell you our board was not very happy about it and they put my feet to the fire. And I'm pleased that we seem

to be making some progress in that area.

Just two more, Mr. Chairman. I left you with this one because I think it's really interesting. Because we are a business, I think it's important that we should think and behave like a business. There may be different perspectives on that. We were born in 1988 out of a division of the gas enterprise out of SaskPower. We were created with \$10 — not 10 million, not a hundred million, \$10 of equity — \$10.

We're now, not at the industry average . . . The industry average is around 63/35 of capital structure. We have a ways to go, as you can see. But we're moving towards that industry benchmark with a healthier debt equity relationship, and again I think that's a credit to the men and women who preceded me, Mr. Chairman.

Well lastly, we all have to I think have a North Star to find our way. And corporately we do. Our vision is we simply want to be Canada's leading energy company. And you can say, well that's pretty pompous. Well I don't know of any organization, a sports team, enterprise, that say well I want to be number six. You should want to be number one.

And we think these elements, these circles if you like, these dimensions if we can do well . . . and it's a little bit like the decathlon. To win the decathlon you don't have to be first in every event, but you better be first in some and you better be at the top in most. And we think we do well in a number of these areas. We aspire to do better. And we're certainly prepared to be held accountable as we believe we are by our board and by the owner and by the public.

And I want to say to you somewhat immodestly, that we're not far from being one of the best. And I think there's a lot of external benchmark, independent benchmark data to support that. So we will always try to be the best. We will have our warts, to be sure.

And again I just want to reiterate as I close, Mr. Chairman, I thank the committee for their time, is I'm here and I should be held accountable for the leadership of this company. And I will be. But I want to leave you with a non — please — a non-partisan plea. There are a thousand very wonderful men and women in this company. And they work very hard. I am very proud of them. Thank you.

The Chair: — Thank you, Mr. Clark. A very interesting and very informative presentation. We have about half an hour for questions. I'm going to alternate between parties to ensure we get a fair representation of questions. So are there any members with questions for Mr. Clark or his officials.

Mr. Heppner: — Okay. First of all, welcome here and I guess we need to give you a thank you for making sure that our distribution system didn't fall apart on January 1 or later on in February. Because I think of all us were sitting around — well probably the whole world — wondering exactly what was going to happen. So whatever steps you took to ensure that things worked very well, they worked.

A question from something that is on page 6 of the handout that we had with the bill breakdown. The agreement that takes place

that . . . and I take it for granted all towns and cities get that 5 per cent municipal payment?

Mr. Clark: — There's a hundred and thirteen or a hundred and eleven . . . a hundred and nine, sorry, a hundred and nine communities that get it. A hundred and five which get 5 per cent; and I think there's four or five that gets 3 per cent.

Mr. Heppner: — How long term are these agreements, or how permanent are they?

Mr. Clark: — They're forever. The agreement between those municipalities for the life of giving up of their right to have a municipal franchise, as you know there are some . . . it's like Saskatoon having its own power utility, as you know. They didn't give theirs up. Everybody in Saskatchewan gave up their natural gas, and that was the agreement. And these agreements are forever.

Mr. Heppner: — And if the municipal body ceases to exist, then the agreement ceases to exist.

Mr. Clark: — I guess. I would suppose . . . Where's my legal counsel?

The Chair: — Could I ask that you just step forward if you're going to answer a question so we can get it captured by *Hansard*.

Mr. Guillet: — Sorry. The question with respect to the agreements are they're are signed agreements with the major centres. The other centres come under the regulations to SaskEnergy and they're identified by regulation on who is going to get the 5 per cent and who gets the 3 per cent. So they will continue, as our CEO has indicated, they will continue into perpetuity.

Mr. Clark: — But I guess if they ceased being . . . the town of Strasbourg ceased being the town of Strasbourg . . .

Mr. Guillet: — Their successor would then . . . whatever successor would then be then would also come into that. And if that would take an amendment to the regulation to recognize the successor, then those are the steps that would be taken.

Mr. Heppner: — And because of a regulation, it could in theory end immediately. Because the regulations are at the whim of . . .

Mr. Guillet: — That's correct.

Mr. Heppner: — Okay. Thank you.

The Chair: — So can I just clarify what was being asked and what the answer was. The answer, as I understand it, is that there would be . . . whatever the successor is . . . so if the town of Strasbourg becomes the town of Strasbourg plus the RM (rural municipality) surrounding it, the successor right would still be there.

Mr. Clark: — That's correct. We firstly should know that all of these are not . . . we have no agreements with rural municipalities; these are all with urban municipalities —

villages, towns, and cities. And I'm assuming we have no intention of truncating them. And we would see this revenue flow to somebody.

Mr. Heppner: — To clarify the answer you sought, Mr. Chairman, the part about regulations needs to be noted in your perception of the answer, because that means it can be changed at the whim of government — those that are under regulation.

The Chair: — Thank you, Mr. Heppner. Of course we could get into a debate about how the regulations are set. And of course that depends on obviously the Executive Council, and those are referred to the Legislative Assembly afterwards to make sure they meet statutory requirement. But with that, I've got Mr. Prebble on the speaker's list.

Mr. Prebble: — Thanks, Mr. Chairman. I want to thank you for your presentation and congratulate you and your staff on the progress that's being made on health and safety and on the hiring of Aboriginal people and people with disabilities and people with visible minorities.

My questions, though, pertain to a different area, and that's the area of energy conservation. And I have two or three questions in this arena. But I wonder if, as a starting point, you could explain to us what progress has been made over the last three or four years with respect to the promotion of energy conservation among both your commercial customers and also among your residential customers.

Mr. Clark: — Well first I can say, Mr. Chairman, that as a company we were at one time actively engaged in promoting and supporting energy conservation with the availability of energy conservation kits which could be purchased, I think, at that time for \$10 which had caulking and other kinds of hints and those kinds of things. We are not actively engaged in the marketplace of promoting because I can tell you that individual consumers are acting very aggressively on their own.

I think the best reflection, Mr. Prebble, is that probably 10 years ago the average home used about 4,200 cubic metres of natural gas. That very same home, typical home — apples to apples — is now down closer to 35. High efficiency furnaces, triple-glazed windows, increased insulation. So the marketplace is doing what the marketplace should do, I think, is look for those savings in the home.

And we certainly promote it, now more verbally if you like, with advice. But we are not actively, for example, engaging in energy kits. Is that helpful?

Mr. Prebble: — It is, yes. I have a second question, Mr. Chairman. And that is, that I wonder if SaskEnergy would look seriously at changing its policy in this regard and becoming an active promoter of energy conservation?

Again, and I acknowledge what you're saying about the fact that customers to some degree are doing this on their own. But I believe that just like your financing natural gas furnaces for instance and helping customers with financing and installation arrangements there, you could be doing the same thing with respect to energy conservation.

A customer . . . you could be . . . you know, SaskPower has an arrangement with Honeywell where they're doing energy audits and Honeywell is doing installation work. And I see no reason why SaskEnergy couldn't be in the business of helping both its residential and industrial customers with energy audit work, energy audit services, and be in the business of helping to finance cost-effective energy conservation investments.

So that if a customer, for instance, you know if there's an audit done, and there are energy efficiencies that can be achieved over . . . let's say a three, four, five-year time frame . . . I wonder if you would seriously look at the possibility of SaskEnergy helping to finance those by basically allowing customers to pay those, the cost of those on their bill.

I think we could be looking at an arrangement, quite frankly. Given the increases in natural gas prices and given the potential for energy conservation in a lot of homes, I think there could be many, many arrangements that SaskEnergy could enter into where customers could reduce their consumption of natural gas, by let's say 25, 30 per cent. Their bills could be kept virtually the same, other than regular rate increases that may be necessary. But in terms of any extra charges, their energy consumption could drop enough that their bill could be literally frozen.

And you'd obviously be supplying them with less gas, and they'd be paying the same amount in terms of the bill. And the difference between the cost that you used to have of supplying them and the cost that you now have would go to pay for the energy conservation work.

Now there are other utilities that have done this — mostly private sector utilities — and I'm wondering if SaskEnergy could take a serious look at doing that too.

Mr. Clark: — Mr. Chair, I think . . . I give you my undertaking we'd certainly look at that, and with our dealer network, it may be another service that our customers are interested in. It could be a finance and supported initiative through our collaboration and our synergy with our dealer network.

I think you raise a good point about the last three years. We have seen some unfortunate price spikes — at least from the point of view of the consumer — and all I can say this morning, Mr. Chairman, I give the committee my undertaking that we will review to see whether that's an initiative that we can and should undertake.

Mr. Prebble: — Well, I'd really appreciate that because I think this is a potential win-win situation in terms of reducing, you know, CO₂ emissions in the province, saving money for consumers, creating employment opportunities both within SaskEnergy and in the private sector for energy conservation work. You know, all the way around, it could be a win-win situation both in rural and urban Saskatchewan.

So I think it's very exciting, by the way, that you're financing initiatives around the promotion of things like natural gas furnaces and their installation, and helping customers with installation. So I think it's just really a logical next step that we do this in the area of energy conservation as well.

So I appreciate the fact that you'll look at that seriously, and I'll look forward to hearing back from you. Thank you.

Mr. Clark: — You have my undertaking.

Mr. Elhard: — Thank you, Mr. Chairman. Mr. Clark, just will you go back a little bit closer to the beginning of your presentation and clarify for me if SaskEnergy does not actually own or produce gas itself, can I assume that you buy it at the wellhead?

Mr. Clark: — That's correct.

Mr. Elhard: — Okay.

Mr. Clark: — I'll get in, but if you start to stump me I want to turn to my . . .

Mr. Elhard: — Well I don't want to stump you, I want to clarify it . . .

Mr. Clark: — No, no, I don't mean it that way.

Mr. Elhard: — . . . clarify it for myself. Do you buy it?

Mr. Clark: — Yes, we buy it from producers, from private producers.

Mr. Elhard: — Okay, so does TransGas then, is that arm of your company responsible for the collection of the gas from the wellhead?

Mr. Clark: — For moving it, yes. Yes.

Mr. Elhard: — But you own the facilities, or the transportation system that collects the gas?

Mr. Clark: — We own TransGas 100 per cent — that's correct.

Mr. Elhard: — Okay. And then the storage responsibility is yours entirely?

Mr. Clark: — That's correct.

Mr. Elhard: — You talked about the caverns, underground caverns.

Mr. Clark: — Yes, we own those, although that's not a monopoly function. I mean anybody else can produce storage if they want in this province; and companies can buy, and do buy, storage.

We need about two-thirds of that storage, as I said earlier, to absolutely ensure that we can meet a harsh Saskatchewan winter. The rest of the storage we sell, and it's a very good business for us. We sell it to private marketers in the province.

Mr. Elhard: — Okay. Since TransGas is also responsible for the export facility, facilitating, how do you arrive at a cost for moving gas through a pipeline for export purposes? How's that charge arrived at?

Mr. Clark: — Well I'll get some of my colleagues to help but there's a very elaborate cost-of-service methodology that's used in our industry throughout North America in which you must very rigorously allocate the costs.

And we have a producers dialogue committee that meets every month, even in the absence of a regulator for the last four years. With a great deal of transparency, they scrutinize our costs and our allocations of those costs to make sure that the toll — in our case it's 24 cents to move a gigajoule of gas in our system — and that cost must only reflect the cost of the service. The toll must reflect the cost of the service.

And we do that and we had a couple of years ago at the request of our producer community, as I say, who are very sophisticated in Alberta and in Saskatchewan, jointly undertake a private study from a group out of Washington, DC. They were the best in North America to review what we're doing to satisfy our customers that our costs were neither padded or hidden or cross-subsidized between the distribution utility and the transmission utility.

So that's, without getting into a lot of detail but I'm certainly prepared to if you like, that's at best a thumbnail sketch of how we do that.

Mr. Elhard: — That costing, it would include the component of maintenance and upgrading and repair, that type of consideration?

Mr. Clark: — That's correct.

Mr. Elhard: — The reason I'm asking is I read a report recently — and I don't have the exact figures with me, but you might be happy to hear this — that I believe it was about 20 per cent of the pipelines, and that would include both gas and oil pipelines in Alberta, were deemed to be very unsafe and potentially hazardous. So in view of that and in view of the large number of miles or kilometres that our transmission system covers in this province, are we looking at exceptionally large costs associated with maintenance and repair and replacement in our own collection and distribution system in the near future?

Mr. Clark: — I'm really glad that the member asked the question, Mr. Chairman, because I think if there's two issues that concern our customers obviously it's cost and safety. And you're quite correct that there's been some rather spectacular events both in the United States and in other parts of Canada where pipelines and oil — gas pipelines and oil pipelines — have had difficulties.

I can say that in that cost structure and in our company and the group of companies in this country, the big ones who report to the National Energy Board, are rigorously engaged in what's called pipeline integrity work. We do a great deal of it every year where we either physically dig up sections of pipe and send it . . . cut the sections out and send them to metallurgical specialists. There is a new technology now called smart pigging, and it isn't, it isn't a new agricultural program. It is the technology of running very sophisticated electronic devices through the pipeline system that detect either cracks or imperfections in the pipeline system.

The short answer, Mr. Chairman, is that we feel that we are as much on the leading edge as anybody in this country with respect to the integrity of our system and in ensuring its safety; and hence, we don't believe that we're just aggregating up for someday a huge problem either in terms of safety or cost for our people in Saskatchewan.

So we feel we're . . . we have it, God willing. I've been there six years and we've not had an incident, like I say, God willing. We feel that we've done everything . . . we feel comfortable at least that we can look any consumer in the eye and say that we have undertaken the most sophisticated effort to ensure that we have a safe, secure pipeline system. Thank you.

Mr. Yates: — Ron, a couple of questions here. Do you have any projection when SaskEnergy will achieve the 65/35 debt equity ratio that is ideal in the industry? In your strategic plan or . . .

Mr. Clark: — I think about 2002. But where's my CFO (chief financial officer), he'll bail me out here — 2002.

Mr. Yates: — So we're moving towards at a fairly rapid rate.

Mr. Clark: — Absolutely. It's important. I mean obviously we're not a private company that floats and seeks money in the marketplace where credit rating and the rating of your bonds or instruments is as important an issue because we receive our capital requirements through our owner.

But I think in terms of the integrity and the discipline of running a competent enterprise, that you should be aware of these issues and meet those kinds of industry standards. So we're striving for that and I think it's important.

Mr. Yates: — I agree. My second question goes to . . . with the whole idea of connecting with the customers and providing assistance for customers to buy appliances and upgrade and so on and so forth.

Is this well advertised or are there ways that members of the public, perhaps low-income people, can access upgrading their furnaces and those types of things that they wouldn't otherwise be able to do? I don't know anything about the program. I'm just wondering, are there advantages there that they encourage energy conservation — those types of things — built into that particular program?

Mr. Clark: — Fair question, Mr. Chairman. The two new programs, the tune-up and the check-up service that we have worked in collaboration with our dealer network, which in fact the one service, the tune-up is exclusively provided by the private sector.

That program, we started the pilot early . . . late last fall or early this year and now it's fully across the province. We've started to do quite a bit of advertising — you might have seen some of our billboards — and we're hoping . . . and we're getting some very good take up and the response has been very, very good.

But I would better like to answer that question a year or so from now when we've had a year under our belt, both with our private sector partners advertising it and promoting it. And

that's been a winner. It's six bucks a month. Everybody winterizes their car, everybody says I've got to have my car ready for winter and people say: well forget about my furnace; who cares about my furnace? Well, wait till it quits in January.

And the tune-up is 71 or \$72 a year. At six bucks a month, you can finance it on your bill. It's seamless. You phone up. It's done by a private contractor, obviously all accredited. And it's being received very, very well by our customers. But it's fledgling and we need . . . it will grow.

Mr. Yates: — All right. These programs as well assist in the upgrading of . . . in older homes, furnaces and those types of things. Are there incentives to encourage people to do that?

Mr. Clark: — There's no incentive, Mr. Chairman, if you're thinking in the terms of some kind of a direct subsidy.

I think the incentive is the seamless service and the capacity to finance — what we find with our customers and through our focus groups with customers — is the big thing. As well, gee I might like to have a more energy-efficient furnace or I might like to put in a natural gas fireplace, for example. And in many cases, that's not a frill. Those natural gas fireplaces are very, very useful in terms of heat production.

But I can't write a cheque for \$2,000. I just can't do that. But since we've been able to come along and offer the financing and offer the fact that they could, at certainly competitive rates, are able to finance on their natural gas bill, we're finding that that's been very, very well received.

Mr. Yates: — Thank you.

Mr. Brkich: — On your rural pipelines, how many percentage of rural hookups do you have or do you figure are left out there? Do have a number of that?

Mr. Clark: — Doug, why don't you help me just so I don't get it wrong, because we have a very extensive rural system.

Mr. Kelln: — We serve . . . we presently serve about 22,000 farms. With small resort communities, small hamlets, and the remaining rural customers, we think there's approximately about 20,000 customers.

Mr. Brkich: — How many roughly are not hooked up to your system yet?

Mr. Kelln: — Approximately 20,000.

Mr. Brkich: — That are not hooked up?

Mr. Kelln: — That's correct.

Mr. Brkich: — Okay — not. Do you have any programs for the rurals — like a little cheaper if there's, let's say, five farms in a certain mile radius — does the price go down for hookups?

Mr. Kelln: — Well what we've been doing is really developing, sir, as you say, when one customer comes, we view it now as looking at it on a project basis. We have right now a rural project out near Hudson Bay that in total we think is a

possibility of a 200-farm rural project.

We're really trying to take advantage of economies of scale — if you get everybody sort of into your plan. We develop a price, and it becomes a 10-year price that some people will tend to say, well I can't really connect now. I'll wait till I need to change my furnace out. Well they know upfront that there's going to be a price that they can count on. And that allows the customers who connect right away to also have a price that's reasonable.

So we're getting a fairly good response on that. Certainly there are some geographic challenges in our province because we're certainly spread out, but we're working hard at it.

Mr. Brkich: — Other than that though if just a single farm wants a hookup they pretty well have to pay full . . . whatever it costs right up to their property line?

Mr. Clark: — Well that's a difficult part is that when you get 90 per cent of the market as I mentioned earlier, the ones that are left are — quite candidly — are somewhat more costly. And that's why about three years ago we introduced at least the financing.

I mean if somebody was looking at a . . . even if they had a grain dryer and they had a shop and all those kinds of things, let's say it's \$6,000. Well a \$6,000 cheque . . . because under our old policy is you had to produce the cheque 45 days after delivery of natural gas with the 25 per cent financing, which means a lot of people . . .

Mr. Kelln: — Twenty-five per cent down payment.

Mr. Clark: — Twenty-five per cent down payment, I'm sorry. You know, a lot of people could say well I think I can write a \$1,500 cheque because . . . And the natural gas is so much cheaper let's say than the alternative and that's been attractive.

But the straight answer, Mr. Chairman, is we have no explicit subsidy programs for anybody — rural, urban, First Nations. We operate on a internal rate of return — hurdle-rate return business.

Mr. Brkich: — Because it's a . . . it would take fairly expensive to bring a pipeline in. I've got one running probably about 50 yards from my farm, and I think they quoted me anywhere between 5 and \$10,000 to bring it 50 yards to my property line. And yet if you live in town, you know, your hookups are basically free of charge.

Mr. Clark: — It is a function, fairly or otherwise, of the economies of scale. Obviously when you've got 50 or 70,000 customers in Regina, it's little easier to distribute the gas. It's a challenge for us; I don't deny that.

Mr. Brkich: — Are you looking at any programs?

Mr. Clark: — Well only to the extent that we keep trying to work with them to bring more . . . to bring . . . When one customer phones us or writes to us, like a rural customer, we go out, we spend a lot of time with them and we really do go and try and canvass all the others. It's surprising how we can drive

down the costs as you say. If we can get ten farmers instead of one, all of a sudden the economics look substantially different.

But I don't want to mislead you, sir, is that we are not contemplating any what I call subsidy programs, if I could call it that, for any part of the province.

Mr. Kelln: — The other side is the technology side; if we can make our costs lower, that helps. Probably in your case you have a high-pressure pipeline going by so you have to regulate the pressure down. There's a cost in that.

Mr. Brkich: — Yes it goes to a hog industry right beside it.

Mr. Kelln: — A couple of examples, we've moved to a higher pressure polyethylene pipe which is produced in Saskatoon, which has allowed us to make . . . use a smaller pipe to serve customers which has reduced their costs — those type of things. We're trying to find a way . . . the lower we can make the cost, the more it works for customers.

The Chair: — Thank you, Mr. Clark. It is 10:30; I know that members have other questions. But I'm going to suggest that we let Mr. Clark catch his flight. And that we thank him and his officials for joining us today and providing the overview that they have.

Mr. Clark: — Thank you, Mr. Chairman. I'm sorry if my departure has cut off good, spirited discussion. I'm sure it'll come up when we're back for full committee. But I very much appreciate the interest of the committee members and I offer an open invitation — please if you have any concerns, if you have constituents who are puzzled by what we do, please make sure you contact us. We'll try always to provide good answers; not always maybe the ones they want to hear.

And similarly if any one of you have the time and the interest, we'd love to show you a little bit about what we do up there. It's . . . I just want to tell you it's a first-rate company and I don't say that in any self-serving way in terms of my role. A lot of very talented men and women have done a good job. So, thank you, Mr. Chairman.

The Chair: — Thank you very much. Gentlemen, I'm going to suggest that we take a 10-minute recess and allow the SaskPower officials to come in and get set up. And so if we could convene back here in 10 minutes, at about a quarter to. Thank you.

The committee recessed for a period of time.

Saskatchewan Power Corporation

The Chair: — I'd like to call the meeting back to order. And I'd like to welcome John Wright here. John is the president and chief executive officer of SaskPower. And I don't notice any other officials, so John I won't ask you to introduce any others; but if you'd like, proceed with your presentation.

Mr. Wright: — Mr. Chair, what was the name of the large, white rabbit accompanying a certain actor?

Mr. Chair, if I may, no other officials, we're very busy over at

SaskPower and I want to make sure that the lights are on; so rather than have the officials here, I thought I would try to answer as many questions as I could and take you through a very short, very quick presentation.

While we have higher audiovisual services than perhaps SaskEnergy does, certainly we can't afford to print in colour, so it is black and white as you'll see . . . (inaudible interjection) . . . Oh, indeed, I have lots of handouts; please feel free to take them home, give them to your children and we can go from there.

If I may, Mr. Chair, just to introduce myself to the committee members as many are new, I've been a servant of the people of this good province for approximately 23 years, of which I spent 18 years in the Department of Finance — the last five, from 1990 through to 1994, as the Deputy Minister of Finance. I served a sentence at SGI (Saskatchewan Government Insurance) which was absolutely delightful; I was the CEO there. I was also the CEO of Crown Investments Corporation. And they put me over to SaskPower where I hope that I'll be able to keep the job for quite a while.

SaskPower is a very fascinating company. It's in a very dynamic industry these days, and what holds true for this moment while we speak today may not hold true this afternoon. Things are changing that fast.

With that in mind, a little bit of a presentation here for you, assuming this works. I'm an economist by training so audio visual is not my forte. What is our vision? Our vision is simply put, excelling in competitive energy markets. It's not to thrive; it's not to just muddle through; rather to excel in these marketplaces. And indeed they are becoming more and more competitive throughout North America.

Our values. Simply put, committed to certain principles — respect, integrity, openness in relationships with all concerned, and you can see the various values that we have here. Safe and healthy workplace. Safety clearly is the number one priority at SaskPower now, and perhaps we can talk about that later. Diversity and so on in terms of our values.

History. We've been around for almost 80 years, dating back to 1929. And as you can see from up there, those are the key points. The most recent was in 1988 when SaskEnergy was separated from SaskPower at the time.

In terms of our profile, I appreciate you probably can't read that but it is in the material that I've handed out to you. It gives you a little overview of the overall structure of the organization, myself as CEO (chief executive officer) and president, and the various vice-presidents and others who report to me directly.

In addition, we've got the description of the board here, and that incorporates the four new board members that were recently appointed. Those being Ms. Lynne Pearson, who is the dean of the College of Commerce up in Saskatoon; Dr. David Barnard, who is the president of the University of Regina; Neil Collins, who is the IBEW (International Brotherhood of Electrical Workers) representative; and Pat Quaroni, who is a lawyer with Olive Waller, Waller & Zinkhan I believe.

A profile. Basically we're the largest Crown. We have about \$3.2 billion in assets. Approximately 2,100 permanent employees. We have revenues approaching a billion dollars. Net income in 1998 of 140 million. We'll be releasing our annual report shortly and I think you will expect to see profits down somewhat for very good reasons.

A debt/equity ratio at the time of 58/42. We're trying to get it down to 50/50, which is good by private sector standards. And that's how we measure ourselves — by the private sector.

In terms of our profile. Salaries of about \$120 million. We pay 12 million in grants in lieu and 29 million in municipal surcharges, and I'd be pleased to answer some questions later on on that. As well, 36 million in various water power rental rates, coal, royalties, corporate capital tax, and so on.

In terms of our net income in 1998, you can see where it went. Approximately 45 per cent of it was retained to reinvest in our capital programs. We average, year in and year out, 150 million in capital projects throughout the corporation — from wires through to refurbishing and upgrading our power plants. And the residual amount, 55 per cent went to CIC.

In terms of the revenue, where does it . . . where it went? Again, you can see net income — this is the billion dollars revenue — 14 per cent, approximately, finance charges to service our debt.

Site restoration. There's a variety of small miscellaneous sites across the province that we're in the process of restoring. The royalties, depreciation on our capital assets.

Fuel and purchase power. Fuel is growing dramatically, and perhaps I could speak to that later. And our standard operations and maintenance.

Where are the facilities? Again, this is a very busy diagram, but we have 14 generating stations throughout the province, ranging from down in the Estevan area — Shand, Boundary through to Coronach, Poplar River. Those are our base plants. Those are all coal.

We have hydro facilities as far north as in the Athabasca region, three up there; E.B. Campbell in Nipawin, in the Nipawin region; Coteau Creek, not too far from here, and so on.

This is just a little explanation of how it's delivered. It's not as complex as it seems. Basically they produce energy at the power plant. It comes out at a certain voltage. We step up the voltage through the use of transformers. We deliver it. Depending upon the customer we'll step down the voltage through these transformers.

So when you're out driving about and you see a transformer out there, that's either lifting the voltage or dropping it — generally it's dropping it.

In terms of our power plants, total generation of approximately 3,000 megawatts — and you can see the distribution there, the bulk of it being thermal stations. In terms of those, as I mentioned, Boundary dam, it's the largest and of course the oldest. Poplar River in the Coronach area. Queen Elizabeth, which is affectionately known as QE in Saskatoon, and the new

Shand power plant which was commissioned in 1992.

In terms of hydro, as I mentioned up in the Athabasca region, three sites: Coteau Creek, not far; E.B. Campbell, which is the largest of our hydro facilities; Island Falls which we purchased from Hudson Bay Mining and Smelting in 1981; and of course, Nipawin.

In terms of peaking power, we generally over the course of a day have two peaks. One just before lunch, usually around 11:30 when the ovens come on, when the stoves come on, and so on. And one in the evening when you're at home and again you're cooking your meal, not using natural gas of course but using electricity — our competitors. And so two peaks. I'm sorry.

During those peaks we from time to time require additional energy to serve those periods of time. And we have peaking stations known as Landis recently refurbished, Meadow Lake, Success. They also contribute to overall stabilization of the grid. You want voltage constant across the grid, and from time to time due to, for example, trees hitting the lines or a lightning storm or an ice storm, voltage can drop in certain areas and what you want to do is you want to bring it back up so it's level across the grid and you may have to turn on Success.

Success is interesting. It's just a couple of old jet engines, okay? Very interesting. It's really old. Meadow Lake more new; and Landis, of course, as I mentioned, just refurbished last year.

The Meridian Project also contributes to the overall power supply approximately 210 megawatts. It's power purchase arrangement, also known as a PPA, that we've entered into for 25 years, it's operated by TransAlta Husky up at the Husky Upgrader.

In terms of future facilities, we are working very diligently with our partner, right now ATCO which is a major supplier of electrical power, a distribution and retail in Alberta and we're studying potential sites for cogeneration. We're narrowing down the list.

Cogeneration produces approximately 50 per cent less CO₂ emissions than our coal fire plants, equivalent coal fire plant. We're very keen on this technology, and in due course, we're hoping to make an announcement.

We also may be adding peaking facilities. Again, that's something during that long, cold winter night when you need that additional power to turn it on.

In terms of SaskPower International, it's one of our subsidiaries. We really only have two subsidiaries, SaskPower International and the Shand Greenhouses. They've developed expertise in the consulting side of the equation from the Ukraine, Russia, El Salvador, Columbia, Peru, and so on. We do an enormous amount of consulting services across the world. And they're taking the lead in working with ATCO as joint ventures, 50/50 relationship in developing that cogeneration potential.

In terms of the environment, clearly we are a significant polluter. I make no bones about that, okay? You recently saw

articles in the newspapers suggesting that our emissions have grown 36 per cent since 1990. I just remind you that Shand came on in 1992 which is one of the major contributors.

We have a partnership with Environment and Resource Management, and currently we have a \$66 million project underway to install electric precipitators, which basically when you look at a flue stack, what you see is smoke coming out. A lot of that is particulates. By putting on these precipitators, the next time you look at it, there are no particulates coming out of the flue stack. Very much goes to clean it up. I believe it's about \$15 million this year. It's a five-year project — again, 66 million.

In terms of some of the others, we're in the process of being, the process of . . . ISO (International Standardization for Organization) 1400, which is to say we're receiving our certification in ISO 1400, which is a very high standard. Boundary dam, a couple of months ago received its certificate in that. Our fuel supply folks have received their certificate. We take this very, very seriously. It's very important to us.

In addition we're trying to address greenhouse gas emissions under Canada's voluntary challenge and registry program. Remember GEMCO (Greenhouse Emissions Management Consortium), and we can talk about that later, along with all other . . . not all other, most other CEA (Canadian Electricity Association), and so on.

As well, down in the Estevan area we recycle the water through the sewage lagoons there. And our Shand power station uses a LIFAC (limestone injection into furnace and reactivating of calcium) system which is more environmentally friendly.

Other items, of course the Shand greenhouse, which is a very, very positive item down in Estevan. We use heat, steam, coming off the Shand power plant to provide the power and the heat to our greenhouse — very successful. We've had over 2 million seedlings distributed throughout the province since its inception in 1991.

Sustainable environment. We have in-house zero garbage program; we're members of the Solar Energy Society of Canada. We're also Champions of the Action by Canadians program sponsored with the federal government; and of course members of the CEA.

Who are we? We are out there in your communities. We are not a giant monolith that sits here in Regina. Again, 2,100 employees of which 25 per cent are management; 75 per cent are union, the largest union being the IBEW, followed quickly thereafter by the CEP (Communications, Energy and Paperworkers Union).

A corporate citizen. We contribute approximately a million dollars in the form of donations to various activities, again throughout the province, not just in Regina. Sponsor a variety of curling events, scholarship programs, and so on.

We are platinum . . . no, diamond legacy sponsors — I thought we were platinum; diamond sounds better — of Ducks Unlimited. We're very interested in Ducks Unlimited. Again, we do cause environmental damage out there. There are some

positive aspects to our partnership with Ducks Unlimited. And perhaps down the road we may find that certain of the properties owned by Ducks Unlimited may be carbon sinks, which again would be beneficial for us as a co-fired facility.

Science Centre. We're the proud sponsor of the Science Centre. It is our building, but we work with the other funding partners — Western Development, the city of Regina, and ourselves — to bring that to not only the residents of Regina but others. Again part of the community in many ways, and our contributions, as you can see, are quite diverse.

Supply reliability. We are very unique in Canada. We have only three customers per kilometre of line. Others have on average 12 customers per kilometre of line, hence our costs in terms of transmission and distribution are higher.

We have, as I mentioned, a very active capital program. We take a look, when we have to put in a new transmission line such as that is known currently as P.A.8 (Prince Albert no. 8 transmission line), up in the Christopher Lake area, trying to re-enforce supply up to La Ronge. We have quite an extensive process. We're dealing with that situation . . . open houses there currently, and so on.

In terms of customer services, 430,000 customers. I think all of you are customers of ours and we appreciate it. We're trying to work with our customers, learn an awful lot more. It's very important that SaskPower open up and be seen to be extremely customer-friendly. There's always more that we can do. We can always do a better job is the point, and I believe the fact of the matter is, is that we're trying and I think we're improving and gaining customer loyalty and recognition.

In terms of some of the challenges . . . I should say in terms of our customers. We have six categories: exporter, we are a significant exporter into the Alberta market and down into the US (United States); key accounts, approximately 32 key accounts, including our resellers which is the city of Saskatoon, the city of Swift Current; major accounts: commercial oil fields and so on.

In terms of the customer services, you can see our revenues in 1998 by customer class: 20 per cent residential; approximately 10 per cent farm should be in there and so on.

Price to consumers. Again, we have a large and active capital program out there. We try not to add new debt and we've been very successful. From that, we finance our activities through internal cash flow. We've allowed a dividend — approximately 55 per cent — to our shareholder, that being CIC. And we try to, as I mentioned earlier, get our debt down to private sector standards. We're almost there.

And we have to reflect the cost of supply. Unfortunately the cost of supply for SaskPower is not as beneficial as Manitoba who has very large hydro resources. It's not as beneficial as certain parts of Alberta where they have high quality coal; we burn lignite, which is lower value BTU (British thermal unit) than the sub-bituminous or the bituminous coal in Alberta; and we don't have the hydro power of British Columbia.

However, many of our rates are lower than those in Ontario and

certainly lower than those in the Atlantic provinces. We are on par in terms of our prices with just south of us. Relative to the US, our prices are much cheaper when you consider the US as a whole.

As I mentioned earlier, fuel price is a significant issue for us. Approximately 148 million in 1996. This last year we spent close to 230 million in terms of fuel. One of the reasons why is natural gas. Natural gas prices have been rising. I'm sure you heard a mouthful from our good friends from SaskEnergy about that. Prices are up sharply and that reflects on our projects like the Meridian or the peaking plants, like Landis, Success, and so on.

Average rate increases in 1994 were 3.8 per cent. In 1996, in terms of additional revenue, there was none. Residential did go up and farm did go up by 8 per cent in terms of rates and we introduced the reconstruction charge. Since then for five years we've had no rate increases for our residential and farm customers.

Competition, it's opening up. It's a huge issue for us. We're looking at it, we're addressing it, we're watching other jurisdictions in their successes, and of course in their failures, as they move forward. A very complex issue involving a lot of social, economic, and financial factors, and we do welcome any and all of your comments in that regard.

Cross-subsidization is another huge challenge. Quite frankly, certain of our customers do not pay full fare: rural residential, approximately 77 per cent of the full cost; farm, approximately 82 per cent of full cost; urban residential, approximately 93 per cent of full cost. And then street lights, we overcharge quite frankly. And oil fields, for example, we overcharge as well.

Cross-subsidization — you as the legislators will have to deal with this issue. If left purely to a regulator, a regulator would likely, as the regulator in the 1980s said, bring all your rates in line, which is to say, for example, lower your oil field and street lighting and bring the farm, rural residential, and urban residential up. But as legislators I believe you may have significant input into how a regulator would look at these.

Safety audit, I mentioned, I won't go on about. Farm safety, extremely important. Every year we have a campaign and we're ramping up for that. Each and every year people are hurt and sometimes killed needlessly. Very important for us — farm safety.

The future — where do we go? We're looking at developing strategic alliances, competitive rate and pricing strategies. We're looking at items such as wind power. We're trying to get our employees better focused on customer service, trying to keep them and retain them through training and a variety of other items.

And of course our motto is a safe, reliable, cost-effective power, which is our ultimate goal.

The future, lots out there. It's a very dynamic industry and I'll leave it at that. And I'd be pleased to answer any questions that you may have, or at least try.

The Chair: — Thank you, Mr. Wright.

Mr. Elhard: — Thank you for this presentation. I enjoyed it the last time I heard it and I learned a lot at that time. I want to revisit some of the issues though and raise some new ones this morning.

I'm very concerned about the cost of SaskPower services to new sites, in particular initiatives to develop new farmyard sites. And I've had two of them brought to my attention just recently that only involve about a mile and a half, at the most two miles, and the cost estimates are anywhere from 15 to \$30,000. One is somewhat smaller than the other, but \$15,000 is still a lot of money to run power into a new yard site a mile and a half from a main line.

And I really would like to see that cost justified and rationalized, I suppose. It just seems absolutely prohibitive to any new projects, any new yards, any new farms. I can't understand frankly why the cost would be that high. And if SaskPower requires that kind of money to install it, would it not be possible to hire a local contractor to maybe do the trenching and some of the, you know, the dirt work and so forth, if that can be at a lesser cost than SaskPower requires?

Now I don't know if you can address that question right now because it's fairly specific, but . . .

Mr. Wright: — Yes, I can't speak to the specific circumstances and we'd be pleased to review the specific circumstances that you refer to. Quite bluntly there is a large cost associated with putting in power anywhere. The costs are not just the poles and the wire, but sinking the poles, trenching, and a variety of other items. It is not cheap to bring power to any site.

That being said, the question should be who should bear the cost of that, number one? And then number two, how can we get the costs down? I think that's the second part. With respect to one, there is that question as I mentioned earlier of cross-subsidization, and of course we could subsidize to any type of customer class in terms of putting that in.

And we do have a variety of programs. In the farmyard we'll . . . there is a cost-sharing program to bury cable because that's a very dangerous place and we recognize that. In another circumstances, we will contribute to other customers certain amounts in terms of the capital. So we try the best we can to be reasonable and rational about the costs associated with this, and try to not overly subsidize one set of customers over another.

With respect to the latter, we do engage and employ very many contractors throughout the corporation for a whole variety of items. Be it from brush clearing and the tree clearing to keep the items away from the lines . . . or to keep the items . . . the trees away from the lines, through to . . . and I'm not sure . . . but I suspect very much we do use local contractors in the trenching activities and other activities where they have been licensed and permitted by SaskPower.

We're quite an extensive employer not only in terms of our own staff but we do try to use others to provide those services where I don't want people employed by SaskPower sitting around. We can contract out much easier, and we do do that. Now that's just

a general approach to this, and I think your question is fair enough: how much does it cost and so on. Well I don't have the details here. Give me a shout, and we're more than pleased to provide you with some hard numbers on costs associated with this and how we go about it.

Mr. Elhard: — Because I have seen the estimates, the printed estimates from SaskPower for these cases, and they just seemed inappropriately high in my estimation. And I guess what concerns me is that those kinds of quotes to produce . . . or to provide power to new yard sites actually thwarts the initiative completely because they can't afford that and nothing happens. The project just dies right then and there.

I guess something else I would like to ask you about is, you referred to carbon sinks in your discussion about your partnership with Ducks Unlimited. There is, I understand, a growing evidence or body of evidence to support the concept of farmland as carbon sink.

And I understand that some North American utilities are actually buying farmland. And when I say buying it, I'm not talking in terms of taking possession of it but paying an owner of farmland money to farm it in a certain way so that it would be recognized officially as a carbon sink.

What's SaskPower's view on that and are you interested and prepared to get into that type of thing with individual farmers in Saskatchewan?

Mr. Wright: — Well we are definitely interested in this. As a member of GEMCO, which again is the Canadian Electrical Association's group dealing with carbon sinks, there was some land purchased . . . not purchased. You don't purchase the land, you purchase the farming technique to minimize the disruption to the land. As a member of that, we are a very small partner in the initiative down in the US. TransAlta out of Alberta took a much larger share. But what we wanted to do was learn and learn more.

Carbon sinks through mitigation techniques such as farmland had not been fully recognized, and we're working on that. And in fact in Saskatchewan, I just can't remember the name of the association we are working very closely with to determine the feasibility of this.

We prefer to work with an association on this to determine the feasibility of it, to determine what's right and what's wrong with it, rather than individual farmers. We need to look at it conceptually, practically, and then perhaps there's a trickle-down from there.

So it's certainly something that, if not today, perhaps down the road will be very beneficial. And again, I really wish I could remember the name of the association.

Mr. Elhard: — Saskatchewan Soil Conservation Association.

Mr. Wright: — Thank you very much. Absolutely, and we're working very closely with them on this.

The Chair: — Thank you, Wayne.

Mr. Yates: — I've a couple of questions. First off, what types of plans do we have in place to deal with the increasing need for power in the future — 10, 15, 20 years out — what are we looking at in able to meet our needs in that period of . . . that time frame?

And in doing so, are we looking at new technologies? Like you mentioned wind. What other new technologies are we looking at to deal with our other needs around the Kyoto Agreement and conservation needs that are being placed on us, as Canadians are one of the largest perpetrators I guess, of that international agreement?

Mr. Wright: — Well, as I mentioned earlier, we are actively working with our partner ATCO out of Alberta to develop a cogeneration site or sites within the province. We indicated at least 150 megawatts, that we hope to land a site. So that's, we've been very active on that front for approximately almost 12 months — taking a look at the alternatives.

We've contacted many site hosts, potential hosts, throughout the province. Some are desirable from a technical characteristic; some are not.

In addition, we've been looking at something called combined cycle. And combined cycle is basically, it's a 2:1 ratio — you put a 100 megawatts up here on top, and you use the steam and the heat to power a 50 megawatt unit down below.

So both combined cycle and cogeneration are much more friendly to the environment than coal fire. So we're very active there.

In terms of what new technologies have we been looking at — clearly we've been looking at fuel cells. We've been active on that front. We're developing some internal research and look-sees at that.

As I mentioned, wind power — we're very active, very active on that front. And I'm hopeful that in due course something very positive will come as a result of that.

As I mentioned we are members of the Solar Energy Society of Canada. And we do have some photovoltaic facilities out there, albeit small, predominately out in very much rural Saskatchewan where the costs of running a line in — to go back to your point, sir — are prohibitive. We use photovoltaics and small wind to make sure that power is supplied.

Distributed generation which can be provided by fuel cells, wind, and solar will replace the large monoliths such as Boundary Dam down the road and so on. Distributed generation enables you to provide a small site out at Kindersley, for example, or a small site out at Humboldt, or a small site in Arm River, or wherever you want. So we're active on those fronts.

Right now though the best technology clearly in our view is combined cycle and cogeneration. The technical characteristics of fuel cells have now come along to the point where they're efficient.

Wind power, while highly desirable from an environmental viewpoint, is significantly pricier than other forms of generation;

however, many people are very interested in this. And we're interested in it if our customers are. We're here to serve our customers' needs. And number two, we're interested because of the carbon sinks.

Mr. Yates: — My second question is: when you're looking at putting power, whether it be to a farm site or to a cabin or any of those things that are off outside the current transmission path, is it 100 per cent cost recovery? Like if you're putting a new farm yard in or to a cabin?

Mr. Wright: — It depends on the type of customer to a certain degree. In many circumstances with our business customers, be they small business or large business, what we will do is we will subsidize the cost of that. Let us say it's \$10,000 total cost; we'll subsidize that to the extent of two years worth of revenue from that.

In other circumstances as I mentioned, farm yards where they want to bury farm cable, we will subsidize that to a certain extent, a cost-sharing arrangement with the farmer. So it differs by customer class and differs by the nature of the beast.

Mr. Yates: — And would that be normal across the industry in North America?

Mr. Wright: — Indeed.

Mr. Yates: — Okay.

Mr. Brkich: — I see that your safety program here . . . I'm glad to see that. I hope you intend to keep it for quite a while, there's no time frame for that. Because I think there is a few deaths every year attributed to that and I think you should put a lot more emphasis probably on safety, burying lines, whether it's rural, urban, cabins, wherever. Because if we can save one life, I think that's probably more important than some of the even PR (public relations) work.

I notice you spend quite a bit of money, like say Ducks Unlimited, a million dollars. Or maybe you'd like to see more money put towards the burying of lines, the safety issues out there because — I'm not sure of the ratio — but I think there's probably two or three people probably still killed a year unfortunately with electrical accidents. And that's something I would like to see moved . . . or to move a little more in that direction, you know.

Another question I just wanted to ask you on . . . was it 1998 there on your money you'd given to CIC, is your debt controlled by CIC or is your debt under SaskPower.

Mr. Wright: — Our debt is a flow-through to the General Revenue Fund of the province. If you think of the Department of Finance, where I served as the deputy minister, they borrow on behalf of all Crown corporations and all entities. The reason why they do that is to keep control of the credit quality of the province, number one. It's a flow-through then to CIC and a flow-through from CIC down into SaskPower. We do not borrow in our own name out there in the marketplace, rather it is the name of the province of Saskatchewan that goes on the bonds. However it's nominally allocated to us in terms of an issue.

Mr. Brkich: — So the 77 million that went to CIC, some of that naturally would go then to pay down some of your debt.

Mr. Wright: — No, that would not go to pay down some of our debt. The residual amount, 63 million I believe, was used in part for multiple purposes. One, to fund our capital program in part; and number two, to pay down debt. Our debt is paid down that way.

How we pay it down is we will work with the Department of Finance to go out into the marketplace and to buy back certain bonds. There's a variety of different types of bonds out there — callables, non-callables, CPP (Canada Pension Plan) bonds, and so on. So that's what that is.

The 77 million represents the return to the shareholder from our activities. In the normal marketplace for example, TransAlta, TransAlta provides a dividend to its shareholders. Okay. It pays nominal income taxes. The residual amount is then distributed or allocated between two items basically: cash flow needs for capital programs; and an amount payable back to the shareholders in the form of a dividend. Similar with us. Dividend payment to CIC.

Mr. Brkich: — Of that 77 million, what would have CIC just kept . . . that just went directly to them. Why wouldn't you have kept maybe more than 77 million and put it towards your debt?

Mr. Wright: — Well we're always delighted to do that, however the shareholder as well has needs. Giving you the best example I can, each of the Crowns on average, the dividend rate is 55 per cent. There are unique circumstances around SGI, and they have as a result come in line more with private sector practices and have a 90 per cent dividend rate.

Those dollars flow into CIC, and CIC has certain expenses and costs. Indeed certain of the activities of CIC and some of the investments it holds are not profitable. From time to time we've seen New Grade upgraders not being profitable. From time to time we've seen Millar Western up in Meadow Lake, our joint venture up there, not being profitable.

So some of the profits coming in are offset by certain losses and from there, CIC makes the determination about how much of their debt should they be paying down and how much should they return again back to the General Revenue Fund in the form of a dividend.

When I was at CIC, the dividend the first year I believe was 50 million; the dividend then went up to the General Revenue Fund of a hundred million. I believe for 1999-2000, which is just . . . oh we're still in . . . the dividend is 125 million and I believe that the dividend payment for this forthcoming . . . for this year — sorry I'm getting lost in my calendar years and my fiscal years — for the fiscal year 2000-2001 is \$150 million.

So what you can see is that the profitability of CIC has improved over time. It's contributing more to the General Revenue Fund and I'd like to think that SaskPower has been a very important part of that success.

It's confusing I know. It's just — I know it's confusing — I've just been around in many of the roles. That being said, there are

dividends that ultimately flow to the General Revenue Fund of the province. And those funds are amalgamated with all other forms of revenue to pay the bills at the end of the day.

Mr. Brkich: — Mainly what I want to know is just how much, or do you have a breakdown of that exactly what . . . (inaudible) . . . would have went on to general revenue. Or is that something you'd have to . . . I'd have to go through CIC?

Mr. Wright: — No, you'd have to go through CIC. It's a pooling okay — 77 from us, 15 from SGI for example, so much from SaskTel, so much from SaskEnergy comes in, and then there are certain costs as I mentioned of CIC on its investments. It pays down some of its debt and then some flow through.

The Chair: — Okay.

Mr. Wright: — If I may, Mr. Chair, I just want to speak to I think a very important point that the hon. member raises which is that of farm safety. We take this very seriously. We have a program that's about a million dollars per year in terms of our farm safety program. It's not just advertisements on the radio and TV. It's out there working in the communities.

We take this very seriously. It's something that we put much of a renewed emphasis on, and it's certainly not something, as long as I'm the president, that's going to go away by any stretch of the imagination — very important.

Mr. Harper: — Mr. Chair, Mr. Wright, in your presentation you had indicated that throughout the day there are peak periods of draw on SaskEnergy — or pardon me, on SaskPower. I assume that would be true for the year, and that there would be certain periods throughout the year that there would be greater draws and I would assume that would be the colder months of, say, January and February.

What is the peak capacity of SaskPower? Because I believe that up to this time, we've always been, or SaskPower's always been able to meet those demands without having to have brownouts. I believe that's what the term is in industry where there is a certain area of the province shut down for a period of time. We've never had that experience in Saskatchewan where I understand other utilities in other parts of Canada or North America have had to go to that in order to meet the peak demands on cold periods.

What would the peak capacity of SaskPower be compared to what the peak demands are?

Mr. Wright: — Our highest peak demand was on December 21, 1998. I believe it was slightly over 2,950 megawatts. We have an in-place capacity today of ourselves generating of 3,004 megawatts.

In addition, we can supplement that with imported power of approximately 150 megawatts from Alberta where we don't particularly want to buy from because it's very expensive power there, given the structure of their industry. We can also supplement it depending upon the circumstances with, and I'll just use a round figure of 150 megawatts from Manitoba and another 150 megawatts from the US, Basin Electric. So total in service — if all things were humming and all things were

perfect — 3,454 megawatts; highest peak, again, 2,950. We're in okay shape.

Do we need to be in better shape over time? It's an important question, how much do you want to rely on your neighbours? When it's cold here, we have a peak. And if we have to import, it's likely that Alberta is going to be a little chilly too. And the prices, the way they work in their power pool climb significantly and we could be importing — as we have from time to time — instead of the 40-\$45 per megawatt hour power from Alberta, a \$100 megawatt hour.

Similarly, you don't want to necessarily import from the US and be reliant upon very volatile markets down there. We have an excellent working relationship with Manitoba Hydro. From time to time we duke it out and that's just good sport. But it's an important relationship, and we feel comfortable that we can rely upon them as they, during their years of short water supply, can rely upon us.

I'd like to be in better shape, and I think that as we look at these cogen projects and possibly a combined cycle that'll put us in even better shape.

Mr. Harper: — Okay. Then as we have enjoyed in Saskatchewan here over the last eight to nine years of steady growth in the economy, and therefore the economic development that goes with that and therefore the continuous demand for SaskPower services, assuming that that growth continues on over the next 10, 15, 20 years, will SaskPower be in a position to be able to meet those increasing demands and still maintain their ability to meet the peak demands?

Mr. Wright: — Absolutely. Again, this is why we're looking today to put in cogen or combined cycle. It would not come on service if we started construction May 1, for example. It would probably come on service in October of 2002, 2002 in the fall. We're cognizant that there may be some squeezes out there in the marketplace, given our forecasts, given our outlook, and so we're planning today.

There's an important question about forecasting — as an economist I guarantee you, you never get it right. Where does SaskPower want to be? Do we want to be looking down on the market, which is to say having a little bit of excess supply? Or do we want to be looking up at the market saying we're supply short and we have to import?

My preference is to be looking down on the market, not from Mount Everest, but from Pilot Butte. And I think that that's very important.

Mr. Harper: — Thank you.

Mr. Heppner: — You mentioned at the start of your presentation that there was I believe three new people put onto the board?

Mr. Wright: — Four, sir.

Mr. Heppner: — Four. Were those replacements or just additions and the board made larger than it had been before?

Mr. Wright: — Again if I may just put on my old hat, which was as the president of CIC. When we went through the Crown review, very importantly, was the governance structure. And in general terms, best practices would have a board of directors of between 8 to 12 people; and it depends upon the complexity of the issues that you're dealing with and a variety of other items.

Up until recently we have had a total of eight people on the board, including myself, of SaskPower. We lost an individual who resigned about a year ago — legal counsel — and that's why we've gone and taken a look at replacing with new legal counsel.

Is 12 the optimum number? I believe so. I was certainly instrumental in encouraging my board to consider moving up to 12. One of the reasons is committee work; you want to make sure you have quorum in committee work, be it through the audit and finance committee, our environment and occupational health and safety committee, or our governance committee. It's very important, and people take that seriously.

So as a consequence, we've added four new members to the board. Again, three what I'll call non-special interests, who I've mentioned; and one I requested the IBEW to nominate an individual, and they nominated Mr. Neil Collins.

Mr. Heppner: — On the issue that was sort of discussed a little earlier on, the money that was put back into CIC. Now SaskPower doesn't pay tax, like income tax?

Mr. Wright: — That's correct.

Mr. Heppner: — So basically that money that flows through CIC and into the government coffers is just essentially an income tax form, one way or another. Like if you were private, you'd be paying income tax and that money wouldn't be coming in there.

How does that amount that the provincial coffers get from SaskPower compare with what they would get if they were private and were paying income tax?

Mr. Wright: — It is more. Currently, as I mentioned, we pay 55 per cent of our net income in the form of a dividend.

If we were a private sector entity and filing federal and provincial income tax returns . . . As you may know, the corporate, large corporate income tax rate in the province of Saskatchewan is 17 per cent. And the approximate federal rate is . . . although it's coming down I understand from 27 per cent I believe, coming down to 21 per cent.

But let's take the higher amount. And I may stand corrected on that 27 per cent; it's been a while since I've been in tax policy. A combined rate therefore of 27 plus 17 — totalling 44 per cent. However, because of certain aspects of the Income Tax Act, the effective rate is generally around 42 per cent.

So if we were to pay income taxes, and income taxes alone, we'd pay 42 per cent. We currently pay 55 percent. What's the difference? That being 13 per cent; that is the dividend payment above and beyond income taxes.

Now as we approach our debt-to-equity target — which I mentioned earlier was 50/50 — once we hit that, our requirement to pay down debt diminishes, and our dividend rate will increase — witness SGI. SGI used to . . . SGI Canada — I should mention, not the auto fund which doesn't pay dividends nor receive subsidies — SGI Canada pays an effective dividend rate of 90 per cent of its total net income. It used to pay 55 per cent, but quite frankly, what was it to do with the money? SGI Canada has no debt. That's the way insurance companies tend to operate.

So in the wisdom of CIC it said well, perhaps it's better to have it return back to the shareholder and ultimately on to the General Revenue Fund rather than allowing it to accumulate in the investment portfolio of SGI Canada.

So they're at 90; we're at 55 today, greater than income taxes otherwise payable. And as we reach our debt-to-equity target, I expect the CIC — those nasty people that they are — will increase our dividend rate.

Mr. Heppner: — Okay. So basically part of my SaskPower bill, in other words, could be called a tax, but that was just the impression I got.

Mr. Wright: — No. I guess it — not I guess — I know it can't be called a tax. What you're paying for in terms of your bill — and of course we are subsidizing your bill as a residential person — what you're paying for is a commodity. And that commodity is the supply, transmission, distribution, and resale of a good.

If you were to say that it was a tax, in my opinion — right or wrong — you would have to say that the sale of electricity in Alberta by TransAlta, a privately held corporation, or ATCO, a privately held corporation, is a form of tax. It's not in my opinion.

Mr. Prebble: — Thanks, Mr. Chair. Well, Mr. Wright, I want to start by saying I want to focus in on the environmental work that's being done at SaskPower. And let's say I'm very pleased to see the partnership with Honeywell, the installation of the electrostatic precipitators, the steps that are being taken to reduce sulphur dioxide at Shand — very positive.

I think the, the area where we've got serious work ahead of us is with respect to reducing our CO₂ (carbon dioxide) emissions. And you acknowledge that in your, in your presentation, which I was pleased about.

And you made reference to the thinking that's beginning to take place at SaskPower with respect to wind. We've got around this now a number of significant wind initiatives. A lot of the Midwest US states are moving forward with wind in a serious way — the Dakotas, Iowa, and a number of other Midwest US states.

We've got the Pincher Creek initiative of course, in Alberta and the private sector wind initiative that's supplying consumers in Calgary. We've got quite a major wind initiative in Quebec. What do you think the prospects are of us fast-tracking an initiative to get wind power rolling here in Saskatchewan?

Mr. Wright: — Excellent. I think that the prospects are indeed very, very good. And I'm very hopeful that within the next period of time, and I don't mean to be cute about that, we will have a positive announcement in this regard.

You mentioned Pincher Creek which is . . . (inaudible) . . . which is about 18 megawatts. Very significant. It's owned by Canadian Hydro Resources. We are looking at a possible partnership approach on providing wind power.

Again the problem with wind power is it's very expensive. We're looking at a wind farm potentially in the province. Perhaps we could name it the Ben Heppner wind farm. That's certainly under consideration. And we are moving rapidly on that.

I think to be fair to say, I'm very keen on this. I'm very, very personally positive on it and I think SaskPower has come a long way over the last little while in recognizing the importance of the environment and the importance of wind power.

That being said, there are very few promises in life and I wouldn't want to promise anything today, but we are on a fast-track approach.

Mr. Prebble: — Now I wonder if you can look both at the question of, you know, the Calgary model of consumers who voluntarily pay more to help finance wind, but I wonder if you can . . . I'd ask you to also look very seriously at the question of a wind power project that is simply built into average rates.

You know, and if we're looking at a 3 to 10 megawatt project, we're not looking at any significant increase in rates for the people of the province. But we'll get some badly needed experience with operating wind turbines. I see absolutely no reason why this wouldn't be the right thing to do from an environmental point of view. And the right thing to do in terms of us . . . No, what I guess I'm saying is I don't want us to just look at the option of consumers voluntarily paying more to finance wind.

I also want us to look seriously at the option of building wind generation into our overall generating mix, and building it into the average cost of supplying electricity. Because at this point the marginal rates aren't that much more. I mean they're still higher. But they're not that much higher. And on a 3 to 10 megawatt project they'd be basically insignificant.

And given the progress that our neighbours are making and given our record on CO₂ emissions, I'm pleased that you're looking at this seriously. I hope we'll treat it as one of the very highest priorities of SaskPower over the next two to three years.

Mr. Wright: — Indeed it is one of the highest priorities. Indeed we are very active right at the moment looking at it. I would suggest our highest priority unfortunately is — not unfortunately — is safety.

Mr. Prebble: — Well I agree that it should be.

Mr. Wright: — That remains number one, sorry. I really want to emphasize that all the time to my employees, the good people out there, the people on the farm, and everything else — electricity can be dangerous.

That's number one. Number two right at the moment is the cogen and/or combined cycle projects and number three right at the moment is wind power.

Wind power is much more expensive than our traditional forms of generation. And I'll just round figures, very round figures: 4 cents for generating costs on average across the province; wind power is about 7 cents for kilowatt hour. So you pay a premium of about 3 cents.

Certainly we're aware of many customers in this province that are keen on this. The city of Saskatoon, certain of its committees, have written to us, or are in the process, I should say, of writing. We are — and I want to assure the Chair and the members here that are interested in this — taking this very seriously and very positively. Lots of opportunity.

Mr. Prebble: — Yes, well I'm very pleased about that.

Just one other brief question, Mr. Chairman, and that is, those cost figures that you gave us, Mr. Wright, are those marginal cost figures?

Mr. Wright: — Yes.

Mr. Prebble: — Yes, I just wanted to clarify that.

Mr. Wright: — Yes, in round terms. Actually the marginal cost is slightly higher than 4 cents per kilowatt hour, just slightly higher because of gas, and if gas keeps rising it rises with it.

If I could just give people some dimension around this. To produce 8 megawatts — again we produce 3,000 — 8 megawatts of wind power, I just may happen to know would involve about 13 — what would you call them? — 13 facilities, generating items, each of them producing about 660 kilowatts. These 13 could be placed in the southwest part of the province where there's a lot of gentle breezes, shall we say. This would produce again about . . . sorry, I didn't mean that any other way than just gentle breezes.

These facilities are huge. They're approximately 55 metres tall up to the horizontal line where the blades come out. The blades are huge and so on and so on. In fact, earlier today, I was having a conversation about birds, and how many birds smash into these things.

Having said this, I'm trying to give you the strong impression that we're moving forward. As one of my staff said, wouldn't it be nice, just from a public perception viewpoint, to have one of these straddling Highway No. 1. And again, calling it perhaps the Ben Heppner wind farm. But we'll need to be working on that. Maybe there's a better name, and so on.

So there are environmental aspects I wanted to point out. That's what I was trying to get at with the birds — that there are environmental aspects as well to even wind farms.

So please bear with us, and I hope we will have good news in due course.

Mr. McMorris: — Thanks, Mr. Chair. The reconstruction charge on the bills, can you just tell me what is the percentage,

and obviously that goes straight back into reconstruction?

Mr. Wright: — Well I'm pleased to advise that effective April 1, the reconstruction charge no longer exists. The reconstruction charge was introduced back in 1996. It generates approximately, in 1998, \$14.8 million.

In 1998, there was a determination made pursuant to our good friends at the Provincial Auditor's office, that the charge was being . . . was better placed as being a form of general revenue to the corporation, rather than what I'll call the special accounting procedures that were used by SaskPower.

Hence in 1998, instead of having a reconstruction charge separated on the books, for all intents and purposes, it was rolled into general revenue.

Recently there was an announcement that because of this situation, it was better felt that — and many people were confused about it — it was better felt to terminate the reconstruction charge, in essence, by rolling it into your basic monthly rate.

If you look at your bill, you used to have three components as a residential: basic monthly rate, reconstruction charge, and fuel supply costs, okay, or kilowatt hour costs. Now you'll only see two — basic monthly and the amount consumed.

Although it raised \$14.8 million, it is — and I hate to use this phrase, but I will — a drop in the bucket compared with the total capital costs of the corporation. I think you may find that the capital costs of the corporation or what was spent on transmission and distribution was in 1999, again in round figures, about \$80 million. The reconstruction charge was being used in part to finance the new wires, sometimes the new farm yards, the transmission facilities, and so on.

So it no longer exists.

Mr. McMorris: — So it no longer exists on the bill but as you've mentioned, it would be rolled into the cost. So it's still there. And I realize . . .

Mr. Wright: — The revenues are still there, that's correct.

Mr. McMorris: — Right. It was being broke out. And I guess my question is, is that when you can turn over a \$77 million profit to CIC and then go and put on a reconstruction charge, wouldn't it best be used to take some of that revenue and use it as a reconstruction charge or reconstruction capital?

Mr. Wright: — Oh indeed, and that's exactly how it works. Again there's two types of income or capital flows. One is income. And in 1998 that was 140 million of which we returned 77 million which is the return on the investment the shareholders of this province have made in SaskPower. And the residual amount, 63 million, was used for capital purposes and to pay down debt.

Where's the reconstruction charge come in? Well in 1998, it was all part of that net income figure. It was rolled in there. It wasn't separated out as it had been done in the past.

Wouldn't we be better providing a lower dividend or a lower rate of return? I think that's up to you as legislators to determine what is the appropriate amount. There are many trade-offs. We could reduce our rates significantly and not have a return to the shareholder.

Certain entities throughout North America choose to do that, and certain of them have what I'll call absolutely horrible balance sheets. Some of them are debt ridden. I wouldn't want to mention New Brunswick Power or perhaps Manitoba Hydro.

What you want at the end of the day — I would hope, but again it's up to the legislators — is a sound commercial entity that operates as close as possible to private sector standards which are a good check and balance in the system. That provides for a rate of return in and around the range of 10 to 11 per cent, okay; 2 back to the shareholder.

Would we be better off of it? Depends on your perspective. My perspective is trying to balance the needs, the capital needs out there, trying to balance debt retirement with providing a return to the shareholder. Safe, reliable, cost-effective power.

Mr. McMorris: — The other question, and it was mentioned about wind power and perhaps the need for more power in the future — uranium. Have you done any work, and will you, or are you thinking?

Mr. Wright: — Well indeed in the past, I'm led to believe, that SaskPower has looked at this. One of the problems with the technology, as I understand it, associated with uranium production or facilities to generate electricity is one of economies of scale and size.

Wind power, for example, is 8, 10 megawatts and you can add to it. But if you're to build a cost-effective nuclear facility in this province, we're looking at 400, 500 to 1,000 megawatts which is far more than what we need in the short term.

Nuclear facilities also require huge upfront capital costs, although the fuel is cheap and so on.

Nuclear facilities are what we call baseload plants — 24 hours a day, 7 days a week, 365 days a year they hum. Okay. But what we need right at the moment, as I articulated earlier, are plants that we can turn on and off for peak load. And that's the outlook into the future, to give us that greater flexibility. All that being said, nuclear doesn't provide us with the economies that we need because of the large size required. The huge upfront capital cost associated with it and what this province in our estimation needs more of, is the ability to produce peaking power as opposed to baseload. Nuclear today? No.

Mr. Kasperski: — Thank you, Mr. Chair. Mr. Wright, I just . . . there's the issue of the reconstruction charge has been raised and that being dropped or reassigned to the rates. Also when the reconstruction charge was introduced, SaskPower undertook not to raise rates for I think a period of four or five years, but that period is also ending now.

And it might be a little bit early to tell us on this, but rates are probably on people's minds. Do you see anything . . . do you have prognostication right now in SaskPower rates in general? I

understand it might be a little difficult, but perhaps you have some thoughts you could share with the committee at this point in time.

Mr. Wright: — Certainly, Mr. Chair. We're very pleased to be able to have announced the fifth consecutive year of no rate increases for our customers. We did so because we evaluated a variety of issues in front of us. Again the largest increase in our costs right at the moment focuses in on fuel, and again predominantly because of natural gas and the rising prices there.

But we took a look at the return to the shareholder that we could provide without changing rates, altering rates. We took a look at the customers out there, mindful of certain segments of the community that may be going through difficult times right at the moment, and we balanced that out and said that on balance we don't want to proceed this year. We don't need to proceed this year.

There are no guarantees in life. It would be my hope that natural gas prices would plummet, and therefore enable us to hold the line on any future rate increases. That not being the case, what we will do is we will evaluate very carefully our ability and our desire to restrain our costs to the best that we can, our capital needs for new construction, for renovating our power plants, the expectations of the shareholder in terms of a return.

And based on that evaluation we will come out with one of — we'll reduced rates, we'll keep them the same, or increase them. It's very early. We're trying to hold it together this year.

Mr. Elhard: — I just want to revisit the cost of wind power vis-à-vis some of the other sources of power. If the cost of fuel is a major component in the ultimate cost of power delivered to service . . . I'm sorry, industries and homes, and since wind is free as far as I know, why is there a discrepancy of that 4 to 7 cent cost that you mentioned earlier?

Mr. Wright: — It's predominately the upfront cost. It's the cost of capital. It's the cost of building the towers. It's the cost of the blades. It's the cost of hooking up. That's predominately it. The fuel of course is free, God willing. However, you have large, large dollars that are required upfront. Very expensive. And you have to factor that into the calculations.

They're not as efficient, quite frankly, as well. Natural gas, a cogeneration, is what they call 45 per cent efficient. Our coal-fire plants are about 30 per cent efficient. Wind power I believe is down there.

I'm cognizant that Robert Service, I think it was with reference to Saskatchewan, once wrote: the wind she blow like hurricane and then she blow some more. But it doesn't always blow. And some days when it doesn't blow, the turbines just aren't spinning and so on. Large capital costs.

Mr. Elhard: — I've got a couple of other areas that I'd like to explore with you, just quickly. And I guess one of the things that happened, which kind of took me by surprise frankly — at some point, just before Christmas or just after, it was announced that SaskPower would participate with some of the other Crown corporations in the cost replacing the turf at Taylor

Field. And I got more calls to my office on that issue than almost anything. I mean I got more calls on that than the farm crisis that is happening in rural Saskatchewan.

I'm wondering, you know, how you respond to those kinds of concerns. I guess what generates that kind of outpouring of concern is the fact that so many people see their costs tightening and tightening and tightening. They find it difficult to even pay the basic power bill. They see these kinds of moves as frivolous and unnecessary. How do you respond to those kind of concerns?

Mr. Wright: — Some people see our contribution to the Science Centre as frivolous and not worthy. Some people see our contribution in support of the Schmirler curling team in the years gone by as frivolous and not worthy. Some people see our program whereby we bring the Regina Symphony Orchestra out to schools as frivolous. Some people see our contribution to the Taylor Field turf as frivolous. Some people see Ducks Unlimited as frivolous.

I can't speak for every member of society out there. And we can't please everybody. We try to produce a very balanced approach. We try to focus in on education, health care. Children are very important to me and I think that they are very important in terms of the future. They are the future. So we try to tailor that . . . in our contribution program approximately a million dollars per year to that.

In the case of Taylor Field, many people objected because it's professional athletes; I understand. I also do know that my son and perhaps your children have had the opportunity to use the field out there; my son playing football for Luther — they did terrible — and many other kids enjoy it.

In fact I am led to believe that the bulk of the usage of the Taylor Field turf is not the professional athletes but for others. SaskPower did contribute. We have received complaints about our contribution, not that I'm proud one way or the other. Of it, we did contribute the least of all of the Crowns.

Mr. Elhard: — And I guess continuing in the athletic realm here, I asked you this question when you met with our caucus and I accepted your answer at the time, but it's still a very real concern to me, and that's the cost of utilities to sporting venues and community rink complexes, that type of thing. And I know that at the time you said that it was because of the peak demand issue and that really had to be taken into consideration.

I guess my fear is that while we're taking in the peak demand matter, we're also looking at the closure of some of those rinks. And the use of those rinks is getting smaller because of the declining population in a lot of rural communities. And they're basically being operated strictly on the basis of voluntary support. The power bill has now become by far the biggest element of costs for most of those community facilities.

And I'm wondering if we can justify putting new turf into Taylor Field; can we not justify some consideration of that problem in small-town rinks all around the province?

Mr. Wright: — Let me address that in two ways: one, just the technical aspects of how the bill works and why it's expensive;

and then secondly, what I'll call the public policy issue, and I think it's an important one. And perhaps some people suggest these should be handled in one way; there are other ways of handling this, and if I can speak to that.

With respect to a curling rink, there are three basic charges that come on to the bill: one is your basic monthly, it's never a nominal amount but it's the lesser amount; two, basically a charge for the number of kilowatts being used; and three, the demand charge. The demand charge is the source, as I understand it, of the sore point with the communities out there. If we were to reduce the demand charges to a level that SUMA (Saskatchewan Urban Municipalities Association) has requested, the cost is approximately is 1.5 million.

What is the demand charge? The demand charge is somewhat similar to the basic monthly charge that you or I pay. It's a cost to reflect the facilities that are required to provide that electricity to the skating rink. It's the cost of making sure that there's adequate generation out there — so that when you turn on the switch to deal with the ice, it's there. It's the costs of the wires; it's the costs of the transformers; it's the costs of the poles; it's the costs of the hookup.

And curling rinks and skating rinks use an awful lot of energy when they're turned on. When they're not, they're very dormant and very, you know, quiet. Minimal usage, minimal charges. But we have to have a demand charge in there so that they know when they do turn on the lights — and not just the lights but the ice facility — that it's there. It is a source of a sore point because it is very expensive, and that's because the facilities to put that in to ensure that it's there are expensive.

The second point you raise is a good public policy issue. And the public policy issue is around who should pay for supporting the curling rink. Should it be the users? Some would argue that that should be through user fees and so on. Should it be the community at large, implying a degree of cross-subsidization from the ratepayers or the good burgesses within the community of Rosthern, for example, be paying into that and implying only the users are subsidized by the other members?

Should it be SaskPower and all the customers of SaskPower subsidizing through lower rates than would otherwise be the case? Should it be a grant for example from municipal government — transparent, accountable, responsible? How should you go about this on a public policy basis?

I think the easy answer to many people is just do it through the electricity bill. It's not transparent. It's not necessarily accountable because it's just imbedded in our rates. Some would argue do it through a grant — transparent and accountable. Some would argue to heck with this cross-subsidization of this — no.

So cost, one and a half million dollars; and it would be a form, another form of cross-subsidization. Fair enough. If that's the will of legislators; I don't have a problem with that. But there are many other ways of going about this that good governance, good government may want to consider.

The Chair: — Thank you. John, I just want to say while we're on that topic, that the contribution SaskPower has made to the

Biggar community in support of the Sandra Schmirler Park is very much appreciated and I think speaks very much to SaskPower's continuing involvement in our communities. And so just while we're on that topic, I wanted to mention that.

And seeing no other questions and us nearing noon . . . except for Mr. Prebble.

Mr. Prebble: — I can . . . (inaudible) . . . we're anxious to shut down.

The Chair: — It is almost noon so I would just ask if people do have other comments, perhaps they can make them to Mr. Wright directly. And with that, I'd like to thank you for appearing before the committee.

And I'll accept a motion to adjourn. So moved. In favour? We are adjourned.

The committee adjourned at 12 p.m.