Standing Committee on Crown Corporations

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STANDING COMMITTEE ON CROWN CORPORATIONS
2001

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The committee met at 09:38.

SaskEnergy Incorporated

The Chair: — I will call the meeting to order. This morning we have on the agenda SaskEnergy and consideration of its reports. We have two years in front of us at this point — 1998 and 1999.

Let me start by thanking members of the committee for allowing us to make this small change to the agenda. CIC (Crown Investments Corporation of Saskatchewan) was initially supposed to appear this morning, however they are tabling their reports in the Assembly and are doing the technical briefing this morning for the media. And as such I, in discussion with Mr. Wall, decided it was probably topical for us to bring SaskEnergy in today to begin the review with them.

I'm going to start by allowing introductions. And perhaps what we can start with are the officials from the auditor's office.

Ms. Volk: — Good morning. My name is Rosemarie Volk. I'm a chartered accountant with the Provincial Auditor's office. And I have with me today, Andrew Martens, who is also with the Provincial Auditor's office.

Mr. Watt: — Good morning. My name is Bob Watt. At the time of the audits that are involved here I was a partner with Ernst & Young, responsible for the audits for the two years. I'm now actually a partner with Deloitte & Touche as a result of the merger in Saskatchewan of Ernst & Young and Deloitte & Touche just over a month ago. So I'm here representing the audit firm.

The Chair: — I'd like to welcome back to the committee, Mr. Clark, who is the CEO (chief executive officer) and president of SaskEnergy. And perhaps what I could ask, Mr. Clark, is if you could introduce the officials you brought with you and your board Chair.

Mr. Clark: — Well thank you, Mr. Chairman. I just want to say that we're pleased to have this opportunity to appear before the committee and discuss issues with the direction of our company and hopefully answer the questions of the committee.

I'm pleased to introduce a number of people who have joined with me today. First of all, on my right is Susan Milburn. Susan is the Chair of the Board of Directors of SaskEnergy and TransGas. Susan is a portfolio manager with Raymond James in Saskatoon. And if you pay attention to the radio stations in Saskatchewan, you may hear Susan twice a day reporting on the markets.

As well with me, in no particular order, Ken From, who's the vice-president of gas supply — who's getting almost as popular these days as Wayne Gretzky; Mark Guillet, the general counsel and corporate secretary; Grey Mrazek, the vice-president of finance and administration; Doug Kelln, the vice-president of our distribution utility; Daryl Posehn, who's the vice-president of TransGas, our transmission company; Dean Reeve, who's the vice-president of business development and market services; Ron Podbielski, who's the executive director of corporate affairs; and Larry Smart, who's the director of distribution accounting.

I guess we thought if we couldn't do it with quality, we're going to do it with quantity. So we've got everybody here hopefully to answer all your questions.

I'm going to ask, with the indulgence of the committee, Mr. Chairman, to have the Chair of our board make a few introductory comments if that's in order?

The Chair: — That would be fine.

Ms. Milburn: — Thank you. Good morning, everyone. I'm very pleased to be here to talk to you for a few minutes about SaskEnergy.

As you know one of our major challenges is managing the cost of natural gas. It's not a challenge that's unique to SaskEnergy; it is in fact a North American phenomena. It's one of the things that we have to deal with on a day-to-day basis. Our hedging strategy has become a very important tool that we've used to try and manage that cost for the customers in Saskatchewan. It's been a very successful tool. We've managed to save our customers approximately $80 million over the last year. But the challenge still remains, as the price of natural gas is volatile.

We take a look at our gas supply portfolio and we find that it is in fact one of the best in North America.

We operate in a very mature industry so we are constantly looking for growth opportunities. We look locally. We look Canadian-wide, and to some extent we also look international to try and keep our company thriving and growing, providing opportunities for our employees.

Our primary focus does remain serving our Saskatchewan customers in a safe and in a reliable fashion, and we do take our customer service role very seriously. The company has undertaken a couple of initiatives over the last few years which have turned some adversarial relationships into some very positive, go-forward business initiatives.

The employees at SaskEnergy are outstanding individuals. We work very hard at keeping a positive relationship with our union, and that has in fact resulted in some very strong benefits to the corporation.

We also put a lot of time and energy into working with our Aboriginal partners in an attempt to create some mutual benefits for both SaskEnergy and for our Aboriginal partners.

Finally, our board takes a very serious look at its governance role and we take pride in attempting to help the corporation in developing their strategic direction.

Thank you very much. I'll turn it back to Ron.

Mr. Clark: — Thank you, Susan. And, Mr. Chairman, if it's in order we have a very brief presentation. We're not here to lecture at the committee, but we think it might be very useful to assist in the subsequent discussion which I'm sure will ensue. So if that's in order, Mr. Chairman, we'll be very brief.

I just wanted to say, Mr. Chairman, we have hard copies of all of this material so that it's available to you if you wish it afterwards.

But very simply, I'm sure members are aware of really the business that we're in. But we do have a number of activities. The two core businesses, of course, are SaskEnergy, the mother company, which is the distribution utility. And the other large business unit that we have in our company is TransGas — the box second on your left — which is the transmission company, and we'll talk very briefly about that in a minute.

Swan Valley Gas Corporation is a fully owned subsidiary which is the new venture into taking gas into the northwest corner of Manitoba and being very well received by the people who have waited up there for some 30 years for natural gas.

The other two, obviously other three boxes, SaskEnergy International which the Chair alluded to is a very modest effort to sell our consulting services in various markets. And as you will see, we have one small equity investment in a distribution utility in Chile which is doing very well.

Bayhurst Gas Limited has no employees. It's simply the company that holds a royalty interest in some gas reserves that used to be owned by the provincial government. And Many Islands Pipe Lines is our nationally regulated transmission company. We have 11 interconnections with Alberta and one with the Williston-based interstate system in the United States. And any time we cross any one of those jurisdictions, we must apply to the National Energy Board, and this is our National Energy Board regulated company. It as well has no employees; it is simply the company that looks after our affairs that are regulated by the National Energy Board.

Very briefly, again I mentioned our core business. We have consolidated assets of about $1.3 billion. It certainly doesn't make us one of the biggest in Canada but we think we are a very significant niche player certainly in the transmission business, as it's an integrated and seamless North American system. Consolidated revenues of about half a billion dollars and 850 employees — about 600 of those in SaskEnergy and about 250 of those in TransGas.

Like every good company, we have a strategic direction, a strategic business set of objectives that drive us and drive everyone in our company. And quite frankly this model, without lecturing you on our strategic direction, is very much akin — and we use it in our discussion of our approach — is very akin to the decathlete.

If you know the decathlon. It's an Olympic event; it's 10 events. In this case we have seven very strong dimensions that we think that if we do these things well, we indeed can be Canada's and are very close to being one of Canada's leading energy companies, if not one of the best.

And as you know, the decathlete doesn't have to win every event to win the decathlon, but it certainly has to do very, very well in all events. And our view is if we do very, very well in all of these things, we will be a first-class company by any standard, by any set of rigorous measurement that you wish to utilize in the private sector, in the marketplace.

And again I won't go through those with you. But as you see, it ranges from the obvious focus on growth, on rates, on safety, on customer service, and the box on the right on strengthening community, is very important.

The people in the company take great pride of participating not only well in their jobs, in my view, but also trying to participate in the community. So that's very much the focus in our company. It's cascaded down. The men and women in our company understand what we're trying to do here and we try to do these things very well.

Very quickly, just to give you a sense of the scale of the distribution company, we have about 320,000 customers, very large areas. You know Saskatchewan is one of the larger land area provinces in the country. We have a very significant market penetration, a little over 90 per cent. Only Alberta and ourselves in all of North America have market penetrations at this level, of about 91 per cent. And at 64,000 kilometres of distribution pipe, we have one of the largest, if not the largest, distribution system in North America.

You may say well that doesn't make any sense. It's because of the scale of our province and the amount of market penetration. A lot of that, admittedly, is 1-inch and 2-inch plastic pipe throughout rural and the resort and northern areas of our province. But it is a challenge, when you look at that size of distribution with 320,000 customers, not like we have several million customers.

An important issue that I'll touch on very briefly before I close, Mr. Chairman. Turning just quickly to TransGas, which is the other large business unit, a significant business unit that we have in our company. We've about 13,000 kilometres of high-pressure pipe, the largest in our system being 20-inch. We are not like TransCanada or Alliance that has 42- and 48-inch pipe. We're not the large, long-distance pipe hauler or gas hauler, but we are significant in terms of the North American system and certainly the Canadian system.

A lot of compression. We move about 350 billion cubic feet a year, almost a bcf (billion cubic feet) a day, and storage is an integral part of our operation here, absolutely critical. We would have to build significantly more pipe to have enough, what we call line pack, to service Saskatchewan, particularly in the cold winter months.

And if we didn't have the storage strategically located at places like Prud'homme around Saskatoon or our storage cavern just outside of Regina and throughout the province, we would have a significant challenge of meeting the peak demand in the winter. So storage is very important to us and we have about 32 billion cubic feet of storage.

Briefly, just while I close, Mr. Chairman, on these few remarks, I just wanted to try to conclude or summarize with some of the strategic business challenges that do, quite frankly, keep me awake. Susan mentioned we have a mature system, so trying to grow and find more market penetration and more market development opportunities is a task, one that we enjoy, and we try to find every opportunity to provide more service and more customers.

The infrastructure ages. I think there are two things that really impact our customers in a very direct way: obviously rates, and the other issue are safety and safety-related issues. I think through good stewardship and good work from our employees and God willing, we've not had — in my experience and as far as I can recall in this company — a major incident where we've had either disruption of service or any injuries or loss of life. And we're very blessed and pleased about that.

Like any good company, growth is critical. I think on any given year we're the 10th or 11th largest company in this province. And I think that any company of that size that's not trying to grow and create jobs and investment and be part of the engines of growth in your province is probably not doing their job.

Cost containment is a very big issue. When you've got a mature system, you've got a very large system, with a relatively small customer base; cost containment is critical to us. We have had one rate increase — now you can talk about all the commodity increases you like, and I concede to the consumer those are still troublesome — we have had one rate increase related to our bottom line in seven years, of 2.4 per cent.

I know there is no distribution company in Canada, publicly owned or privately owned, that has done that well. We have . . . And it's a credit to the men and women of the company. I'm not trying to blow my own horn here at all. They've done a very good job of containing costs.

The last issue that again our Chair alluded to that really does keep us awake is the volatile commodity markets, trying to manage them and then obviously trying to manage the relationship with our customers in terms of understanding of why this is happening. Again I say to you of all particular persuasions politically that it's hard to think of a commodity, commodity in our society that's gone up 300 per cent in one year as in some cases it has. A commodity that people need.

This isn't like tomatoes or oranges where there's been a frost in Florida. Our people need this, our businesses need this, and this has been very difficult. It's been very difficult for us to manage, and obviously it's very difficult on the end consumer.

I just want to leave, Mr. Chair, with one last comment. Again, on behalf of the men and women of the company, I think they're very good at what they do — they're very, very good at what they do — and they're very involved in the community. And I would say to you that one of the new benchmarks of this millennium for companies — publicly owned, privately owned, certainly non-profit, NGOs (non-governmental organization) — will be how they're measured in terms of their corporate social responsibility. This company and the men and women measure up very, very well.

I encourage you members, I really do, partisanship aside, in your '99 report is the first time ever, we've done it — one of the first times this report won the *Oil Week* Award as the best annual report in our industry, last year, in '99 — take a look at our report on community involvement. We think it, as I say, it's not something you do because it's a Crown corporation and it's owned by the government. Enbridge does it; good companies are now doing this.

And I'm very, very proud of the men and women of SaskEnergy and TransGas who not only do their jobs very, very well, but are committed to our communities. We're in 42 different communities in this province, and I think they try to make a difference, Mr. Chairman.

I'm going to stop there. Very quickly, we're going to take a look at the financials, I think those are important in '98, '99, and then move ahead.

So, Mr. Chairman, I'm just going to turn it over to our chief financial officer, vice-president of finance, Mr. Greg Mrazek.

Mr. Mrazek: — Thank you, Ron. What we'd like to do is provide you with some of the financial highlights for 1998 and 1999; provide you with some context for the discussion that's going to take place next.

As you see here, for 1988 and 1999, the net income, the consolidated net income that is for the whole corporate entity taken together was $36 million in both years. And what we have done here, is we have shown you the contribution of the two major business units.

There are two major business units that Ron talked about. One is the transmission utility, which owns the large diameter, high-pressure pipe that runs through the countryside in Saskatchewan. The other is what we refer to as the distribution utility, which is owned by SaskEnergy. And that utility owns the pipe and the infrastructure within the city limits. Within the cities and towns and villages in Saskatchewan, of course, there is some rural infrastructure as well.

And what this does, it shows you the contribution, the income contribution, the . . . (inaudible) . . . contribution for each of those utilities. And you can see that the transmission utility owned by TransGas provides the majority of the income, and you can see the utility's in the neighbourhood of about 6 to $8 million, net income.

We've shown here the commodity revenue and the commodity cost of gas here because this is important information for the discussion that Ken From is going to be talking about in a couple of minutes time. There are two services that the distribution utility provides. One is referred to as a delivery service, which is the actual infrastructure itself for providing . . . being able to actually provide the natural gas to your doorstep and those of businesses in Saskatchewan.

The other is the actual commodity itself, the actual molecules of natural gas that flow to you. What we have done here is we have shown the cost of gas and the revenue they would earn from the commodity alone. So this is not the delivery in there, it's just the commodity.

And we operate on the principle that we do not make a profit or incur a loss on the sale of the commodity. And all the utilities in Canada operate on that same principle. This is very simply a pass-through cost. So whatever it costs us to buy the gas, that is what we charge the consumer of that gas.

So you can see in 1998, the revenue was $115 million, and the reason for that was because the cost of the gas was $115 million. In the next year in 1999, you can see the cost was 153 million . . . excuse me, the revenue was 150 million. There was a small loss and we did not go back and get that from our customers. We ate that $3 million loss in 1999.

In terms of our total expenses, if you look at our annual reports for those two years, you'll see that in 1998 our total expenses were $222 million. In 1999, they were $215 million. So they went down by about $7 million. The expenses went down in all categories with the exception of depreciation. We did have a capital expansion program. We hoped to have more customers in the distribution system and did some more work with TransGas in terms of expanding the asset base so there was an increase in depreciation very simply because we had a larger capital base.

This shows the capital expenditures we have. This is the actual physical additions to the asset base that we have here in Saskatchewan. And we have shown it for the distribution utility and for the transmission utility. Those are investments primarily in infrastructure. You'll see in the distribution utility which is the blue on the top, there was $39 million in 1998 and $41 million in 1999.

The overwhelming part of that, which is about 26 to $28 million in those years, was to connect new customers. That's the primary or the major single capital expenditure that we had in this company in those two years. There was about 4,300 customers connected in 1998 and about 3,800 new customers connected to the distribution system in 1999.

On this final slide, what we've done is we've indicated to you what our capital structure consists of in terms of the debt and the equity of the corporation, how we're financed. One of the issues that we have had since our corporation was created in 1988 was that we were overwhelmingly financed with debt. This company has an excess of debt for virtually its whole existence and has been one of the areas of concentration that we have had to have over the years is to manage that excess debt.

You can see that in 1998 we had 72 per cent debt, and in 1999 we had 71 per cent of our capital structure was debt, so we did improve it. The debt didn't change very much. It was only about a $2 million change year over year. However what we did do, we were able to accomplish bringing our capital structure more into line through the increase in equity.

So those are the major highlights that we have for you. That's basically it from a financial perspective.

Mr. Clark: — Mr. Chairman, I promise not to bore the committee. We have one last set of very brief slides from Ken From which relates to the operation of the gas market, I think, which is very interesting to all members. The issue of volatility, how the market works, how we buy gas. And I thought we'd take just a couple of minutes of that because I think it will be interesting background for what I'm sure will be a number of discussions and questions in that area. So, Ken.

Mr. From: — Thank you, Ron. Mr. Chairman, what I want to try and do is pull together some of the concepts that have been discussed already and finally end up with what does that mean on the customer's bill.

The first slide shows how gas is actually moved and distributed in the province. It is produced mainly on the western side; that's where the gas-prone areas are. It's produced by roughly a hundred independent producers that operate in Saskatchewan. SaskEnergy does not own any gas fields of its own; this is all done by private industry.

That vertical line kind of is the line of demarcation, if you will, between our commodity costs and the delivery costs that Mr. Mrazek was talking about in our rates. Typically on the left-hand side, getting gas into the pipeline system is the responsibility of gas producers. SaskEnergy buys a lot of its gas at that point right in the middle called the TransGas energy pool.

We then distribute it through our pipeline system, the high-pressure pipelines at TransGas, the storage that's located near the load centres. That is kind of a secondary source of supply for those very cold winter mornings when you wake up, the gas is there. That's how we get it there. And then we take it to all the various customers and towns or industry throughout the province.

Susan, in her opening remarks, alluded to the volatile marketplace. Natural gas is the most volatile commodity that is traded on the New York Mercantile Exchange. This graph shows two things. It shows the price of gas over two years superimposed in one graph.

The lower line are prices from April of 1999 through the winter to March of 2000, just past the millennium switch there. As you can see the prices were, well, generally just around the $3 mark, some volatility there but not a great deal.

This past year, as you can see, what has happened is that prices have gone into uncharted territory. I know how Columbus must have felt sailing to the New World because we definitely got into a new world on gas pricing. The prices skyrocketed 300 per cent more than they were the previous winter. The volatility was indicated by the basic zigzag of that line has gone to astronomical levels, never seen before in the commodity markets.

And even though things have come off of the winter highs, the line still shows that we are roughly double of what we were a year ago, and indeed that is the challenge that we live with here at SaskEnergy in this highly volatile price commodity market.

The next slide shows how we have managed that over the last number of years with our rates. We had had over the last four or five years a marketplace that has gone up virtually continually if you just ignore some of the volatility noise that exists around that red line which is the market price.

Our rate is shown there in the blue line. As you can see, the blue line has almost always been, on average, below the red line. What that has meant for our customers is that the hedging activities we have undertaken have saved money for this province. Over the last 18 months, as you can see, the blue lines have been under the red line by a considerable margin. That amounts to $125 million.

The other thing I must point out though is the red line is substantially above that blue line, and as we go forward, the projections are for that red line to stay above the blue line, which means the blue line must go up and hence some of the things that we've talked about in the media over the recent weeks here about SaskEnergy perhaps needing a rate increase as we go forward.

What I want to do right now is compare our commodity rate to other jurisdictions. I don't have them all across Canada. I just picked the ones in Western Canada because those are the ones that are most germane to our area.

As you can see, we are virtually half of what the utility rate is in Alberta, substantially lower than BC (British Columbia) and Manitoba as well. So we have been able to, if you will, insulate our customers from this past winter where we had this price shock going into this uncharted territory by having a rate that is very, very low.

That was brought about by two things. We had storage gas that we bought the previous year at that very low blue line that was first showed. That gas was what went into storage to come out the following winter. That gas was in at roughly $3. When the market soared to 12, that provided a huge benefit for customers. Well the winter was cold; that storage gas is gone. Our low-priced gas hedges will also expire at the end of this year, forcing us to buy gas at a much higher level.

At the end of the day though, what does the customer pay? Here's a graph that shows the customer's bill over the last four years. What it shows there is the two components. One is the delivery, which is the bottom number at $31 per month. And as Mr. Clark alluded, that has remained constant over these years. We have not had an increase in our delivery rates. The part that has caused our bill to almost virtually double is the commodity cost — the cost of natural gas in the open market.

And my last slide will just compare how we sit in terms of our total bill — both delivery and gas costs across Canada. And again what I can report is that we are the lowest in the country in terms of the utility rates. We have been for three of the last five years. And if my market intelligence is correct, we will be for this year as well. Thank you.

Mr. Clark: — I think that's all we wanted to say, Mr. Chairman. I hope we haven't worn out our welcome with those introductory remarks.

I would say, Chairman, at your direction, in case members, through reference for the following hour or so, would want the hard material to refer to, we could circulate . . . we could distribute that now. It's at your call, sir.

The Chair: — It would be a good idea, Ron. Could I just ask before we move into questioning that we allow the audit team to make a couple of comments in terms of what they have found looking at the financials.

Mr. Watt: — Good morning. Again my name is Bob Watt and I was the partner responsible for the two audits that you're reviewing — 1998 and 1999. Our reports to the members of the Legislative Assembly on the financial statements of SaskEnergy are on page 57 of the 1998 report and page 44 of the 1999 report. Neither of our reports contain any reservations on the financial accounting practices followed by SaskEnergy.

And in short, in layman's language, we are saying the practices followed by SaskEnergy are sound and consistent with practices followed by others in the industry, which I think comes out of the discussion this morning around consistency of practice across the country.

In addition to providing unqualified reports on the financial accounting practices of the corporation, we worked with the Office of the Provincial Auditor to provide unqualified reports on the corporation's internal control systems and its compliance with legislation for both of the years in question.

I'm going to turn it now over to my colleague from the Office of the Provincial Auditor.

Ms. Volk: — Good morning. As Mr. Watt has stated, we worked with them to complete the audits for SaskEnergy and we concur with their audit conclusions on the systems of internal control at the corporation, the legislative compliance opinions, and finally we concur with the audit conclusions on the reliability of the financial statements for 1998 and 1999.

The Chair: — Okay. Thank you very much. I will take a speaker's list, if members have questions.

Mr. Wall: — Thank you to Mr. Clark and his officials for their attendance here today and for that presentation. I appreciate that.

I think we have a few specific questions and some of it concerns the reports in question, but you yourselves have raised this whole question of supply and the current discussion that's happening around pricing, around potential pricing in the future.

And so in light of the fact that you have raised that, I think I'd like to pursue it a little bit. You mentioned that we had been talking about it in the media, Mr. From, and that's true. However, I think you'd also agree that we're talking about it in the media right now because of a leak apparently over last week sometime into the media about this potential rate increase request that you may be making to the review panel.

And I guess that goes to the heart of the question that I'd have and it would apply in all years — '98 and '99 and certainly in this one. What processes in place do you have in terms of assessing when it is a request is going to be needed; when the minister is informed that you'll be making a request soon, either informally in terms of the briefings that I'm sure happen between yourself, Mr. Clark, and the minister, and also more formally when you make a formal request?

I guess the heart of the question is if we're looking at a 50 per cent increase we need to let people know that as soon as possible. I think also people understand, by the way, on behalf of your corporation, that for the most part this is a pass-through process. And the whole debate that we may have about a rebate is really a matter of public policy and one for the cabinet, not for the corporation. And I think you're probably more comfortable, frankly, with that anyway.

But I think the question is, people need to know as much in advance as possible if they're looking at a substantive increase. And I want to ask you: when you let the minister know of this and when you would recommend to him, if you have, that he would confirm that this request is coming so people can start making this adjustment?

The Chair: — Mr. Clark, just before you answer. Just so I understand clearly what the question is. The question is in a general term . . .

Mr. Wall: — Yes.

The Chair: — . . . in terms of what the general approach is, not specifically related to this particular potential increase?

Mr. Wall: — I'm sure if you would have needed it . . . I mean the rate review panel is relatively new, Mr. Chair, but there was the 45-day review previous to that and I'm sure the same question could have been applied for any increases that may have been requested in those reporting years.

So just generally speaking, if I could get an answer to that.

The Chair: — Thanks, Mr. Wall.

Mr. Clark: — Thank you, Mr. Chairman. A fair question. First of all, Mr. Wall, we don't manage the company by leaks. Those things happen in this world, I guess.

I do want to say quite categorically that I was on record in certainly the local media several weeks ago when asked and I think my quote was: "I won't guild the lily. The rate impact is going to be substantial." And I guess you can pick a number. If it's 40 per cent, I'd say that's pretty substantial. We weren't trying to be cute.

There's one really significant issue, Mr. Wall, and Mr. Chairman, with respect to process; it's a fair question. When these two years under review were relevant we did not have, except for the tail end of the one year, the interim rate review panel. And it would be fair to say that we always dealt with rate issues in the fall because as you know, the gas year is not a calendar year, it runs from October 31 of one year to November 1 of the next year.

And so we are always dealing with the anticipated impact — up or down — because believe it or not in two years rates actually . . . commodity prices went down in this country. And we would prepare ourselves in preparation for the upcoming gas year.

We have a slightly different phenomenon this particular year because as you know, and is the case in every regulated utility in North America, natural gas utility, is the regulator administers what's called a gas variance account. It indeed is the way to ensure that there's fairness and balance with respect to the cost of the commodity for the customer.

If in fact the rate set by the regulator over the course of the year changes in a downward way, this would create an advantageous position and a surplus in the gas variance account for the customer. And obviously customers are interested in making sure that happens.

Similarly if you get a lot of upward movement and volatility as we experienced this past year, the rates set by the regulator in their decision of last fall, frankly, is now insufficient and there's a deficit in the gas variance account.

Sorry it's long-winded, Mr. Chairman, but it's quite important to understand the process.

And so where we are today and why I was quite open about, if you like, speculating in the request by the media a few weeks ago about where do I think where it's going, I think it's going to be substantial.

And the reason we're watching it very carefully and trying to pick soon, I believe, a time to make an application to the regulator is that we know on the one hand, that the deficit in the gas variance account is growing. That's a simple arithmetic calculation — one watched by the regulator; one watched by our company; and one, quite frankly, watched by the Provincial Auditor.

The other aspect of what will impact our customers is what is going to happen this fall. Ken has indicated to you the fundamentals don't look very good for the customer. We are trying the best we can to think about how we manage that. We know the impact's going to be significant.

But, for example, we are one of the most weather-influenced businesses probably in this continent. I'm sure farmers say the same thing and I'm sure orange growers, etc. We are watching very carefully and trying to anticipate what the heating load will be in the United States. You can say, well who heats . . . but it's the air conditioning load in the United States. Most of the electrical generation in the United States is done through gas-fired turbines — huge consumers of natural gas. They are the ones in many respects who are driving a lot of the volatility in the market.

We're trying to do the best we can. It's going to be substantial. If we saw a cool summer and some slackening of demand for natural gas to drive air conditioning loads, we'd seek more gas going into storage, and this will be, I think, advantageous for price in the fall. If that doesn't happen, all hell can break loose again. And we are trying to anticipate as best we can.

Pretty soon we're going to have to make a call and that call will be a combination of recovering the deficit in the gas variance account for this gas year, and forecasting as best we can and positioning ourselves for the upcoming gas year vis-à-vis our customers. You add those two together. The impact is probably in the vicinity of $250 million.

And if you convert that . . . And again, the thing about our business, I mean we talk about what we're doing; I mean our business is very transparent. You can phone Roger Magneson in Saskatoon with CEG Energy Options. He'll tell you, he'll quote you the price right now of gas for the next gas year. It's not something we make up in the company.

So the process is we are doing our work. We are doing our work with our board who has a fiduciary responsibility. And in due course we will prepare an application. Our process is to advise the owner. I'm sure if you were in their shoes you wouldn't like to read about it in the paper. And we will go forward to the regulator and try to make our case and obviously inform consumers why this is happening.

We don't like this. Our CSRs, our customer service representatives on the end of the phone don't like it. But we don't blame customers. We understand they're frustrated. What commodity goes up 100 or 200 per cent?

So we think we will have to make this determination in the company very soon, Mr. Chairman. And we will have to go forward. And the story is, the story as I've indicated for our consumers is not a pretty one.

Mr. Wall: — A follow-up then, Mr. Chair, if I may, and again I'll relate it as best I can to the two reports that are . . . we're dealing with today. I wonder if Mr. Clark can outline exactly how closely or perhaps not closely that your officials work with the Department of Finance officials in terms of forecasting commodity prices in the years in question for example, obviously.

And maybe it hasn't changed. Maybe it's changed this year. I don't know because the commodity price forecast in this current provincial budget are for a substantive decrease in the price of natural gas and that is where they conclude that their revenues will be way down on the royalty side of things. That's not exactly, you know, sort of consistent with what we hear from the corporation today or, quite frankly, from anyone else in the industry, not just SaskEnergy; I shouldn't just single them out.

So the question then is, Mr. Chairman, what, over the course of these reporting years and currently, relationship does SaskEnergy have with the Department of Finance when both the government proper is doing its budgeting and also when you folks are contemplating future action with respect to pricing for gas?

Mr. Clark: — First of all, Mr. Chairman, my understanding is the Department of Finance gets all of their royalty projections based on anticipated commodity price, whether it's a barrel of oil or a gigajoule of natural gas, from the Department of Energy and Mines. They don't interface with us directly. We'd be happy to give them our forecast if they asked for it.

Quite candidly, Mr. Chairman, we'd love to have some of that 3.59 gas they've got in the . . . I think it's around . . . it's priced at 3 or $4. We don't think it's going to be that low. I mean, I'm not going to sit here and show you a graph that we think gas is going to be 7.50, and go to the regulator and ask for that and have you tell me that gas is $4, because I don't believe it. If you've got $4 gas, I'd love to buy some of it.

I'm sorry. I wasn't trying to be flippant.

Mr. Wall: — No. That's not flippant at all. That's a very honest answer and it's appreciated. I'll maybe have one . . . do you have one, Mr. Brkich?

Mr. Brkich: — Not on that, no.

Mr. Wall: — Well I don't have an additional one on that. Except for one more specific question — I'll give way to some of my colleagues — on the '98 calendar year and then I guess a bit of an update, if you can. And it relates to the Chilean investment that you talked about and that's highlighted in that annual report, in the '98 report.

At that time, I think it was about $7.4 million that was the nature of the investment at that time. I wonder, could you update through '99 at least, Mr. Chairman — and if you want to go further, I guess that'd be great — update the level of that investment; if it's remained at that level.

And just generally speaking, you mentioned briefly that it's performing well. I wonder if you could maybe provide a few specifics about what your measurements are and also, if you can, if you could relate it directly to benefits we might be feeling back at home, other than bottom line benefits to the corporation, if there are any such things. I'd ask that general question, Mr. Chairman.

Mr. Clark: — A fair question, Mr. Chairman. First, with your indulgence, Mr. Wall, I really want to make it clear that this investment, albeit it's a number of miles away, is exactly the same investment performance curve as an investment we make in Saskatchewan.

It's 7.4 million Canadian. It hasn't gotten any larger. There's been no new capital injections into the company. The company is connecting customers totally consistent with the business plan. And our investment will make a return in year four, just as we projected.

And I should say that, for example, we made a substantial contribution of over 600 kilometres of distribution pipe in the Last Mountain area. That will pay a dividend and return cash flow and return on our investment in year five.

Their performance criteria are exactly the same. We anticipate that we will, over the life of that project — 20 years is the way we cost the ones here in Saskatchewan — will return us between 15 and 16 per cent internal rate of return, which I think you would — I hope you would — agree is a very healthy rate of return.

And in terms of other benefits, we have done I think over the last three years — and I'd want to check the numbers because I wouldn't want to be on the record as misleading the committee, Mr. Chairman — but several hundred thousand dollars worth of consulting work.

The thing that is so hugely a matter of pride for our company . . . I think it's always identified, well the president travels to these places and the vice-presidents travel to these exotic places. It's our men and women from the field. They go and they say, geez, we do a good job in Saskatchewan. We can do this. We can sell our technology and we can sell our expertise. And they're doing it and they're doing it very well.

Have we created a hundred new jobs? No. We've probably created two Spanish-speaking new jobs. We're going to get 15 or 16 per cent return on our investment. Long after I'm gone from this company the terminal value of this will be worth about $60 million on a $7.4 million investment. And as I say, it's not unlike the investment curve of any of our projects in Saskatchewan, except I can tell you none of our projects in Saskatchewan get 16 per cent return, internal rate of return. I think it's a very good project.

The Chair: — Thank you, Mr. Clark.

Mr. Addley: — Thank you, Mr. Chair. And thank you, Mr. Clark, for your presentation and your official's presentation.

I'm interested a little bit about the efficiency of the organization. I understand from your presentation that you have . . . the cost of the commodity has gone up but the area that's within your control, the day-to-day operations and the fact that you've had an increase — I think it was '97 — of just over 2 per cent, how have you managed to achieve that in the last number of years? Has it been an increase in customers? I understand you have a mature business. Has it been downsizing? How have you accomplished that efficiency?

Mr. Clark: — Well, thank you, Mr. Chairman. A number of factors. Certainly you touched on one of them, Member, in terms of growth. We had in a couple of these years, I think as Mr. Mrazek alluded to, new connections of about 4,500 customers; those obviously help. That's part of the growth even though . . . you've got to remember that the distribution business unlike our transmission business, but the distribution business is like an annuity. It's going to do okay, and it's going to do okay every year for a long time but there's no dot com returns, but the bottom doesn't fall out either. So those new customers obviously help.

And the other two factors are: I want to say, unequivocally, we have outstanding men and women in our company. If this was a case at Harvard . . . there's nothing about this that works . . . 6,400 kilometres of pipe, a geography six times the size of Nova Scotia, and 320,000 customers. That shouldn't work. And the lowest rates in North America. And consistently, certainly, very competitive rates. If not the lowest in Canada.

It's a combination of men and women . . . when you say working with a union this is not some fawning kind of relationship. This is about internal training, this is about doing things that often unions don't like to do in terms of doing more than one job.

We have some of the lowest operating costs of any of our compressor stations of anywhere in the world. When we benchmark with Ernst & Young, two companies — one in the United States, one in Argentina, and it's all anonymous — wanted to know who we were. They said how can they run compressor stations that cheaply.

So we've got great men and women and the other thing is we have great technology. And please don't go there because I have a hard time turning on the radio.

But George Barnhart, in our company who led the charge for Canadian utilities on the year 2000, and his report before the Senate committee on the year 2000 preparedness, I think are outstanding. So it's a combination of men and women going the extra mile; smart use of technology, and obviously trying to continue to grow.

And we do have an ongoing . . . it's not downsizing. We have what's called a committee for . . . an Opportunities Committee for Cost Reduction. It involves everybody in our company. We look for ideas from the bottom right up. We don't come along and just sort of carve some money off. And you'd be surprised if you unleash people in your company what they can do for you.

And last year, Greg . . . Oh, Greg's gone. What did we find, Larry — two and a half million dollars? With the energetic . . . I mean it's not funny money or make-believe money. This is real.

I mean I've got to tell you in seven years it's hard to contain costs and have one rate increase of 2.4 per cent; rate increase in the sense of the financial health of the company. I appreciate somebody sitting in the coffee shop in Sintaluta doesn't feel very good about a commodity increase either, but in terms of our management of the company, I'm pleased with what the men and women have done

Mr. Addley: — Just one follow-up at this point and I appreciate the information that you've provided. In your seven aspects, yes seven aspects of, as you refer to the decathlon — septathlon, I guess — one of the points is employee well-being. And you talked a little bit about how it's the men and women in your company that are doing more than one job.

So sort of a two-pronged question: one is are the employees being overworked at this point, being asked to do multi-tasks? Because from what I understand you are doing well in that area from what you've said previously.

And secondly, not just on the employees, but overall, the whole company, has this been audited or looked at by independent individuals outside of Saskatchewan or outside of SaskEnergy? Because if you're saying that other natural gas companies are saying how are you able to do this — how are you able to make the bumble bee fly, I think you used last year in your analogy — has this been looked at or judged or audited independently outside of SaskEnergy? So it's a two-point question.

Mr. Clark: — Thank you, Mr. Chairman. With respect to employee well-being, I mean are the people overworked? Are they overworked? They're going hard. They're going hard. I mean there's nobody in my view who's not putting out. And obviously you expect me to defend my men and women, and I will.

In terms of employee well-being, I mean we do things and we think what's important in this time . . . and there's going to be a labour shortage in this country in my view. And I think if you look at the Conference Board of Canada's reports, there's going to be some real stress on companies, all companies, with respect to attracting and retaining talented men and women.

We spend more than the industry benchmark on internal training. And we think that's some of the best dollars you can spend, on investing in your people, in your company rather than losing them and trying to run and find them in the marketplace, try to keep them for a year, feel that there's no commitment to them. So we spend more than the industry benchmark on training and improvement of our people. And we think that makes a difference.

And with respect to your comment about, sort of is it marked or graded or whatever? Like all companies in our business and like, I think, all companies in any industry, you engage in what's referred to as both benchmarking and best practices.

We engage, every second year, in benchmarking activities done by independent firms. In the one year I know it was Ernst & Young out of Calgary, and in another year it was a distribution. We were part of 17 companies — several in the United States, 5 in Canada, I think 12 in the United States — in which you're anonymous. They take your data. An independent firm takes all your data and they homogenize it and make sure it's apples to apples.

And I can say that like the decathlon, we weren't first in every category. But we were first in a number of categories, and in a number of categories with respect to costs and cost containment, we did very, very well.

Can we be better? Of course. Every company can be better and we strive to be better.

Mr. Brkich: — Mr. Chairman, talking about your holding the line on your rate there, I just have a couple of questions on that. Was it your executives . . . did you, for '98 and '99, was there any raises for your SaskEnergy executives in those two years? And if any, how much?

And also you're talking about new customers. I notice in '98, you hooked up 4,200 new customers, I believe, roughly. How many of these were farm customers or customers in resort villages?

And another question I want to ask is when you have . . .

The Chair: — We'll just let Mr. Clark maybe catch up. I'll let you do a supplemental after.

Mr. Clark: — So there was the executives and the issue of farm customers?

Mr. Brkich: — And resort villages.

Mr. Clark: — Yes, fair enough. Yes, I'm not ashamed to indicate that the executive has a process of earning. I do a very rigorous performance review with all the executive which I share with the compensation committee of the board who uses this.

And I can say that on average, the performance increase was about between 4 and 5, sorry, the average was 5.5 per cent. And this is a combination of any economic adjustment. The sort of standard operating procedure, sir, is that if there is a settlement with the union of 1 per cent or 2 per cent, this is what management gets. Although I could whine and say not me.

And then I go through and do a performance review. So when you combine the economic adjustment which may have been 2 per cent as a result of the union settlement that filtered down, or cascaded up if you like, and the performance in 1999 . . . 1998 and '99, it was 5.5 per cent.

The Chair: — And on the question of resort villages?

Mr. Clark: — I'm sorry, can you help me, Doug. This is which year, 1998?

The Chair: — 1998 and '99 . . .

Mr. Clark: — Well here's 1998, when I mentioned that we had 40 . . . 254 new customers — 397 of those were farms and 16 new communities, and we would define a community as like a summer resort village.

We could probably give you the actual detail if you wanted it. I mean which ones. It's no secret.

Mr. Brkich: — Well if you have it, yes.

Mr. Clark: — Is that in order, Mr. Chairman? I could provide it to all members of the committee. And I could do that for both years, Mr. Chairman. Is that in order? And I'll ensure that the material is circulated to all members?

The Chair: — If you can just . . .

Mr. Clark: — To the Clerk?

The Chair: — . . . provide it to the Clerk, The Clerk will then provide it to the members.

Mr. Clark: — Is that acceptable?

The Chair: — Yes. Mr. Brkich, you had an additional question?

Mr. Brkich: — Yes, just to follow up on that one there. When you talk about performance, are you talking about performance bonuses that would be paid to the executives or just evaluating their performance?

Mr. Clark: — Well the two are tied together, sir. I do the rigorous performance and give them feedback on their performance, and performance is tied through the board and through the executive to compensation. It has a ceiling on it.

Somebody who I thought did an outstanding job might get four and a half per cent and somebody who I thought did an extraordinary . . . you know, a very, very good job might get 4 per cent. There may be some slight deviation. I mentioned in passing Mr. George Barnhart's work on Year 2000. It was exemplary. And so an issue like that might justify a slightly bit more than somebody else in the company, although I'm very proud of the executive team here.

Mr. Brkich: — Yes, I guess that's what I was looking for. You're talking about, top, probably 5 per cent then. You didn't go over 5 per cent for bonus performances?

Mr. Clark: — No, combination of the economic adjustment which they were entitled to, that's because of the, as I mentioned, that's the way that it gets adjusted as a result of a collective bargaining — the union, the executive being treated the same as the union — the performances would have been three and a half perhaps, four in some cases.

Sorry, have I answered your question?

Mr. Brkich: — Yes, kind of.

Mr. Clark: — I'm not trying to be elusive, sir.

Mr. Brkich: — No, I was just . . . just like . . .

The Chair: — Just for clarification, Mr. Clark. Perhaps you can explain . . . I think there's some question as to how the application is made in terms of the difference between money on the grid and the performance bonuses. Could you just clarify that for the committee.

Mr. Clark: — That's fair. First of all the CEO . . . This doesn't engage me at all; I'm done by the board and I'm controlled by the board and obviously by the owner. If they don't like me, I guess they can get rid of me.

The economic adjustment . . . if, for example, the union settlement as it was in earlier years was zero, then the bracket for the executive would not move either. If it was 1 per cent, then the bracket would move 1 per cent, but not . . .

And then inside that there would be, just as our union employees have the capacity if they're not at the top of their range to get their annual increment if you want to call it that. We don't get an automatic increment; management has a performance review conducted by myself. Other managers in the company are reviewed by their respective vice-presidents who are here today.

And if somebody's a . . . I don't think we have many average performers, but if you're an average performer, you might get a little less than an exemplary performer. And that would be a performance . . . would go and move you up your range. If you were at the top of your range, you got nothing. No matter how hard you worked and how good you were, if you were at the top, you're at the top. Is that helpful?

Mr. Brkich: — Yes. I guess, yes. Because I was just looking on how high you would have paid in performance bonuses, and I can see you weren't overpaying them or whatever, I guess. I can see why you keep your rate at 2.4 increase.

One of the other ones I want to talk about is have you changed your policy — I think we discussed it last year — about hooking up to farms? Especially if you have a pipeline that runs very close to a farm. There used to be a program where basically they trenched it right to the yard and then you paid from the yard in.

I've had a couple of constituents that have a pipeline running probably no more than a hundred yards from their place but they want between 6 and $10,000 just to bring it to the yard alone. They feel that is too much. And that's a customer you would have for life if you hooked these up. And you have . . . you've already put the pipeline maybe to service a hog operation further down the line.

Do you have kind of a program within maybe even a couple of miles of a line that you've had to put in for a business that you would include all the farms at a cheaper rate?

Mr. Clark: — Thank you, Mr. Chairman. Very good question. And I just want to say that we get a lot of those letters, and I'm certainly aware of some of those circumstances. They're always not often as obvious as they seem in terms of what goes right past my door. There may be no more capacity in the line. There may be lots of reasons.

Our goal, as you know, is to try to have more customers, not to have less customers. So I'll get the vice-president, Doug Kelln, who's very conversant with this, and I'm sure can even answer some of your specific questions.

Mr. Kelln: — You're right, we had a change in 1992 where we moved off the set price to a cost-less investment methodology where individual customers are looked at. What are the costs to serve them, and if you're very close to a pipeline like you've referenced, it's probably a high pressure pipeline so we need to put in some equipment to regulate the gas down, and there's costs with that. So we establish a total cost; we then subtract what SaskEnergy can invest. And for a residential or a farmhouse, it's based on a 30-year calculation. We subtract off our investment to produce a net customer contribution.

If we have an area where you may have a hog barn with a number of farms, we try to bring them all together. The hog barn will pay its share. It certainly pays more, because it uses more gas.

And we've been fortunate with . . . if, when we can combine it into bigger areas, we're successful. And that's certainly what we've seen in the last few years. But there are some individuals that are a fair distance from a readily available pipeline at the right pressure, and there's some customers faced with higher costs.

Mr. Clark: — It is difficult, Mr. Chairman. These are very good questions. When you've got 92 per cent of the market, to use the old cliché, there's no low-hanging fruit left. Everyone is . . . hasn't hooked up because there's a tough reason for it. As I say the line goes by, but it's a 12-inch high-pressure line. It requires a lot of infrastructure to reduce the pressure. And people see it there and say, well why can't . . . what's this problem, I don't understand.

We've tried to be sensitive. We went to the new financing where people used to be, several years ago, within 45 days of gas flowing, you had to pay 100 per cent of that bill of . . . let's say it was $4,000. We know people have some difficulty; lots of people have difficulty writing a $4,000 cheque. We've gone to 25 per cent down, financing the rest off the savings that you'll get out of natural gas, on your natural gas bill.

We've tried to do a lot of things, member, and I'm sure we're not always successful.

Mr. Brkich: — Telling that to my constituents, they'll probably tell me well, you want to make investments outside the country, why not invest in Saskatchewan. I mean, eat some of that cost to provide customers that'll probably be there for 30, 50, 60, 100 years, whatever. I mean, it's a customer. Once you sign up to natural gas — you bring it in, you change to a furnace, a natural gas furnace — you're going to stay with it probably forever, unless the price of natural gas just keeps climbing 300 per cent every year. Which it's probably not going to.

That's the calls I get. And they say this is supposed to be a company . . . it's not a private company. It's supposed to, you know, break even, but yet it's supposed to be there to help the people of Saskatchewan.

And they're asking me: well if they want to act like a private company and do everything on cost recovery to bring it to a farm, we might as well just have a private company then. If I'm going to be gouged by a private company . . . or be gouged, it might as well be by a private company than by government.

A Member: — That's an interesting perception . . .

Mr. Brkich: — Well I'm just passing on what my constituents tell me.

Mr. Clark: — And that's fair. There's often misperceptions about things.

Let me be clear that we are run with the same discipline and the same rigour as the private sector. And with all due respect, whatever you might think of us, and I can tell you that a private sector company would not make that investment if it didn't get any return.

Mr. Brkich: — No, I know.

Mr. Clark: — If it didn't get any return . . . I want to say to you, without being provocative, sir, that the gas distribution program in the '80s that you refer to — and certainly constituents who will refer too because it was $200 and you got hooked up — that cost the people of Saskatchewan $198 million. That's dead weight debt. Those people can burn gas, quite frankly, till hell freezes over and it will never ever pay for that investment. But that's a public policy decision rather than a business investment decision. And if the direction is to make those decisions and make those investments, they can get made.

And so, with all due respect to saying well, you know, don't make an investment in Chile, I'm going to tell you, as long as I'm here I will gladly sit here and talk about making 16 per cent return on an investment that makes sense and tell you that, unless you tell me to lose money, I'm not going to price it differently to put gas in somewhere that doesn't have the arithmetic and the math around the returns. We do everything we can.

But I think it's unfair to say well, spending some money somewhere, whether it's in Manitoba or Alberta or North Dakota or Nova Scotia or Chile — I mean that's a nice lightning rod, I understand that, I've been around — but it's a good investment.

And we make this investments in summer resort villages, small towns, farm communities, on the basis of an investment policy. And we do everything we can to help people, I want to tell you. And if we've made some mistakes I'm prepared to look at them again. I'm prepared to say we've got our warts, but we work hard at this.

The Chair: — Mr. Clark. Mr. Brkich, I have four others on the list. Okay, thank you.

Mr. Brkich: — I think I made my point with him.

Mr. McCall: — To back up to the question of executive compensation and rank-and-file compensation, how would the packages at SaskEnergy compare to similar utilities across Canada and . . .

Mr. Clark: — Is that a joke?

Mr. McCall: — Well I just want to . . .

Mr. Clark: — Sorry I'm being flippant this morning. You know I mean I grew up in Saskatchewan. I understand the reality. And we're running a $1.3 billion company. You want to privatize this company; everybody will immediately get a 100 per cent salary increase at the executive level and make twice as much as I make. They'll have stock options. They'll have bonuses. They'll have things that I can tell you my executive team would love to see. So I could get the Chair of the board to speak to this issue but . . . And we're not complaining. I mean we're here and we like it here. I came back to Saskatchewan for a reason but the fact is there's no comparison.

Mr. McCall: — No I just wanted to ask it because sometimes the insinuation is made that you guys are creaming the cow.

Mr. Clark: — Yes. It's life in Saskatchewan. We know. We know. If we didn't like it here, I guess we could always work somewhere else. We love this company. We love what we do and I'm proud of this team. We've kept it together for a long time. There's some very, very talented people in this team that could be anywhere in our industry. Ken From — I don't care what you think — is one of the best in North America. There's nobody that comes close to him and we're lucky we've got him. And I could say that for a number of our executive team.

But in terms of our compensation and our perks and our performance benefits and all that stuff, it's not even close to a comparable company in the private sector — ATCO or Consumers' Gas or BC Gas or whatever. But you know that's life.

Mr. McCall: — Okay.

The Chair: — Mr. McCall, any other questions?

Mr. McCall: — Yes a follow-up question: sometimes much adieu is made about the situation with Medicine Hat in terms of the low cost of their utility. Is it a far comparison to bring in Medicine Hat say compared to the rates in Regina? I was wondering if you could, I don't know, provide us with a little more information.

Mr. Clark: — I'd love to answer that because we get lots of . . . occasionally at all our hearings somebody talks about Medicine Hat. As you know the city of Medicine Hat does own some gas fuels, gas properties of its own. Good on them. What they've chosen to do is take the product and sell it to their consumers in Medicine Hat at below cost. I mean that's a subsidy anyway you cut it.

I mean I've got to tell you I've been a city manager twice and I've been a city manager in an area as big as this whole province. And I can tell you if I was the city manager in Medicine Hat, that's not what I'd be telling the council to do. Why would you take $7 gas and sell it at $3 to some people who use natural gas in your community? Why wouldn't you sell it at $7, take the revenue, like the city of Saskatoon does with its electric utility, and drive down property taxes for everybody?

But the answer is, they've got some natural gas properties; that's their choice. They've taken their commodity; they've provided it to their customers at below cost. Good for them.

It's not the way I would deal with that if I were the king of Medicine Hat, because I would drive down the property taxes for everybody.

Mr. McCall: — I guess just one last question on the past practice of hedging and the use of the caverns. Have we always had the caverns, or have they been . . . are they a recent acquisition? If you could just outline a bit about the . . .

Mr. Clark: — Well, Ken, or maybe I need Daryl here from TransGas. Caverns, as I mentioned, both the depleted fields where we store gas . . . and that's the tradition in our industry largely, unless you live in a particular environment where the geology allows you to create caverns. We have one of our engineers as the foremost expert in the world on natural gas caverns in salt formations.

We . . . (inaudible) . . . the potash formation. Think of it as a balloon that's down a mile, has a long string. And then we salt mine . . . we solution mine, rather, just like the potash miners do, an area about 300 yards by 300 yards . . . not quite that big, maybe 300 feet . . . a football field by a football field high and wide. And we use that to store natural gas.

We have — Daryl, how many of those caverns? — 12 caverns, and we have a number of storage fields, depleted fields. And as I say, that gas historically, because the curve has always gone the other way, we're always storing gas in those caverns cheaper than the year before or the year we're in. So it's always a mitigating factor on price.

That's not going to happen with this volatile market. But we have mined — if mined's the right word — more caverns. Prud'homme, we did — how many? — two new ones at Prud'homme. We've done some new ones at Moosomin in the last five or six years.

And so we do those on a cost, and we do a very rigorous business case — does it make sense? And we've added those to our inventory, because storage . . . If we don't have storage, we've got to have more pipe. It's real simple. The gas has got to get there. And our view is that storage in strategic locations is a lot cheaper than more pipe.

Sorry, maybe I haven't answered your question.

Mr. McCall: — No, you have. It's very interesting. Sometimes the case is made that SaskEnergy isn't being a good steward and it's why they're getting into these kind of capital expenditures. But, you know, when there's such a clear . . . you made reference to dot-com returns earlier.

You know, we are in a situation now where the kind of investment that's been made in these caverns is providing an incredible savings to the people of this province. So, I just wanted to . . .

Mr. Clark: — It's really important to us.

The Chair: — Thank you, Mr. McCall. I was going to ask Ms. Milburn for any advice she might have on our dot-com investments, but I suspect we'll let that go today. I have three others on the list at this point, Mr. Wall, Mr. Yates, Mr. McMorris.

Mr. Wall: — Well, sadly, Mr. Chairman, I think we'll probably be talking about dot-com investments on behalf of the taxpayers when SaskTel arrives here at the hearings.

You know we're . . . this wasn't my question but the . . . Mr. McCall raised the Medicine Hat scenario, and it's interesting. It dovetails with the discussion that we were having earlier about . . . I mean, what are the role of Crown corporations? I mean . . . and I know it's a broad discussion far greater than what we're discussing here today. But I guess that would be the first part of a question then.

We've heard the minister comment that they are going . . . the government's plan, the government's mandate — I assume, to you, I assume it's been communicated to you, and that's the question — is to run these corporations like a "private business," I think is probably as close as you can get to the quote that he gave even in the legislature. And I think that goes to the heart of also Mr. Brkich's question. Because clearly, that's not why all of these utility Crowns were established in the first place, if I've read my history correctly, and maybe I haven't.

But that seems to be the debate that isn't resolved yet. I mean the government on . . . various governments have sort of vacillated on that. So is it your clear understanding from this government that you are to operate your corporation solely as a private gas utility would operate, and that . . . is that the public policy imperative?

And just as an aside, I was in economic development for five years on behalf of the city of Swift Current and our main competitor is Medicine Hat. And I don't think, you know, they don't need any advice. I hope you don't go help them any more than they need because they're very difficult to compete with.

They already have the lowest property taxes, as I understand it, in Western Canada if not the country. And their gas prices . . . what they've done is they're going after gas-related industries. They're doing it successfully, and they're kicking our can, frankly. Whatever their strategy is, I don't think they'll need any advice from anybody else right now at this point.

But if you can answer the question on the mandate that the government has given you in terms of, you know, how it is you're to operate this corporation.

Mr. Clark: — A fair question, Mr. Chairman. And, sorry, I didn't mean to be flippant about Medicine Hat. I was just saying that they have a very advantageous position, and how they choose to use it, I guess is really up to the elected officials of Medicine Hat. It's obviously working, as you point out.

Certainly the . . . I think I'll be very clear that it's rather unfair to ask me what the public policy role of Crown should be. I think that's the purview of the owner of the day.

Mr. Wall: — No, and I agree with you. Yes.

Mr. Clark: — And I'm just wanting to say that certainly my understanding is that all of our forefathers made a lot of investment in the infrastructure in this province. And I understand my history too and there's a lot of reasons why, in a lot of provinces in Western Canada, Crowns were used to provide basic services. And lots of provinces have chosen over time to privatize those Crowns. That's another public policy debate.

I think the issue of service and trying to extend service, I wouldn't want to say universally, but trying to reach out as we've done at 90 per cent of the market in Saskatchewan with natural gas, I think those are mandates.

But my understanding — and I'd certainly want to defer to the chairman of my board, the Chair of my board rather, in case I'm not getting it right — is that we have a fiduciary responsibility with these assets to make a reasonable industry return, provide good service, provide competitive rates, and do everything conceivable as other companies do to extend service.

It's a decidedly different mandate if you say to me, I don't care whether you make any money, I don't care if you get a zero return on these investments, just hook people up. Or whatever. That's not the mandate that I understand to be the mandate of SaskEnergy.

Would you ask . . . am I devoid, do I feel that our company is devoid of "public policy aspirations?" No. I think getting involved in the community. The Chair talked about working with First Nations and Aboriginal people, who are a significant player in our economy, and going to be, I think, a more significant player in our economy. We try to do some of those things to be a good corporate citizen. Is that a public policy objective? Is that good corporate citizenship? I don't know.

So we'd like to think that we have our eye on the public policy pulse of Saskatchewan. But our job is to take these assets and husband them in a way that they make a reasonable industry return for the people of Saskatchewan.

And I mean it's very interesting and I want to get out of this debate because it's not mine. But I mean we have 320,000 customers; we have 320,000 owners. Well we have more than that, we have a million owners.

I mean I have to say to you as a taxpayer, if I can take my hat off, I don't want $1.3 billion of my money tied up, that makes no return. I would say to you, when Saskatchewan savings bonds come out and they have a zero coupon on them, I bet that's a tough sell. I'll bet that's really a tough sell.

And so if somebody changes our mandate, then I guess the board will know and they'll direct us to do and steward this company in the way we're directed to do it. We think we run a very good, rigorous organization that can stand the test of anyone in our industry. That's, I believe, to be our mandate.

But I would ask . . . I think it is quite relevant to see whether the Chair, Mr. Chairman, sees the role and their fiduciary role the same as management.

Ms. Milburn: — I would agree with what Ron has to say. But I would also say . . . I talked for a minute when I first did my introduction about the role of customer service and how strongly we see our role there. We talked also about doing the best we can to work with communities and groups and individuals to try and hook them up to natural gas service.

So we do take that role very seriously, but I would agree with the comments he made on the mandate.

Mr. Wall: — Thank you. Mr. Chairman, Mr. Clark mentioned rate of return and we're just going to return to Chile for just a moment here, and more generally speaking, SaskEnergy International. And the two reports in question today highlight a loss in '98 of half a million dollars and almost three-quarters of a million in '99. And we're talking on the other hand about 15 to 16 per cent returns, which obviously people would be very interested in receiving as shareholders in this corporation.

And so maybe you can sort of marry those two facts together and explain how it is we're going to get to 15 or 16, given where we're at currently or where we . . . I beg your pardon, till '99.

Mr. Clark: — Again, I apologize, member, that I obviously didn't do a good enough job in my preamble explaining that the return curve for the Chile investment is no different than the return curve.

We lose money in the first four years of an investment here in Saskatchewan. That's the 20-year life cycle, financial return profile of any distribution investment. There's a huge capital upfront. And as you connect more customers and the company grows, the infrastructure is invested, then you get those kind of positive returns.

What I'm telling you is that the enterprise value after 20 years will be substantial and that when the cash flow is taken over the life of the project, we will see returns of 15 or 16 per cent.

Upfront do we have negative numbers as they're reflected in the report? The answer is yes. We have people making investments and doing work, and the returns have yet to come, but will come in year four as I've indicated, and subsequent years. And I think they'll be very nice and healthy returns.

Taken in isolation — hey, it doesn't look very attractive in these first two years. I'm prepared . . . I don't think I'll be here through years through 5 through 15 or 20, but I'd be happy to because I think the numbers would look very good.

The Chair: — Thank you, Mr. Clark, and Mr. Wall. I have Mr. Yates, McMorris, Prebble, and Addley. And we have approximately half an hour left.

Mr. Yates: — Thank you, Mr. Chair. My first question is around hedging the volatile market. We're all aware of the volatility of the market in natural gas. My question has to do . . . when you put in submissions for rate increases, do you take into consideration the fluctuations throughout the year in the price of natural gas as to when you put in your particular submission?

As an example, if demand is lower in the summer, particularly in Canada — it may be influenced by factors in the United States — is it cheaper for us as a province or as a utility to buy natural gas in mid-July versus buying in October, November?

Do all those things, do all those factors, are they taken into consideration or play a role in when you would actually take forward a request for an increase? Or is it done more or less on an annual basis, the same time of year each year?

Mr. From: — To answer your question on hedging, there are probably those factors we look at and hundreds of others. The marketplace is very complex and always changing. One thing that we know for sure is it never repeats itself in the same fashion as it did the year before.

Typically in our hedging program what we attempt to do is to remove the volatility and remove the risk that the corporation and its customers have to prices that can fluctuate. We take various steps in each of the years that we have done this, depending upon the market conditions. And those market conditions might be as bizarre as El Niño — El Niño effects on the United States — what that's going to mean for the winter or for the summer following, how that gives us a market view of where gas prices are going.

Instruments that we use can be as simple as just saying that we are not going to accept the monthly price that the gas producers are offering us. We want to lock it in for a 12-month period and ensure that we have a stable price over that period.

Or we may decide that it's best at this point in time to use a winter/summer ration, just to get the point that you brought across, that there are times when the summer price is lower than winter. There have been times when the winter price has been much higher than the . . . pardon me, the summer price has been higher than the winter price.

Again, what's happened in the marketplace . . . and we have to be aware of the changing dynamics. It used to be natural gas was a heating-load fuel. Well with the introduction of more gas-fired electric turbines to generate electricity, what has changed is the percentage of gas usage for heating has gone down. We are now seeing the effects of the market as it relates to gas as a year-round load and even more significantly as we get into a tight market, what happens in the summertime?

We look at some very sophisticated instruments to do some of our hedging when we are uncertain as to which way the market is going to go. Because we want to protect our customers from the adverse price spikes and yet give them some benefit should prices fall, because the market dynamics will have changed over a short period of time.

This past year is a very good example of that. We adequately protected people from the huge price spikes that other jurisdictions saw and then passed on to their customers. At the same time, we had in place a program that would have given people back money should the market price fall. It unfortunately didn't, but we had all those things in place.

And as we go forward we look at all those items that you looked at and try and put together a program that meets the needs of the customers, which is to have a price that is as low as possible, that is not influenced by adverse price moves to the upside, but gives them the potential to participate should prices fall.

Mr. Yates: — Thank you, Mr. Chair. My second question has to do again with the volatility of natural gas. And does SaskEnergy participate in any energy efficiency or energy conservation programs to help consumers mitigate the individual circumstances they may have in their homes as a result of heating loss and those types of things, as part of their portfolio as SaskEnergy?

Mr. Clark: — We certainly don't run specific programs like loan programs for windows or insulation. We've certainly tried in this last winter to be very aggressive on trying to assist customers around the knowledge for and the importance of conservation.

We ran some very — first time ever in our history of our company — we ran some absolutely low-budget, 15-second commercials on trying to encourage customers to move to equalized payment plans and try to . . . it doesn't lower the bill, just tries to smooth it out.

We've tried to talk to people about some of the energy tips we've gotten from experts in the field — Energy Canada and other energy conservation experts. And obviously simple things like how important it is to turn down your furnace. I mean that can sound so elementary, but five or six degrees during the day when you're not home, when the commodity price is where it's at, is fairly significant.

So the shorter answer, Mr. Chairman, is we have been more aggressive. We have sent to every household a document that we have gleaned from, again, from experts in the field on energy conservation to try to play a role in education and the importance of energy conservation.

And I think that will, in this market, will be a growing imperative of our company to try to find more ways. Our Internet site, Web site will have later this year a self-audit in terms of going through your house and doing a sort of a self-energy audit at no cost on how you might try to identify opportunities to try to conserve energy.

So the short answer is we're very sensitive to that issue and we're going to try to find ways to be more aggressive in those areas because I think, irrespective of this volatility, energy conservation is just the right thing to do, and certainly in this high-priced environment.

Doug, did . . . Anything else I should have picked up? So I think that's where we are, Mr. Chairman.

Mr. Yates: — My final question has to do with where . . . we talk about being a good corporate citizens and the involvement of SaskEnergy in our communities. Could you expand a little bit more about some of the role that SaskEnergy plays as being in the role of being a good corporate citizen and its involvement in our communities?

Mr. Clark: — Well as you know we use the tag line Share the Warmth and that's the line we use, tag line we use now to try to embrace all of our activities, whether it's with the United Way or any number of charities across the province.

It's really not about writing cheques and certainly not like any other company . . . unlike any other . . . like any other company we do that, but it's really attached with volunteers, people in the community working. Our sweater recycling program with the United Way and now with some 200 community volunteer organizations across the province is, I think, a spectacular illustration of what people can do when they work together in the community.

And we were very fortunate to be awarded this year one of five awards in Canada for corporate social responsibility in the spirit of giveness category, and again that's really a recognition of the men and women who take it upon themselves to work in the community. And I just think that's a good thing.

And it's not about a good thing. I think you will find from the largest corporations right through, is that the new benchmark in the new millennium is going to be also based around not only your bottom line — obviously financial performance for shareholders will be important — but I think people will be measured, corporations will be measured on their corporate social responsibility. And I think we make a contribution there.

Mr. Yates: — Thank you very much, Mr. Clark.

The Chair: — Thank you. Just before I recognize Mr. McMorris, I want to apologize to the officials. I had intended to call a break at 10:30 but had gotten caught up in the debate and discussion at that point. If it's okay with you, we'll just proceed through till 11:30, if that's okay — 20 minutes?

Mr. Clark: — We're at the disposal of the committee, sir.

The Chair: — Okay. Thank you, Mr. Clark.

Mr. McMorris: — My question will be quick. One brief question on communications. I know we're looking at the '98 and '99 annual reports and we can go and look at, you know, money spent on communication. But my question is more into the future with the spike in gas rates and everything else. And we've talked about it a little bit before.

There is sometimes a bit of a misperception with the public on where that money is going to and why, and why we have to have that. I'm more interested in what SaskEnergy's policy will be, and plan for the future.

We can get into the public policy argument of whether there should be a rebate or not rebate, but that's not really your area.

But what are you looking at doing to have the general public, I would think, of this province, better understand the position of why we need to? Because I mean, we face it all the time whether it's on a local hookup or on a . . . but especially now. I mean, I don't know if there's too many people that I've talked to that haven't said we own the gas, how come we're having to pay so much.

So I guess, what's your plans in the future?

Mr. Clark: — Thank you, Mr. Chairman. An excellent question, Mr. McMorris. I think you can appreciate, and I'm sure you hear it from your constituents, you're damned if you do and you're damned if you don't.

If we spent a lot of money on trying to explain the fact that, first of all, gas has passed through . . . I mean, how many times have I been here in the seven years where it's hidden taxation. Well it's a damn poor tax. It doesn't collect any money. So commodity price increases are passed through at cost. We don't make any money at it. It is the market.

So we've been trying to get those messages out. With all due respect to the member, we don't gouge people.

And so the short answer, sir, is that we're going to try to be a bit more aggressive. We probably are going to spend a bit more money on it. And it's not about covering our ass, if I can use the vernacular. It really is about what's wrong with having a better informed public.

And so we're going to try to have it explained and understand why this is happening to them, because nobody likes this story, and we don't like it either. The short answer, we're working on that strategy now. It'll be part and parcel of how we have to roll out of the application to the regulator. We don't shy away from trying to explain it.

Ken has been on open lines, which are never any fun. I think Ken's been an articulate spokesperson for Saskatchewan.

And we will continue to do that and we'll continue to get people to try to understand why this is happening to them.

Mr. McMorris: — No, I think, I think just one final little statement then is that you know there is definitely a concern. I've been to Taylor Field and I see the big SaskEnergy logo, and I go here and I see SaskEnergy, or wherever, and people look at that and yes it's advertising. And when you say you've got 95 per cent of the market here in Saskatchewan — you've saturated the market — and you're spending money on that; whereas people don't quite understand the whole, the whole spike in the rates.

And I guess maybe a word of advice — I mean we all want to see I guess good corporate citizens but we also want to have people understand the reason why we're going through this process.

Mr. Clark: — That's a very fair observation, Mr. Chairman.

We are sensitive to that. We try to think about the role of . . . When I said earlier we're the 10th largest company in Saskatchewan, that almost implicitly, I think, obligates you to participate, whether it's Taylor Field or the United Way or the Alzheimers Society or whatever. And people can say well why did you do that? And that's a bit of a tough call.

I guess all I can say is, don't look for us to entertain anybody in Calgary next fall even though that garnered us $1.3 million of net revenue to the province. I mean that was exactly the right business decision. I have to tell you unequivocally, the right business decision. As I think I said in the paper, the optics suck. So we're very sensitive to that.

It's a tough call for us. But we try to find a balance of being in the community and doing some things at a time when customers are saying I'm hurting. You make a very good point, sir.

The Chair: — Several committee members have asked me about the time frame that we're working on here. It's my understanding that the 2000 report will be tabled in the Assembly today?

Mr. Clark: — Yes, I believe it was released at 10 o'clock this morning.

The Chair: — So it's my understanding then that what we would do is next week we would call SaskEnergy back again — because we've enjoyed having Mr. Clark and his officials here so much — hopefully to deal with the 2000 report. Members will have a chance then to deal with all three years. I'm not suggesting at this point that we vote off '98 and '99 but rather that next week we would consider all three reports and hopefully vote them at that point.

So if there are questions that are to be carried over that's fine. I just wanted to make sure all members understood this was the basic process we were going to work under. So don't be upset if at 11:30 I close off the list.

Mr. Prebble: — Thanks, Mr. Thomson. First of all I want to thank you for a very good presentation. And I want to continue really, I guess, on Mr. McMorris's line of questioning, with perhaps a bit of a different angle, Mr. Clark.

And that is, I mean, we do . . . the natural gas obviously is a resource of the province. But we don't own gas fields, at least that's my understanding. Maybe you can clarify that. Perhaps we do own some. But I take it Medicine Hat does own gas fields. Did we, at one time, own gas fields, and if so, you know, how many? And what's the situation with respect to the gas fields that are actually owned by the province?

Mr. Clark: — I will try to answer that, and some of my colleagues who were with SaskPower and predate my knowledge maybe can help answer the member's question.

I want to say that we do not own any producing gas fields as, for example, Medicine Hat does. I just don't want it ever said that we said we have no gas. We have some cushion gas, which is in those abandoned fields that we blow down from time to time. And so we have a little bit of gas but it's not production gas, it's not Medicine Hat kind of gas.

I just wouldn't want to mislead anybody in the committee to say we have no . . . a single molecule of gas. We have a wee little bit of what's called cushion gas. And if somebody really wants to pursue that, I'll have to get one of the engineers in here to do that.

With respect to, did this province at one time own producing gas fields, I mean everybody I think knows the answer's yes. I'd need, I really do need some help on how . . . it was fairly substantial I think but . . . and when and . . . Ken, if you could help, go ahead.

Mr. From: — Sure. SaskPower was an owner in some gas fields in the Hatton area of Saskatchewan. Those gas fields were used as a supply source. They were used as a variable supply source, meaning that we did not have them on constantly. They only supplied roughly about 10 per cent of our load.

They were not anything that, if we had today, would make a significant reduction in our cost of gas. Obviously if we had them it would be nice to put into the mix, but it's not something that would, had we kept them and continued to operate them, that it would have taken this situation away from us that we might be facing in the future.

Mr. Clark: — It just would have given us . . . sorry. It just would have given us some . . . certainly some additional flexibility, I guess, like Medicine Hat has, that we don't have today.

Mr. Prebble: — When were those sold?

Mr. Clark: — Sorry.

Mr. Prebble: — What year were those sold?

Mr. Clark: — I don't believe I was in the province, but somebody else . . .

Mr. From: — 1988, I believe is the date they were sold.

The Chair: — Mr. Prebble, any further questions?

Mr. Prebble: — No, I don't have any further questions right now.

The Chair: — Mr. Wall and then Mr. Addley.

Mr. Wall: — Thank you, Mr. Chairman. And I guess my question centres around, it can go directly to the '98-99 reports and we may even ask it again for 2000 next week. But it has to do with the Crown Construction Tendering Agreement in those years.

And I wonder if you could tell the committee what, if any, construction projects undertaken by the Crown in those years were subject to the Crown Tendering Agreement, in other words, met those threshold requirements? And is it still your position, Mr. Clark, that this particular policy and it's — you know, we don't have to get into a debate about whether it is right or wrong; it's a public policy, it wasn't set by your corporation certainly — whether this particular policy actually costs the Crown corporations additional construction, additional in terms of their construction costs?

I believe that, and I don't want to put words in your mouth, so I'd just like to ask you that question if I can please.

Mr. Clark: — Fair comment. Mr. Chairman, if I could take under advisement at your direction the specifics of the question, and when we come back certainly be prepared to tell all members exactly in those years what projects we had and what value they were, and so that all members will have that explicit information.

I want to say first of all, I hold the position that we don't believe in our company that this had any kind of significant impact. First of all, you have to understand that pipeline construction was exempt from the Crown Construction Tendering Agreement and that's a significant part of our activity. If you look at the chart that was up earlier you have in front of you, in terms of our capital expenses over the year they averaged 60, sometimes more, million dollars a year. Much of that is pipeline work and it's exempt. So we didn't obviously feel any influence there.

There are other aspects of our operation where we were subject to the CCTA (Crown Construction Tendering Agreement).

Sir, I'm not here defending, or whatever, the CCTA. My view is, we saw maybe 5 or 6 or 7 per cent off of our tender estimates; every company does that when they put it out. Was that a CCTA issue? Was it the fact that the particular timing that we put out a compressor station, which is subject to CCTA, was it competitive bidding in the industry?

All I'm saying, without wanting to be seen to be debating with you, is, and I have said publicly, is that I would only say from our point of view it would be unfair to say that the single determinant cause and effect variable was the CCTA. I don't know that. We certainly didn't feel — and as I say we'll discuss it next week — that it had any significant impact on the cost, primarily because our pipeline projects were exempt.

Mr. Wall: — I think we'll talk about it next time.

The Chair: — Sure.

Mr. Wall: — Thank you, Mr. Chairman.

Mr. Prebble: — I wanted to get on now if there's time.

The Chair: — Mr. Prebble. I'm at the end of the list, so Mr. Prebble.

Mr. Prebble: — Thanks, Andrew. I just have another question with respect to the pricing issue. And I take it . . . I'd appreciate actually a detailed, written explanation if I could of exactly what the value of what was sold off has been — in '88 — and what impact it's estimated it's having on . . . owning that gas would have had on natural gas prices. I'd be grateful if that could be prepared. There's no rush on that, but maybe that could be filed with the Clerk at your, just at your convenience.

As I understand it with respect to the Free Trade Agreement, but just correct me if I'm wrong about this, are we in effect obligated to purchase our natural gas — the natural gas that we own in the sense that it's a provincial resource — at the same price as the market price into the US (United States)? Is that in fact the case?

In other words, we don't have the capacity to sell our . . . you know, to price our natural gas differently from the export price into the US. Can you just clarify that situation?

Mr. From: — Sure, Mr. Chairman. The market price of natural gas is determined in the marketplace. And that marketplace is vast. There are thousands of people buying and selling natural gas continually.

There is no OPEC (Organization of Petroleum Exporting Countries) in natural gas that can control the price. It's much easier to get into the gas business than it is the oil business. There's a lot of little operations that are out there doing that.

The price in the marketplace is determined by all buyers and sellers agreeing this is what I'm going to pay for it. People will bid to buy it and people will offer to sell it. Some of the people who are bidding to buy it that I have to bid against are probably people from Eastern Canada, probably people from the United States. They're in the same marketplace. It's transparent to me or it's not obvious to me who they are. But they would be buying it at a market price.

They then have to transport it to their own location to use it in whatever industry or utility that they're buying it for. But the market price is the market price. If I could find a producer who would agree to sell it to me at a dollar below market price, then I would like to meet him. But no producer obviously is going to do that because they're in business to make money and, as we all know from the annual reports, they're making a lot right now.

So to answer your question, it is a marketplace that has probably international people bidding on the gas, as well as domestic.

Mr. Clark: — Just to follow-up, Mr. Chairman, and Ken can help me here. When the Halloween Accord was struck on October 31, 1985 between all the producing provinces and the federal government which deregulated the price of natural gas, I think, the answer to your question — and I'd defer to general counsel with respect to the Free Trade Agreement — but I think this legislature could pass a unanimous resolution tomorrow, this afternoon, saying that the price of natural gas shall be $2 and it wouldn't mean anything.

Fair?

Mr. From: — Exactly. No one would sell it at that price.

Mr. Clark: — So it's a deregulated commodity and it's in the market and that's what it is.

Mr. From: — Just to perhaps elaborate if I may, Mr. Chairman, on that answer, is that for a long period of time Western Canada had regionalized pricing because of restricted access to other markets. They really had only one market and that was Western

Canada and there was an abundance of gas.

And as a marketplace evolves with supply and demand — when you have a lot of supply and not much demand — the price is low. The gas producers saw this and said well, why do I want to sell this gas at a price less than I can get for it in the United States. Let's go ahead and build some pipelines out of Western Canada to take this gas to the higher priced markets. They did that and they were successful.

The price has bumped up so that we all are into this continental marketplace and we're all paying a price that is reflective of the competitive bidding amongst the different sources of gas, whether it be Alberta or whether it be the Gulf Coast of New Mexico.

Mr. Clark: — Just with respect, Mr. Chairman, to the question asked by the member around those natural gas assets, I'd say to members we will certainly, when we come back, Mr. Prebble, do a little bit of work. Those were the assets of SaskPower. I imagine SaskPower is going to appear before the committee in due course, and I would encourage you to get great detail that we won't even have access to about, I don't know, selling price or who they sold them to or whatever, that you may want to pursue with them.

Mr. Prebble: — Yes, thanks. Thanks, Mr. Clark. Thanks, Mr. Thomson.

The Chair: — I have two other members who have asked to speak. I'm going to suggest that since it's very close to 11:30, that we adjourn our meeting for today, return to this discussion hopefully next week, assuming officials are available, and we at that point pursue the 2000 report in conjunction with '98 and '99 and hopefully resolve to complete our review on these issues at that point.

Mr. McMorris: — Is next Thursday the 26th?

The Chair: — Oh, the Prince is in town. That's a good point.

I'm not sure to what extent Wednesdays have been booked by Public Accounts at this point, but would Wednesday be a possibility for committee members? No. Well we have cabinet committee meetings on . . . (inaudible interjection) . . . Okay. So if we can make arrangements possibly for next Wednesday then, assuming Public Accounts has not otherwise booked this room.

Mr. Wall: — Ken was talking about that today in fact in our . . .

The Chair: — Okay. Well let me leave it to this then, that Mr. Wall and Mr. Yates and I as your ad hoc steering committee try and sort out a time to reconvene. Is that fine? Okay, we'll try and find a time at some point to deal with this relatively quickly.

Is there a motion to adjourn? Oh just before we do that, can I . . . I'd like to thank the officials for their comments today and their participation — very informative. I would say the province is very well-served by your continued work. So thank you very much. Thank you, Ms. Milburn, for coming today.

And with that, is there a motion to adjourn?

The committee adjourned at 11:28.