



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
2001**

Andrew Thomson, Chair
Regina South

Kevin Yates, Vice-Chair
Regina Dewdney

Graham Addley
Saskatoon Sutherland

Greg Brkich
Arm River

Yogi Huyghebaert
Wood River

Carolyn Jones
Saskatoon Meewasin

Warren McCall
Regina Elphinstone

Don McMorris
Indian Head-Milestone

Peter Prebble
Saskatoon Greystone

Brad Wall
Swift Current

The committee met at 09:37.

Saskatchewan Water Corporation

The Chair: — Okay. Are we ready? I will call this meeting to order. I'd like to welcome everyone this morning. We have no substitutions in the committee. I am pleased to say that we are able to schedule in Sask Water this morning to join us to review the 1998, '99, and 2000 annual reports. I trust all members received the copies of those reports that the Clerk circulated over the last couple of days.

Let me start by asking Mr. Kirkland to introduce his officials.

Mr. Kirkland: — We have Micheal McDougall, Crown counsel; Bill Duncan, chief engineer; Wayne Dybvig, vice-president; Dave Schiman, manager of financial planning; and Terry Hymers, controller.

The Chair: — Okay, good morning. And Mr. Martens, do you want to introduce the audit group?

Mr. Martens: — Well I'm Andrew Martens, principal with the Provincial Auditor's office. With me today is Rodd Jersak who will be leading the presentation on Sask Water and to our right is Brian Drayton, partner of Deloitte & Touche or PricewaterhouseCoopers who did the audit on the corporation.

The Chair: — Okay, let me start . . . just before we get started with opening statements here, let me read the standard caution to our officials.

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

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

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

A witness must answer all questions put by the committee when directed by the Chair. You are advised that you may be recalled to appear again before this committee at a later date if the committee so decides. You are reminded to please address all comments through the Chair.

Thank you. And with that I would ask Mr. Kirkland if you have a brief opening statement?

Mr. Kirkland: — I do not.

The Chair: — You do not. I would recognize . . . Go ahead.

Mr. Jersak: — Mr. Chair, thank you. Members, pleased to be

here today. As Andrew already mentioned, with us today is Brian Drayton a partner from PricewaterhouseCoopers. He is the partner responsible for the appointed auditor role on Sask Water and has been for each of the three years that you're doing your review today, 1998 through 2000.

I'd like to start off by saying that we have received very good co-operation from PricewaterhouseCoopers over these last two years and also from management.

As you know our audits result in three sort of forms of assurance to the Assembly. The first is in regards to the reliability of Sask Water's financial statements. The second is the adequacy of the rules and procedures used by Sask Water to safeguard and control their assets. And the third is an opinion on whether or not Sask Water has complied with legislative and related authorities.

I guess I'd just like to do a quick summary of what we've found in the last three years.

For 1998, we found that the financial statements were reliable; that Sask Water did have adequate rules and procedures to safeguard and control its assets; and that it did comply with the law.

We did report two other matters just along the lines of our reporting for CIC and all of its subsidiaries, in that we recommended that Sask Water should improve its annual report to improve its performance reporting and public accountability, and should publish a list of persons that has received payments from the corporation.

For 1999 we reported that the financial statements were reliable, that the rules and procedures to safeguard and control the corporation's assets were adequate except that Sask Water should set appropriate security policies for its information technology systems and data, and that Sask Water did comply with the law.

In addition our office directly carried out an examination of the adequacy of Sask Water's rules and procedures for managing its investment in the potato industry. This examination resulted in one recommendation, and that was that Sask Water should adopt a policy to ensure it does not commit financial resources to significant investments until it has approved clear and measurable objectives for the investments, until it has analyzed the risks, costs, and benefits of the investments, and it has set performance indicators against which it can measure the extent of achievement of the investment objectives.

We also reported the same two matters that I mentioned earlier regarding 1998, which are the annual report and the payee list issues.

Our findings for the year 2000 were the same as they were for 1999 except that we also recommended that the government should clarify the law to require CIC (Crown Investments Corporation of Saskatchewan) and its subsidiaries to obtain cabinet approval before purchasing or selling real property through a subsidiary.

We raised this because during 2000, Sask Water sold assets of its potato business to Saskatchewan Valley Potato Corporation which is a subsidiary of CIC III, and Sask Water obtained cabinet approval to sell some but not all of those assets.

And that concludes my comments.

The Chair: — Thank you very much.

Mr. Wall: — Thank you, Mr. Chairman. Just a quick couple . . . maybe one, maybe two opening questions, and it relates to the potato ventures of Sask Water in the reporting years under question.

In any of these reporting years did you ever receive any direction from Crown Investments Corporation regarding the report of this committee on the Channel Lake situation, and specifically were you instructed by Crown Investments Corporation to comply with the recommendations of that report in terms of proceeding with these business ventures?

Mr. Kirkland: — We don't recall anything specific in that regard.

Mr. Wall: — Were you sent a copy of the Channel Lake report by Crown Investments Corporation?

Mr. Kirkland: — Yes.

Mr. Wall: — But there were no directions that went along with it?

Mr. Kirkland: — There were informal discussions but no specific direction.

Mr. Wall: — Mr. Chairman, one final question then. There are some fairly specific recommendations in that report that would certainly be applicable to the business ventures that the Water Corporation would have pursued, namely, for example, quarterly reports to CIC, to the government on the status of the project of these business ventures. Were those made in the reporting years that we're currently examining, those quarterly reports?

Mr. Kirkland: — Yes. I understand we did give quarterly reports, including performance targets.

Mr. Wall: — Thank you, Mr. Chairman.

The Chair: — Thank you, Mr. Wall. I should have brought to the attention of the committee there were four significant transaction reports that were filed with the committee which are also on the table for discussion today. Those are the ones of March 10, 2000, two of them of August 24 of 2000, and April 4 of 2001.

If members need copies of those, I have them available but they have been previously circulated to the committee. I should have brought that to the committee's attention earlier.

Mr. Brkich: — Thank you, Mr. Chairman. Welcome the officials here today. I'll continue on with questioning that my colleague had started on your business ventures, I guess, which

would be your potato industry for the reporting years in '98, '99, and year 2000.

We might as well . . . For the sake of speed I guess, maybe if you can give me a . . . we'll do all three years together. But if you can break it down from '98 to '99, 2000, how your business plan went along, the money that was invested, and the return that was garnered off of each year on that investment with your . . . I guess it was SPUDCO (Saskatchewan Potato Utility Development Company)? And I don't know if Sask Valley was started in the year 2000 or 2001. I'm not sure on that.

Mr. Schiman: — I guess I can try and address your question. If I can maybe direct you towards our annual report here, beginning in '98, the SPUDCO venture really began in December of '96 and through 1997 was the first year of operations. I guess 1998 saw the . . . or in 1997 there was construction of three storage facilities and purchase of equipment. I'm going to have to give you approximate numbers here, but I think there was approximately \$10 million of storage buildings and equipment that were purchased in that year.

So SPUDCO began operations. There was planting of crop together with our partners; provision of agronomic services, both to our own potatoes and also to those of our partners and then other third parties as well. So 1997 was really the first year of operations. The first sales of potatoes of that '97 production really occurred in 1998, the spring of '98.

So it's with that maybe that I can direct you to one of the notes in the back part of the annual report for 1998, page 30. So there's a note there that basically segments Sask Water's operations into three parts — non-utility, utility, and then SPUDCO.

So the SPUDCO column will show you I guess for 1998, the revenues that were taken in — the potato sales of \$2.4 million; rental income, 1.2 million; other revenues, all totalling 4.2 million. From that we had expenses of about \$5 million, and therefore there was a loss from SPUDCO operations of \$842,000.

So that's kind of, in brief, the summary of operations and results, I guess, investment that . . . Oh, I should add also then, in 1998 there was construction of four further storage facilities, bringing the total capital investment in SPUDCO to somewhere about approximately \$20 million, I believe.

Those four storage facilities really just came into operations in the fall of 1998. They were meant to be utilized to store that year's crop. And so there's in small part some impact in the revenues and expenses for operation of those storage buildings as well, although that really just took place from September onward.

Moving to 1999, again I direct you to the very same note again on page 30. Page 30 again shows significant information, revenues and expenditures, 1999 revenues of just under \$3 million for the SPUDCO segment of operations, 2.9 million — 2.926.

Normal operations expenses, amortization interest, total \$6.7 million. And then there was, as well, an unusual loss due to the

... mainly due to the failure of LDPC (Lake Diefenbaker Potato Corporation) in that year. So all in all, the loss for SPUDCO operations was just under \$9 million for 1999.

The unusual items, the \$5.1 million that is shown towards the bottom of that table, is really made up of four items. There was losses on receivables in receivables debentures, uncollected amounts from LDPC totalling about \$2.2 million.

There was a payment to the Royal Bank as a result of some of our security arrangements. That payment was \$1.25 million. And then as well, as part of the year-end procedures, it was determined that there was a valuation adjustment needed of \$1.7 million on one of the assets. So all in all that accounts for the \$5.1 million of unusual items in that year.

The Chair: — Thank you. Mr. Brkich, do you have another question?

Mr. Brkich: — What about 2000 then?

Mr. Schiman: — Yes, I can just continue. Again I refer you all to the note on page 30 as well in the 2000 annual report.

During the year 2000, there was a transfer of operations of SPUDCO to Sask Valley Potato Corporation. So the revenues and expenses that you see here in the table for the year 2000 really represent the first six months of operations up to the point of that transfer.

There was sales of potatoes of one and a half million dollars and other revenues totalling, together with the potato sales, \$1.9 million.

From that, Sask Water had expenses of \$3.1 million, and therefore as you can see from the table, we experienced a loss for these first six months in the year 2000 of just under \$1.2 million.

Mr. Brkich: — Thank you, Mr. Chairman. Under 2000 report, you've got unusual items. I believe it's 5 million, below 5 million. Can you break that down?

Mr. Schiman: — That was actually the item that I was explaining for 1999. The 1999 year is also shown as for comparison. If you look towards the left-hand side of this table, here's the results for the year 2000.

Mr. Brkich: — So in the three reporting years you're looking at, I believe, close to an \$11 million loss. How would that ... the board, Sask Water Board, I guess, with your business plan that you talked about from '99 that was recommended by the auditors to, I guess, to submit a more of a bigger ... better business plan ... or business plan to CIC.

How would you explain, I guess ... Well I guess you have explained an \$11 million loss. But it is quite significant to the taxpayers of Saskatchewan. Why would you, I guess, stay in the potato growing business with showing a loss of \$11 million?

Mr. Kirkland: — I think the ... my understanding of the history is that the board was repeatedly presented with plans for the potential future improvements of the operations during this

time period. I think everyone was pretty much engaged in the management challenge that was presented by this division.

Mr. Brkich: — In the year 2000, how many acres would you still have had under lease from your original commitments with SPUDCO?

Mr. Schiman: — I guess if I'm correct in assuming that you're talking about the 2000 crop year, so what was planted in the year 2000, I'm sorry I don't have that information here for that particular year.

Mr. Brkich: — Thank you, Mr. Chairman. Would you have any information on the crop that was grown for the 2000 year? Would you have any of that here today?

Mr. Schiman: — No, sorry, I just have information, some information about the previous years' crops.

Mr. Brkich: — I guess, Mr. Chairman, if you could provide that to us as soon as possible on the amount of acres that were leased or owned by Sask Water for the 2000 crop year plus transactions that involved the 2000 crop year.

I guess, dealing with 2000 again, I know that you've had a tax problem with the local RMs (rural municipality). Can you give us, I guess, your side, why you feel you shouldn't ... you should be just taxed as a strictly agriculture entity, even though you rent storage out to producers which, in many businesses, that would be viewed as a commercial business?

Mr. McDougall: — I'll try to answer that question. In the 2000 year in June, Sask Water divested itself of potato assets, including the storage buildings, to a CIC subsidy called Sask Valley Potato Corporation. So with respect to taxes paid for the 2000 year, Valley would have been involved in those payments, not Sask Water.

So for the previous years, however, I believe we have some information as to what we would have undertaken for payments in those years.

Mr. Brkich: — Could you — for the two reporting years, '98, '99 — can you tell me what you paid for taxes?

Mr. Schiman: — Yes, in those two years we paid just over \$800 of taxes in each of those years. I'm working from memory here, but I believe that breaks down to something over a hundred dollars for the Riverhurst property and then the remainder would be for the facilities at Broderick.

Mr. Brkich: — Thank you, Mr. Chair. In them two years did the RMs send you a tax notice of more, in them two reporting years?

Mr. Schiman: — No, in those two years we received assessment notices and then subsequently we received property tax notices. I guess in our case those would really be considered grants in lieu and they were for the amounts that were ultimately paid.

Mr. Brkich: — Thank you. For the 2000, you say it was under Sask Valley Potato Corp. That's not under Sask Water any

more. Is that under CIC? Am I to understand that?

Mr. Kirkland: — That's correct. It's a subsidiary of CIC.

Mr. Brkich: — Okay. So Sask Water is not involved in Sask Valley Potato Corp at all then?

Mr. Kirkland: — No.

Mr. Brkich: — Okay. I guess I will move to a little . . . I may come back on that. But I also want to talk about your rural water quality programs for '98. And I'll, if it's all right with the Chairman, I'll lump all the years together and make it a little easier, a little faster, rather than going year by year. So I'll ask them to also break it down for me.

For the '98, '99, 2000 year that was budgeted each year and exactly what the money was for; whether it was for testing or research?

Mr. Dybvig: — Yes, Mr. Chairman, for the three years '98 to 2000: in '98 the total budget was \$233,000; in '99 it was 264,000; in 2000, 337. And the research money in '98 and '99 was 5,000 and 6,000 respectively, and in 2000, \$500. That was the amount budgeted.

Mr. Brkich: — On the rural water testing, is that free if people from the rural areas or from cities send in or do they have to pay for their testing?

Mr. Dybvig: — It's a comprehensive program. The client is charged \$100 and the Sask Water technician will then . . . for that amount will travel to the rural site, will take a sample of water, will then have it tested at the Research Council for approximately 30 parameters; and also then respond to the client with a written description of what the results show and provide advice to them about what treatment options might be available to them to deal with any water quality problems that they have. And also provide some advice with respect to the siting of their well and any problems they might have noticed during the farm visit.

So the hundred dollars is probably about one-quarter of the total cost of taking that sample.

Mr. Brkich: — Thank you, Mr. Chairman. For '98, '99, 2000, how many wells were tested in each year — farm sites or towns, if you have a breakdown of that — and also, do you test for pesticides in the water too, also?

Mr. Dybvig: — I don't have a precise breakdown on the number of wells per year, but it's approximately 300 per year. It's been growing. I think we've just completed over 1,000 tests since the program was instigated in '97.

We do not test for pesticides.

Mr. Brkich: — Thank you, Mr. Chairman. On the pesticide end, does Sask Water do any provincial testing, spot testing? I've had a few calls to my office — as I think probably most rural MLAs (Member of the Legislative Assembly) have — always concerned about, especially this time of the year, spraying season; if over the numerous years since spraying has

been around, if there has been let's say a noticeable incline of pesticides in water throughout the province.

Do they do kind of spot testing over the past numerous years, or is that included in these three years?

Mr. Dybvig: — We do not do any specific spot testing. Part of the problem is, under the federal/provincial green plan that was initiated back about '95, there were some special studies done between the province and the federal government. At that time there were some special studies done on the occurrence of pesticides in groundwater in the Rosetown area. There's been some other special ones that we've done by PFRA (Prairie Farm Rehabilitation Administration).

And most recently the Hydrology Research Institute in Saskatoon, the federal research institute, has completed an assessment of the occurrence of pesticides in dugouts in the province. And they've generally found that although they do find their occurrence that the concentrations are below what the acceptable objectives are.

This is something that we have talked about and we're just looking at a pilot project right now at the Piapot RM and we're going to be doing a special study with the RM there looking at about 150 wells, and we're going to be doing some special pesticide studies there.

Mr. Brkich: — Mr. Chairman. Mr. Chairman, moving on to another question. In them three reporting years, would Sask Water did any consulting or engineering jobs outside the border of Saskatchewan?

Mr. Dybvig: — We've been involved in one consulting project outside the province. We were subcontracted to a consulting firm that was doing a CIDA (Canadian International Development Agency) project and we've provided advice on water management problems in China on a cost recovery basis.

Mr. Brkich: — Thank you, Mr. Chairman. Mr. Chairman, talk about the upper Assiniboia River basin. I believe that study is done. I'm not sure. I'll ask you if it's done. And then what was the cost to Sask Water for them reporting years?

Mr. Dybvig: — Yes, the study is complete. It was completed in December of 2000. During the three and a half years of that study, the total cost in terms of the time that Sask Water employees spent on the study in addition to out-of-pocket costs was approximately 1.5 million. Excluding salary costs, the out-of-pocket costs were about \$385,000.

Mr. Brkich: — Thank you, Mr. Chairman. Mr. Chairman, with that study, there was numerous, I believe, recommendations on it. Is Sask Water intending to follow any of them recommendations or to do any work in that area?

Mr. Dybvig: — The recommendations have been provided to both ministers of Environment in Manitoba and to the Sask Water minister here, and they've been provided to us to review and a response is being developed to the recommendations, so there's a number of areas that will be identified for follow-up action in response to the recommendations.

Mr. Brkich: — Thank you, Mr. Chair. I don't know if you'd have the answers to this question, but I'll ask it anyways. Would you know how much the federal government spent and Manitoba spent on that? Was it kind of a joint . . . The only reason I'll ask it because maybe it was a joint venture between the three, so it was cost sharing. Or did each, kind of, province and the federals just contribute so much towards the study or do certain work that they paid for?

Mr. Dybvig: — There was an agreement between the three parties — Saskatchewan, Manitoba, and Canada. And there was a monetary amount that was cost shared of approximately \$412,000, that was shared three ways, directed towards a specific activities within the study. Manitoba and Saskatchewan met those obligations with direct financial contributions, and the federal government met it with in-kind contribution.

Mr. Brkich: — Thank you, Mr. Chairman. I want to ask one . . . this is more of a local constituency problem. But at Broderick, it was last year, they were under . . . they're still under a water-boil advisory.

But they said last fall that Sask Water drew the water down from the reservoir, down below the minimum level and that basically got the water turning kind of a brown colour and a lot of the stuff that's supposed to settle in the reservoir couldn't, and that's why they ended up with that boil-water advisory.

Did they approach you over that? Or can you tell me what is the minimum level for the reservoir in Broderick and how low it was drawn down to last year?

Mr. Duncan: — Yes, Mr. Chair, I don't have the answer as to what the reservoir was drawn down to in Broderick reservoir last fall.

I know at the end of the year when the SSEWS (Saskatoon South East Water Supply Canal) was taken out of operation that year, or for the season, that all the reservoirs were up at their . . . near the top of their operating ranges. All the reservoirs along that system have an operating range, which Sask Water endeavours to maintain the water level within.

But we can provide the answer back to you as to the draw down.

Mr. Brkich: — Thank you. I'd appreciate that.

In them three reporting years, was there any extra money set aside for the drilling of wells in conjunction with the federals, maybe at the PFRA end of it? Or dugouts? I will also add dugouts.

Mr. Dybvig: — We do not have a program of assistance to contribute towards drilling wells or for constructing dugouts, but PFRA does.

Mr. Brkich: — Okay. You're not involved at that; that's more of the federal end then? Okay, thank you.

On the last year . . . well in the reporting years I believe there was flooding in, it'd be the southeast corner again, and I think it was last year or the . . . I think it was last year it was fairly

significant. Do you have any programs in that area to working with the C&Ds (conservation and development authorities) to move water more out of that area?

Mr. Dybvig: — Yes, I think there's . . . over the past years, since 1995, there's been some continuing flooding problems, excessive runoff those years. We've had discussions with a number of the CAAs there — the Sherwood Conservation Area Authority is one that we're working on a project with. We're also working on the Stice slough area just outside of Regina here in developing a project. So any problems that that the CAAs have identified, we've been providing then technical assistance. Some of them are moving forward in development of projects.

Mr. Brkich: — In them three reporting years, was there any money given for straight projects — and I don't mean at the engineering end — just money to construct channels?

Mr. Dybvig: — The only one I can recall is last year a grant given for construction to the Sherwood Conservation Area Authority for the works that are being done on the Stice slough area.

Mr. Brkich: — That's just outside of Regina, I believe, is it? Is it the one that . . .

Mr. Dybvig: — Yes.

Mr. Brkich: — Okay. There was a grant given for that?

Mr. Dybvig: — Yes.

Mr. Brkich: — How much?

Mr. Dybvig: — I believe it was in the order of \$150,000.

Mr. Brkich: — Okay. Thank you, Mr. Chairman.

Mr. Huyghebaert: — Thank you, Mr. Chair, and the members of Sask Water.

I don't know if you have an answer for this but I wish to ask it anyway. The town of Kincaid, in the year 2000, experienced a very catastrophic water problem. Looking at it as a small community, where do they turn? When I finally became involved in it, we're looking at four departments, basically — SERM (Saskatchewan Environment and Resource Management), Health, Municipal Affairs, and Sask Water.

My question is, what was Sask Water's involvement in this, if any, and what solutions were provided, if any?

Mr. Duncan: — Yes. Sask Water has been in consultation with the village of Kincaid over the past couple of years and recognizes that they have a difficult water treatment issue and that the works that they have do not adequately treat the water. They also appear to have some problems with their distribution system and it appears some excessive leakage in the distribution system, which in turn leads to a water supply issue.

The village purchased some pressure filters from, I believe it was Cathedral Bluffs who had undertaken some upgrades to

their water treatment plants and installed those filters at the town of Kincaid's water treatment plant. However, to adequately treat the water they would have to — and reduce the trihalomethane contents in the water and the turbidity — they would need to install additional infrastructure which would likely consist of a clarifier upstream of these filters.

Right now I guess Sask Water has prepared terms of reference and provided those to the village so that they could engage an engineering consultant to design a proper water treatment process for them. I am not sure where the town has proceeded with that work, if at all.

Mr. Huyghebaert: — Well I thank you. I'm very much aware of the problems associated but I'm sure not aware of the solutions. And I guess that's always a concern when it comes to water supply. And it may be a bit of an unfair question because of the agencies involved, but is it the concept of Sask Water to identify the problems and leave? Or is it the policy of Sask Water to identify the problems and assist in any which way possible, whether it be financial or otherwise, in curing the problem?

Mr. Kirkland: — There's a wide range of options really in terms of our role. If you look at a situation like Wakaw-Humboldt, a recent circumstance where we went in with a significant project, worked in co-operation and partnership with a number of communities — a project of some tens of millions of dollars.

So those kinds of regional solutions are available in some cases. We're also willing to provide our engineering services to communities. We're not authorized, nor do we have a budget, for offering free engineering consulting services. There's a private sector to provide that. We do some work in co-operation with the private sector.

But there's a wide range of alternatives, all of which would be available to the village of Kincaid.

Mr. Huyghebaert: — Okay, Mr. Chairman, thank you. My final question is, relates to another water issue in my particular area. And my question, I think, is very simple. Do you react on water issues only after the water samples are sent into the department; in other words, a solicited response? Or do you actually be proactive . . . are you proactive and go out and do unsolicited water samples and then make a statement, reference that water sample?

Mr. Kirkland: — We have quite a long history really of the staff of the corporation in terms of their knowledge of the situation in the rural communities, and we have some number of dozen of studies that have been done in the past.

In the recent past, we also did have what I would call a marketing program. It was not very successful; it was not very well received in terms of the enthusiasm on the parts of the towns and villages to make the investments in the engineering studies in the pursuit of solutions.

My sense is that that is now changed. And that now would be a good time for us to reflect on what we learned the last time around and go out again with another marketing program and

try again.

Mr. Huyghebaert: — Thank you, Mr. Chair. The reason I brought that one up is one small village is calling me on a regular basis because they say we don't have a problem, but Sask Water is telling us we do. Thank you, Mr. Chair.

Mr. Wall: — Thank you, Mr. Chairman. A couple of questions. In all of the reporting years there's a reference in the annual reports to the Rafferty-Alameda projects, and I imagine they would be, you know, some of the more significant, ongoing things that the corporation is looking after.

And it's also a reasonably sized budget item. You know, there's 400,000 I think in '99 and \$550,000 this last year in terms of, it sounds like, maintenance and upgrades and structural work and that sort of thing — improvements.

I would just like to get a sense of the . . . Obviously, that was a fairly controversial project when it was first introduced or contemplated, and I wonder if you could please explain how the . . . When you're doing your internal budgeting and then when you have to make your requests, of course, to the government, what sort of priority does the project have within Sask Water? And is there ever a sense that it's difficult to get — especially in these three years when there was some considerable amount spent — is there a sense that that priority is shared by government specifically?

Mr. Kirkland: — I'll just give you a general response and then I'll turn it over to the chief engineer. Generally, in 1999, we had a significant event around Avonlea, which led to the review of the whole program of rehabilitating structures. And we now have a funding for a multi-year program to address these. And Rafferty-Alameda of course was near the top of the list, and Bill will explain the details.

Mr. Duncan: — Essentially, Mr. Chair, we have two sources of funding for our normal annual operating and maintenance activities. The funding from that comes from our Water Power Act revenue that we receive, and other revenue that Sask Water receives from water sales and the like.

In the fall of 1999, Treasury Board provided Sask Water with long-term . . . a commitment to provide long-term funding to rehabilitate our complement of 44 water control structures. So any capital upgrades which are necessary at our structures such as the Avonlea dam, which Mr. Kirkland referred to, is funded by the province from the General Revenue Fund.

So at Rafferty in the year 2000, as you mentioned, we spent somewhere in the neighbourhood of \$400,000 on normal operation and maintenance expenditures. There was also about \$500,000 spent on some project upgrading at that structure. We also have some outstanding land control yet to be obtained at Alameda dam.

Mr. Brkich: — Thank you, Mr. Chairman. Going back to the potato sheds. When they were transferred to Sask Valley Potato Corporation, or sold to them, was that done through an order in council?

Mr. McDougall: — With respect to the potato storage sheds

owned by Sask Water, yes, there was an order in council. There were a couple of storage sheds which were owned by Sask Water subsidiaries — Tullis Potato Storage Inc. and Riverhurst Potato Storage Inc.. Those would be the two that the Provincial Auditor has referenced in his 2000 report.

We did not obtain an order in council for those. And as the Provincial Auditor has indicated, he considers that there's a bit of confusion in the law as to whether subsidiaries are required to comply with that.

So it was our view that it was not required to be obtained for those transactions.

The Chair: — Mr. Martens or Mr. Jersak, do you have any comment on that?

Mr. Jersak: — It has been our office's view for the past number of years that subsidiaries of a Crown corporation do not have powers in excess of the parent corporation, and therefore if the parent corporation would have been required to get an order in council, the subsidiary would therefore as well.

But we do agree that the law could be made more clear so that that issue is not confused any longer.

The Chair: — Thank you.

Mr. Brkich: — Thank you, Mr. Chairman. With, I guess, them two companies, what was the sale to . . . I believe they were sold first to Sask Water, and then from there sold to Sask Valley Potato Corp. Is that the steps on the way it proceeded?

Mr. McDougall: — No, those particular buildings were sold directly from the potato storage companies, Riverhurst and Tullis, directly to Sask Valley.

Mr. Brkich: — Okay.

The Chair: — May I just ask for a clarification. These asset transfers, are these the ones outlined in the August 24 significant transaction report? Or are those affect different . . .

Mr. McDougall: — No, I think that's the wrong . . . Dave, do you have the right . . .

Mr. Schiman: — It's actually the April 4, 2001 report or letter that you want to reference to.

The Chair: — Okay, thank you.

Mr. Brkich: — Going back to the potato sheds, I guess through the reporting years when Sask Water had them, what was the cost to Sask Water to construct them?

Mr. Schiman: — The total capital cost of storage buildings and also including a scale house that's at the Broderick facility and also including a storage building called the Coteau Hills Storage Shed and flake plant, was just over \$20 million, \$20.2 million.

Mr. Brkich: — I think there was one transaction there that dealt with the flake plant that was sold to a company in Alberta, was it not? I just wanted to check on that.

Mr. Schiman: — No, the flake plant was part of the assets that were purchased, I guess, from the receiver of LDPC and then subsequently transferred to Sask Valley Potato Corporation.

The Chair: — . . . these are the items contained in the March 10 letter, is this correct? Purchase of fresh pack plant, flaking plant and . . .

Mr. Brkich: — August 16, 2000 is what I was . . . August 16, 2000, August 24, 2000.

The Chair: — Okay, thank you, Mr. Brkich.

Mr. Brkich: — Okay, thank you, Mr. Chairman. I was dealing with a letter here, August 24, to sell the fresh pack plant equipment for a price of 1 million to Pak-Wel Produce Ltd. of Alberta. That was the transaction I was talking about.

I think the sale was finalized on June 29, 2000.

Mr. Schiman: — Yes, that's correct. What I was referring to earlier was the flake plant which was a separate building from this fresh pack facility.

Mr. Brkich: — Sorry, I probably said the flake plant. I confused that with the fresh plant. Could you give me a little more details on that sale?

Mr. McDougall: — That particular asset, as Mr. Schiman mentioned, was purchased from the trustee in bankruptcy of LDPC by Sask Water, who subsequently sold that asset to Pak-Wel Produce Ltd. so that they would continue to have that facility in the community being operated.

The Chair: — Perhaps while we're taking a break in the questioning, can I just undertake to make sure that there are two issues outstanding that the committee needs additional information on. One is the Broderick reservoir and the other concerns the crop type and acreage under production for the year 2000. Is that correct?

Mr. Kirkland, could I ask that you have your officials prepare that and send us, through the Clerk, 15 copies.

Mr. Kirkland: — We will do that.

The Chair: — Were there any additional items?

Mr. Prebble: — I would just like to, very briefly . . . if information could be provided on the pesticide studies that you've made reference to in your discussions. Particularly the one, the 1997 joint federal/provincial one that was done in the Rosetown area.

Mr. Wall: — Just a few more questions. Thank you, Mr. Chair.

A question specifically related to issues that were raised in the legislature this session but deal specifically with activities of the corporation and other agencies of the government in the fall of last year. And specifically in September when a cabinet decision item apparently was prepared — either draft or otherwise — wherein the government of the province, specifically the cabinet, was warned about the potential for a

Walkerton-type situation here in Saskatchewan if certain measures weren't taken.

Could you please outline the role that Sask Water had? I believe that Sask Water was certainly involved in the preparation of that draft. What alerted you to these . . . to make, to come to these conclusions or at least to agree with those conclusions that perhaps some other agency of government had come to?

Mr. Kirkland: — There was a number of agencies involved in the, in the development of that CDI (cabinet decision item), most primarily SERM, Sask Water, and Department of Health.

And I think the circumstance with respect to the provision of safe drinking water for the people of Saskatchewan is really one where across the nation you can see that there is in all jurisdictions a sense of the need to really operate at a higher level of assurance than was the case in the recent past. And Saskatchewan's no different there.

We, as an agency, have argued very directly that we think there is a need really to upgrade the quality management systems. We're right now in the process of completing, as you know, a technical assessment report. There will be preliminary commentary on that issue in that report. And the agencies, we're basically meeting continuously on that issue and advising cabinet, and in upgrading and making policy proposals.

Mr. Wall: — Thank you. What would have changed . . . What we heard from the government, specifically from the cabinet ministers, that this was simply a draft cabinet item and that it changed. And I would imagine it would change significantly for them to raise it as any kind of a point in the debate that was ongoing earlier this session.

What did you change then from . . . What changed for Sask Water, I guess is the question, from September to apparently December when cabinet finally considered the final report? In your estimation did the water quality issues that Sask Water and other agencies were concerned about change in those intervening months?

Mr. Kirkland: — There was a lot of discussion specifically about the nature of the action plan and just the timetable movement of September to December really pushed the plan forward, of course, and so a March becomes a June. That was the major difference that I recall is really just agreeing on the action plan, and then I don't recall a great deal of other changes really.

Mr. Wall: — Thank you, Mr. Kirkland, Mr. Chairman. What would have been the reasons for the delay? Was Sask Water, was it Sask Water . . . the delay between the draft and the final consideration of the item in cabinet?

I know you can't speculate on cabinet's schedule, but what you can answer, I think, is, was the delay the result of anything Sask Water was doing? Perhaps it was taking certain time to get information or clarification? Was it anything that the agencies of government specifically, who had sponsored or initiated this CDI, anything they did to force the delay between the original and near-complete draft clearly of this CDI and the actual time it was considered?

Mr. Kirkland: — There is the normal delay that occurs from time to time just in terms of agreeing. When you got multi-agencies working on a, working on a cabinet decision item with all the nuances in terms of the language and all that would some times take some time.

The other thing that I recall is that this coincided right in the middle of the budget cycle, and so there were a number of issues which had to be resolved through Finance and Executive Council in terms of the degree to which this submission would actually be to some extent a budget submission. And some of that deliberation caused delay as well.

Mr. Wall: — Was it Sask Water's recommendation in the preparation of this document that it is part of that action plan, and specifically, part of the communications plan and the foundational part of the communications plan? The most important function be to just simply communicate to the residents of Saskatchewan that everything was fine. To oversimplify it a little bit, but certainly that was a key element of the communications strategy was to simply tell the public of the province that things were under control and things were basically fine.

Mr. Kirkland: — Well I'm having a difficult time answering that because it's really an interpretation of it. But there was definitely a desire to avoid a sense of panic. There was a need to reassure people, because the great bulk of the water of course is safe.

And then the other aspect of it was, at the same time, to act on those circumstances amongst the towns and villages where the risks are high. Of course it lead to the boil-water advisories, etc.

So there was always that balancing involved. That might be an explanation for the interpretation.

Mr. Wall: — As part of the government's plan to address the concerns, what they have now indicated is that, you know, the budget had several inspectors budgeted for there. And is that clearly . . . are we there yet, I guess is the question, in terms of the whole water quality issue?

And I guess this is really specifically inside the reporting periods. Let me rephrase it so that it is. Was it a concern that you had addressed in the three . . . You know, over the period of time, has it been an ongoing concern from Sask Water that there aren't enough people in the field working on these kinds of projects and doing the testing that's required?

Mr. Kirkland: — The reason that the rural water quality program was initiated three years ago was actually to build a better database in terms of the groundwater. And of course, the results from the 1,000 wells that are in our research base now, really that represents the groundwater that, you know — these are private wells for farms, acreages, etc. — but really it's the same groundwater that is being drawn by the towns and villages.

So you know, to that extent, I mean that concern has always been there. And in all the reporting periods that we're looking at, we've been active in offering consulting services and advices. And I previously mentioned that we have several

dozen assessments of various towns and villages.

So from Sask Water's point of view, it's always been a priority program.

Mr. Wall: — Thank you, Mr. Chairman, Mr. Kirkland.

The Chair: — Thank you, Mr. Wall. I suspect part of the problem we have in dealing with this issue is the overlap between Sask Water and Environment because, obviously, some of these issues . . . and Health. And Municipal Government.

It sounds like this is part of . . . And this may be something we want to pursue as we go through the estimates process also in the Assembly, seek clarification.

Are there any other questions?

Mr. Brkich: — Just a couple more on the financial statements here, and I hope you'll bear with me, Mr. Chairman. I'm just trying to grasp the financial statements here and I have a few questions, and just more of an understanding of trying to follow the financial statements on it.

After looking at the Lucky Lake Potato Storage company in December 31, 1998 financial statements, the private storage company agrees that a potato storage was sold to Sask Water in 1998 but states that 51 per cent share purchase performed by Sask Water was subsequent to December 31, 1998, which seems to contradict the Sask Water 1998 financial statements.

Could you clarify that for me a little better.

Mr. Schiman: — Yes, the second part of the question has to do with the ownership of the potato storage company itself. Early in 1999 Sask Water obtained full 100 per cent ownership of that particular company. So we became 100 per cent owners of that particular company up till that point in time.

At December 31, 1998 for example, the ownership was held partly by Con-Force and Sask Water.

I'm not sure if I'm able to answer your first question. I'm not sure what part of our 1998 annual report you find contradictory to that.

Mr. Brkich: — Also there's another question on '98 though. And I'll look back to what I had circled here was the current portion of the mortgage payable reported by the Tullis Potato Storage is 2.5 million at the close of December 31, 1998. At the same time period of reporting, the Lucky Lake Potato Storage Inc. is reported a current portion of mortgage payable of only 73,000.

Mr. Schiman: — In each case the storage companies had their own separate mortgage financing. In the one particular case where you see the larger amount as being shown as current, that particular mortgage was extinguished I think early in the subsequent year.

The accounting rules would suggest that whatever liabilities are expected to be extinguished within the next year are considered

current. So that accounts, I guess, for its different treatment. That's subsequently . . . what actually occurred was that that particular mortgage was fully paid out.

Mr. Brkich: — Thank you, Mr. Chairman. Also, Mr. Chairman, you'd mentioned Con-Force owned them. Can you explain that a little more? I haven't run across any of that in financial statements.

Mr. Schiman: — At the outset, the storage companies were held partially by Sask Water and also partially by Con-Force. Con-Force also played a role in the construction of the buildings themselves, acting as one of the contractors.

Mr. Brkich: — They weren't involved in the potato growing end at all. They're not a potato growing company. Con-Force, they're, I take it, a construction company, but still retained ownership of the sheds when they built them. How can you . . . Can you explain that a little more?

Mr. Schiman: — Yes, the potato growing operations, those were an endeavour between Sask Water through its division, SPUDCO, and then also, you know, local growers and partners in that particular aspect of the operations.

Con-Force had no . . . did not participate in that particular part of the business. They participated, as I said, in constructing the buildings and then also for a time they were . . . held part ownership of these particular storage companies.

Mr. Brkich: — Yes. Thank you, Mr. Chairman. Still on that end of it, Con-Force . . . So they were . . . they owned a part of them. Their payment would have been either, when you collect rent, they would have been like a partnership in them. Why would they have . . . a construction company still held a part ownership in them? Something I quite don't understand yet, Mr. Chairman.

Mr. McDougall: — I guess, with respect to how the construction and the rental payments were made, for each of the storage companies, they built . . . a building was built and owned by Riverhurst Potato Storage Inc., Tullis Potato Storage Inc., and Lucky Lake Potato Storage Inc.

As Mr. Schiman has identified, they each had their own borrowing requirements for those facilities, and the cost to the lessees, the people who would lease it out, was sufficient to cover the principal, the interest, and the other operating costs associated with it relative to their proportional amounts.

Mr. Brkich: — So in the . . . what year then did, the financial reporting year, did Sask Water, I take it, then bought out Con-Force's interest in later on. Can you tell me the year and what they purchased it for — the price?

Mr. Schiman: — I believe those transactions occurred in 1999. And the purchases of those shares were for the original cost of those shares so . . . and each of the shares I think had a value of a dollar.

So Con-Force shares were purchased for their cost, and at that point then they became . . . or were no longer shareholders in these potato storage companies.

Mr. Brkich: — Thank you, Mr. Chairman. How many shares did Con-Force own originally?

Mr. Schiman: — They held 51 shares out of 100 in each of the three storage, potato storage companies.

Mr. Brkich: — Fifty-one shares. And you said a share was worth a dollar?

Mr. Schiman: — Yes, that's correct.

Mr. Brkich: — Why did Sask Water, why would you . . . is that a common agreement with business ends of it? Or was that kind of an unusual arrangement? I've never really heard of this before at that end. Can you maybe clarify that a little more for me?

Mr. McDougall: — I can see if I can try. What happened was when, as Mr. Schiman has indicated, when the storage companies were created there was a, what amounts to a partnership agreement — unanimous shareholders' agreement, in fact, not partnership — but unanimous shareholders' agreement which specified commitments by the parties to those companies.

Con-Force purchased 51 per cent, subject to Sask Water being able to purchase those 51 per cent of the shares at a specified period or on demand at the par value, which as Mr. Schiman's indicated was a dollar.

So that was the case for all three of those entities. And with respect to that, Con-Force participated through the provision of construction services to the company, the individual companies, and helped do project management and those kinds of features.

Mr. Brkich: — Thank you, Mr. Chair. Mr. Chairman, can you tell me where Con-Force, where it's from, what company it's based . . . or what province it's based out of? And also can you tell me the total money share, just not dollar per share but what the total sale was when you bought them from Con-Force?

Mr. McDougall: — Con-Force, I think, has operations across Canada in fact. And at one point they had a fairly large facility here in Regina. I believe that they've subsequently moved out, but I'm not sure. And the issue of where . . . I'm sorry, what was the second part of your question?

Mr. Brkich: — Total amount of money that changed hands.

Mr. McDougall: — Right. \$51.

Mr. Brkich: — \$51.

Mr. McDougall: — Yes, for each company.

Mr. Brkich: — For each company.

Mr. McDougall: — Yes. Which is 51 shares times a dollar.

Mr. Brkich: — Yes, I understand that. But I'm a little at a loss here. The sheds are probably worth like \$20 million, so what . . . they owned a share of the company, out of the sheds, at one time, I believe. Basically they would have been having a lease

on it then. They weren't getting any money . . . the only money they would have been getting would have been just that you promised them to build them — they would have had the promise of that — and payment for that for the building of them. To own them sheds, at a dollar a share, I'd have probably bought quite a few of them shares if they were just on the open market.

I'm having a hard time grasping why they had a 51 per cent owner at a dollar a share for \$51 in a \$10 million or a \$20 million storage facility?

Mr. Schiman: — Maybe I can just add that while they did hold 51 per cent shareholding in the company that owned the facilities, essentially all the capital cost of these particular sheds were financed through debt, through these mortgages. So really the worth of their shares, you know, would have to consider extinguishing that debt first. And, you know, because it was essentially equal to the value of the buildings, there was . . . there's not really any value above the dollar per share.

Mr. Brkich: — Well, Mr. Chairman, was the share price based on the net worth?

Mr. McDougall: — No, the share price was simply based on a par value set at the beginning, pursuant to the terms of the unanimous shareholders' agreement that I mentioned earlier, and it allowed for us to buy those shares out to retain complete 100 per cent ownership of the company at that par value.

Mr. Brkich: — Thank you, Mr. Chairman. So when they entered in the agreement with you, they basically assumed part of the debt like you did . . . they assumed 51 per cent of the mortgage. So then for you to buy them out then, you would have had to pay the mortgage out fully?

Mr. McDougall: — The company itself took the mortgage, borrowed from individual banks in question, and accordingly the debt was with the company and it was financed through other . . . those payments were made through payments by the growers or other people who leased the buildings. They were designed to be relatively offsetting.

Mr. Brkich: — Thank you, Mr. Chairman. How much . . . when the sheds were all built, what was the total amount of the mortgage owing against them?

Mr. Schiman: — I don't have an exact figure for you on that but it would have been very close, if not . . . well it would be essentially equal to the capital cost of the three buildings in question here. There was three buildings that were constructed within the storage companies. As well there was a small amount of . . . a couple hundred thousand dollars worth of equipment that was held in one of the companies.

I think probably in rough the total would have been approximately \$8 million for both the value, the capital cost of those buildings, and that equipment that I mentioned. Plus . . . and that would be roughly the same value again as the mortgages.

Mr. Wall: — Thank you, Mr. Chairman. So if the net . . . I'm back to the share, to the shares here in this deal with Con-Force.

If the net worth of the project was greater — and, you know, clearly it would have been, I would hope, and it's been confirmed — greater than the value of the shares, what did Sask Water . . . what did you put in place in terms of these agreements to ensure that, you know, other than the goodwill that would have been between the corporation and Con-Force I guess, what else was in place to ensure that Con-Force couldn't potentially use its majority interests in the company and capitalize on the net worth in the company that was greater than their share obligation back to the corporation?

Mr. McDougall: — There was a unanimous shareholders' agreement in place which specified the rights and responsibilities and provided for control of both the company, the shareholdings, and the activities of the corporation with Sask Water. And as I mentioned before, including our legal right to buy out those shares at 51 per cent, which is \$51, any time during the course of the term.

Mr. Wall: — You could exercise that option at any time?

Mr. McDougall: — Yes.

Mr. Wall: — What's then the rationale for these shares at all? You know, I'm certainly not a financial expert but I'm just . . . would be interested in the rationale for that sort of an arrangement.

Mr. McDougall: — I think at the time — and I'm going a bit off the history here as I wasn't necessarily involved in the negotiations — but I think the rationale was to try to get Con-Force on, involved in the project in a way which allowed them to participate to the extent of providing construction management services and other matters which would have been contained within agreements. They provided storage or pre-cast concrete facilities which are what those buildings were made out of.

So I think it was simply to have them there.

Mr. Wall: — Well was that work originally tendered for this whole project? And I'm going to ask, you know, sort of a hypothetical question. I'm assuming this project is tendered on the construction side. Con-Force is either low bid or the winning bid, if it wasn't a low bid situation. And if that's the case, then I still don't understand the reason to go through this share structure process.

Mr. Kirkland: — Our understanding is that it was not a tendered project, in fact that it was negotiated. That the corporation was seeking a construction partner and that's the way they chose to proceed.

Mr. Wall: — So this, I'm guessing, predates a lot of you gentlemen here that are here today and ladies that are here today. Well then so would I be correct in assuming then that this sort of an arrangement with whomever it was — in this case it happened to be Con-Force — was simply a way to find a stable, you know, one contractor that could do the whole project and avoid a tender or an RFP (request for proposal)?

Mr. Kirkland: — I wouldn't speculate on whether they were avoiding something with the choice of . . . These sheds are

really world class in the sense of the preservation of the quality of the potatoes, and I would assume that the choice of Con-Force was partly based on that, was partly based on the quality of their construction. But really we're speculating here. We don't really know the basis of it.

Mr. Wall: — Well it's clearly a part of these reporting years, and I think that's a very important question because these are all taxpayers' dollars that we're talking about here. This is a taxpayers' project. There are tendering guidelines that the government has, very specific ones in the case of grounds, especially as it relates to the Crown tendering agreement, Crown Construction Tendering Agreement, which would have been in place.

I don't know if this would have met the threshold of . . . I mean, yes, I guess it would have probably met the total cost threshold to be eligible for that. So if the corporation . . . and I'm not . . . don't get me wrong, Mr. Kirkland, this isn't . . . I'm not trying to engage you in debate. I'm saying that this is important information for us to be able to find out perhaps from your predecessors or from some documents that are still there.

You know the question is this. Is this situation, this fairly unique relationship that's been outlined for us by you folks today, was this a way to avoid the Crown Construction Tendering Agreement that was in place and would have been applicable to projects like this because . . . well for whatever reason.

Mr. Kirkland: — My understanding is that there were three sheds in '97 that were not tendered; the four in '98 were tendered. But we can certainly review this issue and come back with an explanation in terms of the choice of that approach to the capital projects in '97.

Mr. Wall: — I would appreciate that, Mr. Chairman. That would be very important information I think that we'd want to talk about.

In fact I think that if we could get some latitude to perhaps revisit this — and I know there are other methods, estimates and otherwise — but if we could get some latitude to revisit this, if this indeed is voted off today and we were to revisit it in the next reporting year, I think these are some questions that . . . There's some important questions that we need to ask here because our understanding that Con-Force was perhaps not a unionized construction company.

And so it would seem then that this particular corporation may have — and again I know officials have changed, so don't get me wrong — but there may have been some decisions made to avoid a policy of the government that should certainly have applied to Sask Water.

Even though members on this side probably wouldn't agree, Mr. Chairman, with the policy, the fact is, that is the policy that existed and we need to be able to ask those questions and find out if indeed there were some actions taken by this particular corporation to avoid operating under the policies of, you know, the duly elected Government of Saskatchewan.

The Chair: — May I ask for some clarification from the

officials. The year that we are dealing with in which the three non-tendered sheds were constructed is what year?

Mr. Kirkland: — The summer of '97.

The Chair: — The four tendered projects were in . . .

Mr. Kirkland: — '98.

The Chair: — Here's the difficulty I have. The question of the CCTA (Crown Construction Tendering Agreement) is a legitimate one for us to pursue because it was a policy of the Crown Investments Corporation and of the government. The problem is is that the '97 year has already been dealt with. So we have the '98 year in front of us.

I'm not sure how we proceed on this. I'm reluctant to rule the question out of order because I think it's a legitimate one for us to have an understanding of the framework that the corporation was operating under. We have a difficulty in that the officials seem to have changed during this time period.

Mr. Wall: — Well, Mr. Chairman, maybe as a way — rather than an original request I made that we have some latitude to revisit this because then we would be fully four years out from the . . . the next report we'll be considering will be fully four years out from really the time in question here — I think Mr. Kirkland has taken notice of some information that he will endeavour to provide to the committee, and maybe that's fair enough.

If he wishes or if someone wants to take the opportunity to explain that indeed . . . I mean, I think the government and even more so than the corporation, will want to assure people that indeed these actions were not taken, regardless of what reporting year, to avoid a policy of the government that they clearly had intended for all the Crowns. So we can leave it at that, I guess.

The Chair: — Are there other questions?

Mr. Brkich: — Thank you, Mr. Chair. Dealing I guess with '98, on the tendered buildings then, we can discuss them. Who built them?

Mr. Duncan: — Westbridge Construction. I can't recall how many . . . I believe it was Westbridge and Gabriel Construction were the successful contractors for the buildings in '98, but I can't recall which contractor was at which site. There is one building built at Lucky Lake and three buildings were built at Broderick.

Mr. Brkich: — Thank you, Mr. Chairman. Was the lowest tender accepted on them buildings?

Mr. Duncan: — I believe that is correct.

Mr. Brkich: — Okay. Thank you, Mr. Chairman. I don't know, like I say, Mr. Wall had discussed on the '97.

The only question I would have, going back to the '97, bringing it to '98, '99, there was, I guess you would call a dispute over what the buildings are actually worth. I think they were . . . and

I think that's even before the courts right now. So it might pertain to '98, '99, 2000. I'm not sure.

But I believe that the dispute was that they were devalued a little more in '98, '99 at the mortgage end, when you were buying Con-Force out at that time. Am I right in assuming that? Or maybe you can't even discuss it with the court case that's involved in it.

Mr. Schiman: — What I can perhaps explain is, as part of the 1999 year-end, Sask Water had previously sold the LPS (Lucky Lake Potato Storage Inc.) facility to Lake Diefenbaker Potato Corporation. They went bankrupt, and as a result, Sask Water was able to reobtain that particular building.

There was, as part of the year-end procedures review, I guess, of the valuation of all the potato storage assets, and in the particular case of LPS, there was an adjustment made to the book value of that particular asset. That was the approximately \$1.7 million adjustment that I mentioned that was part of the \$5.1 million of unusual items.

Mr. Brkich: — Thank you, Mr. Chair. What was the reason for that adjustment?

Mr. Schiman: — Well basically what we were attempting to do is to review, I guess, whether or not the book values of all the assets were reasonable, given the expectations of future occupancy, operating costs, the amount of revenues that can be generated from each of the facilities. And as result of that review, there was this one particular adjustment to the value.

Mr. Brkich: — Thank you, Mr. Chairman. Mr. Chairman, who determined the book value of the sheds?

Mr. Schiman: — Well that was done in conjunction . . . Or Sask Water management performed that particular estimation process and that was reviewed together with our auditors, both the provincial auditors and PricewaterhouseCoopers.

Mr. Brkich: — Thank you, Mr. Chairman. Would the auditors like to comment on that?

Mr. Drayton: — Perhaps I may, Mr. Chairman. This is Brian Drayton with PricewaterhouseCoopers. Certainly in the '99 year, one of the areas that we visited as part of the audit was the carrying value of the storage facilities.

The accounting principles that apply is to ensure that the cost in which the facilities are carried at in the financial statements is recoverable through future operations. As management has indicated, then management prepared detailed forecasts of expected cash flows and costs, operating costs, of those facilities.

And our role as auditors were to ensure that those projections or estimates were reasonable at the time under the circumstances and confirmed that the estimated future cash flows were sufficient to recover the carrying value of the assets as recorded on the financial statements.

That is to say that the accounting rules require that the assets have a recoverability test — that is, that future cash flows are

sufficient to recover the cost of the assets as carried in the financial statements. That is not the same as the fair market value of the sheds at that time.

So as I say the carrying value in the financial statements is not suggestive necessarily of the fair market value but proof that the projected future cash flows are sufficient to recover the corporation's investment in the assets at the time.

Mr. Brkich: — So just kind of in a nutshell, it got devalued on the book end from basically when it was done in '97 to '99. Would you work the possible sale of potatoes into it? Or possibly in '97 they'd have been looking at a certain amount of rental storage it had been receiving, but by '99 realizing that the private producers weren't really going to use the sheds as much as possible or as much as they projected they would — would that be one of the reasons that it was devalued a bit in book value?

Mr. Drayton: — Yes. The take-up or occupancy, utilization of the sheds, would factor into the projected cash flows. So yes.

Mr. Brkich: — Thank you, Mr. Chairman. Getting back to '98 sheds when they were built, did the corporation follow the Crown Tendering Agreement that was set out by the government?

Mr. Duncan: — I believe we did but I can't state with absolute certainty. But I believe they were included within the contract provisions.

Mr. Brkich: — Mr. Chairman, if you could provide that, I think it is fairly important since it is a policy that is set out by the government.

Mr. Wall: — Mr. Chairman, just a request. If we do finish up with Sask Water for these reporting years anyway today, I guess this last question by Mr. Brkich regarding the CCTA, I wonder if on that one if members of the committee would agree to provide some latitude to address that or to discuss it further if indeed . . . There's no need for discussion if indeed the CCTA was followed, but if for some reason it wasn't, I think there would be some additional questions that we would want to ask. And obviously we can't ask them now because we don't know the answer to the question.

The Chair: — I want to express my concern that officials have not come to the committee with sufficient information to answer these, I think would be fairly obvious questions pertaining to tendering policy.

I don't think it would be out of place for the committee to note a reservation in its report to the Assembly on the question of whether or not Sask Water as a CIC-owned Crown, followed the CCTA. Clearly we need more information on this. Now I appreciate that the officials have changed since 1997. But this is clearly an issue which was overlooked in the examination of the 1997 report.

So I'm sympathetic to what you're saying, Mr. Wall. And I'm not sure how we might deal with this other than to note, perhaps, a reservation in our report. And note that we have sought additional advice on how Sask Water dealt with

tendering on these projects during the 1997 year.

Mr. Wall: — Well I mean it depends . . . I know you're going to get to scheduling, yes, and Mr. Brkich just sort of indicated what I was thinking about. And I know you're going to talk about scheduling at the end of this meeting, as you do at the conclusion of the meeting.

And the next meeting we have, I mean I . . . obviously we are, other than this one area, we've asked the questions that we want to ask with possibly a few exceptions, but not . . . I can't . . . we're unaware of them at this time.

So the other option of course which may make the most sense is we simply, whenever we decide to have our next meeting, we bring . . . we finish this off, you know, as a order of business for our next meeting.

We didn't want to . . . we wanted to be as . . . you know move it as quickly as possible today and certainly be co-operative. But maybe that's an option that we can, we can pursue.

The Chair: — What is the . . . It is this one particular area that we have outstanding in terms of our discussion. Am I correct in understanding what you're saying?

You see normally I would suggest that we could simply revisit this under CIC, but we've dealt with CIC already.

Perhaps what we should do is this. Conclude our review of Sask Water; note our findings and concern in the report to the Assembly; request that the minister respond to us, which would then allow us to put the minister's response on the table for a later date. That may be one of the easier ways to deal with this.

The alternative is not to vote it today and simply bring the corporation back at a later date.

Those would be the two options I would see, and I guess I would look for direction from the committee on how to proceed on this.

Mr. Wall: — Well I think that we would be agreeable to that, Mr. Chairman, as long as we were specifically . . . Because I understand that the reporting years limit us to '98, '99, and 2000. But clearly the question, the '98 question, stems from the, this whole Con-Force question that we had.

So I think I would . . . I think we would be very supportive of that if we could also find out exactly about whether or not the agreement was followed in '97 and the specifics that we were asking there. I'd feel a lot more comfortable.

I think the two issues are related. I do understand that one is not in the reporting years under question but on the other hand, we also would like to co-operate on the other, you know, getting the other parts through.

Mr. Yates: — Yes, I think that the most appropriate way, Mr. Chair, would be to have . . . actually conclude our discussions on the '98, '99, 2000 years but as you suggested, write the minister for further clarification and have that report come back to this committee on the issue of the tendering and construction

of the potato sheds. And then, through that report coming back to committee, would enable us to reopen the issue and have a discussion around the construction of the potato sheds over all the years.

The Chair: — Generally agreed on that then?

Ms. Jones: — Although I'm not terribly familiar with the workings of the committee yet, I personally think it would be better to have the officials back and conclude it. If it only takes you know an hour next week to do that, I think that would be the way to handle it.

Mr. Wall: — ... as an opposition, we ... (inaudible) ... support either of those positions. If it works out bad you know we'll have to take issue with him.

The Chair: — The only other question I would have is whether this issue may be better addressed to the minister of CIC than the minister of Sask Water, having responsibility for implementation of the CCTA.

May I suggest that perhaps what we do is follow Mr. Yates's approach on this and that we give some consideration or some flexibility to the government ministers to see who is most responsible ... most appropriate to respond. Whether that would be the CIC minister or whether that would be the minister of Sask Water.

This is a unique situation in that this is one of the very few Crowns which falls under a separate minister. Most of the other CIC Crowns I think have all been consolidated under Mr. Sonntag. But at this point, if members have other advice ...

Mr. Yates: — I would agree with that because our objective here is to get an answer. And the answer may be a combination of ... or from a single minister, a combination from two ministers because of the overlap in the responsibility for the issue of the CCTA. And I think what we want as a committee is to get a concrete, complete answer.

Mr. Wall: — Mr. Chairman, I don't know. I'm a little bit uncomfortable. We're getting seemingly further away from getting these two questions resolved. Now we're wondering about which minister is responsible.

And perhaps the easiest way is as Ms. Jones has indicated, to simply bring them back and complete the work in short order and move on to the next Crown. Perhaps they could be willing to attend for the second hour of the next meeting, whoever would be next on our list or most readily available.

Increasingly that seems like the easiest answer to this. I would be prepared to move a motion to that effect if that's in order, Mr. Chairman.

The Chair: — Well we don't need to move a motion if we're going to invite these officials back. We simply just won't conclude our investigation, our review of their reports at this point.

The difficulty I have is with the years under review. And I understand that the 1997 situation lays the ground for the 1998.

But the question, because it's set in 1997, falls actually outside of the years in review. This is the difficulty with posing it under Sask Water's annual report review.

Now it's certainly an issue arising from our consideration of these reports, which is what leads me back to wondering whether we shouldn't simply note it in our report and seek a government response to it, which we can then invite the appropriate minister and/or officials. It may be the case that it's more appropriate to have Mr. Hart here as minister of CIC to explain how the tender process was dealt with. But I suspect either way will get us to the same point.

Now let me just check and make sure I haven't recommended something which is procedurally ...

I would suggest that ... our Clerk has pointed out to me rule 100(1) which says:

The Standing Committee on Crown Corporations is empowered to review the annual reports and financial statements of the various Crown corporations and related agencies as received; ...

That's the process we've undertaken up to now.

... and the said Committee is authorized to question the operations of the Crown corporations and related agencies for periods outside (of) the year under review ...

Which I think is the second part of the question.

Having reviewed the rule, I would suggest that it's probably most appropriate for us to proceed on the Yates option to conclude this, highlight the issue, ask for a report back to deal with the operations for the years outside of review.

So we'll separate the issues, deal with the annual reports, highlight our concern, deal with that separately when we get the response back. It should get us to the same point.

Mr. Wall: — What I'm hearing in that rule — and I appreciate the Clerk providing it to us — what I hear in that, Mr. Chairman, is that affords us the opportunity to simply adjourn, finish this off at the early part of the next meeting because we'd certainly have the purview to go ahead and ask these questions on '97.

The Chair: — '97 is ... The review of the annual report for '97 would not ... is not the issue we're considering. The question is a separate one concerning the operations of the corporation outside of the year of review.

So the annual report, the motion that we would normally deal with is — if I can just see it — that we would conclude the review of the annual reports related to '98, '99, and 2000, but that we would still have an outstanding issue concerning operations that we would want to take up at a subsequent meeting.

Have we reached a consensus on that then? Okay.

If I can suggest then that we would proceed in that way, are we

prepared to at this point then take the motion from Mr. Yates on concluding the review of the annual reports or are there a couple of additional questions?

Mr. Brkich: — Actually, Mr. Chairman, was that if we could make the report and deal with just this issue later on — with '97, '98 on the tendering Act and also with Con-Force building the sheds?

The Chair: — Okay.

Mr. Brkich: — I have no other questions on the rest of the reports with Sask Water operations other than them.

The Chair: — Okay do other members have questions they want to ask on these three years? Okay. I'll recognize Mr. Yates then with a motion.

Mr. Yates: — Thank you, Mr. Chair. I would move:

That the Standing Committee on Crown Corporations conclude its review of the annual reports and related documents of Sask Water and its subsidiaries for the years ending December 31, 1998, December 31, 1999, and December 31, 2000.

The Chair: — Is there a seconder? No, there's no need for a seconder. Is there debate on the motion? Seeing none, those in favour? Carried.

Let me, at this point then, thank the officials for appearing today. Obviously we will have . . . likely see you back in the not too distant future as we discuss some of these other issues.

We have one . . . two other items in front of us then. One is the draft of the second report of the Standing Committee on Crowns which has, I believe, been circulated to members. The Clerk is suggesting three changes to wording; and I have one recommended change in terms of our item of business.

Do members have the . . . The Clerk is recommending that in the second paragraph, that we change the wording in the last line to read:

Your committee has completed its consideration of the reports of the following Crown corporations:

Which seems fine. Do people have any problem with that minor change? No, okay.

In the one, two, three, four . . . fifth paragraph down:

Your committee continues to wrestle with the issue of overlap of responsibilities that exist.

There is a missing word "that".

And finally, in the motion contained in the report, instead the word "concerning", the Clerk is recommending we go with the words "pertaining to" CIC Crown corporations.

I take it those small changes are fine.

The one additional item I wanted to highlight, and we should have some discussion about our future business. We have down, ISC (Information Services Corporation of Saskatchewan). The rationale for them appearing is that this is first opportunity for them to appear before the committee and we should undertake that.

SGI (Saskatchewan Government Insurance) is a major Crown. SaskPower is a major Crown.

STC (Saskatchewan Transportation Company) has not had a great deal of activity in those years. It's a rather routine set, but we should probably . . . We can either leave them on or take them off. It's not a big issue.

But I am suggesting that we add on Opportunities Corporation onto the list, in that there were significant undertakings in terms of Research Park growth during those '98, '99, and 2000 years.

Do we want to leave STC on? Or can we remove them off of our immediate list of business with the understanding that we can still call them if we decide? Okay, so we'll remove STC and we'll add in SOCO (Saskatchewan Opportunities Corporation) instead. Is that agreed? Okay.

Now in terms of this report, do we want to add a paragraph in outlining our discussion this morning? Okay.

Isn't this what you do?

Mr. Kaczkowski: — Okay. It is what I do; however I was hoping to get some direction with regards to the specific wording of . . .

The Chair: — I suspect something along the lines of: in the consideration of our review of Sask Water's annual reports, we became aware of or there were outstanding questions related to the tendering activity of the corporation.

Now what were the three sheds we were dealing with — the three locations?

Mr. Brkich: — Broderick, Lucky Lake . . .

The Chair: — And Riverhurst?

Mr. Brkich: — And Riverhurst, yes.

The Chair: — Particularly in 1997 year and '98 as it relates to the CCTA; and that the committee is seeking additional information and clarification, or will seek from the appropriate minister.

Is that pretty close to where we want to be? Okay. With that then, we'll insert that into this report. I guess I'll circulate the report maybe this afternoon if we can get it.

Mr. Kaczkowski: — Okay, the only hitch is given the order of business in the House, do you want the report tabled today? It's . . . so there's not going to be much point . . .

The Chair: — Let's table it tomorrow.

Mr. Kaczowski: — Okay, that's fine then.

The Chair: — I don't think there's a big time problem with it. That'll give members a chance to review the wording. But could I have a motion then to approve the draft second report. Okay, moved by Mr. Wall. Any discussion? All those in favour? Carried.

Now the only other item is that once we have tabled the report, I will I guess seek leave of the House to move the motion contained in the report to refer over the 2001, those items in the 2001 auditor's report pertaining to the Crowns. And so perhaps the member for Swift Current would co-sponsor that? We can talk about that after.

Okay. Those are the only items of business we have. With that, I'd accept a motion to adjourn.

Mr. Wall: — Mr. Chairman, as regards future meetings, is there . . . I wonder if you would comment or any other members would comment on whether we simply resume the meetings then in the fall, early in the fall of next year, and that we be basically finished for this session.

The Chair: — That's probably in order as next Thursday, I understand we're sitting on Friday hours, which would give us a very tight time frame, and potentially wrapping up on that Thursday or Friday the week after.

So let's do that then. Let's accept Mr. Wall's recommendation and we'll try and schedule a time in the autumn, unless people want to meet in July. I notice that the Clerk, Mr. McCall, and I are here for the medicare hearings. And I don't see any takers on that, so I guess we'll look at it for the fall then.

Okay. So we're agreed. Motion to adjourn. And all those in favour? It's carried.

The committee adjourned at 11:29.