Standing Committee on Crown Corporations

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STANDING COMMITTEE ON CROWN CORPORATIONS
2003

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The committee met at 09:36.

The Chair: — We're ready to proceed, so I want to welcome all of you here this morning.

Just a few words before we proceed to the Crown Investments Corporation. Members will have received from the Clerk a memorandum dated the 26th, concerning CIC (Crown Investments Corporation of Saskatchewan) review tabled documents. And the Clerk lists a number of documents that will be relevant to our review of the Crown Investments Corporation. We might have added, should have added, the document that was provided to us by CIC on February 13, 2003 and a document dated February 2003 by the Provincial Auditor with respect to disclosure of payee information by CIC Crown corporations.

And it would be my view that when we have completed the discussion of issues related to annual reports and other tabled documents that members may have, that we will then want to take the opportunity to ask CIC to have with them such officials as they feel are necessary, similarly the auditor's office, such officials as they feel are necessary to conclude our review of this matter of disclosure of payee information so that we can come up with a firm recommendation.

You will recall that this matter was referred to the two parties for a report but there does not seem to be a meeting of the minds on this particular matter and so it falls upon the committee then to do its work on this one.

Having said that, I want to welcome Mr. Hart and his officials. Perhaps we might begin, Mr. Hart, by asking you to introduce the officials who are here with you, and then also to ask Andrew to introduce the officials who have joined us from the private sector auditing firm, and Mr. Montgomery. And then I understand you have a brief presentation for the committee, and following that, if that's agreeable then, we'll get into questions that committee members may have.

So, Mr. Hart, first your introductions, then Mr. Martens, your introductions.

Crown Investments Corporation of Saskatchewan

Mr. Hart: — Thank you, Mr. Chairman, and good morning, ladies and gentlemen, members of the committee. Beginning on my far right, John Amundson, our controller at CIC; next to me on my right, Sheldon Schwartz, chief financial officer; on my left, Zach Douglas, senior vice-president of investments; and next to Zach, Kathy Buitenhuis, executive director of strategic services and Crown corporations services division.

In the back, Ted Boyle, executive director of communications; my executive assistant, Gayle Megson; Ladette Fuchs, supervisor of business services in the investment division; and John Hicke, vice-president of investments.

Those are . . . I don't think I missed anyone.

Mr. Martens: — Thank you, Mr. Chair. I'm Andrew Martens. I'm a principal with the Provincial Auditor's office and a liaison to this committee. With me today are Ed Montgomery, deputy provincial auditor responsible for the CIC audit; from KPMG we have Tom Robinson, partner, and Bruce Willis, manager with that firm.

Mr. Hart: — I'm just going to ask Mr. Schwartz to walk you through a brief presentation. It's essentially the highlights I think given to the media and the technical briefing when our annual report was released, but I think it'll give people some background on the general highlights of CIC's financial results in 2002. Okay.

Mr. Schwartz: — As Frank mentioned, I'll be taking you through a presentation. It'll be about 10 minutes, giving you the overview of what happened in the CIC Crown sector in 2002.

You'll turn to the first slide past the title page, called consolidated earnings. Consolidated earnings are the earnings of CIC, the holding company, combined or consolidated or grouped with the earnings of its subsidiary Crown corporations like SaskPower and SaskTel, and its share of various investment earnings. It's looking at the CIC Crown sector as if it was one company, to give you a view of the overall sector.

And what it shows is that 2002 was a much better year than 2001. Overall earnings rose . . . more than doubled, $152 million increase from 132 million for 2001, to 284 million for 2002.

Also in each year you'll notice that there is two boxes in shades — one is in green, the other one is in a red shade. The green-shaded box represents ongoing, earnings from ongoing operations; the red-shaded box represents non-recurring items, kind of one of kinds of activities such as gains on sale, or write-downs, or provisions.

And in terms of the ongoing earnings, earnings did improve by about $12 million overall from 208 million to 220 million. The big swing was from a change in the contribution of non-recurring items which were . . . diminished overall earnings by 76 million in 2001, and contributed an additional $71 million to overall earnings in 2002. In terms of the composition of those earnings, non-recurring items, there's boxes at the side that'll tell you what that was.

In terms of the next slide, earnings of the major Crowns on the next page. The four major Crowns are shown here with highlights of their earnings for the year. For SaskPower, earnings were up nearly $100 million from 29 million in 2001 to 127 million in 2002.

Basically a number of factors on the expense side contributed to that increase, notably lower . . . higher water levels which enabled to lower dependence on high-cost alternative sources of generation like natural gas, combined with lower natural gas prices, and about a $41 million decrease in financing charges, largely as a result of the improvement in the Canadian dollar.

For SaskTel, 2001 was a very strong year operationally and 2002 was also a very strong year operationally. The decrease year over year relates to the item on the first page on the $40 million provision for the carrying value of Austar United

Communications.

On the revenue side, SaskTel's earnings grew due to higher diversified operation revenues like Internet, cellular, Mobility. And on the expense side, expenses grew with the implementation of growth strategy but were partially offset by over $22 million in savings from their operational efficiency program.

SaskEnergy posted a loss of $15 million for 2001. That swung by $22 million in terms of improvement for 2002 but earnings were restrained primarily or basically almost all because what SaskEnergy paid for its gas during 2002 exceeded associated revenues by about $41 million.

For SGI CANADA, 2001 was a weaker than normal year, primarily due to influences such as the depressed conditions of capital markets in 2001 which produce the earnings it makes from its investment portfolio. As we all know, that carried on into 2002 and there was a further exacerbating factor related to the Coachman loss of $11.3 million.

The next slide is CIC non-consolidated. Unlike the first slide, this looks at the holding company itself. It doesn't include the earnings of the subsidiary Crowns and it doesn't include the earnings from various investments. And it shows that again 2002 was a much better year than in 2001 with overall earnings of holding company increasing 153 million, a combination . . . The primary factor was again attributable to the sale of Cameco and the remainder is a $27 million improvement due to higher dividends from the Crowns.

If I didn't mention on the previous pages, overall earnings if you added all these things up were about $65 million so that explains why our dividends went up.

On the right-hand side of the chart is a chart that says . . . entitled CIC dividends to credit the General Revenue Fund. Those were 200 million for 2001 and 300 million for 2002 — $100 million increase. And that $100 million increase reflects a portion of the dividend deferred in 2000.

The next slide is the earnings of CIC's major investments, those being NewGrade, Meadow Lake, and Saskferco. Just going I guess clockwise, NewGrade had a record year in 2001 . . . And I stress for all these investments, these earnings represent our share of the earnings of the projects. Therefore they reflect the ownership interests, not the earnings of the projects themselves. So NewGrade had a record year in 2001; 2002 was also a profitable year for New Grade but heavy, light oil crude differentials narrowed. Why is that important? Well it basically drives the economics of upgrading — heavy oil, the differentials, the difference between the price of the heavy oil that goes into the upgrader in relation to the price it receives for the synthetic light crude reconstituted output that goes out of it. Other factors partially offsetting that were higher throughput and some lower natural gas prices.

For Saskferco . . . And in addition, NewGrade paid all its previously advanced cash deficiency payments to both CIC and CCRL (Consumers' Co-operative Refineries Ltd.) so they're reduced to nil.

Saskferco earnings were $3 million for 2001. That basically reflected a combination — on the revenue side, lower urea ammonia prices; on the cost side, high natural gas prices. All those things turned around in 2002, so natural gas prices fell and urea ammonia prices rose. And that accounts for our share of the earnings rising $4 million to $7 million for the year.

Lastly, for Meadow Lake Pulp, our share of the loss was $15 million for 2001, narrowed significantly to our share being $2 million for 2002. Basically, prices remained weak for most of the year, though they strengthened somewhat toward the end of the year. But the real boost there was primarily due to strong sales volumes.

Last but not least, the last slide is debt and it's sliced two ways. On the left-hand side of the chart is consolidated debt which, reflecting back to the earlier discussions, the debt of CIC, the holding company, consolidated or combined or aggregated with the debt of its subsidiary Crown corporations like SaskEnergy and SaskTel and its share of the debt of various investments, that fell by over $100 million, year over year, between December 31, 2001 and December 31, 2002.

In terms of the contributors to that, all the four major Crowns that you saw on the previous page on Crowns . . . Well SGI doesn't have any debt. But SaskEnergy, SaskPower and SaskTel debt all fell, SaskEnergy's by about $50 million, SaskPower by about $25 million, and SaskTel's by about $11 million.

Other decreases were at NewGrade, $23 million; SOCO (Saskatchewan Opportunities Corporation) related to the transfer of assets and associated liabilities to CIC by about $19 million; Sask Valley Potato Corporation about 6; and Meadow Lake about 3. Partly offsetting those were increases of debt for ISC (Information Services Corporation of Saskatchewan) of about 14 million; Sask Water, 9; Centennial, 4; and CIC non-consolidated, the graph on the right-hand side of the chart, by about 3.

Just focusing on that last chart, CIC's non-consolidated debt or the debt of the holding company, that rose $3 million between December 31, 2001 and December 31, 2002. That's related to the residual of the SOCO transfer in terms of the liabilities. These are all . . . The debt figures at year-end for both years are all self supporting. What does that mean? It means that the timing and amount of the inflows from the investments for which this debt was incurred can be reliably counted on to service and retire the associated debt at maturity. So it's not a burden on the balance sheet or income statement, and doesn't affect our ability to pay dividends. It's not something we lose sleep over.

And that's my presentation.

The Chair: — I just have a couple . . . Sorry. You guys want to make any comments at this point?

Mr. Montgomery: — Thank you, Mr. Chair. With respect to the annual report, I'd like to point out that there's three sets of financial statements included in the annual report. There's the CIC consolidated financial statements, which includes the results of CIC and those of the Crown corporations such as

SaskPower and SaskTel. There's the CIC non-consolidated financial statements that provide the results of CIC, the holding company. And finally, there's CIC III (Crown Investments Corporation of Saskatchewan Industrial Interests Inc.) non-consolidated financial statements that show the activities that CIC manages through its subsidiary CIC III.

The audit reports in the annual report are signed by the appointed auditor, KPMG. We worked together with KPMG using the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. And we received good co-operation from KPMG and also from CIC management.

In our opinion, the three sets of financial statements included in the annual report are all reliable. And last month we reported on these three sets of financial statements and the financial statements of all CIC Crown corporations and related entities in our *Report to the Legislative Assembly of Saskatchewan on the 2002 Financial Statements of CIC Crown Corporations and Related Entities.*

Finally I'd like to point out that during 2002 CIC had adequate systems and practices to safeguard and control its assets. And CIC complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Mr. Robinson: — Mr. Chair, I'm going to ask Bruce Willis, our engagement leader on CIC, for a couple of comments.

Mr. Willis: — Thank you, Tom. The only additional comments we'd like to make is we concur with the Provincial Auditor's comments. Our reports were issued without reservation on all three sets of statements.

Our other reports, as indicated, were without any matters being raised. And as well we were received very good co-operation from CIC management. No restrictions were placed on our audit in any way. And we had a very good relationship with the Provincial Auditor throughout the conduct of our audit.

The Chair: — Thank you. Before Mr. Wall has a . . . I guess Mr. Wall . . . Just out of curiosity, with respect to consolidated debt, what was your consolidated debt 10 years ago? Do you know that?

Mr. Hart: — We can get that number for you.

Mr. Amundson: — Long-term debt peaked in the Crown sector in 1991 at five point three eight five point nine million . . . or billion. And it steadily dropped, for the most part, to the 3.5 million that exists today.

The Chair: — Thank you.

Mr. Wall: — Thank you, Mr. Chairman. Thank you to the officials for their attendance here for this meeting and for future meetings and for the presentation this morning.

A question which goes to the information provided in terms of third party payees of the Crowns and specifically the payment to CIBC World Markets by the Crown Investments Corporation of almost $500,000: would any of the officials please explain to members of the committee what was the nature of the work involved with that $479,000 payment?

Mr. Hart: — Yes, I can give you some accounting of that. If you'll, I think, recall from about 1996 on, from time to time there have been fairly major undertakings by investment bankers commissioned by CIC or in some cases individual Crown corporations to look at their operations essentially every second year, roughly something in that order of frequency.

In this particular case we combined some work under CIBC World Markets for both energy utilities that we own and operate, SaskPower and SaskEnergy, essentially to look at the strategic position of the company in the North American energy markets.

There's been a lot of . . . there had been a lot of speculation about consolidation of electricity and gas. There have been speculation about the need to perhaps merge these two entities. There are long-term competitive issues.

We asked them to look at whether or not there were different ways of organizing or restructuring these entities, breaking them up, consolidating them in different ways to maximize value; what the long-term competitive outlook was for these companies and generally conduct a strengths, weaknesses, opportunities analysis of the enterprise.

Mr. Wall: — Thank you, Mr. Chairman. Thank you, Mr. Hart. Part of these new structures . . . Included in these new structures that CIC asked Wood Gundy to look at — or I beg your pardon, CIBC World Markets to look at — were any of those new structures potential JVs (joint venture) with Alberta-based gas companies or pipeline companies?

Mr. Hart: — Yes, they identified a number of opportunities or options for us to look at in terms of how we move gas back and forth across the border, between Alberta. Alberta and Saskatchewan are two obviously of the larger gas producing regions in the country. There is some interconnection there and there's obviously at some point in time, we don't know when, although the forecast is for the late . . . latter part of this decade, Saskatchewan will become a net importer of gas — although the recent Shackleton find has pushed that issue out.

So inasmuch as one is always wanting to know that you've got gas to ship, because the value of the pipelines is based on the amount of gas moving through it, we looked as part of that review at options related to moving Alberta gas through various arrangements with other Alberta companies.

Mr. Wall: — Would any of the . . . any of the work involved or completed by CIBC World Markets then, would any of it revolved around or been involved at all in the valuing of the assets of TransGas?

Mr. Hart: — Yes, typically these operations usually involve some valuation of the assets. That's part of the reason for undertaking it. Because they're not publicly traded, we use these studies every once in a while to determine whether value is sort of moving at the same general pace as other related companies in the business.

Mr. Wall: — The work that was undertaken by CIBC World Markets then, in addition to looking at issues of the competitive edge of SaskEnergy or of TransGas, and potential synergies with Alberta companies, was the purpose of the work also in terms of getting this valuation done?

Was the purpose of the work to provide the government a sense of the value of TransGas in terms of some future newco (new company) that could be located in this province or some joint venture that would involve some sort of equity participation by both the Government of Saskatchewan, a shareholder . . . CIC, the shareholder for TransGas, and the private company in Alberta, whoever that might have been?

Mr. Hart: — Just to be clear, you're asking me whether the work of CIBC World Markets contemplated any kind of joint venture arrangements or whatever? There were, I think, indications made of the kinds of alliances that would naturally occur down the road if the government were to decide to do something with regard to the movement of Alberta gas or trading gas back and forth between Alberta and Saskatchewan in the future, yes.

Mr. Wall: — There wouldn't have been . . . I assume there wouldn't have been any conclusions or necessarily recommendations. I mean there would have been conclusions, I beg your pardon, but not necessarily recommendations — sort of discretionary or subjective recommendations by CIBC World Markets.

But having said that, did the work involve any conclusions from the evaluator, from the i-banker (investment banker) in this case, as to the potential or to the positive potential of such a partnership down the road at all?

Mr. Hart: — Well in the sense that, you know, the long-term issue for TransGas is, assuming Saskatchewan begins to need to buy more gas as a jurisdiction than it actually produces within the boundaries of Saskatchewan, the question is where are you going to get that gas from, who's going to ship it — all that kind of thing. So that's a strategic issue some number of years out. But to that extent, there were options suggested in terms of how we might ship more gas by attracting Alberta gas on to our pipeline system.

Mr. Wall: — Thank you, Mr. Chairman, and Mr. Hart. It's pretty clear that, at least at the official level, folks at SaskEnergy and arguably at Crown Investments Corporation, the parent company, were trying to get a handle on the potential of a joint venture opportunity which of course would . . . could involve, could have involved the privatization of the government's equity in TransGas.

It's something that we alluded to in a general way about a year ago, and I just . . . I'm interested, I guess, in the conclusion of the work because when we alluded to it a year ago as opposition we indicated that, lookit, there's a potential opportunity out there for TransGas that involves a newco headquartered in Regina, some attendant west side development perhaps in terms of these tie-ins with the Alberta gas industry, and a partnership. You know, without seeing the details, in principle that's certainly something that we could support.

So there is . . . Can officials rule out completely providing some or all of the work that was done by CIBC World Markets to members of the committee?

Mr. Hart: — I don't believe we can provide the work because it's of a highly sensitive nature in terms of its competitive position with TransGas, SaskEnergy, SaskPower, with regard to other utilities in the region.

Mr. Wall: — Was the bulk, this $500,000 worth of business or work done by CIBC World Markets, would it have been all related to this TransGas issue or the issue of this particular asset, or did World Markets undertake some other piece of work related to other Crowns or other holdings? Or was that really the entire value of that particular work?

Mr. Hart: — I'd have to go back and check the detail of all of the work but essentially since about 1996 CIBC World Markets has been the advisory firm we've used on both SaskPower and SaskEnergy. So the work that I think this refers to in part, at least, goes back to my earlier comment in terms of looking at the broad array of energy utilities in terms of gas and electricity, potential for convergence or lack thereof, opportunities generally within, with regard to any of those assets.

And when I'm speaking of the assets I'm thinking of generation as a strategic piece of SaskPower, distribution is a strategic piece of SaskPower, transmission is a strategic piece of SaskEnergy — distribution, gas storage, a whole range of business units that were looked at individually and collectively under the auspices of that work.

Mr. Wall: — Is this the kind of work . . . Thank you, Mr. Hart, Mr. Chairman. Is this the kind of work that the officials would undertake, that your management team would undertake, or that SaskEnergy management would request? Or is this the kind of work that is directed by ministers, by Executive Council? Which would it be in this case? Is it just a matter of work of a parent company whose assets are considering some new arrangements and the parent wants to get a handle on their value and the potential for those new arrangements?

Mr. Hart: — It could be any of the above but in this case it was both, I think — an initiative that was supported by the utilities in this case, SaskPower and SaskEnergy, as well as the officials in the holding company.

As you know, CIC holds a broad array of assets from energy, telecommunications, biotechnology, a whole myriad of different kinds of industries. And it's not uncommon for us to look outside the management of those entities from time to time for a third party review of how the industry's going, where they see the strategy so that we can be fulfilling our role to our board which is to advise them in terms of issues they need to be aware of, going forward, with regard to the positioning of those assets. In this case it wasn't directed by the board.

And just to your earlier comment, just to be clear, we have no mandate from our shareholder to privatize anything at this point.

Mr. Wall: — Right. I understand. I appreciate that and thank you for your answers, Mr. Hart. Mr. Chairman, we may come back to that subject but I'd like to move on to another one now. And if others want to come in on this subject then I would defer to them or yourself.

The Chair: — Anyone else on this topic?

Mr. Yates: — I just want to, Mr. Hart, ensure that I fully understand. When this is a routine business initiative you do every second year to value the asset and to look at what possibilities are for the asset, did that include any lookings, internal looking at how the business units within SaskPower and SaskEnergy might work together to reach efficiencies and those types of . . .

Mr. Hart: — Yes.

Mr. Yates: — Because at one point they were a single utility. And so it explored those avenues as well? How to perhaps make better use of the assets themselves?

Mr. Hart: — Yes, one of the pieces of work done by CIBC World Markets at one point in time was actually as part of a whole larger assignment. But on that very point of what synergies could be created in terms of cost savings, and we found that there were, the cost savings were very insignificant by combining the two.

Mr. Yates: — Thank you.

Mr. Wall: — I have actually one final — well not final, perhaps we'll come back to it — but one question at this point that Mr. Yates has sort of . . . question, I think, has highlighted for me.

You indicated quite, you know, clearly and quite correctly, and we'll certainly take that testimony at face value, that you have no mandate and you have no directive from your shareholder to privatize or to change the ownership structure in any of these major asset, the major Crown corporation assets. And you know, that's fair enough.

What we have heard though, at the legislative level in the House for example, is pretty clear commitments from senior members of the government, the Premier included, to say that they're simply not interested in privatizing and giving up equity ownership in the major Crown corporations. Fair enough, that'll be a debate that politicians can have and I'm sure it'll be talked about in the election.

But in light of that very public commitment by the government, by the NDP (New Democratic Party) in power, by the shareholders here, why then would . . . why would officials, why would the holding corporation even consider or undertake these kinds of evaluations with the express purpose of exploring JVs for example, which you know, depending on how they're structured, are likely to, you know, involve some privatization of equity.

Mr. Hart: — Well I don't know that it necessarily follows that a joint venture would involve privatization. There are various ways legally of structuring these so that the share ownership doesn't change. But I guess more to the point, the decision of to privatize or not to privatize is not ours to make. We simply are responsible for overseeing the affairs of the assets — how they're doing.

And I guess if, as I've said at this committee before, we felt there was very strong case to be made for privatizing something in the interest of preserving the value in a scenario where we saw clear evidence that the value was going to decline dramatically if we didn't do something, and that the best thing for the shareholder or the people of the province was in fact to extract the maximum value before it did decline, then our obligation would be to come forward and put that option in front of the shareholder. And it would be their call as to what they chose to do with that.

In this case and in other cases, we've continued to monitor the affairs of these assets and how they're doing in relation to the industries they are in, to look for those kind of threats or in fact opportunities to in fact grow the value of the asset and bring additional jobs to the province, and that's essentially the nature of the work.

Mr. Wall: — Thank you, Mr. Chairman. And I think it's fair to say that, who knows, a joint venture, a newco established as a result of a joint venture, whether it'd involve privatization of equity or the government's equity or not, as you point out, could well mean some expanded economic development; could well add value to the equity that the government had in those companies. And I think it's a recognition of that and I don't think you'd find anybody on the opposition side saying no, don't have a look at those kinds of opportunities. I think that's something that we ought to be doing, notwithstanding ideological positions that any of us may have.

I guess if we were trying to put this all together it would look at least like the government, like the shareholder, CIC, under the . . . in the year in review, and perhaps currently, was trying to, perhaps trying, to have a serious look at some major restructuring in the Crown sector, perhaps some joint venture between TransGas and an Alberta partner perhaps to set up a new company, a newco, and then the remerging of SaskEnergy and SaskPower. Would that be a fair characterization, that those are the options in the year under review that CIBC World Markets was helping your management team evaluate?

Mr. Hart: — I think perhaps Sheldon can give you essentially kind of the three, if you would Sheldon, sort of the three questions basically we're asked — alternate forms of organization, increase or decrease shareholder value — those kinds of broad questions we put to the investment banker, and then they take it from there.

Mr. Schwartz: — Basically open-ended questions. They're alternative ways to organize their partner with anybody that would maintain or enhance economic growth in Saskatchewan, increase the value of the assets, or further achieve things like economic growth, development, exports, and such and not. And with that very general marching orders, the banks looked at it from that very broad perspective and developed options that were consonant with that.

So it was work started on that I believe in 2001 and carried through into 2002, and maybe is still currently ongoing. As Frank said, we think as prudent owners of the . . . or stewards of the assets that it's incumbent on us to ensure that things are optimally organized and opportunities are not being lost or threats are not being met.

Mr. Hart: — And this is not unusual. I think if you look back, you'll find some . . . Not too long ago we did a major review of SaskTel in relation to its peers, and part of the outcome of that was to direct the board to reduce operating costs significantly which resulted in a voluntary severance arrangement for a number of employees. And as in fact, as Sheldon pointed out, in their financial results this year is yielding dividends in terms of operating of about 22 million in efficiencies . . .

Mr. Schwartz: — 22 million.

Mr. Hart: — . . . that came as a result of that directive. Again as a result of a study we commissioned from RBC Capital group to do that.

Mr. Wall: — Thank you. I'm going to . . . somebody on the same subject . . .

Mr. Yates: — Yes, I just wanted to again clarify. The work done by CIBC World Markets when it was looking at options for the future, would it not include options of SaskEnergy or SaskPower through its own accountancy, CIC, actually perhaps buying an acquisition?

It doesn't necessarily mean partnerships. It's looking at the gamut of possibilities that are out there and laying forward for them the options that are there. So it doesn't necessarily mean a newco with a partnership — that might be one option — but it might be buying the pipeline. It might be many, many things. And how that would affect the overall well-being of the principal.

Mr. Hart: — Yes, the reviews are best characterized as strategic in nature, and I think it's fair to say that the outcome of that could be the divestiture of a particular piece of asset. It could be the acquisition of another piece of asset; a restructuring of the assets in some fashion to better improve value. There are a number of issues as we've kind of commented on.

In the case of SaskEnergy, TransGas, it's a matter of keeping the gas flowing through the pipelines because the pipeline, as I say, is as valuable as it has gas moving through it. So you want to make sure that there's adequate gas supply available, whether it's from Saskatchewan or Alberta or the Northwest Territories or wherever it may come from, to run through those lines.

Saskatchewan obviously is strategically positioned between the major source of gas supply and the major demand for gas which is the Chicago area. So we're always looking at ways to make sure the gas is flowing.

Similarly in the case of SaskPower, there's been . . . obviously had been over the last couple of years a fair attempt at deregulation of electricity in Ontario. In Alberta, we were next door to a province that has moved towards deregulation. That's had some good features, some bad features. Ontario has somewhat given up on its effort. The effort has slowed in the US (United States) but again one needs to look at that and as stewards of the asset, as Sheldon says, to ensure that if there's a trend that's going to be overarching the whole industry, we're aware of it and how to deal with it.

And similarly with Kyoto, there's a whole series of changes coming as a result of the Kyoto accord that may lead us to have to work more closely with Manitoba Hydro. So these are all the kinds of issues.

As an example, we get advice from bankers on . . . who have experts who are working with these utility companies all over the place all the time and we need access to those experts, and unfortunately they don't come cheaply.

Mr. Yates: — Thank you.

Mr. Wall: — Just a few more questions regarding consultants that were paid over $10,000 in the year under review. And we'll start with Deloitte Touche at $351,000. What was the nature of the work that they did for that amount of money?

Mr. Hart: — We'll get you that information. It's a number of items we need to . . .

Mr. Wall: — Do you want to do that? Do you want to move . . . Okay.

Mr. Hart — We can come back to that. If you give us a few minutes we'll come back and answer the question.

Mr. Wall: — Sure, yes, that's fine. Because there's a few others that you might have more off the top and if not, fair enough, we can certainly wait.

One of the last that's not on the list, I heard on media reports that the firm hired to do the due diligence on . . . or at least have a look at the Broe deal, the structure of the Broe deal, was Scotia Capital, I believe. And I don't see them . . . Oh, I beg your pardon, I do see them on the list but only for $25,000. Is that the . . . Does that represent their look at the Broe deal?

Mr. Hart: — I believe it was . . . That's all for that particular assignment, yes.

Mr. Wall: — I'm sorry. I beg your pardon?

Mr. Hart: — I believe that 25,000, as far as I know, I could be . . . it's all related to the third party review of the Broe deal. It was a request of our board that we have an outside opinion on the deal before it was approved. And we engaged Scotia Capital to do that.

Mr. Wall: — So does that, in terms of timing, in the year under review, the deal itself was announced it would have been in the fall of last year . . .

Mr. Hart: — Fall, last fall. This was done in about July or June, I believe.

Mr. Wall: — This was done after the announcement of the . . .

Mr. Hart: — Prior to the announcement.

Mr. Wall: — It's done prior to the announcement.

Mr. Hart: — Yes, it was prior to the board's approval of the deal. It was a condition of the board that they have this outside review done, I think, if I'm . . . Am I correct in that? It was a routine procedure to get an outside opinion on the feasibility study that was done.

Mr. Wall: — Prior to the announcement . . .

Mr. Hart: — Right. Yes.

Mr. Wall: — . . . of the deal at Belle Plaine.

Mr. Hart: — I think this work proceeded from April through to June or somewhere in that neighbourhood of 2002. And the announcement was last fall — October, I believe, somewhere in that vicinity. Have I got that timing about right?

Mr. Wall: — The announcement at Belle Plaine was in the spring, was it not? Isn't that when they had the big . . .

Mr. Douglas: — It was in October.

Mr. Wall: — It was in October. At Belle Plaine? Oh sorry, thank you.

Mr. Hart: — It was a nice day; it seemed like the spring.

Mr. Wall: — Yes, maybe that's what it was.

Mr. Hart: — Could be the source of confusion.

Mr. Wall: — It had to be because there were school kids there. So it had to be in the fall or the spring.

Phoenix Advertising for $680,000.

Mr. Hart: — Yes, that's a contribution we made on behalf of Crown Corporations to the Wide Open Future campaign.

Mr. Douglas: — I could answer with respect to Deloitte & Touche as well now if you'd like.

Mr. Wall: — Yes, thank you, Mr. Douglas, go ahead, please.

Mr. Douglas: — That is all due diligence work that, or primarily due diligence work that was done on our behalf on a project that did not actually proceed, which happens from time to time; we reach that conclusion with our advisers that we don't want to proceed with an investment.

Mr. Wall: — You can't disclose the nature of that deal?

Mr. Douglas: — No, it wouldn't be appropriate to do that.

Mr. Wall: — For what reason?

Mr. Douglas: — It's just for commercial confidentiality reasons and for the impact on, the potential impact on the investee .

Mr. Hart: — The company is still in operation in the province.

Mr. Wall: — Points West Consulting, $203,000.

Mr. Hart: — This is again consistent with what we reported last year where, as part of our balanced scorecard system in CIC, we have an area called customer service. And we collect on behalf of all Crown corporations, or most of the major ones, an omnibus survey data that looks at customer service levels of Crown corporations, one to another, and then compares them to a number of private companies that also . . . or other companies that operate that are well-known brand name companies in Saskatchewan, comparing overall levels of customer service from year to year.

So this is an annual survey that's done by us on behalf of all the Crowns. And it's done by Points West every year.

Mr. Wall: — Is this different from the survey that we talked a little bit about last year here and then in the legislature, with respect to . . . Did this involve surveying the board?

Mr. Hart: — No, no. We did that last year. We didn't use them for that survey this year.

Mr. Wall: — Was there a survey of the board then that you hired . . .

Mr. Hart: — We did an internal process with one of our staff people this year. This would be . . . Although this two-hundred-and-whatever thousand it is for . . . 203,000 would be essentially a component of what was done the year previous.

It was the same customer service. That's the same survey that runs, I believe, a couple of times a year, if I'm not mistaken.

A Member: — Right.

Mr. Hart: — Yes.

Mr. Wall: — Is that tendered now? Was it tendered?

Mr. Hart: — Well it's . . . I believe Points West actually contracts out the actual collection of the data so we pay them and their subcontractors. We simply hire them to do the analysis for us.

Mr. Wall: — But there's no RFP (request for proposal) or tender necessarily for that?

Mr. Hart: — No, I don't believe we tendered that.

Mr. Wall: — Now Points West also does . . . or at least principals of Points West also represent the Denver-based company on the ethanol deal. Is that correct?

Mr. Hart: — They work as advisers, as far as I know, to the Broe companies. I'm not sure of the nature of their contract with them, or their retainer.

Mr. Wall: — So in the ongoing negotiations that CIC has with the Broe group of companies to further the ethanol projects, there are occasions then obviously when officials of Points West — principals of Points West — would be either conducting those meetings with your own officials and/or attending them, representing their client in Denver?

Mr. Hart: — I don't believe they've been involved in any meetings that we've had for some period of time. They were involved in some of the initial introductory meetings when we first sat down with the Broe Companies and heard their expressed interest in investing in ethanol. But that was essentially the only involvement I've ever experienced with them. I don't know, unless you have had other . . .

Mr. Douglas: — No, I just checked with John Hicke as well, and we can't recall any situation where people from Points West have been involved in any of the meetings that we've had with Broe respecting negotiations around that project.

Mr. Wall: — Thank you. Early on in the dealings with Broe though, it sounds like they were attending the meetings and/or setting them up or . . . I don't want to put words in your mouth, so I won't. But I mean they were . . . I understood you to testify just now that they were involved.

Mr. Hart: — They were at one or two very early meetings where the concept was being discussed about whether we would both consider investing in the ethanol industry, but not once we made a commitment to invest together. I don't think we've seen any of them since that period of time.

Mr. Wall: — Do you accept there to be . . . Again this is involving clearly activities in the year under review. What would you say to those folks who would wonder about the perception of that, a situation where a government on the recommendation of its officials presumably has picked a company with whom to do business? And arguably, one company. Now there's this letter of understanding with the Commercial Alcohols, but clearly the priority deal is with Broe.

And so here you have a situation where the government has chosen a winner — in this case chosen somebody — Broe group of companies. And the same company that it hires, Points West, that clearly has got some connections with the government, that it's hired at $203,000 on, you know, a year . . . this year and large sums in years previous, is also representing, sort of bringing this company to the table, opening the doors as it were.

If you're Commercial Alcohols — and I don't have any reason to believe they have any concerns in this regard, by the way — but if you're some other ethanol company that has the ability to get into the ethanol industry, do you think that they would . . . What would you say to those folks who'd say, you know, the perception of that at the very least is a little bit difficult for us to take because there's lots of people with political connections involved in this, and people who are on the payee list, and all of a sudden this is the company chosen with . . . chosen as the . . . with no ethanol experience by the way, chosen as the company with whom the government's decided to partner.

Mr. Hart: — Well we don't have any sense that they're . . . that Points West is active in any way that's in conflict with, in terms of their relationship with us as a supplier of this one assignment we have commissioned them to do for a couple years, which is to survey customers and provide us with an overall benchmark about how well we're doing with regard to customer service across the Crown corporations.

I note, similarly I think, that when Commercial Alcohols came and talked to us about signing an MOU (memorandum of understanding), which we subsequently signed, I believe they indicated they had used KPMG as their advisors. And KPMG of course is our audit firm and we again didn't sense any conflict there either. If we did have a sense there was a conflict, we would so advise them that we felt the arrangements were unsatisfactory. But we didn't see any conflict here. And I can't speak to the perception issue but from my point of view there hasn't been any conflict.

Mr. Wall: — I'd like to . . . We're ready to move on to another subject unless there's others that want to talk about this.

The Chair: — I wonder if we might move on to a recess at this point and try to reconvene here at 10:35.

The committee recessed for a period of time.

The Chair: — We will call the meeting to order. Anyone else on the consultants, on that topic? No? Mr. Wall.

Mr. Wall: — Well I do just have a final question or questions on the consultants. And I just want to make sure that I'm getting Mr. Schwartz's comments correct. I understood him to say that it's the policy of the shareholder of CIC to continue to look at or to be open to structures that will help maximize value for the shareholder as well as help grow the economy. And in the context of the World Market's piece that would include potentially, potentially, the remerging of two previously merged Crowns, energy and power, and possibly a JV, a joint venture with the TransGas asset that may involve some equity as well or may not.

Mr. Schwartz: — The options, we're completely wide open. As you say, part of it was, you know, the prime directive I guess is to, as a prudent steward, to ensure that you're optimizing the value of the assets and maintaining and helping to enhance that, its value and its contribution and its return to the shareholder.

In terms of options that they could look at, sure it could include joint ventures. It could look at mergers. It could look at acquisitions. It could look at divestitures. It could look at combining different units of the same corporation, different units of one corporation with another, different corporations merging together. It can . . . a very broad ranging kind of scope.

One thing I'd like to make sure that the committee understands is that the consulting fees for CIBC World Markets last year pertain to SaskEnergy. The work, as Frank said, began earlier in 2001, but the focus in 2000 . . . and included SaskPower. The primary focus in 2002 was SaskEnergy.

Mr. Wall: — I appreciate that and I appreciate the . . . Frankly I appreciate the direction, the response and the work that was undertaken because it's similar . . . It's identical really to the position that we've tried to outline as one that might be most pragmatic and serve our Crown sector the best. And I'll be interested to hear the comments from members of the government on it, either here or in some other forum.

We were talking a little bit about the Broe deal but Mr. Yates had his hand up so I assume that it was on this subject and I happily defer to him. I'm anxious to hear his comments.

Mr. Yates: — Thank you. I just want to clarify once again, to make sure that I understand, that this is routine. We do this on a regular basis with all our major assets and there was not and there is not currently any direction to privatize or in any way acquire a new asset or a joint venture. This is simply looking at . . . As a good diligent principal you're looking at all the options and making sure that all the available information is there for the decision makers and it's not at the direction of decision makers to go do anything?

Mr. Hart: — That is correct. The history of this, as I mentioned earlier, goes back to about 1996 when there was a major review done of Crown corporations and a number of governance changes made to the way Crown corporations are watched over by the holding company. And as part of that process these routine strategic reviews are undertaken to update values, look at opportunities, threats, weaknesses, etc.

Mr. Prebble: — Yes, on this, I guess, in part, in response to Mr. Wall. There's no plan, Mr. Wall, to privatize any part of SaskEnergy. And, I think, let me say that, but let me also since our role here is to ask officials questions, simply through you, Mr. Chair, ask Mr. Hart to confirm that in fact there's no plan on the part of the government to privatize any portion of SaskEnergy's asset base.

Mr. Hart: — Yes, we've been given no mandate by our shareholder to do that.

Mr. Prebble: — Right. Thank you for clarifying that. I have some other questions, Mr. Chair, but they're not specifically on the topic of SaskEnergy so I'll wait until we're done discussing that, and then I do have some other questions.

The Chair: — On this? Okay, Mr. Wall, and then we'll come back to you.

Mr. Wall: — Well I wonder if officials can comment as to whether then they got direction or received any direction from the shareholder to either interrupt or not do this piece of work, because clearly one of the options here, one of the options — and officials have testified to that fact — is a potential equity divestiture to a joint venture. That's one of the options, not the only one admittedly, but one of them.

And if it's the clear and solid position of the government, as Mr. Prebble has highlighted, that that's just simply not an option, this government's not going there, why would they let the corporation spend a half a million dollars at least, in part, to look at that very issue. And so, can officials tell us whether or not the members of the government said, told that at any time to either discontinue the work or don't do the work — this particular contract with CIBC?

Mr. Hart: — No, we've not been told to discontinue the work or not to do the work at all. But as I mentioned earlier, there are any number of ways of structuring transactions that may avoid the issue of selling equity and still can provide some enhanced value. So we're not precluded from looking at all the range of options, but at the end of the day it's ultimately the cabinet's decision as to what it will do with regard to any of the recommendations, should we make them.

Mr. Prebble: — I have . . .

The Chair: — On the consultants?

Mr. Prebble: — No, not on the consultants, Mr. Chair. So I'll let you continue in that area and I'll just wait.

A Member: — Go ahead, Mr. Prebble. I think we're going to talk . . . We hope to talk a bit about the Broe . . .

Mr. Prebble: — I have some questions, Mr. Chair, with respect to, I guess, the big picture in terms of CIC with respect to where we're . . . in terms of looking at overall performance.

And my first question is with respect to the total value of investment that we now have in Saskatchewan through the Crowns. And I also want to ask about the total value of our out-of-province investment.

So in the year under review, can you give us, Mr. Hart, the total value of our in-province investments that are held in various Crowns through CIC? And I realize this may take . . . it may . . . I'm not sure if you have an exact figure right now, so if this needs to be provided . . .

Mr. Hart: — I have, in anticipation of the question, some numbers I've had pulled together. First of all, the overall asset base of CIC and its holdings is about $8.1 billion. And some of that, as you know, is partly held under the CIC III portfolio, which are some of the entities that were summarized at the end of Sheldon's presentation — Saskferco, NewGrade, Meadow Lake pulp, the remaining assets in Crown Life that we're divesting, etc.

With regard to Crown corporations, probably the best way to answer your question is to look at the capital spending by Crown corporations, because capital spending can be spending undertaken in the province for supporting the continued business operations, the normal business operations of the corporation. It can be spending undertaken for the purpose of diversifying markets in terms of acquiring interests in new businesses, either inside or outside the province.

And so if you characterize that, your question in that fashion, then the total capital spending between 1993 and 2002 would be by my figures $5.9 billion. And of that amount 5.6 billion, or roughly 95 per cent of it, would be in the province and about 283 million of it would be outside the province. And that could be either in Canada, which is a fair bit of it, or in international regions such as the two investments SaskEnergy has — one in Mexico and one in Chile — or some investments that SaskTel holds, either in Australia with Austar or some US-based investments.

Mr. Prebble: — Right. Thank you. Thank you, Mr. Hart.

Mr. Hart: — So it's about 5 per cent is the out-of-province total I guess if you want to put it that way.

Mr. Prebble: — Okay. Thank you for giving us those numbers. I'd also like . . . In terms of that 8.1 billion in the year under review, what portion of those assets were CIC III?

Mr. Douglas: — Five hundred and . . .pardon me, Mr. Chair, 577 million.

Mr. Prebble: — And with respect to the performance of the holdings of CIC outside what's presented on these charts, can you give us a figure for, in effect, net earnings for the rest of CIC that isn't in the handout here? I realize the handout basically deals with the earnings of . . .

Mr. Hart: — Net earnings of . . .

Mr. Prebble: — . . . our four major Crowns. Then we are presented with the earnings of the three major investments. If you look at everything else that's not here, can you just give us a brief synopsis of what the earnings picture is?

Mr. Douglas: — I could take a bit of a stab at that because there's a little bit of overlap between some of the . . . that's in that presentation and some that's in CIC III statements which you have in front of you on page 88.

The net income for the year 2002 for CIC III from the investment portfolio is $11.6 million. Now that comprises almost all of the investment portfolio except for NewGrade, which is held by the holding company and it's referred to in that chart; and during the year, part of the year, Cameco, which was held by the holding company and then sold partway through 2002. So that would be the net income on the investment portfolio outside those two major investments.

Mr. Prebble: — That's helpful. Thanks, Mr. Douglas. I also wanted to ask a question with respect to debt. Debt has been reduced in the year under review. Can you . . . Through you, Mr. Chair, I'd like to ask our officials if they can give us an analysis of how debt of our Crown holdings now would compare with debt-equity ratios in the private sector?

Mr. Schwartz: — In terms that they're individually disclosed in the, as per applicable, in the annual report. So for instance, if I took SaskEnergy on page 19, their debt ratio is 73 per cent, down a point from the year before. Their target, which is an industry standard, would be 65 per cent.

For SaskPower, they're about 60 per cent and that's their target. For SaskTel, they're at . . . (inaudible) . . . per cent. That's about 5 points under the average for telcos right now. They didn't get whacked like other telcos did. SGI doesn't have any debt.

Mr. Prebble: — Right. Thank you for clarifying that. Mr. Chair, that's all the questions I have for now. Thank you.

Mr. Yates: — Yes. I have a number of big picture questions, but first I'd like to ask you to clarify something for me. I'm not sure just how this occurred so I'd like to know.

I have the 1999 annual report from CIC and it shows a gain on sale of Saturn Communications Ltd. of 39 million — a little over $39 million. In the notes below it says that that was a gain on the selling of . . . taking a 35 per cent equity in Austar. So a net gain of 39-plus million dollars. And then this year's . . . And that's on page 54 of the '99 annual report. and then we have on page 63 of this year's or 2002 annual report a $40,000 loss in value of Austar.

Now I'm just trying to, when I'm looking at this, look at how those two events occurred and what happened. And if we went up $39 million and we lost $40 million, is this basically not a wash? That we gained the value and lost the value. And I'm trying to understand why it's reported this way and what actually occurred.

Mr. Schwartz: — I'm going to ask John Amundson, our accountant, to answer that question because it's essentially an accounting question.

Mr. Amundson: — Well I'll try not to bore you with the details but I'll try and explain this as best I can.

In 1999 SaskTel took their Saturn investment and wound it up into Austar as part of a conglomerate deal that happened in 1999. As a result of that, at the time the evaluation of Austar was $39 million more than what they got, than what their value for Saturn was. So on the flip into Austar they recorded a $39 million gain on sale.

In 19 . . . what was it . . . 2000 they sold approximately 4 million shares of Austar and recorded a gain at that point in time of 13.7 million. Last year there was a revaluation of Austar. Again at that point in time the valuation was deemed to be about $40 million less than what it was currently on the books at SaskTel for, as a permanent . . . or deemed to be a permanent devaluation. Again, that was a non-cash item. So what really you have left is in the end you've got about a $13 million gain when everything washes out on what's been sold so far.

Mr. Yates: — So just to clarify, we've got a $13 million gain plus we still have our original asset there that is valued at its current value. So there's been a $13 million gain, not a $40 million loss?

Mr. Amundson: — Well there's been a $40 million loss, and that's non-cash loss. There's a $39 million non-cash gain in 1999, so both of those are non-cash. So what really you have left is the original investment in Saturn versus what the valuation is.

Mr. Yates: — Plus a $13 million profit.

Mr. Amundson: — Plus there was a $13 million gain.

Mr. Yates: — So this investment's really made over $13 million.

Mr. Amundson: — It hasn't been sold yet so, you know, you can't say that.

Mr. Yates: — But you've sold shares for $13 million? We've actually had that return of $13 million?

Mr. Amundson: — Yes.

Mr. Yates: — And we have the original investment?

Mr. Amundson: — We have what's left of the original investment, yes.

Mr. Yates: — Which is?

Mr. Amundson: — About 9 million shares of Austar.

Mr. Yates: — Which at today's value would be?

Mr. Amundson: — 2 million, 3 million, something like that.

Mr. Yates: — Right. Thank you. I have a couple of other big picture questions if I could.

I'd like to look at earnings of the major Crowns. When it comes to SGI, I'd like to ask what role the downturn in the markets may have played in SGI's losses between 2001 and 2002 — what role the downturn in the stock market may have played?

Mr. Schwartz: — I couldn't tell you the exact number. It's probably something that we can either get for you from SGI or SGI can provide you. If you look in the presentation you can back out . . . Its loss after including the impact of Coachman was $9 million; there was an 11.3 million net loss so it would have earned about 2 million, ex that. How much . . . There are a number of other factors that affect its earnings but I can't tell you for sure what it actually would have lost compared to what it would have otherwise earned in the stock market.

I can tell you though that the poor stock market depressed its investment returns on the portfolio and further contributed to its depressed earnings for 2002. If you like, I can get the number from SGI as to exactly what that figure is.

Mr. Yates: — Okay.

Mr. Hart: — Typically what . . . If I could just add, Mr. Chairman, though what happens in the insurance business is you have premium income which of course is the sum total of all premiums paid. Those premium dollars are then invested in the stock market, and whatever money made on that is over and above that.

Some insurance companies, which SGI has done historically for a number of years, has made a small profit on its underwriting, just on the premium, and then the investment income is of course in addition to that.

When the stock market goes unfortunately as it has the last couple of years, it doesn't seem to be able to find any place to invest the money and make a profit, so therefore its overall profits fall.

And that's been the case with not only SGI but many insurance companies because of the stock market, because a fair percentage . . . in fact in most cases almost all or more than all of their profit comes from their investment portfolio and not from their premiums.

Mr. Yates: — And that was my next question. How would SGI have fared compared to other insurance companies in Canada in the same . . .

Mr. Hart: — You'd have to ask SGI that question. But I think that all property and casualty companies have had some very serious challenges in the last couple of years, hence the rising rates in the insurance business.

Mr. Yates: — Okay, thank you.

Mr. Schwartz: — If I could just add to Frank's comments on the portfolio performance. It's kind of an endemic negative thing. It happened to pension funds. Canada Pension Plan had a huge loss last year. It's just reflective of the general poor state of the capital markets.

Mr. Yates: — All right. And if I may, Mr. Chair, I have two more questions . . . If I may just jump in.

Mr. Wall: — All right, as the parent then, what was your understanding of the reported loss in the Coachman sub of SGI or of SCISL (SGI CANADA Insurance Services Ltd.) set . . . because there's some confusion. I mean the original number was much lower than the 17 million recorded in the annual report and in . . . by Coachman itself I think, so . . .

Mr. Hart: — You're looking for the actual Coachman loss?

Mr. Wall: — Right.

Mr. Hart: — John, do you want to answer that? I think we might have that information. If not, we can get it for you.

Mr. Amundson: — The actual effect on CIC's earnings for Coachman was $11.3 million loss.

Mr. Wall: — But it's 100 per cent owned . . .

Mr. Amundson: — Yes.

Mr. Wall: — . . . by SGI. And the loss it reported was $17 million.

Mr. Amundson: — The loss in . . .

Mr. Wall: — It's reporting?

Mr. Amundson: — The loss in Coachman was 17 million, but there was some in SCISL, which is the owner of Coachman . . .

Mr. Wall: — Right.

Mr. Amundson: — . . . had some offsetting items. And it's best to ask to SGI because they'll be able to give them to you individually.

But there was some . . . With the former owners, there were some agreements of covering some losses and that and such. There was reinsurance and those types of things that offset some of that 17 million. So the net was 11.3.

Mr. Wall: — Thank you.

Mr. Yates: — My next question had to do with the investments that we make, that major investments that have been made by CIC.

And looking at the term from investment to profitability and return of investment to the shareholder, a number of these investments, as we've looked over in the last number of years, have taken 10-plus years before the sale of the asset has returned a significant profit to the shareholder. And I'd like some comment on sort of the term in which investments return to the shareholder and how we compare in regards to the private sector and other companies that, you know, buy acquisitions and where we compare sort of in the larger market.

Mr. Douglas: — Mr. Chair, I guess the starting point to answer that question would be to say that equity capital by its very nature is patient capital. When you invest in a business as opposed to lend to it on structured terms, you know that it's going to take some time to come into its own.

The typical horizon for equity investments might be five to seven years before you start to see real exit opportunities. Sometimes it takes longer than that. We have a whole range of examples from relatively short terms to 10 or 12 years, as you mentioned.

But typically it would be, you know, five to seven years would be the exit horizon that we look for when we go in on an equity investment. And we always try to structure an exit into our investments when we go into them, but the business conditions ultimately determine when that exit opportunity really arises.

Mr. Hart: — I think in the case of many though that the time frame, as you say, has been long. Great Western, I think we added up was what, 13 or . . .

Mr. Douglas: — Twelve.

Mr. Hart: — Twelve years before we could unwind from that one at a profit, and we don't always have the opportunity to exit at a profit. I mean, we try to do that, but sometimes we decide to get out earlier and take the loss. But generally speaking you're . . . with equity it's longer term.

Mr. Douglas: — It often, if I might add as well, when you're doing this kind of investing, it takes a year or two for the investee company to — particularly start-ups — to get going, come into their own, and start showing a net income. And that's built into the business plan at the start. But when you look at an equity investment you look at the overall return over the life of the investment to make your decision about whether it's a prudent thing to do.

Mr. Yates: — In overall, our investments, how would they have fared compared to private sector companies doing the same type of investment?

Mr. Douglas: — I think we would benchmark quite favourably with private sector portfolios. For example our net income this year of 11.6 million is a net income, and we've just talked about other portfolios where pension plans, various other investment pools, had a negative result last year. So I think it's fair to say that over the long haul the CIC investment portfolio benchmarks quite favourably to private sector capital.

Mr. Yates: — Okay. Thank you very much.

Mr. Wall: — Thank you, Mr. Chairman. Mr. Chairman, on page 98 of the annual report of this year there's a note with respect to Sask Valley Potato Corporation, it's note (d) under the investments equity basis, and it highlights the fact that . . . It says, quote:

> During the year, SVPC disposed of three of its potato storage facilities and recorded a gain of $1.0 million.

And then it would . . . Seemingly that gain is referenced on page 100 where it provides a chart there, a summary of the equity basis investments, with only two of them showing that they made any money — one was Saskferco and the other is Sask Valley Potato Corp at about 1 million, $1.1 million. Could you please walk us through the sale of those sheds and the status of that sale, and the attendant recording of the gain on page . . .

Mr. Douglas: — Gain on the sale? Sure. Sure, I'd be happy to do that to the best of my ability and recollection. But the sales that are referred to in this document are the sales of the Riverhurst and Lucky Lake facilities. One was to Riverhurst ag producers, I believe is the name of the company, and the other is in effect a double facility to Pak-Wel in Lucky Lake. And as part of that sale we realized more than we were carrying the value of those assets on our books and that contributed to a gain on sale of assets of $1 million. And the 1.1 million that's referred to there, 1.088, represents the operating result. The difference between that is the operating result for SVPC (Saskatchewan Valley Potato Corporation).

We had also spoken previously about our conditional sale or agreement for sale of two of the bins at Broderick to Cavendish. But I unfortunately have to report that that sale is not proceeding because of our difficulties with being able to convey the assets under the tentative agreement we had in place. And we're now looking at other options for those facilities.

Mr. Wall: — So is that deal then dead?

Mr. Douglas: — I would characterize it as . . . Well certainly Cavendish has informed us that they're no longer willing to proceed on the original basis. They're not under obligation to because of the lawsuit that's outstanding there.

Mr. Wall: — Thank you. Mr. Chairman, with respect to the sale involving Pak-Wel, they've certainly been involved in the disposition of the assets.

And in fact in the session here, we asked the minister a written question and the minister of Sask Water responded. And I wonder if the officials have comment? He responded quite fully, really, to the question of the terms of the sale of the Fresh Pack potato plant at Lucky Lake which went to Pak-Wel of Vauxhall. The question was asked, when did the purchaser take full possession of the facility and what date did the deal close? And the answer's fully provided by the minister here in this current session.

It says that the deal was a $1 million deal; the purchaser took possession, April 26, 2000. And yet the deal only closed June

29, 2000. So there's about three months there that — or I beg your pardon — there's two months there that would raise a number of questions including what . . . Did the financial deal close? Was the thing paid in full two months into it? Because you know two months on a $1 million is not a small amount of carrying costs, if they were . . . had to be incurred by the corporation, by the taxpayer, or by the purchaser.

So do you know why there would have been a lag in the time the deal closed to — I beg your pardon — in the time the deal was made to the time that the deal actually closed? Let me back up — from the time that the purchaser took possession and began to use the facility to the time they actually closed the deal and assumingly paid the amount.

Mr. Douglas: — Perhaps if we could just back up a little bit. There were some figures mentioned in your comment about the sale price that I'd like to make sure that I heard correctly.

Mr. Wall: — It says the terms of the sale were that Sask Water sold the plant for $1 million.

Mr. Douglas: — This is not storage sheds, it's — that you're referring to Mr. Wall — it's the fresh-pack plant. And that's not an asset that we have had an involvement in. So I'm not really the person to answer these questions. It would be Sask Water. I can answer the questions, any questions you might have, about the sale of the double storage facility.

Mr. Wall: — Okay.

Mr. Hart: — That would have been made, Mr. Chairman, I think before the assets were transferred then to CIC. Is that . . .

Mr. Douglas: — Yes. These assets were dealt with prior to the transfer of all the remaining assets into SVPC which is the area, the group of assets that we look after.

Mr. Wall: — So is the corporation then currently . . . Back to the sheds, sorry, the Broderick sheds. Is the corporation still currently then . . . What activities is the corporation undertaking to find a potential new purchaser? Is there anything specific being done? Or are you kind of waiting to see what . . . Is the corporation waiting to see what happens with respect to the suit?

Mr. Douglas: — I have to be a little bit cautious about the answer here because there is a legal action. It's still pending. But I think it's safe to say that we are looking at other alternatives.

We are working with Cavendish to make sure that we do everything we can to have them in the province and growing potatoes this year. And I am pleased to report that the best information I have is that they have rented out two quarter sections and are growing two pivots of seed potatoes and we may well be leasing them some storage facilities to store those potatoes in.

At the same time, we're requesting of Barrich Farms that they consider proceeding with an offer based on their understanding of their rights under the agreements. I think beyond that it would be perhaps inappropriate for me to comment further.

Mr. Wall: — Thank you. We have a new topic so if somebody else . . .

Mr. Brkich: — Thank you, Mr. Chairman. With the RM of Canaan and the RM of Rudy, I think there's still a tax issue. With this year they sent out I believe a tax notice and they felt that they should be, they should be . . . They were assessed at a certain price and you'd changed that — just paying on the land itself and not on the sheds. Can you give me some more information on that?

Mr. Douglas: — Sure I'd be happy to. It's been a matter of some interest the last little while in the media as well.

We don't believe that we have any issues at all with the RM (rural municipality) of Rudy. We worked that through with them some time ago, and based on a negotiated agreement, we gave them a settlement — in effect, a grant in lieu of taxes on the understanding that they would assess those assets at agricultural value. And that was based on a Board of Revision ruling that in fact characterized those assets in that manner.

We thought we had a similar understanding — when I say we I'm speaking of SVPC here, which is the 100 per cent owned sub of CIC III — we thought we had a similar understanding with the RM of Canaan. We made the payments under that agreement as agreed to and are now of the view that the assessment should have been changed to agricultural. It wasn't. We're quite happy to pay a grant in lieu of taxes based on an agricultural assessment, but don't feel it's appropriate to pay more than that.

Mr. Brkich: — Are you in negotiations with the RM of Canaan still with this issue?

Mr. Douglas: — We're open to discussing this further with them. There has been an exchange of letters. That was some time ago now but we are always open to hearing their views on this subject if they wanted to come forward with them.

Mr. Brkich: — I think, Mr. Chairman, one of the issues when I talked to the RM of Canaan, was that they felt that with the assessment at least there's an appeal process to go through if you were dissatisfied with the assessment at that end. Did you appeal the tax assessment on it?

Mr. Douglas: — That's an inappropriate process to use when you're speaking about grants in lieu of taxes because under the municipalities Act, Crown-owned assets are not taxable in that sense, and what we do as a matter of policy is pay a grant in lieu of taxes. And we're certainly open to discussing with them doing just that, based on an agricultural assessment.

Mr. Brkich: — Mr. Chairman, you talked about you made an agreement with Canaan, and now I guess there's two differing views of that agreement. Was it a written agreement?

Mr. Douglas: — Yes it was.

Mr. Brkich: — Do you have a copy of it? Could we have a look at it?

Mr. Douglas: — I certainly have a copy of it. I'd like to check with them as to whether or not they feel comfortable sharing it. We certainly wouldn't have any problem sharing it.

Mr. Brkich: — Check with them and if they are quite willing to release it, I'd be interested in having a look at it.

Mr. Douglas: — Sure.

Mr. Wall: — I'd like if we could to discuss a little about an important event in the life of the Crown in the year under review. And that's the, I guess, the negotiation and the announcement of the Broe deal. Specifically, we have an understanding based on information I think that's been fairly . . . provided in a forthcoming fashion by the corporation as to the structure of the deal with Broe. And we'll pick on the Belle Plaine plant, understanding that there may or may not, you know, there may or may not be others down the road.

So I guess maybe would ask you to walk us through that. We certainly have a breakdown of it here in terms of not only the percentage on the part of each partner that would be brought to bear on the deal, but also the breakdown of that percentage in terms of equity brought to the piece by each partner and the debt.

Mr. Hart: — I'm going to take a track at answering your question, but I may have to rely on my officials for some further detail here.

Essentially the arrangements contemplated with regard to the Belle Plaine plant were . . . are the Broe Companies would take 60 per cent of the equity; we would take 40 per cent of the equity going in. We would take a portion of the subordinated debt and a senior lender would take the balance. And our 40 per cent equity would be in effect a place holder for other investors wanting to come in down the road.

And there's a, I think, an arrangement we've made with the Broe Companies that over the next five years from the time of completion of the plant we would carry at least — correct me if I'm wrong — a 15 per cent equity interest in it, should we decide or have the opportunity to sell some portion of our 40 per cent. So 25 per cent theoretically is up for sale any time between the commissioning of the plant and five years from that point of time.

And so that is the arrangement contemplated. That's what's reflected in the legal agreements that have been negotiated with the Broe Companies. And we've been proceeding on that basis.

Since that time we've had some other investors come forward and express an interest in putting funds into the project which will then perhaps change somewhat that structure, but we're not completed with those negotiations yet so we're not sure how that will change. But at this stage we anticipate something along those lines.

Mr. Wall: — So the Government of Saskatchewan through CIC is still contemplating about five and a half million dollars in an equity contribution and fourteen and a half million dollars in debt. Is that fair?

Mr. Hart: — Up to.

Mr. Wall: — Yes. Up to. And likewise, Broe is contemplating an $8.25 million equity contribution and a $26.75 million debt.

Mr. Hart: — The debt, and this is I think an important point to understand, is not debt that is CIC's debt or debt that is the Broe Companies' debt. It is project debt. We're seeking non-recourse financing, so that essentially the security held by the senior lender is the asset and no recourse back to either CIC or the Broe Companies in this case.

Mr. Wall: — So Broe's exposure on the deal then, as you've explained it, would be its equity, $8.25 million which represent about 23 per cent of the project and whatever their share of the debt was, of this overall . . . of the project debt. Whereas taxpayers are looking at less on the equity side, exposure of 5.5 million, but an upfront exposure of fourteen and a half million dollars on debt, in terms of the debt. I mean direct debt, direct lending to the project from CIC. Is that correct?

Mr. Douglas: — That's correct. But it reflects of course different security positions for different pieces of that, those contributions as well.

Mr. Hart: — But I think I may have, Mr. Chairman, heard you to say that the exposure of Broe would be on the debt side as well, and that's not the case.

Mr. Douglas: — That's not correct.

Mr. Hart: — No. They would . . . The bank would have that exposure basically. But it would be in the first secured position, so . . .

Mr. Wall: — But Broe would be exposed on that front too, but only as a portion. It's an equity owner in this new project. The project's going to borrow money individually — this is third party debt — and so Broe has some attendant exposure to that debt, to that borrowing as well.

Mr. Douglas: — That could only be characterized as exposure if Broe and/or ourselves put up guarantees against that debt. Otherwise it just has to be categorized as project debt. And neither one of us have discussed or are contemplating putting up guarantees against the project debt.

Mr. Wall: — Okay, that's fair. Yes, you bet. I stand correct. A fair point, absolutely. So then the . . . At the end of the day though, Broe's still getting 40 per cent of this company.

Mr. Hart: — Sixty per cent.

Mr. Wall: — I beg your pardon — 60 per cent of this company, sorry. The Government of Saskatchewan is getting 40 per cent. But Broe is seemingly . . . Broe's putting up slightly more equity, but their overall exposure on this deal then, as you've explained it, is much, much, much less than their overall upside. Wouldn't you characterize it that way in light of the fact that they're 60 per cent owners in the plant?

Their upside potential is a lot greater than their downside exposure just because for the reasons you've outlined. They have equity of $8.25 million into this thing but they have no direct debt. Taxpayers do. They also have no . . . They may not, depending if there's no need for a guarantee from Broe to the project debt, they may not have any exposure on that if the thing goes out. How does that square with what would be a good . . . How do you square those things for the taxpayers or shareholders, for example?

Mr. Hart: — Their exposure is, in absolute terms, equal to the amount of cash they put in, either going in or subsequently if there's required to put more cash in that they put in. But also I think the . . . Well it's true to say that their upside is the largest, based on the 60 per cent equity ownership as compared to our 40 per cent, assuming at the end of the day we end up with 40 per cent or something less than that, and it really depends on whether these other investors come in.

But their downside is also equally exposed. So their money is first in and last out essentially. So it's got the highest level of exposure and we would be in — for most of our money — in a higher secured position than they would be on all of their investment.

Mr. Wall: — Okay.

Mr. Douglas: — If I could just add a little bit to that, Frank. I think rather than focus on percentage, maybe principle is the important thing here and that's that risk and reward are fair and balanced as between the private sector partner and the public sector partner in a deal. And that's something we strive for in all our deals and we think reflect that. So the sub-debt that we have tentatively committed to carries a coupon and a return and a security position that's appropriate for that piece of the puzzle.

And the equity, as between the private and public sector partners, is fair and balanced as well in terms of the return that goes to the equity invested in the project. So I don't . . . Quite frankly I don't see an imbalance as maybe perhaps you're asking about.

Mr. Hart: — I think it's fair to say our money will go in on the same terms as other investors alongside us, right. So we'll be in no different or no worse . . . no better, no worse position than private investors will be in any category that we choose to play in.

Mr. Wall: — If we could just walk through something on this, though. Just bear with me. But if we . . . Let's assume that going forward over some period of time the new venture, this makes, let's say, pick $100 million and you decide to pay it all out in dividends to the principals involved, and assuming it's still CIC only and Broe only, $60 million is going to accrue to Broe and $40 million to the taxpayers through CIC.

Conversely, if something, if this thing hits the rocks and it falls apart, heaven forbid, and suffers a fate that, you know, similar to FarmGro . . . It's happened before, not just in this mandate but in other terms of other governments, that it's a complete . . . that it's a wreck, so to speak.

Broe, assuming they haven't guaranteed the debt, any of the project debt, Broe's on the hook for $8.25 million. That's what they'll have to walk away from. The taxpayers arguably could walk away from, assuming they haven't guaranteed any of the project debt, taxpayers would have to walk away from $20 million. That's not correct?

Mr. Douglas: — No. They would presumably, in a situation like that, which we don't think to be a possibility in this case, but we may have to walk away from our equity contribution. But the sub-debt piece would carry a security position with it and . . .

Mr. Wall: — Security against the project, against the assets?

Mr. Douglas: — Against the assets. Right.

Mr. Wall: — So assuming the assets are, assuming the assets are worth . . .

Mr. Douglas: — Right, yes.

Mr. Forbes: — Just a point of clarification here. And I don't want to interrupt because . . . for a point of clarification. And I'm just curious about the word taxpayer here when you use interchangeably with shareholder or public. And I don't want us to lose that train of thought.

So are you meaning taxpayer in term . . . I don't know the proper thing. But point of clarification here.

Mr. Wall: — I mean people of the province of Saskatchewan . . .

Mr. Forbes: — Okay. I thought I'd still have a point on it, so okay.

Mr. Wall: — . . . who primarily are all taxpayers, assuming if they buy . . . if they pay the PST, (provincial sales tax), if they buy anything. I mean, the people that live in the province, I guess, are by and large taxpayers in our view, but . . assuming they have to buy stuff.

The Chair: — Just on that, you're not taking money out of the General Revenue Fund?

Mr. Douglas: — No. And that's something that we perhaps should make clear. On the CIC III investment portfolio, there's been no cash from the General Revenue Fund go into this portfolio for 10 years. And in fact, there has been $1.2 billion of cash come out of the investment portfolio to the holding company and on to the General Revenue Fund for whatever purposes.

Mr. Wall: — But to the extent that governments, whatever their stripe, lose money in these ventures, there is less, there is an opportunity cost to the General Revenue Fund and a cost for the taxpayers.

With respect to the Broe agreement, and I appreciate the explanation, this thing was announced with . . . And this isn't so much a question; this part of the question isn't directed for officials but you can help answer the start date for this thing because we've been sort of waiting. Well maybe the opposition hasn't been waiting so much as perhaps members on the government side or people in that area.

There was quite a big announcement made of this thing and the minister has given some deadlines that have passed, into March was one. What's the start date? Will they get to construction at all over and above the little bit of site preparation that we understand has gone out there or do you have any information on that?

Mr. Douglas: — I think it's fair to say that putting together the senior financing is taking a little bit longer than we anticipated. We had scheduled . . . And it always takes a long time to put the debt piece in place on a project like this, particularly if you're not guaranteeing it. And we said quite clearly that we were not doing that.

The original construction was to start this spring. There's been a bit of slippage but we still believe that construction should be able to start yet this season, in the not-too-distant future. Having said that, I can't confirm that the financing is in place but we're working very hard to do just that, and we're going to take the time to do it right.

Mr. Wall: — I know the chairman wants to wrap up, but one final question on this topic, and maybe we'll return to it — Mr. Prebble wants in. Very quickly, why would the corporate affairs branch of the corporation then, if that's the proper term for it, go ahead and organize what is, you know, a fairly large-scale announcement of a deal that was a long ways away obviously from being, what many would argue, in an announceable — if I could use that word — stage?

Mr. Hart: — I think if you sort of trace the history of it, there was a commitment made by both ourselves and the Broe Companies to put our 40 per cent, their 60 per cent up to proceed with the project. So that happened last fall. We had the requisite approvals from our board, they had the requisite approvals from their board and so we believed that, you know, essentially the funds were going to be in place to put this project together.

We then commenced late in the fall — in December, sort of early January — beginning the engineering design work and have proceeded on that basis to get the engineering work done. There have been some detailed negotiations in terms of exactly the way we exit the investment because the Broe Companies are obviously in for the long term. We're not necessarily in for the long term. We've defined success in our case as getting the plant going, getting some local investors in, and exiting at some point.

So we've had, I think fair to say, some challenging negotiations with them about exiting because they really want to see us stay in for a while. They're quite convinced that they want a strong local partner because they don't have a big base of operation here and they like the idea of CIC as a partner.

Having said that, we've worked out those issues and resolved them and the engineering has proceeded and is nearly completed. We weren't able to really talk seriously with the banks until we had the engineering completed because we needed to know what the tenders were going to come in and what the costs were.

We then begin starting serious negotiations with the banks around that time — I guess late April. The banks, the corporate lending market, as I think everybody knows has been constrained. We've recently had some strong interest from some parties. The terms are there. They're not exactly as we'd like them to be, but the reality is there have been commitments made to this subject to finishing some due diligence on their part which we're quite satisfied that they'll get through fairly shortly.

Another issue for the lenders has been things like, where are you going to sell the ethanol? We've always believed that because there's a provincial mandate, eventually the oil companies will step up and say, okay let's sign a contract to buy the ethanol. There's been some recent good news on that, is that they've now started to move. But in reality the oil companies have been slow off the mark to sort of get their head around contracting on a long-term basis the ethanol. And once that's in place, as seems to be coming together now quite nicely with one company at least, that gives the lender some more comfort.

So once you get sort of over a few hurdles like that, then things start to roll fairly quickly. But there's been a number of those steps that we've had to go through and I think it's fair to say we may have underestimated the time frame required to get it going but are now much more optimistic that we'll be there in fairly short order because we have a number of lenders interested in the project and more local investors as a result.

Mr. Wall: — Do you have an estimated start date? That was a question on actual construction on it.

Mr. Hart: — Could be June, it could be early July. I'd characterize it at this point somewhere in that range.

Mr. Wall: — Thank you.

The Chair: — Any really relevant questions on this that can't wait until the next day?

Mr. Forbes: — If I may go first the next day, but I think it would be more appropriate to go now because of the tone of the discussion. My question won't be long.

The Chair: — Won't be long?

Mr. Forbes: — No.

The Chair: — That doesn't necessarily mean the answer won't be.

Mr. Forbes: — But, Mr. Chair, I think it's an important question.

The Chair: — One question. Go.

Mr. Forbes: — One question, okay. And this relates to the comment that was made about taxpayers having direct debt. And I have a problem with the word taxpayers because . . . a couple of things with that is, one that it seems to imply not very inclusive for all the people of Saskatchewan and if you pay more taxes you have more of a stake in what happens with the Crowns and the Crown investments in such things as Broe.

And this idea of direct debt, do you have in place a way of protecting or ensuring that you folks make your contribution as required or asked of to the GRF (General Revenue Fund) so when you look at investments such as Broe that that's insulated from the people of Saskatchewan so that at the end of the day we are assured that you have done a good job and done all the due diligence, and that there will not be a direct impact — as much as we can guarantee in this world — that you've done your due diligence and so that there won't be a direct impact on the people of Saskatchewan?

Mr. Hart: — Well as I said earlier in the meeting, we have had Scotia Capital look at the feasibility. They've looked at the assumptions under which the business would operate, they feel that essentially we're fair and reasonable — if anything, perhaps conservative. We've looked at what would have happened if we had had this plant over the last 10 years, with wheat prices as they were, ethanol prices as they were. The plant would have made a lot of money over the last 10 years.

The last 10 years doesn't mean the next 10 years is going to be as good as the last 10 years. It could be better, it could be worse, but on balance of probabilities we're satisfied that going forward there's a good chance that it will succeed, will do well.

And in terms of protecting the treasury, the assets of CIC, we have made a decision, along with the Broe Companies, that we're not prepared to guarantee the debt. Unlike what we did with the Meadow Lake OSB (oriented strand board) plant for example, where to get the bank financing in place we had to proportionally guarantee the debt. So we've guaranteed 25 per cent, Tolko's guaranteed 75 per cent of the debt. In the past Saskferco's had 100 per cent of its debt guaranteed by the province and CIC. The NewGrade upgrader had all of its debt guaranteed somewhat by Canada, some by Saskatchewan.

Guarantees in start-up, big industrial projects like this, are not uncommon. We've made the decision not to do that. We believe we'll get the financing without it. That's proven to be more challenging than with a guarantee obviously, but in the interests of meeting the requirements you've laid out I think we've done as good a job as one can be expected to do under the circumstances. And we believe the plant will be successful.

The Chair: — I assume, can I just, for the committee members, I assume that we'll have CIC back at the next meeting?

Just on that, I've checked with Mr. Wall and I just want to ask the committee, but is it okay that as opposed to meeting next week Tuesday, that starting next week we meet on Thursday mornings? That's agreed.

Okay, so we'll meet next then on Thursday, June 5, 9:30 till about 11:30. And CIC will be joining us. Thank you very much.

Mr. Hart: — We have, I believe, the CIC board meeting, but it'll just impact some of the officials that may not be able to be here.

The Chair: — Thank you very much. We stand adjourned.

The committee adjourned at 11:36.