STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES
2004

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Biggar

Published under the authority of The Honourable P. Myron Kowalsky, Speaker

The committee met at 10:00.

The Chair: — I call the Standing Committee on Crown and Central Agencies meeting to order. We have Mr. Weekes, Mr. D'Autremont, Mr. Elhard; myself, Mr. Addley; Mr. McCall, Mr. Iwanchuk; and Mr. Yates is filling in for Minister Sonntag who couldn't be here.

Before we begin, just to advise members that the proceedings will be recorded and played at a later date. However, they are available right now over video streaming on the Internet. They also are going to be archived for members and it's also being broadcast within the building for recording, for those that wish, and that the written *Hansard* will be produced at a later date. So just to advise members that that is the current situation.

The business before the committee is the annual report of the Crown Investments Corporation of Saskatchewan, CIC. The proposed order of business for today's meeting is an opening by the minister and the CEO (chief executive officer), Mr. Waller — they're responsible for CIC; an overview by the Office of the Provincial Auditor, who will be here tomorrow to give a further report; and also a statement by KPMG, the appointed auditor for CIC. And then following that, we'll open the floor for a question-and-answer session of the minister's officials and the auditors, by members. We're scheduled to recess from 12 until 1, and then we can reconvene to consider the annual report and then adjourn at 4 p.m.

So without further ado, I would invite Mr. Waller to introduce himself and his officials, and then we'll proceed with your report. And then when the minister joins us . . . I guess there was some vagaries of the weather in Saskatoon that's delaying her arrival. So, Mr. Waller.

Mr. Waller: — That's correct, Mr. Chair. The minister had anticipated flying down this morning but her plane was delayed due to fog. The last we talked to her, she was just north of Regina and had expected to be here momentarily. I suspect being in a hurry, every red light possible is what she's encountered. But she should be here shortly.

I would like first to introduce myself and members of the Crown Investments Corporation of Saskatchewan staff that are here. As most of you know, I'm Tom Waller and I am the president and CEO of the Crown Investments Corporation. That's a role that I assumed effective March 1 of this year.

I have with me Blair Swystun. Blair is the acting chief financial officer of CIC. He and I will jointly make the presentation that you had earlier referred to. Behind me I have Doug Kosloski. Doug is the general counsel and corporate secretary. To my left is Kathy Buitenhuis, acting senior vice-president, Crown corporation services. To my right in the first row is John Amundson, corporate controller, and in the first row on my left, your right, is Karen Schmidt, the acting executive director, communications.

We have a presentation and thought that it would be perhaps most useful for the members of the committee if we provided you with the presentation in lieu of opening comments from myself.

The presentation is up on the screen behind you, and that presentation essentially attempts to review what the Crown Investments Corporation does to review issues that relate to the 2003 fiscal year end and then to deal with a number of other issues that we understand may be of interest to the committee.

First, the Crown Investments Corporation is the province's holding company. The mission statement taken out of the corporation's annual report is on the slide before you. And essentially the corporation provides strategic direction for subsidiary Crown corporations through effective governance and performance managements; and secondly, enhances Saskatchewan's long-term economic growth and diversification through Crown corporations.

Last year Investment Saskatchewan Inc. was established as a separate corporation and it assumed a number of the direct investment functions that had previously been performed by CIC or CIC Industrial Interests Inc.

On the screen is the 10 Crown corporations that is within the group of entities that report to the Crown Investments Corporation and through CIC to cabinet and to this committee.

Perhaps before we go further into the presentation . . . The minister has arrived, and I'm not sure what your wish would be, Mr. Chair. Would you like the minister to provide some opening comments, or would you like us to proceed with the presentation?

The Chair: — I think it's entirely how you would like to proceed. If the minister wants to begin her comments now, she's more than welcome. Or if she would prefer to wait till after the presentation, that's entirely appropriate.

Mr. Waller: — Well rather than interrupt the presentation, we'll just proceed.

The next slide outlines the accountability in review structure applicable to the Crown Investments Corporation and to other Crown corporations that report to us. The corporate entities are in the middle of the slide CIC, and underneath that is the subsidiary Crown corporations. There is a board structure in respect to both the Board of Directors of CIC is the Crown Management Board. That board reports directly to cabinet, and both CIC and the subsidiary Crown corporations will come before the Crown and Central Agencies Committee.

One of the focuses of the Crown Investments Corporation has been the implementation of a number of steps to strengthen Crown controls and to assist in accountability and transparency; there's a list on the slide. Briefly the Conference Board of Canada governance index is a management and performance standard that is applied to the Crown corporations. CIC has a performance management process which involves strategic planning and the balanced scorecard. That is a process that has been in place since the mid-'90s and has won a number of awards.

We now have a significant transaction reporting policy under which reports of significant transactions relating to Crown corporations are filed. Each Crown corporation provides an annual report to the legislature. CIC's annual report represents a consolidation of all of the individual Crown corporation annual reports that are provided.

As I indicated, each subsidiary provides and tables financial reports. We now have a system where both CIC and individual Crowns provide quarterly reports. CIC had in the past provided semi-annual reports but those . . . we've now moved to a system of quarterly reports; that was begun for the period ending March 31 of this year. The second quarterly reports are now out and they are actually posted on Web sites for each individual Crown corporation.

As part of the governance model, there is a joint CIC board, Crown Chair and CEO planning forum that's held on an annual basis to look at the plans of the individual Crown corporations.

There is now in place an external investment policy which requires third party review of significant investments being made by any of the Crown corporations. And we have a subsidiary Crown performance reporting and disclosure policy under which Crown corporations disclose matters of public interest. A number of those processes . . . (inaudible) . . . 12 months.

Turning to the strategic and performance management model, this slide outlines the various aspects of that model. It starts with the sector-wide strategic and performance management policy; that is something that's considered by the CIC board and represents an umbrella plan to guide all Crown corporations in their planning. It communicates strategic priorities and expectations of the shareholder, provides direction and requirements of CIC as the holding company, and retains a high level of operational autonomy for the subsidiaries to address within the strategic framework.

The balanced scorecard and the other components of the system are outlined on the right-hand side of that slide.

Capital allocation always is an important part of the holding company operation. This slide outlines the framework within which decisions in respect to capital allocation take place. It starts with the individual Crown corporation and the subsidiary, the dividend policy that is in place — we'll get into that in greater detail in a moment — but essentially at the level of the individual Crown corporations, we're looking at issues of reinvestment, dividends, and debt reduction. And all of those issues are dealt with in the context of earnings. That's really the key to this type of model.

CIC receives dividends from the 10 Crown corporations depending on their earnings and their need for reinvestment and their overall financial position. In addition to the 10 that are on the previous chart, the Crown Investments Corporation continues to hold directly NewGrade Energy, and so dividends from that organization flow directly into CIC. And again at the CIC level we're looking at reinvestment; we're looking at debt reduction and dividends to the General Revenue Fund.

Blair, have you got anything to add in terms of that system?

Mr. Swystun: — No, I think that about covers it. I think it provides a good lead-in to a little bit of an historical review of dividends paid in the Crown sector, because I understand that's a topic that may be of interest to the committee members.

This particular slide provides an historical review of CIC's non-consolidated earnings and dividends paid to the General Revenue Fund. Non-consolidated earnings refer to CIC at the holding company level itself as opposed to the Crown sector as a whole. At the holding company level, earnings are primarily driven by dividends received from subsidiary Crowns less the operating expenses of CIC, and less subsidies paid to Crown corporations that require assistance such as STC (Saskatchewan Transportation Company).

What I'd like to point out just in terms of general observations, a couple of things of note, first of all you'll notice that there's been historically an upward trend in both earnings of CIC at the holding company level as well as in dividends paid to the General Revenue Fund. The reason for that primarily is that since the mid-'90s there has been a very significant reduction in debt held directly by CIC as the holding company. As that debt has been reduced, that has in turn reduced interest costs and freed up that cash flow to be available to be paid back to the General Revenue Fund as a dividend.

Something else that I would like to point out is that you'll notice that dividends have increased over this period of time, and typically the dividend target that's established for CIC is a fixed dollar amount. And you'll notice from year to year the earnings at the holding company may be somewhat higher or somewhat lower than the dividend paid in a particular year. But if you see by way of the totals at the bottom, the dividends paid to the General Revenue Fund have not exceeded earnings at the holding company level.

So we believe that this is a good indication that the dividends that have been paid by the Crown sector to the General Revenue Fund have been paid on a basis that is financially sustainable.

A major reason why debt at the holding company level has been reduced over this period of time is that there have been a number of significant asset sales, the proceeds of which have in large part been used to pay down CIC's debt. Significant transactions that I might point out in this regard would include the 1998 sale of CIC's interest in the Bi-Provincial Upgrader to its partner, Husky. In 2002 there was a sale of Cameco shares, and of course back in 1996 there was also a very significant sale of Cameco shares among other asset sales.

Turning to the question of dividends paid by subsidiary Crowns to CIC, the capital allocation model that Tom described forms an integrated framework that allows Crown corporations to pay dividends to CIC at a higher rate when a Crown has financial capacity to do so. And when there's a need to retain more funds within the subsidiary, the dividend policy accommodates that type of situation.

What this chart illustrates is there's basically two types of situations that might exist. And rather than getting into any details of specific dividend numbers and so on, I'd just like to point out that there's two types of situations that might exist.

First of all in a situation where a Crown corporation has a healthy balance sheet or what we would refer to as strong financial flexibility, it can afford to pay a higher level of dividends to the holding company. The primary indicator that's used to assess financial flexibility or financial health is in most cases the debt ratio, which is the ratio of the level of debt to total debt plus equity capital invested in the corporation.

In each case the debt ratio target that's established for a particular Crown corporation is benchmarked against industry comparators. So SaskPower as an integrated generation, transmission, and distribution power utility would be compared to similar companies in the private sector, and the debt ratio target that's established would be done in comparison to other companies in that same industry.

Same story with SaskTel and SaskEnergy — each of those companies' financial health would be assessed in comparison to industry-based benchmarks.

Debt ratio targets for Crowns operating in different industries will differ, and that's a reflection of the differing business risks inherent in operating in those particular industries.

One point of note for SGI CANADA, which is the property and casualty part of the operation — and so this does not include the Auto Fund which is of course a stand-alone fund that's intended to operate on a break-even basis — is that because SGI CANADA does not have debt, which is a common situation for P and C insurers, a different but equivalent type of indicator of financial health is used. And it's something called the net risk ratio. And rather than getting into any specifics at this point, I would just simply indicate that with the use of this measure, the lower the number the greater is the financial health of the corporation.

What you can see is that when the financial health of a Crown corporation is stronger, as indicated by the green zone on this chart, the dividend payout rate expressed as a percentage of earnings will be higher. Conversely, when the financial health of the corporation is not considered to be optimal, the dividend payout rate is somewhat lower. And the purpose of that type of approach is to allow the Crown corporation to retain more funds within the company so that they can be allocated toward debt reduction.

The particular targets that you would see for a Crown corporation in terms of its debt ratio or, in the case of SGI CANADA, its net risk ratio might change over time as circumstances within the industry that a particular Crown corporation operates would change. But generally speaking, the debt ratio targets which, as I indicated, are the primary indicator of financial health would tend to remain fairly steady over time.

The final Crown corporation that's illustrated on this chart is Investment Saskatchewan, which was formerly known as CIC Industrial Interests Inc., and we've included it on the chart just to give you a more complete picture of dividends paid by subsidiaries of CIC to CIC. As an investment portfolio, it's somewhat different than other subsidiary Crowns that are operating companies, and the dividend that's paid from Investment Saskatchewan is done simply on the basis of whether cash is available residual to the needs of the company for reinvestment.

I've provided you with this analysis because the issue of dividends that can be paid to the General Revenue Fund is an extremely important one, and it's a topic that's monitored very carefully by CIC. The primary source of dividends for CIC are the four commercial Crowns, SaskPower, SaskTel, SaskEnergy, and SGI, as well as Investment Saskatchewan from time to time. And finally, CIC also holds a direct investment in NewGrade Energy and receives dividends from NewGrade when it has capacity to provide a return to its shareholders.

Borrowing to pay dividends that exceed the available cash is not a strategy that is sustainable in the long run, given that it has to be financed either by higher future utility rates and/or, in essence, borrowing against future capacity to pay dividends. So it's something that we monitor very closely.

In addition to keeping an eye on the cash world, in an accounting sense any corporation also has to have retained earnings in order to pay dividends. Now retained earnings are simply the accumulation of past profits that have been reflected in a P and L (profit and loss) statement over time, less any dividends that have been paid out. So in a sense we are monitoring both the cash world as well as the accounting world of retained earnings and monitoring CIC's capacity to pay dividends to the General Revenue Fund. And as I indicated, there have been a number of major asset sales since 1995 that were key in reducing CIC's non self-supporting debt and facilitating higher dividends to the General Revenue Fund.

This slide just provides you with some historical perspective on the asset sales that have taken place, what the proceeds were, and as you can note, it had led to a rather dramatic reduction in CIC's debt at the holding company level from almost $800 million in 1995 down to slightly less than $16 million as of the end of 2002. That in turn has provided the reduction in interest costs that I referred to earlier that has helped to support CIC's increased capacity to pay higher dividends to the General Revenue Fund on a sustained basis.

As of the end of 2003, CIC at the holding company level no longer held any debt. The remaining debt that CIC did have as of the end of 2002 was transferred to Investment Saskatchewan in the fall of 2003 in conjunction with the establishment of Investment Saskatchewan as a separate entity. That small amount of debt is all considered to be self-supporting in that there's underlying performing assets that are available to service that debt and eventually to retire it. So the debt has not been eliminated; it's simply been transferred to Investment Saskatchewan from the holding company.

Turning to the financial results for 2003, this chart provides an indication of CIC's consolidated earnings for 2003. Now the consolidated financial statements in CIC's annual report treat the entire Crown sector as if it were one company. So it's adding up the results of all the subsidiary Crowns as well as investments held directly, such as NewGrade.

What we've got here is a couple of bar charts that compare 2003 earnings to 2002. And for purposes of analyzing the earnings performance, it's sometimes useful to differentiate between earnings from ongoing operations, which represent the day-to-day business of the Crowns that carry on from one year to the next, as separate and distinct from what's referred to in the accounting world as non-recurring items. And you can generally think of those non-recurring items as being one-time events, and typically that might involve asset sales or investment writedowns.

You might have non-recurring items in successive years or perhaps even each and every year, but it allows some analysis to differentiate between how are things going with respect to core operations as opposed to some of these kinds of one-time events.

Consolidated earnings for 2003 were $347 million, which is $53 million higher than earnings for 2002 when presented using comparable accounting policies. And I would point out that in 2003 there was changes to the accounting policies with respect to asset retirement obligations, particularly as they apply to SaskPower, that come into effect and affect the reporting of CIC's consolidated earnings. And as is common practice when presenting comparative information for the previous year, we've restated the previous year's result on a comparative basis, or on a comparable basis so that you've got essentially an apples-to-apples comparison from one year to the next.

You can see in 2002 a large portion of the earnings, totalling about $71 million, were the result of these non-recurring items as reflected in the red slice of the bar. That in turn had two major components. CIC sold its remaining shares in Cameco Corporation for proceeds of $226 million and for a consolidated gain on sale of about $111 million, and that was partially offset by a writedown by SaskTel on its investment in Austar United Communications in Australia, resulting in a net $71 million to the good for these non-recurring items.

2003 also had a number of non-recurring items although of a smaller magnitude. There was writedowns on SaskTel's investment in Retx in the amount of about $9 million and its investment in Persona in the amount of about $6 million. So the overall picture here is that earnings from ongoing operations were extremely strong in 2003 and represented an improvement in results from 2002.

Turning now to review of debt in the Crown sector, this slide provides an illustration of consolidated debt, which represents debt of all of the Crown corporations as well as CIC's share of debt in any investments which it consolidates on its financial statements, both in terms of dollar amount of debt on the left side as well as in terms of consolidated debt ratio on the right side.

What you can see is that there has been, from 1999 to 2001, there has been an increase in the dollar amount of debt, and since 2001 debt has been declining in dollar terms. And if you take a look at the right side of the chart, you can see that debt ratio — which is debt divided by debt plus equity — has risen, but it's actually declined back to the level that it was at, at the start of this five-year period. So it started at about 51 per cent, and it ended the period at about 51 per cent, despite the fact that debt in total dollar terms is about $250 million higher at the end of the period than it was at the start.

Now you may be wondering how that situation could be. And the reason is that the Crowns have grown over that period of time. So even though the debt has increased over that period of time, so also has the equity base of the Crown corporations as the companies have grown, resulting in maintaining the consolidated debt ratio at the level of 51 per cent.

Turning to CIC at the holding company level which, as I indicated earlier, primarily reflects dividends received from Crown corporations less CIC's operating expenses and grants paid to subsidiaries such as STC, there's been earnings of, for 2003, were $274 million, slightly higher than earnings in 2002 of $263 million.

CIC paid a dividend of $200 million in 2003, which is similar to the level paid in 2002 with respect to the regular dividend, which was also $200 million that year. However, in 2002 CIC also paid a $100 million instalment on a dividend that had originally been targeted for the year 2000 but which was subsequently deferred by cabinet.

A little technical difficulty here. There we go. I could just provide you with an overview of the earnings of the four major subsidiary Crowns because these have the most material impact on consolidated results of CIC and the Crown sector as a whole. And once again, we have a comparison of 2003 results compared to 2002 to give you some sense of trends.

SaskPower earned $187 million in 2003, which is up considerably from 2002's earnings of $137 million, once again on this restated basis as I described earlier. The primary factor there was that SaskPower has, or at that time had, a large amount of unhedged debt denominated in US (United States) dollars, and as the Canadian dollar appreciated vis-à-vis the US dollar, the accounting rules specify that the gain is to be taken into income by SaskPower and is reflected in the earnings of SaskPower on its financial statements. About $113 million of these earnings of 187 million in 2003 relate to this non-cash foreign exchange gain.

Partially offsetting that factor were the higher costs of fuel and purchased power. This was a result of two factors. First of all, 2003 was a low water year in the mountains, and that's the primary determinant of SaskPower's capacity to use its hydro generation facilities. And hydro generation represents SaskPower's lowest cost source of generation. When it's not available, it has to be replaced by higher cost sources of power or power purchases, and those are primarily fuelled by natural gas. And as you all know, natural gas prices spiked in 2003, along with the price of oil.

The net result of all of this was that operationally, or in other words setting aside the effect of this foreign currency gain, SaskPower had a relatively weak year in terms of its operating earnings in 2003.

Turning to SaskTel, 2003 earnings were 85 million, which was up $20 million from earnings of 65 million in 2002. The primary factors there were that first of all there was a significant writedown of SaskTel's investment in Austar in 2002, which had a depressing effect on earnings.

And offsetting that was, in 2003, SaskTel continued to implement a cost savings program to address the ongoing issue of declines in revenues from its wire line business, which is long distance and to some extent its local service business. And those two factors have resulted in the increase in earnings from 65 million in 2002 to 85 million in 2003.

SaskEnergy earned $41 million in 2003, which is a significant improvement from earnings of only 7 million in 2002. SaskEnergy was affected by the spike in natural gas prices in much the same way as SaskPower was. And in the case of SaskEnergy, because it operates on a basis of passing through the cost of the natural gas to its customers without markup, there was obviously a need as a result of the spike in natural gas prices continentally for SaskEnergy to increase its commodity rate that's charged to customers. That happened in May of last year. And the increase that took place at that time was intended not only to reflect the then current cost of gas, but it also included a component to recover the cost of gas that was not being recovered from its customers in 2002.

So what we saw was a situation where it started to recover this under-recovery of costs from prior years, and it uses something called a gas cost variance account to track whether it is fully collecting the cost of natural gas from its customers. And as the increase was implemented it allowed SaskEnergy to start to recover the deficit in its gas cost variance account that existed as of the point when the rate increase was implemented.

Then finally SGI CANADA had a significant turnaround from a loss of $9 million in 2002 to earnings of $21 million in 2003. And the primary factors there were a complete turnaround from a loss situation at its investment in Coachman in 2002 to a return to profitability in 2003 along with improved underwriting results from operations in Saskatchewan. And once again, SGI CANADA is the competitive property and casualty part of the operation, not the Auto Fund.

And finally we have included NewGrade, CIC's investment in NewGrade Energy. CIC's share of earnings in 2003 was $32 million as compared to earnings of $7 million in 2002. And this very significant improvement in results reflects the high oil prices that existed in 2003, which in turn led to very favourable differentials between the price of heavy and light crude oil which is the basis on which NewGrade makes its money. When differentials are wider its profits are higher, and vice versa. And that in turn also resulted in CIC receiving a cash dividend from NewGrade of $7.6 million in 2003.

Mr. Waller: — I'd like to turn to a couple of issues that we think will be of interest to the committee.

First of all, in the area of payee disclosure, on June 17 of last year the Crown Corporations Committee — now the Crown and Central Agencies Committee — recommended that the CIC Crown corporations provide expanded disclosure of payee information. And that was done in a number of areas: board expenses, ministerial expenses, employee remuneration of $50,000 or more, grants, contributions, donations, and sponsorships of $5,000 or more, payments to consultants of $10,000 or more, and supplier and other payments of $50,000 or more unless prohibited by law, commercially sensitive, or unless they could prejudice the competitive position of the corporation.

The minister will speak to you in a moment about tendering material in response to the committee's request, but as per the committee's recommendation, certain supplier and other payments have not been disclosed. And they fit into three categories: where there is a need to protect commercially sensitive information, where disclosure could prejudice competitive positions, or where the disclosure is prohibited by law.

Based on committee discussion last year, certain payments were specifically identified as meeting the exclusion criteria indicated above and were not expected to be publicly disclosed. And these include essentially four categories: first, SGI's broker remuneration and reinsurance contracts; second, SaskEnergy's gas supply contracts; third, SaskPower's power purchase agreements; and finally, SaskTel's dealer arrangements.

The SGI broker remuneration and the SaskTel dealer arrangements fit, in our view, within the need to protect commercially sensitive information and also disclosure may well prejudice the competitive position of the corporations.

In respect to the gas supply and power purchase agreements, again those go to the competitive position of the corporations but they also raise issues of the ability of the corporations on an ongoing basis to enter into arrangements. There's a particularly, if I might describe it as thorny issue, when we come to the gas purchase contracts. Those contracts are negotiated in a competitive environment. Gas is in short supply and it has been indicated to both SaskEnergy and SaskPower that gas retailers would or sellers would not be interested in having terms of contracts disclosed because it would affect their competitive position and have indicated to the corporations that they would refuse to supply in the future. That would have a significant impact on the corporations.

Confidentiality provisions exist in some areas. The committee discussion indicated last year that confidentiality provisions currently in place would not be breached on a go-forward basis and wherever possible CIC and the Crowns will no longer include confidentiality clauses in agreements, and two examples of that would be severance agreements and supplier contracts.

In terms of the other disclosure exemptions, CIC and the four large Crown corporations believe the committee's discussion last year indicated that certain types of payments were specifically exempted from public disclosure. The Provincial Auditor has a different viewpoint because the committee's formal disclosure recommendation did not specifically indicate that these types of payments were exempt from disclosure. And our hope is that the committee may give some clarification or guidance in that area as a result of your hearings in the next couple of months.

The final area that I'd like to briefly address is the area of executive compensation. CIC is continuing to review policies of the individual Crown corporations within our area of responsibility. We have taken or are in the process of taking steps to ensure that all Crown executives fully understand the processes for implementing and administering all policies; that all board members are vigilant in their oversight and monitoring rules, especially those related to compensation and benefits.

CIC internally has improved and will improve its monitoring of these policies. Information Crown executives file with the

Clerk's office under The Crown Employment Contracts Act will be monitored more closely. And finally, actual employment contracts will be filed with the Clerk rather than summaries of those contracts.

Those are two issues that we think the committee may well have some interest in. And that concludes our presentation.

The Chair: — Thank you, Mr. Waller. Welcome, Minister, to the proceedings. And I understand you have a few comments that you would like to make.

Hon. Ms. Atkinson: — Thank you, Mr. Chair. Good morning. For the past several years this committee has begun its examination of our Crown corporations by meeting with CIC officials. This committee has then moved on to discuss the annual reports of each of the CIC subsidiary Crowns.

Each year CIC has provided you with some summary financial information about each of the Crowns and this information has included ministerial expenses, including travel expenses; board member expenses, including travel expenses; and payments to consultants who receive more than $10,000.

As you know, last year this committee, then known as the Crown Corporations Committee, had extensive discussions about expanding this information. In the end it was decided that in addition to the information that CIC was already providing, it would also provide the following: a list of all employees, union and non-union, who receive total remuneration of $50,000 or more; a list of all grants, contributions, donations, and sponsorships of $5,000 or more; and a list of supplier and other payments of $50,000 or more.

Blair Swystun has spoken about the supplier and other payments in greater detail in his presentation.

Since the decision was made last year to provide this expanded information, CIC officials have met with the Crowns on many, many occasions, and they've also met with officials from the Provincial Auditor's office. CIC has compiled the information for the fiscal year 2003 on behalf of all its subsidiary Crowns, and this morning we're pleased to table this information with the committee, and we're prepared to answer any questions that committee members might have.

I understand that the information is going to be filed in the Clerk's office and we're also going to provide six copies to the Legislative Library.

Mr. Chair, I'm pleased to be providing this expanded information to the Crown and Central Agencies Committee. As some of you may recall, I was a member of this committee last year during the discussions on this issue, and I spoke out in favour of an expanded disclosure. And I still hold the view in terms of public accountability.

The people of our province own our Crown corporations. And I believe that they have a right to know how their Crowns are spending public money, not unlike public accounts for the General Revenue Fund. This should include the money that Crowns pay to suppliers and the donations and sponsorships the Crowns make to community events and charitable organizations. And it should also include employee remuneration, which we also see in public accounts. It has been a long-standing practice of Saskatchewan government departments to disclose employees' salaries and payments to suppliers, and there is absolutely no reason why our Crowns should not be doing the same thing.

Mr. Chair, this expanded disclosure is in keeping with our government's commitment to be more open and accountable about Crown corporations and how they operate. And I think this morning we saw evidence of that in the presentation from the two officials from CIC.

Last September the Premier made a major speech about the future direction of our Crowns. It included a significant component about improved accountability. Besides the information that we're tabling with the committee members this morning, we've introduced several other measures. They're all aimed at our goal of exceeding private sector standards with regard to accountability. We now have a minister responsible for each of the Crowns and a number of these ministers join me on the Crown Management Board of Directors.

In April of this year we began the new practice of staggering the tabling of annual reports. The Crowns tabled their 2003 annual reports over a period of two and a half weeks, and CIC tabled its report last to summarize the results for the Crown sector and put them into context. We did this in order that the public, members of the legislature, and the media would have an opportunity to go through each of the reports throughout a period of time, not all on one day. CIC and the major Crowns also held thorough media technical briefings on their tabling dates. And all of this was intended to provide greater public scrutiny of each report. We believe we've accomplished that and will continue the practice of staggering the tabling dates for our annual reports.

In early June we began another practice that we intend to repeat every year. We developed a summary annual statement or report on the financial highlights for the Crown sector in the fiscal year 2003, and we mailed it to each and every home in the province of Saskatchewan. We included a report on the utility bundle in that document so that we could save costs by doing one mailing rather than two. We believe this information is also important to the citizens of our province and that they should have the opportunity to have their own copy delivered to their home.

We also introduced quarterly financial reports for our Crowns in 2004. CIC has been producing a semi-annual report for a number of years. This report had covered the financial results for the holding company and its subsidiary Crowns. Each Crown is now producing its own quarterly financial report, and the first quarterly reports were made public at the end of May and the second quarterly report at the end of August, and after each quarter the Crowns have 60 days to make their reports public. And the reports are now available on each Crown's Web site to ensure public scrutiny.

I want to make it clear that we're committed to upholding the highest ethical standards in our Crowns. CIC is coordinating with each Crown board a review of ethical standards and guidelines and practices, with a view of reinforcing the standards and improving employee awareness and compliance. This is another example of our commitment to accountability.

Finally our appearances before this committee are another opportunity for the scrutiny of the Crowns and their operations. I want to just put it on the record that we welcome this opportunity and we look forward to a thorough scrutiny by members of this committee.

Now I'd like to turn things over to you, and we would be pleased to answer any questions that you may have about the 2003 annual report of CIC.

The Chair: — Thank you, Minister. Before we begin with that, we will proceed with an overview of the office by the Provincial Auditor and a statement by KPMG, and then we'll enter into a global question and answer period. So turn it over to the office, and if you'd introduce yourself and your officials.

Mr. Martens: — Good morning. My name is Andrew Martens. I am a principal with the Provincial Auditor's office, and I coordinate our activities and our attendance at this committee with you. With me today are Ed Montgomery, the deputy provincial auditor in charge of the audit of CIC; and as well, Bruce Willis, partner with KPMG, the appointed auditor for CIC; and in the gallery, Brian Munro, the audit manager with KPMG. Ed will be providing our comments on the 2003 audit of CIC first, and then I'll ask Bruce to provide his comments. Ed.

Mr. Montgomery: — Thank you, Andrew. Good morning, Mr. Chair, and committee members. I'm pleased to report to you that in our opinion the financial statements included in CIC's annual report for the year ended December 31, 2003 and the financial statements of capital pension plan for the same period are reliable. In addition, CIC and capital pension plan had adequate rules and procedures to safeguard public resources. I'm also pleased to report that in carrying out our work, we received excellent co-operation from KPMG and also from CIC management.

In our 2004 Volume 1 Report to the Legislative Assembly, we reported two matters requiring clarification of the law. We plan to present our report on these matters to the committee tomorrow morning when Fred Wendel, the Provincial Auditor, will be here.

In addition I'd like to inform you that we are preparing a report on the payee lists provided to you by CIC and we expect to provide this report to the Assembly within the next couple of weeks.

That concludes my opening remarks and we would be pleased to answer any questions of the committee.

Mr. Willis: — Thank you and good morning. On behalf of KPMG, we have nothing further to add. We concur with the Provincial Auditor's comments. And the only addition we would have is we, as well, received excellent co-operation from both management and the board of CIC and in working with the Provincial Auditor.

The Chair: — Well that concludes the opening comments and opening remarks, and we'll look forward to an expanded presentation by the Provincial Auditor tomorrow. So I will open the floor to questions and answers. Seeing none . . . Oh, Mr. D'Autremont.

Mr. D'Autremont: — Thank you very much. Well my colleague, Mr. Elhard, had to step out for a second and he was planning on starting this off for us. So I'd like to welcome the minister and your officials here today. We look forward to the next couple of days and the subsequent days that we'll have together. I found the presentation very interesting and certainly leads us to some questions related to CIC and its operations.

I guess you know there are a number of issues that need to be discussed before the board. Things like the dividend policy, like the decision-making processes that take place, the hiring policies. We are pleased to see the report of the $50,000-plus list of employees and contracts or suppliers as well. That's going to be very valuable information to the people of Saskatchewan and to this committee in understanding the operations of CIC and how it relates to the other Crowns.

Some of the items that were brought forward earlier . . . And I wonder if it'd be possible to have the presentation that was displayed to be put back up on the board because a number of the questions that we have just arising from that are related to individual pages of that presentation, and so if they were up on the board that would certainly help to . . . for everyone to understand where those questions . . . how they relate.

One of the questions that I have deals with the external investment policy that CIC has and the decision-making process on that particular board. How does that come about and who sits on the decision-making panel for the external investments by CIC?

Mr. Waller: — The policy in respect to investments is that the initial work on a potential investment is done at the Crown corporation level. That would follow, in a normal course, a recommendation would be provided by management to the Crown corporation board. From there it would proceed, if it's an investment of any size, to the Crown Investments Corporation board.

Part of the process now is that there will be a third party review of any proposal. The third party review will be conducted by, as it implies, an outside party with experience and expertise in a particular area of the investment. Depending on the nature of the investment and its size, it is likely to be taken to cabinet and final approval for investments, if it involves the acquisition of shares, is generally taken by order in council.

Mr. D'Autremont: — The third party review that has input onto these potential investments, how are they selected? You mentioned that they're somehow related to that field of investment. But how is that decision made as to which individuals will sit on that review panel, and what power does that third party review panel actually have in the implementation of the policy to go forward or not to go forward with that particular investment?

Mr. Waller: — It's not a panel in the sense of a court or a labour relations board. What it is, is it's review by a third party having expertise in the particular area of investment. That party then prepares a report. If the report is not to proceed with an investment then it, in my view, would be highly unlikely to be approved by either the board of the individual Crown corporation or by the CIC board.

Mr. D'Autremont: — Who would get to see this report?

Mr. Waller: — The report would be reviewed with management and it's ultimately provided to the appropriate board.

Mr. D'Autremont: — So the appropriate board being one of the boards of the Crown corporations . . .

Mr. Waller: — Initially.

Mr. D'Autremont: — . . . perhaps SaskPower or SaskTel, whomever it might be.

Mr. Waller: — Yes. And the reports are generally reviewed by Crown Investments Corporation as well, since those kinds of issues most often come to the CIC board.

Mr. D'Autremont: — So if the third party review panel committee, whomever it might be, was to make a recommendation to say that the proposed the investment was not a sound one and the corporation, CIC, was to go ahead with that investment, is there any way for the public, for the legislature to know that that happened?

Mr. Waller: — It hasn't happened and I can't conceive that it would happen. I mean if there's a report prepared by an expert or third party reviewing a proposal that says it's not viable and ought not to proceed, in my judgment, that would be the end of it.

Mr. D'Autremont: — If that is the case, if a proposal or a report that suggested the investment is a good investment and therefore would go ahead or if the proposal, the report on the proposal is that it be rejected and then it doesn't proceed, what harm would there be in making those reports public to the legislature and therefore to the people of Saskatchewan?

Mr. Waller: — First of all, the type of report that you're talking about would, in virtually every case, raise issues that go to the core of the business. So release of the reports may in fact take us into areas that we've discussed previously in the presentation. It would have the potential to do some harm on a commercial basis to the parties involved in the investment.

The other thing is that you do run into a situation where third parties wanting to give advice will only do so on a confidential basis, because the kind of party that you most often will want to deal with looking at these kinds of investments are people familiar with the industry, and they may be reluctant to provide you with advice on a business proposal or investment opportunity if they believe that that advice is going to become public.

Mr. D'Autremont: — Well I guess to me that would raise the question of what confidence do they have in their advice then, if they are concerned with the fact that they gave advice on the issue that it becomes public?

Hon. Ms. Atkinson: — Maybe I can speak to this because you raise an important public question. And I think for some of us it's hard to understand why we wouldn't want to see that information within the public domain.

What I've come to learn, Dan, is that when you're dealing with people who have a particular expertise, these are not public people. They're not people whose advice becomes a matter of public discussion. They're industry experts; they give advice to a variety of companies that may be competitors with each other — that's a possibility — and they don't really want to see their advice being debated in the public because they're business people.

And so we're in this, in a sense we're in an odd position. Whereas if SaskTel for instance was a public company — let's use the example of the external investment in a company in Dubai — and there are other telecommunication companies that are involved in providing services internationally, and we receive an expert opinion that this is a good proposition for SaskTel . . . But they may be advising other companies as well — I'm talking about the expert — about an investment in another country. Now if that expert advice were to become, or the opinion were to become public, then they become part of the public debate, and that's really not what these external consultants or experts want to do.

And I had a little experience with someone trying to get a hold of someone who had given their expert opinion, and I think it's fair to say that we're not sure if he'll ever provide advice again because he doesn't want to be telephoned and spoken to about, you know, what opinion did he give. His opinion was confidential; it was an opinion that we followed, and we were satisfied with the opinion.

Mr. D'Autremont: — Well I would think that someone who is obviously doing this professionally is probably charging a substantial fee for providing this advice, would want, or in some cases would want it known that their expertise is of value, that it's accurate, and that it provides good service. If they're always cloaked in the shadows, how do they then become known to others who may be interested in seeking their advice as well? How does this committee judge the value of the advice given, the advice that was either taken or not taken?

And in the case of not being taken, I don't think then that it would be important for this committee to know that that advice was there and the rejection was accepted as being a valid issue, because the item has ceased to be of concern and is not moving forward. But on those issues where the Crowns have moved forward on an investment, I think it's of value to this committee to be able to look back and say the advice of expert A that was given to the board, which the board accepted and judged to be of value, is now in question because the investment is not performing adequately. That allows this committee, and the public then, to be able to judge whether or not this process is working properly, whether or not the Crowns are consulting with the proper experts that have the ability to give good advice, and whether the boards of directors of the Crowns or of CIC are taking the advice that's being given to them and managing it in the proper manner. And it becomes difficult for this committee to judge that process when we don't see the reports.

Hon. Ms. Atkinson: — We have indicated that we are prepared to give a summary of the findings from the report, but we will not be releasing the entire report. So we'll make public as much as possible, and at the very minimum a summary of the findings.

But I would just like to put it on the record that when you're dealing with industry consultants, often people in the industry know who those consultants are; they have a reputation in the industry. And I can say this: that at the very least, we will provide a summary of the findings.

Mr. D'Autremont: — Well I look forward to seeing those summaries and I guess we will have to judge when we see them whether they provide adequate information. Thank you.

Mr. McCall: — Just to clarify on that, the value these experts have in the marketplace is based on their expertise and on the detail of the advice they provide to corporations. Now if that's available to everybody in chapter and verse form, that devalues their product, does it not?

Hon. Ms. Atkinson: — Well I think . . . I have a very limited experience, because I believe there have only been, since I've become the minister and since the policy was implemented, two official or two external reviews done on two external investments.

And the one investment did receive some interest in the public and I understand that the expert was pursued in terms of trying to get him to provide his report. And we're not sure whether or not he'll ever provide advice again because he did not expect that his report or that he would become part of the public debate and discussion.

And so I guess what I'm saying to the committee is that we have to be careful that we don't put ourselves in the position where very few people are interested in providing us with external advice. We have indicated publicly that we will provide, at the very minimum, a summary of the findings to the public in order that the public can gauge whether or not we followed our policy.

And our policy, as enunciated by the Premier, was that all external investments would be reviewed by an independent third party. And as Mr. Waller has said, it is highly unlikely that the board of a Crown, a subsidiary Crown, or the board of CIC would proceed if you have an industry external expert telling you that this is not in the best interests of the company.

Mr. McCall: — Thank you for that clarification. To shift gears a bit, I've got some questions pertaining to the dividend history, and I guess it's more a matter of what CIC sees as projections and the, from the presentation of the page I'm going to be referring to initially is page 8, dividend history. So I'll just give you some time to summon that up.

I guess my first question pertains to SGI CANADA and SaskEnergy in terms of respectively their net risk ratio and debt ratio. In terms of getting them back to their target, what's the projection for 2004? Will these two corporations be back to their targets in that year, or is it at 2005? What is being anticipated on the part of CIC in terms for meeting those targets?

Mr. Swystun: — Thank you. First of all with respect to SGI CANADA, Mr. Chairman, the dividend policy provides for lower dividend payout rates when a Crown corporation needs to improve its financial health. And as you can see, the payout rate that applied to SGI CANADA as well as to SaskEnergy in 2003 was 65 per cent of earnings.

That floor amount of dividends, if you like, is not intended to ensure that a Crown corporation returns to its optimal capital structure immediately. It's intended to provide some level of stability of dividends to the owner because there are effects that the dividends from CIC have on the provincial budget balance. But at the same time it provides the Crown corporation to retain some earnings within the company so that over time it can move closer, and eventually to, its target net risk ratio in the case of SGI and debt ratio in the case of SaskEnergy.

So in response to the question, I would not expect that either of these Crown corporations would be at their target capital structure in 2004 or 2005. As I recall, I think in each case — based on projections that are produced in business plans which, I guess, I should caution are based on average business conditions — and in any given year there will be better than average or worse than average actual results experienced. But over time, in perhaps three to four years, the expectation would be that each of these companies would move to their target capital structure.

Mr. McCall: — To move along, in the report, page 14, a question pertaining to SaskTel. And I was wondering if you could expand on, in terms of the cost saving program in order to address declining wire line revenue, I was wondering if you could provide a bit more detail on . . . And perhaps this is a question that is better saved for SaskTel, but if you've got a thumbnail sketch, I'd happily listen to it.

Mr. Waller: — Mr. Chair, I think that the specific details can best be provided by SaskTel. But in general terms SaskTel has a number of programs to reduce costs. They have, for example, an early retirement program and a retraining program to better deploy the staff that they have to meet the changing needs of the corporation as its business evolves and changes.

Mr. McCall: — And I guess my final question is, in terms of page 15, around NewGrade's, is there a projection for the year to come in terms of a dividend?

Mr. Waller: — NewGrade is at this point in its fiscal period doing very well. We expect that the income generated by NewGrade in the current year will exceed last year's. The profitability of NewGrade is, as this slide indicates, it's based on two factors. One is the price differential between light and heavy crude in the current year. Those conditions have been very favourable to NewGrade, and the other is throughput. And NewGrade has had some periods where they were out of production as they upgraded and replaced equipment, but I think it's fair to say that we anticipate that earnings for NewGrade will be at least 20 per cent above last year and that the dividend will be at least 20 per cent above last year's — in fact it may be significantly more.

Mr. McCall: — I guess at this point, Mr. Chairman, I'll cede the floor for others to ask questions But I'd like to thank the officials and the minister for their presentation and welcome certainly Mr. Waller to his first presentation to this committee. But anyway, I reserve the right to ask further questions later on, of course. But welcome, and thank you.

The Chair: — Mr. Elhard.

Mr. Elhard: — Thank you, Mr. Chairman. And I'd like to welcome the minister and her officials to the committee hearing today. I'm finding this quite interesting. It's the first time that I've participated in this particular discussion. And in view of the presentation that Mr. Waller and his colleagues presented, I have a full page of questions just arising from the screen. But I want to go back to where Dan left off, if I could.

In your comments, Mr. Waller, I think you indicated there may be a threshold, a dollar threshold, beyond which requires cabinet approval. Can you identify what that threshold might be for external investment?

Mr. Waller: — Well the policy of third party review is for all external investments. The level at which cabinet considers a matter I think varies from corporation to corporation. We can certainly provide that information to you. It may depend in part on the structure of the investment.

Mr. Elhard: — So the dollar value is not regimented or a fixed figure. It would depend on the type of . . .

Mr. Waller: — If you're acquiring shares in an organization, the level is zero. So any acquisition of shares requires an order in council.

Mr. Elhard: — But if it's some other participatory arrangement, that can vary.

Mr. Waller: — Then that may vary, and I think there are limits outlined in the statutory provisions under which a number of the corporations are created.

Mr. Elhard: — Okay. In the line of the discussion that the minister had with my colleague here, doesn't the nature of the relationship to consultants discussed in that conversation, doesn't that really pinpoint the dilemma of publicly owned corporations and the need to know by the very shareholders of those corporations, the general public?

I mean we've got a situation where we have outside consultants that are being paid for their advice. We can take their advice or not take it. We can report or release whatever information we deem through the government — through this committee — as pertinent to the public discussion. But really it creates a dilemma for the general public and their right to know as much detail as absolutely possible.

And you know you don't have those kinds of reporting dilemmas in privately held corporations. They need to make those decisions within their own particular bailiwick, within their own shareholding circle, and so forth. But in this instance you know we have a limitation. Because of the nature of the company, because of the fact that it's a government owned — and I use that word carefully — entity, we feel like we can't report as much as we maybe ought to or the general public would like to.

And so I guess what I'm trying to do here is point out the difficulty that you know government agencies encounter when it comes to meeting the full right of disclosure, that the shareholders — who in this case are the citizens of the province — would ordinarily expect to have.

Hon. Ms. Atkinson: — I guess I'm inclined in a sense to disagree with you, Mr. Elhard. You know, we're living in an environment where many of us hold shares in privately held companies that are traded on the Toronto Stock Exchange or the New York Stock Exchange. And if you were to have a share in Telex for instance, as a share . . . or had shares, a number of shares in Telex, as a shareholder you would not know what . . . you would not receive a report from an external expert who had given TELUS, I should say, TELUS, advice on whether or not to purchase a particular company. Because you're then in the position where I might own a number of shares in a number of different telephone companies, and I could be sharing that information because these companies operate in a competitive environment.

I believe, as someone who has shares in privately held companies traded on the Toronto Stock Exchange and the New York Stock Exchange, that publicly owned companies are providing much information to the public. I don't recall that I've ever received any kind of statement where we have a payee list for a privately held company traded on the stock exchange.

There is huge public scrutiny of our Crown corporations from the shareholder because they own these companies and they interact with these companies every day and they have an opinion. And then we have this legislative committee which then puts each company through its paces and asks for that company to account.

I believe that you, you as the member from the opposition responsible for Crown investments, hold us to account and scrutinize us day in and day out. And that, I don't believe happens in the public . . . or the private sector to the extent it does with our publicly held Crown corporations.

Mr. Elhard: — That may be, Madam Minister, but you know, the point of the matter is that privately held corporations operate under a different set of priorities and requirements. They don't have the requirement of every shareholder being forced by law to participate in the ownership of the company, which is something that we have in this situation with publicly owned companies. Every person in this province owns a share of these companies whether or not they want to, and they are obligated by fiat to pay increasing premiums or fees depending on whether the business decisions by the publicly held company are good or not. There's just no way of getting around that.

So, you know, the nature of the relationship of the shareholder in a government-owned company is considerably different than it is in terms of a privately held company. And therefore, the onus for public disclosure becomes even greater. And you indicated that we are providing more and more information to the public through this committee and through the efforts of this committee in years previous, which is all welcome. I'm sure it's maybe precedent setting for Saskatchewan and I'm sure that it's, you know, a welcome step and a welcome change on behalf of the people of the province.

But I noticed that in the presentation made by Mr. Waller, he talks early on about CIC establishing some of its business operations and the way it governs and the way it handles the public responsibility, in keeping with Conference Board of Canada guidelines. And I think there's a reference in some of the other Crown corporation reports of establishing or meeting standards established by the Toronto Stock Exchange.

I know there is an effort, there has been a recognition of the need to report additional information and be as thorough as possible. But that is the dilemma isn't it, really, for publicly held companies, government-held companies — when the shareholders really have the right to know everything, we can't provide or we won't provide every last bit of information.

Hon. Ms. Atkinson: — Well I think the dilemma is that our Crown corporations have increasingly moved into competitive marketplaces where they have competitors. SaskTel, for instance, is in a hugely competitive market. Whether it is in long distance, Internet, cellphone coverage, cable, it has competitors. And SaskTel, because of the loyalty of the people of this province, has been able to maintain a huge market share.

SaskEnergy is in a competitive environment. We have industrial and commercial customers that are going to other competitors and in some cases moving back to SaskEnergy. SGI, on the general insurance side, is in a competitive market; SaskPower to a lesser extent, but it certainly has in a sense faced fewer regulations.

So we're in this situation where in the past we have been insulated from competition within our Crowns. That's no longer the case. We're in a competitive environment. And you somehow have to figure out . . . And I think you raise an important question: how do you balance the right of the public to know and to be accountable and responsible to the public, and at the same time not put yourself in a position as a company where you're at a competitive disadvantage because your competitors don't have to disclose this information?

And I think what we're trying to do, and obviously competition is fairly recent to the province, what we're trying to do is try and find the appropriate balance and make our way through this. I think quarterly reporting, the summary financial statement to the public, issuing a summary of findings to the public, and this committee, the payee list. We're trying to be as open and accountable and as transparent as possible. But I think there are some areas where we're just not at that stage because we live in a competitive environment.

Gas supply contracts, for instance. You know if we were to release what we got our . . . what we paid for a supply of natural gas, I mean that could . . . these are competitive issues. That could put SaskEnergy at a serious disadvantage and it may mean the supplier won't want to deal with us anymore.

So there are these kinds of issues that we have to make our way through. And at this stage I think we're trying to balance openness, transparency, with the competitive issues that we face.

Mr. Elhard: — Thank you, Madam Minister. In view of the more competitive environment in which the Crown corporations do business and operate in this province, are the fundamental views and philosophies that the current administration holds being challenged, vis-à-vis how the Crowns operate and what their raison d'être is? Is there a challenge to the view held by the current administration as to the purpose and the operation of the Crowns?

Hon. Ms. Atkinson: — Well I think that we're of the belief that the people of Saskatchewan are extremely proud of their publicly owned entities. And the people of Saskatchewan generally believe that these entities provide a good service at a decent cost to them as consumers. And they also provide jobs to the people of our province.

In terms of are we being challenged, in terms of competition, I think there's no question that SaskTel is being challenged. And if you look at the old, I'll call it the old economy of SaskTel, they are having to figure out other areas of business where they can provide service and make a decent profit to provide dividends to the people of this province.

In terms of SaskEnergy, SaskEnergy is being challenged on the industrial and commercial side of the business because we are in a competitive market. In terms of SGI, SGI on the general insurance side has been in a competitive market for a very long time. SaskPower, obviously you're challenged when you rely upon coal and natural gas and less so on hydroelectricity. And we live in a national and international marketplace in a sense and so you have to be able to provide rates to our customers that are competitive with other jurisdictions. So I think we're being challenged.

But in terms of the general philosophy of the notion of public ownership, I think that that notion is fairly entrenched in the psyche of the people of this province.

Mr. Elhard: — Can you envision a situation whereby the competitive environment that the Crowns operate in might ask you or compel you to re-evaluate the ownership issue?

Hon. Ms. Atkinson: — Right. Well I think there's no question that there was a time in the '90s — and I'll talk about SaskTel — where one of the worries of the government of the day, which I happened to be a member of, was that this might be a declining asset in that we weren't quite sure how competition was going to work in the province of Saskatchewan and whether or not we could withstand the Sprints and the Rogers and the TELUSes and so on. And so you don't want to put yourself in a position where you can't compete, and therefore the equity that you've built up in this company starts to decline rapidly.

So that was a worry for us, but that hasn't happened in the case of SaskTel. And what's interesting about SaskTel, in terms of the public scrutiny that has taken place in terms of external investments, it really has been SaskTel that has tried to diversify its portfolio in order to withstand its competition — not unlike every other telephone company in North America where they've gotten into other areas of business in order to deal with the fact that long-distance telephone revenues just aren't there any more.

So it's the company that really, when you think about your criticism, the opposition's criticism, it's the company that's withstood the most criticism and had the most public scrutiny and yet this is the company of all of our Crown corporations that the public is most supportive of. So it's very interesting in terms of our polling. And most supportive of because they continue to use SaskTel's services whether it's Internet, ***Max***, long-distance and cellular coverage.

Mr. Elhard: — I don't want to go into a long discussion about SaskTel at this point. We're going to do that at another time.

Hon. Ms. Atkinson: — I'm sure you will.

Mr. Elhard: — And I do agree that SaskTel has been able to maintain strong customer loyalty. We've recognized that and accepted that.

But I think I'd probably disagree with you somewhat as to whether or not its long-term viability is not going to be shaken badly by the rapidly advancing technologies that are happening and the fact that SaskTel is being squeezed ever closer within the four walls that make up the province of Saskatchewan. So you know I think there are very serious challenges facing SaskTel yet, and it's a question of whether or not they will survive those challenges if some serious considerations aren't given to doing something different with SaskTel going forward.

I want to return just briefly to Mr. Waller. We were talking about the third party independent review of outside investment. And you indicated, Mr. Waller, that you didn't think there would be much likelihood of an investment being made against the best advice of the independent third party.

I want to ask you though, can you envision any situation where you might proceed with that kind of investment over and above the advice you got, or in spite of the advice you got, especially as it relates to the mandate of CIC in the areas of economic development? Because not every area of economic development, initially anyhow, looks to be like a financial winner.

Mr. Waller: — Well at the present time the kinds of investments that are handled by the subsidiary Crown corporations, because CIC doesn't at this point in time do direct investing. That's now handled by Investment Saskatchewan, and the mandate of Investment Saskatchewan is directed largely towards making investments where they will show a commercial return.

If we're talking about an investment by some of our commercial Crown corporations, I do not believe, as I said before, that those types of investments will proceed against the advice of third parties because when you consult with a third party, what you're asking for is their opinion on a particular proposal. It's not a matter so much of public disclosure as it is a matter of due diligence and prudence.

At the present time within government, it is largely executive government that handles investments that are not being done on a commercial basis. And so you have departments like Industry and Resources that will have programs where money is provided to enterprises to achieve social purposes, or you have the Department of Highways that has a budget to build infrastructure. So that certainly in 2003 and at this point in time, those kinds of investments are not being handled by the Crown Investments Corporation.

The Chair: — We have Mr. Yates.

Mr. Yates: — Thank you, Mr. Chair. I have a number of questions but I'd like to return to the issue of third party validation or third party review of investments. It's been interesting, the line of questions that have come forward.

I'd like to ask if the disclosure of a third party review could in fact, in light that . . . in a review done on behalf of CIC results in a recommendation not to proceed with that review, if that became public, if it could not jeopardize the commercial value of the company or entity which you're looking at reviewing, and in fact disclosing that information could put at risk that third party's future commercial viability.

Mr. Waller: — Well certainly that's something that you can conceive of as a being a possibility. And each of these need to be looked at in the particular context of the proposed investment. But if you are, as a Crown corporation, intending to buy equity in an existing operation, then the third party review will be a review of the economics and the situation of the company that you are proposing to invest in.

So in that circumstance, the very nature of the review involves looking at what would be commercially confidential information, with the potential of damaging the company if your third party assessment is, for example, the proposed . . . the company in which you are proposing to invest was not commercially viable.

Mr. Yates: — Thank you.

Secondly, Mr. Chair, along the same lines. Because a decision was made by a third party review or by a CIC board or one of the Crown corporation boards not to invest in a company because it may not be viable for that Crown corporation to invest, it doesn't mean in all circumstances it's not viable for other companies to invest, that perhaps have a stronger market or stronger ability to merge with that company or to do different things. But it just may not be viable under those circumstances under which it's been looked at by one of our Crown corporations, and the disclosure of that information that are heard, the commercial liability then could significantly hurt shareholders both in private sector and that company.

Mr. Waller: — That would certainly be possible. Our Crown corporations do not look at a large number of investments that fit within those categories of investments that require the third party review, but certainly just because a Crown corporation concludes that it's not appropriate for it to make an investment in an entity, doesn't mean that it would not be appropriate for some other corporation to invest in that entity. And I mean, historically there are probably a number of examples of that having occurred.

The Chair: — Thank you, members. It is now being near 12 o'clock, we will recess and reconvene at 1 p.m., and Mr. Yates will have the floor. Thank you, members.

The committee recessed for a period of time.

The Chair: — We'll bring the meeting back to order, and Mr. Yates had the floor for questions.

Mr. Yates: — Mr. Chair, I have a couple of more questions. My final question around the last topic was, is there the potential if we were to disclose a third party review of a potential investment opportunity and that resulted in some devaluing of the commercial value of another entity, would there be the potential for liability on behalf of the government if we released a review that potentially could have implication on that company?

Mr. Waller: — Certainly that's a possibility, and part of the arrangements that are generally entered into with corporations, when you are looking at making an investment into the corporation, there's a confidentiality agreement that would preclude you from releasing confidential information. So you'd be liable to an action in breach of contract in that situation and you may well be liable to some form of action even in the absence of that kind of an arrangement.

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

My next question, Mr. Chair, is directed towards the Provincial Auditor. As we've moved forward in the last couple of years to increase our public disclosure, in particular around Crown corporations, and have moved to quarterly reports and payee information and a number of other enhancements to our public disclosure, could you tell me where we are in comparison to private sector companies that we might well be in competition with as far as the level of public disclosure they would make?

And secondly, where would we be in comparison to, say, a federally owned Crown corporation like Canada Post and what level of public disclosure are they required to make, and perhaps other publicly owned Crown corporations? So I'd like to understand where we are at in those issues in comparison to both the private sector and other public sector corporations.

Mr. Montgomery: — Thank you, Mr. Chair. First of all I'd like to say with regard to payee disclosure and the quarterly reporting, I think it's very safe to say that the Provincial Auditor is very supportive of those changes. They have improved the accountability and we are supportive of those initiatives.

With regard to the private sector disclosure, I think it's a different scenario here. Payee disclosure, I think, my view — and I think the view of the Provincial Auditor and the Privacy Commissioner — is when somebody deals with government, there is an expectation that the transactions may be disclosed. So it's not quite the same as the private sector.

Now the private sector does not provide anything near the amount of payee disclosure that is done by the Saskatchewan government, and from that point of view I think that that speaks for the Saskatchewan government. But it is a different scenario that, you know, dealing with government and dealing with the private sector.

With regard to Canada Post, we don't have specific details of what they disclose, although I do believe they disclose their business plan. I'm not sure personally whether they disclose a payee list. We would have to check into that and get back to you on that.

Mr. Yates: — Okay. Just to follow up, Mr. Chair, are you aware in other jurisdictions that have Crown corporations whether they have the same level of disclosure we have, or what levels of disclosure that they are aware?

Mr. Montgomery: — I think there's different levels of disclosure in other Crown corporations. I think in BC (British Columbia), their level of payee disclosure is at least equal to Saskatchewan is my understanding. In Ontario my understanding is that the levels are somewhat different. For example, salaries — they may be at a higher level before they disclose. I'd have to refer back and check into the details for that question.

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

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Thank you very much. On the same issue about the reports prepared by third parties for possible investments by CIC or any of its subsidiaries. As I stated earlier, I don't think it's required that those reports be provided for those that are, proposals that are rejected. Obviously if the CIC or a subsidiary is not moving ahead with an investment, then there is no reason to disclose those reports. But on an investment where CIC or a subsidiary decides to go ahead, then I think there needs to be a confidence level that the go-ahead was given a seal of approval, you might say, by the third party reviewer on those particular investments.

And that certainly does deal with the issues that Mr. Yates was raising about concerns of disclosure for those issues that were rejected and any subsequent impacts it might have on the third, on the investment potential that was in place.

So I don't see that as being a problem for the Crown corporation, for CIC or its subsidiaries when they're doing these reports and potentially releasing them. I think it applies to those investments that CIC or a subsidiary goes ahead with, but doesn't need to apply to those that they do not go ahead with because there is then no government money, no taxpayer money being utilized for those investments, and no monies from the Crown corporations.

So I think in the cases where the third party adviser has advised against a potential investment that does not proceed, then there is no . . . I don't see any reason for that to be released. But in a case where CIC or a subsidiary does go ahead, then I think there is value in providing that recommendation, especially if the adviser had recommended against that case and it did proceed. Because without the release of that information, how does the public, how does this legislature, how does this committee then determine that CIC or a subsidiary has gone ahead against the advice that they have requested from a third party?

Hon. Ms. Atkinson: — Well as I said earlier, Mr. D'Autremont, it is the intention of our third party review of investments policy that should an investment go ahead based on a third party review, it is our intention to provide a summary letter from the external reviewer to the public. Obviously if you were going ahead with an investment, any kind of summary, had the third party reviewer recommended against it, that information would be made available to the public, given that it's our intention to provide a letter that summarizes the recommendation or the information of the third party reviewer.

Mr. Elhard: — Thank you, Mr. Chairman. I'd like to go back to Mr. Waller's comments about economic development opportunities and potentials. The government has used the capabilities and the financial muscle of CIC to increase economic development opportunities or participate in economic development opportunities in the past. And if I understood Mr. Waller correctly, going forward, the economic development role of the Crown, Crown Investments Corporation, will be limited to those opportunities that are positive, that are recommended, that are deemed to be advisable from a financial perspective. Does that mean, going forward, that CIC or any of its subsidiaries would not be involved in what might be deemed speculative or risky economic development initiatives?

Mr. Waller: — Well virtually any investment involves some degree of speculation. I think the approach from the perspective of Crown corporations is to recognize that in the public interest they ought not to be participating in highly speculative investments, and to focus or concentrate on those investments that will assist the corporation in achieving its broader goals, either financial or other public policy goals.

I think what I said this morning is that, as of today, the Crown Investments Corporation isn't doing the direct investing. The work that previously was handled within CIC through its subsidiary, CIC Industrial Interests Inc., is now being undertaken by Investment Saskatchewan and the mandate of that corporation is to invest in projects that have a commercial return basis.

Mr. Elhard: — So if that is the mandate of Investment Saskatchewan through one of its branches or its investment arms . . . Maybe I can use an analogy or a specific example.

You know last year and the year before, CIC was seen to be the sponsor of Saskatchewan government initiatives in the ethanol industry, and to date very little has happened on that front other than very specific projects that had very strong either federal government support or industrial financial support.

In other areas of the province where communities were proposing ethanol operations for their community, it was deemed pretty speculative, pretty difficult, without the support — the financial support possibly — of outside financial interests such as banks or credit unions or trust companies of investment funds of some sort, or CIC. Having used that, or having seen how that situation unfolded, can I take it from your comments that CIC directly or Investment Saskatchewan or any of the CIC subsidiaries would not likely get involved in that type of economic development project, going forward?

Hon. Ms. Atkinson: — Maybe I can speak a little bit about this. As you know, there was . . . CIC Industrial Inc. was involved in making equity investments in a number of projects across the province that were generated by communities or individuals in order to promote rural, in most cases, rural economic development. You'll also note that along with those investments came some investments that were not at all successful and underwent a great deal of public scrutiny and criticism.

As part of the Premier's announcement last fall, in terms of the rejuvenation and re-energization of the Crowns, he . . . leading up to that announcement was the creation of Investment Saskatchewan, which was to be an arm's-length investment arm for the people of this province, where you would have a board of directors made up of highly capable and skilled individuals who could make those kinds of investment decisions apart from government.

What has become apparent, and I think this is what you're referring to, Mr. Elhard, is that there are some initiatives that are undertaken by communities or individuals that would not come under the auspices of Investment Saskatchewan because they are undercapitalized or they are a bit risky. And I can think of a couple that have come to my attention that have been rejected by Investment Saskatchewan.

So what it has, what we in essence have at present is a bit of a vacuum, if you want to call it that, where there is no way for us at present to invest in projects that are a bit undercapitalized or a bit difficult, even though they could be commercially viable in the future.

And so when Mr. Waller says that at the present CIC is not involved in investments, that's absolutely correct because that role and function has been transferred to Investment Saskatchewan and they invest in projects that are commercially viable, where there's a rate of return, because they're expected to provide a dividend to CIC as a subsidiary Crown.

Mr. Elhard: — Madam Minister, thank you for the answer. But I thought I covered that when I said CIC or any of its subsidiaries — that would include Investment Saskatchewan. So if I understand you correctly, you're telling me that right now there is an area in which investments that might not be . . . no, that may have been made previously would not be considered logical or a potentiality for investment now. That vacuum you're talking about is that no man's land of real venture capital risk.

Hon. Ms. Atkinson: — That's fair. That's a fair observation. Obviously there is a venture capital partnership that has been created where CIC has some money in that venture capital company and the notion is to invest in large projects in the province of Saskatchewan. But once again, venture capitalist companies tend to want to have some rate of return. And so there is that opportunity; there's the opportunity through Investment Saskatchewan. But if you're asking for those high-risk projects where they may be undercapitalized, they don't have access to capital, CIC is not the . . . it does not have the role and function that it had two or three years ago.

Mr. Elhard: — Okay. I think that's what I'm trying to decide or decipher here because I know of instances where individuals who had, you know, a good idea, an idea that looked very workable, maybe had all of the technical expertise but no financial expertise, who looked to CIC or one of its operating arms for support and in some instances were given the support and in other instances were denied the support. But nevertheless CIC was looked at as an opportunity to arrange financing that might not be available through commercial sectors. So I want to determine today whether that's a possibility going forward or if that's no longer a possibility for those types of projects or ideas.

Hon. Ms. Atkinson: — You see, I think that one of the areas that CIC was criticized for was picking winners and losers. So there might be a project in one community that was agreed to by CIC and there might be a similar project in another community and it wasn't. I clearly remember that kind of criticism. And so when we moved to Investment Saskatchewan the notion was to try and remove this idea that we were picking winners and losers in terms of investment opportunities for CIC.

What I can share with you is that we are pursuing with a private sector partner — I'm not able to tell you the name of that private sector partner at the moment — but we are pursuing the notion of a foundation where it would be a partnership between CIC and the private sector partner and others where there would be a pool of capital available for individual investors or for investors under a certain amount of money. And we haven't quite concluded what the numbers should be because there are number of small projects that are quite viable, we believe. But in terms of the kind of investments that Investment Saskatchewan is going to be making, or other venture capital corporations, they're interested in the larger projects, not the smaller projects. So we're hoping that we'll have something to say about that in the near future.

But if you're asking me today, Mr. Elhard, do we have a fund in the province of Saskatchewan that would be available for community groups or a group of investors to access for projects that are risky in that they are undercapitalized, the answer today is no.

Mr. Elhard: — But going forward, it might be, maybe?

Hon. Ms. Atkinson: — Going forward, what I can tell you is we're looking at a foundation or a fund of some kind for smaller projects that might . . . where the investors don't need a significant rate of return because, as you know, investor, venture capitalists want a significant rate of return. Investment Saskatchewan has dividend targets, obviously, so they need a rate of return. So there is that opportunity going forward but it will be for smaller projects. I suspect it will be for projects under $1 million.

If you're asking me is there going to be a fund available for larger projects, at this stage the answer is no, but we realize that there is a bit of gap here.

Mr. Elhard: — Okay. Will these projects and this fund be subject to the same kind of scrutiny, third party scrutiny, that we have set in place for the larger investments?

Mr. Waller: — What has been contemplated at the moment is the establishment of a fund with participation from CIC and the private sector, and not just a single party in the private sector but a number of different parties. It was referred to in the spring Throne Speech as the entrepreneurial foundation. And the concept there is to build a structure that will allow assistance to primarily young entrepreneurs to establish businesses and to have a second part where small amounts of capital can be accessed. Because at the moment, as the minister said, we have within the province a number of venture capital organizations. Investment Saskatchewan is interested in projects at the $3 million or above level. Investment Saskatchewan has management arrangements with other fund managers under which their focus is at projects between slightly under $1 million up to the $3 million mark.

It's difficult for any venture capital organization to process applications for smaller amounts since the cost of due diligence on a $3 million project or a $1 million project or a $200,000 project is roughly the same. And so what we're looking for is a structure that will allow for equity funding to be accessed at the small end of those projects.

As it's currently envisaged, we don't believe that CIC will be the operator at the level of the foundation or the equity portion of it. And therefore, as it's currently envisaged, there would not be third party reviews of those projects, just as there's no third party review of projects involving Investment Saskatchewan since that is their primary business, is to make those kinds of investments.

Mr. Elhard: — From your comments then I take it that the multiplicity of partners is going to bring the discipline to the investment that a third party review might otherwise provide.

Mr. Waller: — It is certainly thought that that would be the case. Yes.

Mr. Elhard: — Okay. Thank you.

The Chair: — Members, I have a couple of questions and no speakers on the speakers list, so if it's appropriate, I'll ask a couple of questions.

First is on page 4 of the report or presentation on strengthening Crown controls. You made mention of a joint CIC board, Crown Chair and CEO planning forum. Can you give a bit more information about that? That sounds quite interesting.

Mr. Waller: — Blair, do you want to handle that?

Mr. Swystun: — One of the objectives that CIC has is to ensure that the Crown sector and all of CIC's subsidiary Crowns work toward common goals and objectives in terms of meeting the government's public policy priorities for the Crowns. So there's been a number of mechanisms that have been established to assist in that regard.

The Crown Chairs forum that's referred to here is a forum where the Chairs of the boards of directors of all subsidiary Crown corporations get together periodically with officials from CIC and discuss topics of common interest. And it also serves as a forum for a two-way exchange of information both from

CIC to the Chairs of the boards of directors of the Crowns. And at the same time it provides an opportunity for the Chairs of the boards of directors of subsidiary Crowns to raise issues that may come to their board tables with CIC, so that where there's issues that should be brought to the attention of the shareholder, those issues are in fact raised. And it then presents an opportunity for CIC to play a role in facilitating ways of addressing those kinds of issues.

A similar kind of a forum exists at the CEO level where the CEOs of the Crowns will get together with Mr. Waller to discuss issues from the perspective of the management of subsidiary Crown corporations and vice versa. Once again, direction coming from the holding company can flow back to the CEOs so that there's good two-way communication both with the boards of subsidiary Crown corporations and also on a management-to-management kind of a level.

The Chair: — The other question that I had was related to debt and it's on page 8. But on page 12 and page 7, in the last three years it looks like the debt ratio has declined quite substantially, and then the earnings versus dividends paid seems to be widened as well.

But the question I had specifically, on page 8 there's some different coloured bands on 2003, the debt ratio and dividend rate. And my question was, it indicates that SGI and SaskEnergy are not at the target — so I would presume that debt would have to fall — but also that the ones under green are at the ratio. Is it possible that the debt could go up and stay within that ratio? Or that, you know, in some cases the debt ratio — for example in SaskTel — seems quite low compared to even SaskPower, which is at 57 per cent, and definitely SaskEnergy which is 72. So I guess what I'm wondering, is there an appropriate level of debt or could debt actually be too low in comparison to private companies or other companies that are in the same competitive business?

Mr. Swystun: — Yes, the appropriate debt level for each Crown corporation is compared to other companies in that same industry. In the case of SaskTel as a telecommunications company, it's compared to the other major incumbent telecommunications companies in Canada, which would primarily include Bell and TELUS and some of the newer competitive companies. MTS (Manitoba Telephone System) would be probably a third major competitor as well. On that standard, SaskTel has the strongest balance sheet of any of the incumbent telecommunications companies in Canada.

A second benchmark that's looked at in that particular case is the CRTC's (Canadian Radio-television and Telecommunications Commission) regulatory model for setting rates for telecommunications companies in Canada. Now it's a rather complex model and it's something that's referred to as price cap regulation, but the point that's relevant here is that as part of its deliberation the CRTC will make some assumptions concerning what the capitalization of an incumbent telecommunications company would be. And for their purposes, in terms of setting price caps for incumbent telecommunications companies, they have assumed that a 45 per cent debt ratio would be considered to be appropriate. So by that standard as well, it's quite clear that SaskTel has an extremely strong balance sheet.

And to your point, that I think you're exactly right, there can reach a point where debt can be lower than is considered optimal from a corporate finance perspective, and the trade-off there is that you can finance either with debt, which has a relatively low cost, or you can finance with equity. And for every dollar that you're not financing with debt, you're inherently financing with equity, which has a higher cost to it, and you're also giving up the opportunity to take that equity and redeploy it somewhere else, whether it be to another investment or whether it be to pay back as a dividend and to provide a return to the owners.

In the case of SaskPower, the debt ratio target there is 60 per cent. And once again that's a benchmark against other companies in the same industry, and that can be a fairly complex process because SaskPower is a fully integrated generation, transmission, and electricity distribution company. And when comparing to other companies in the same industry, you have to compare not only in terms of the similarities but you also have to recognize the differences. Some companies are primarily electricity generators; others may be more in the mode of being transmission companies.

But the long and the short of it there is that SaskPower once again has a very healthy balance sheet in relation to its target, that being 60 per cent. So it could withstand a modest increase in debt and still have its debt at an optimal level. So the consequence there is that SaskPower for 2003 was very prudently able to withstand a dividend payout. There was a higher percentage of income, while still protecting its financial health.

The Chair: — I had Mr. Yates.

Mr. Yates: — I had similar questions, Mr. Chair, on debt/equity ratios in the companies, or debt ratios in the company. But the answers have led to a couple other questions. The optimum levels of debt in the corporation, in any of the Crown corporations in comparison to companies across the company, or the country, pardon me — do those fluctuate from time to time, or are they more or less standard based on a set of rules that are reviewed say every 10 years, or do these fluctuate annually?

Mr. Swystun: — The benchmarks do indeed fluctuate with changes in industry circumstances. A good example would be in the case of SaskPower. Back in 1998 for purposes of this illustration, a debt ratio of 59 per cent was not considered to be optimal; it was believed to be too high. And that would be in the circumstance of, at that time there was a belief that there would be a fairly rapid spread of competition in electricity markets across North America. And in fact if you were to look at a SaskPower and a report from that time, you would actually see statements to the effect that SaskPower believed that it would be in fully competitive electricity markets in Saskatchewan by the year 2000.

Now obviously that hasn't happened, and that has been the result of the experiences in some other jurisdictions where things have not gone so well when there's been competition introduced. And a couple of examples that come to mind would be California, and perhaps to some extent Alberta, and some of the volatility that they have experienced in electricity pricing there as a result of the introduction of competition.

So by the year 2002, there was a recognition that electricity competition was simply not going to proceed anywhere in Canada at the pace that it had been earlier believed and instead of striving for a debt target of 50 per cent which was really predicated on having fully competitive electricity markets, there was a recognition that the operating environment for SaskPower was likely to be quite a bit more stable.

There's competition at a wholesale level. There's wielding of electricity through Saskatchewan, but for the most part, SaskPower in many aspects of its business does remain a monopoly. That means a more stable operating and financial environment, and it means that SaskPower can probably withstand a somewhat higher level of debt and still be prudently capitalized.

Mr. Yates: — Thank you. In reviewing the chart on page 8, I was wondering why at 56 per cent it was not seen to be properly capitalized but at 57 it was. So thank you for that explanation.

The Chair: — Mr. Elhard.

Mr. Elhard: — You know, I want to refer maybe to that chart myself because I'm a little confused by some of the things we've just heard and what the chart says and comments that were made earlier in the presentation. Like I notice on page 8, if you look at the chart, the debt ratio for SaskPower for instance has only improved 3 per cent, from 60 to 57, and I assume that's an improvement, but the dividend rate that was required of SaskPower has jumped by 50 per cent or thereabouts.

And you know, I'm familiar with the situation for SaskPower and the numbers concerning the dividend that was paid, the profit that was reported, the fact that $113 million of the reported profit was a paper profit — not actual hard cash — and the fact that SaskPower was short $95 million of hard money to pay the dividend.

They had to find that somewhere. Either they took it out of equity or they borrowed it or imposed upon the money set aside for infrastructure improvement, whatever, but there was a shortage of money there. And I'm tying these situations together with the comment that appeared or that was made earlier in the presentation that borrowing to pay dividends in excess of the actual profitability of the available cash is not sustainable.

So I guess all of that said, it leads me to ask the question. There was an indication in the presentation earlier that there are policies established to determine dividends from the Crowns to CIC and then on to the General Revenue Fund. So I guess I'd like to discuss the structure of, or the . . . No, not the structure, the application of those policies — who makes those policies; where do they come from, and who applies them and how are they changed from year to year to address the cash needs of the government.

Mr. Swystun: — The policies for the payment of dividends by subsidiary Crowns to CIC are established by the Crown Management Board on the advice of management from CIC. The application of the policy has remained very consistent since the policy was implemented in 1998, which is the time frame that this particular chart reflects, and it takes into account the financial health of each subsidiary Crown corporation as assessed in relation to a debt-ratio benchmark for a company in that industry at that point in time. It also takes into account the needs that the government has for a current return by way of dividends from a particular Crown corporation or from the Crown sector as a whole.

The application of the dividend policy is that when a Crown corporation's debt ratio is at a level that's judged to be optimal, it can pay a high dividend payout rate; when it's not, it pays a lower dividend payout rate. And you can see that that moves in both directions by inspection of the table, where in any instance where you have a change on a particular line where it goes from the red zone to the green zone or vice versa. So the policy has inherent flexibility, and it cuts both ways in the sense that if financial flexibility has improved, higher dividends are paid out. And that's indeed the case with respect to SaskPower in 2003 and vice versa in the case of SGI in 2002.

In the case of SaskPower, the dividend payout rate jumping from 65 per cent of earnings to 90 per cent of earnings inherently protects the financial flexibility of SaskPower because, first of all, any dividend payout rate that's equal to less than 100 per cent of earnings by definition is adding to the equity capitalization of that company. The remaining 10 per cent of the earnings are added to the retained earnings. So that's improving the equity capitalization of the company.

I mentioned in the presentation that in assessing a Crown's capacity to pay dividends we have to keep an eye on two things: first of all, the cash position because dividends are paid from cash; they're not paid from retained earnings — that's an accounting concept only. But we also keep an eye on retained earnings and on the amount of equity in a corporation. So you've got to check both factors and the test has to be met on both counts before a dividend would be paid at a higher payout ratio. And as you can see, SaskPower was able to pay dividends at a higher rate, despite the fact that a portion of its earnings were from a non-cash item, because it had adequate cash on hand to meet that dividend payment.

I would also point out that although the magnitude of the non-cash currency gain was particularly significant in 2003, it's not at all unique. Many components of a Crown corporation, or for that matter any company's earnings, comprise non-cash earnings or expense items. For example, depreciation or amortization is a non-cash item that's a factor in the determination of income. When there's an investment writedown, that's also a non-cash item. In past years when the Canadian dollar was declining relative to the US (United States) dollar, SaskPower would have been incurring non-cash expenses with respect to its currency exposure.

So the principle that applies here is that net income is the determinant of the equity that's available to be paid back to the holding company as a dividend, and at the same time we keep an eye on the debt ratio to ensure that the dividends that are paid are not at the expense of the financial health of the company. So in my view the dividend policy works in a manner so as to protect the financial health so that there is no payment of dividends on a basis that's not sustainable.

When the policy was developed, CIC took the step of vetting it through a couple of the major investment banks in Canada just to see how it stacked up with their view of how investors in publicly traded companies might view a dividend policy if something like what we have in the Crown sector were applied in the private sector. And the indications that we received were that this policy is very much classical corporate finance theory in application and that it makes a lot of sense.

Mr. Elhard: — The flexibility of the policy leads some people to question whether or not there shouldn't be an additional mechanism put in place to limit some of that flexibility. And I guess the question that comes to mind is, I think you indicated that SaskPower had the money on hand that it needed to pay the dividend, even though its net profit — hard cold cash — last year was $74 million and the dividend was 169. If SaskPower had that cash on hand to pay a dividend of that magnitude, why is it necessary, or why would that dividend have been paid knowing what it did then about the added costs of generating electricity and the need to re-invest in its infrastructure?

It doesn't seem to me that in the corporate world companies would pay that kind of a dividend to their shareholders if they knew for a fact that they had those kind of outstanding expenses facing them. And certainly, the reconstruction or revitalization of their infrastructure isn't something that just occurred to SaskPower. It's something that I'm sure they've been faced with and deliberating for some time. They've known for years that their infrastructure was aging and that it would have to be replaced.

Wouldn't it have been deemed wiser use of the money from the perspective of SaskPower to pay a lesser dividend and address some of their additional costs of generating electricity and revitalizing their infrastructure?

Mr. Swystun: — Well the balance to be struck is to ensure that new infrastructure that is acquired is financed in an efficient way.

If, for the sake of illustration, SaskPower were to retain all of its profits and were not to pay a dividend to CIC, what that would result in happening is there would be a further reduction in SaskPower's debt ratio below the target that I described. And there can indeed reach a point where the financing mix between borrowing and reinvestment of past profits is not optimal. And that is to the detriment of SaskPower's customers because more of the assets are being financed with relatively more costly equity capital. The return on equity target for SaskPower is 10 per cent, whereas the option is to finance some of that with relatively cheaper debt that has perhaps in today's interest rate environment a 6 per cent cost of capital.

So it's really a matter of trying to come up with the efficient way of financing the operations of the corporation going forward. And the need to undertake those new investments, to renew the infrastructure — you're absolutely right — is nothing new. And it's just I think come to the forefront because of the fact that the corporation has a rate application before the rate review panel.

Just by way of some illustration to how those dividend payouts would compare to what you might see in the private sector — because you may find this interesting — there is a wide variation amongst electricity utilities across Canada. And it very much does depend on their individual circumstances.

Companies like ATCO, for example, are only paying dividends out at about 30 per cent of earnings these days. A couple of other names that you might recognize —TransCanada is paying out dividends at about 70 per cent of earnings. There also are companies that are operating in relatively stable environments, like the TransCanada Power income trust which is paying out dividends in excess of 90 per cent of earnings. The TransAlta power income fund is also paying dividends out in excess of 90 per cent of earnings.

So what you're seeing happening at SaskPower could not really be judged to be unique in comparison to what you might see happening amongst publicly traded companies.

Mr. Elhard: — The $95 million that SaskPower was short in terms of actual cash you said was available. Was it available in some sort of savings account, or is that $95 million accessed through cash flow by customers paying their bills month to month? Is that the source of the $95 million that you were short in terms of SaskPower's dividend?

Mr. Swystun: — Well I'm not sure that I would characterize there being a shortfall in cash that was available. The source of all of SaskPower's cash is the revenues generated by its customers, whether it's customers within Saskatchewan or revenues generated by sale of power to export customers. The cash that was available would be a combination of cash on hand, cash flow that's received, and yes, there is a component of the financing that comes from borrowing, no question about it.

Mr. Elhard: — I don't know that any individual — and I'm not going to talk about companies because I'm no corporate giant; I'm not familiar with their operations that intimately either — but, you know, I don't know anybody personally who would characterize the money they make on a monthly basis as the cash on hand to pay a dividend.

You know, I'm just looking at my own finances, for instance. If I said I can pay a dividend based on my monthly cheque, that's not cash on hand; that's basically borrowing against anticipated earnings. And that's what's being asked of the people of this province, I think on behalf of SaskPower right now, is pay the dividend that was announced and deemed achievable by your utility bills and soon to be, as an average, 9 per cent higher.

And, you know I think that characterizing that as a cash capability, or a cash on hand, is not going to pass the test of common sense or common understanding among the people of the province. I might also refer the minister to the fact when the same kind of thing happened 20-odd years ago, it was deemed inappropriate by the current government. And now we're seeing a practice resurrected that is characterized as being just common business practice. And, you know, I find that contradiction just unacceptable.

Hon. Ms. Atkinson: — I'm sorry I don't know what you're referring to 20 years ago.

Mr. Elhard: — Well I did a little search through *Hansard* actually and found out that just shortly after the Devine government came to power, SaskPower I believe it was, announced they had a profit of $1 million but the Devine government took $50 million in dividends. And the Premier of today, at that time, was very unimpressed with that particular exercise and so were other members of the opposition at the time.

And yet it's happening in a similar vein today. SaskPower doesn't have the money to pay the dividend. It's taking money against future revenues and that's deemed to be an acceptable practice, business practice. So you know, I think the term, the term equity stripping has been used, and in kind of a malicious and derogatory way. But what else is, what else do you call it when you take money from a company in amounts that are over and above what it can legitimately pay?

Mr. Swystun: — Well we certainly believe that the amounts that SaskPower is paying are amounts that it can legitimately pay and the, as I've indicated, the indicator that's used is to keep an eye on the debt ratio. When the dividend payout rate increases from 65 to 90 per cent of earnings and the debt ratio drops from 60 to 57 per cent, I would characterize that as a situation where the company, where its financial flexibility is being protected.

Where, in my view, where it would not be appropriate to continue to have a high dividend payout rate would be the circumstance where the debt ratio rose above the target. And that is in fact the way the dividend policy works, and there's a track record of evidence here that indicates that that's the way the policy has been applied historically.

Mr. Elhard: — Would this dividend be achievable and would it be practical if the rate increase that SaskPower was seeking or has actually achieved at this point, if the rate increase as an average had been 5 per cent?

Hon. Ms. Atkinson: — I just want to remind the committee that as I understand it SaskPower has had an overall rate increase of about 6.5 per cent since 1998. Its last rate increase was effective January 1, 2003, I believe.

SaskPower has not had significant rate increases that even match the rate of inflation over the last several years. Now I suppose that one could argue that we should have been increasing the rates all the way along. But we also recognize that given the earnings that the company was able to provide, that we were in a, you know, a fairly decent position and the debt/equity ratio.

You indicate that in . . . 20 years ago, Mr. Devine took dividends of $50 million when in fact the company only earned $1 million. We are not talking about equity stripping, we are not talking about taking on more debt, and all we have to do is to look at the debt/equity ratio in the province. So I know you're trying to build a case, Mr. Elhard, but I think that Mr. Swystun has been very clear in terms of the financial health of this company.

Now just . . . and I'm going to table this letter because I recognized that no doubt there would be some of these voices emanating from across the floor about the financial health of SaskPower. I asked the president of the company, Mr. Wright, to confirm in writing to me that the financial health of SaskPower was not going to be jeopardized in any way, and he's been able to do that. And I plan on tabling that letter with the committee.

So I just want to make this observation once again. The debt/equity ratio of this company is below target. The financial health of this company is not in any difficulty. There have not been any . . . There has been a 6.5 per cent rate increase overall since 1998, I believe, and the last rate increase was January 1, 2003, a year and a half ago. So I would make those points for the committee members.

Mr. Elhard: — Madam Minister, I, you know, I understand you're going to defend the decision of your government to do what it felt necessary in terms of the SaskPower rate increase. But, you know, there are political consequences to rate increase announcements. And if we're looking back to 1998, I would posit for you now that that was just prior to the 1999 general election. I don't think the government would have been interested in raising rates substantially heading into an election period.

There was a time between 1999 and November 2003 when the government was in a minority position and would have been loath to raise rates unnecessarily. And now we have a very significant rate increase that frankly is intended to benefit the Crown corporation, both SaskPower and CIC generally. It's intended to benefit retroactively the ability of the Crown to pay a dividend that's much higher than it ought to have been. And frankly, right now a 9 per cent average increase across the province is about the last thing the consumers of this province need. So I would suggest that the government has decided to put the financial health of SaskPower ahead of the very urgent needs of the citizenry of the province.

The thing is, Madam Minister, that this rate increase is an effort by the government to help pay off a budget deficit. And, you know, it's interesting that I can say that because those are the very words of the current Premier in a debate on August 8, 1989 when he was making his concerns known about the practices of the Devine government and the way they used the monies generated by the Crown corporations at that time.

And you, know, I guess the old adage about what's good for the goose is good for the gander is applicable here as well. We just had you gentlemen from CIC admit that some of the dividend paid by SaskPower was cash on hand, money that was going to be gained through future utility bills or future cash flow payments, and some debt. And I would suggest to you that you know the reality for the people of this province is that this is a tax increase, it's a backdoor approach to taxation, and it is done at the behest of the government for the benefit of the government's deficit budget. And we can put all kinds of paint on this picture, but it's not a very good one.

Hon. Ms. Atkinson: — Well obviously, Mr. Elhard, that is your political opinion and we live in a free and democratic society and you're entitled to your opinion. But in our view I think we've demonstrated today that we have a sound dividend policy that certainly meets industry standards, and in fact we have two companies that are below their targets in terms of debt/equity ratios.

The dividend targets that we have consider the Crowns' forecast earnings, their level of investment required to maintain and improve infrastructure. And I just want you to know that even though SaskPower paid a significant dividend last year, they are busy continuing to maintain and improve the electrical infrastructure in our province. And we also look at debt.

Now dividends are paid when it's financially sustainable. SaskPower has a healthy debt/equity ratio. It's at 57 per cent; the industry standard is 60 per cent. Mr. Swystun has told you today that there are income trusts, certainly next door to us in Alberta, where those income trusts, their electrical income trusts are paying their shareholders 90 per cent in terms of dividends. We believe that we, that SaskPower has a healthy debt/equity ratio and it certainly has sufficient cash on hand to pay for its reinvestment needs and to pay the dividend.

Now you talk about dividend stripping. Well I just want to remind everyone, because history's important, that during the Devine era we saw an additional $2 billion in debt because of dividend stripping. That is not the case here. In fact what we've done, we've worked extremely hard since 1991 to reduce Crown debt, and in fact if you ask the Provincial Auditor I think he can confirm that we have paid down more than 1.8 billion . . . or pardon me, we have paid down more than $1.87 billion in debt — $1.87 billion in debt on the Crown side. And while we were paying down this $1.87 billion in Devine debt, we were reinvesting in infrastructure, and those Crowns paid more than $1.8 billion in dividends to the GRF (General Revenue Fund).

So Crowns have improved their debt/equity ratios, they've expanded their programs and services, they've reinvested in their infrastructure. We've asked a lot from our Crowns, and in my view they've done a great job. And so I do not at all buy your political contention that we have equity stripped, dividend stripped, added to the debt. We do not take dividends, and Mr. Swystun in his slide this morning has showed very clearly, when the debt/equity ratios of our companies are such that we believe they're not at target, we do not take a significant dividend from them. And in fact in the case of SGI we look at its net risk ratio and depending on it we do not take a significant dividend from SGI because we don't believe the company can sustain that kind of dividend taking.

In terms of your . . . the issue around the SaskPower rate increase, I think I would like to remind the public, all you have to do is go down the river in this province where we get a lot of hydroelectricity — it's one of the few places we get hydroelectricity — and there are sandbars everywhere. And my understanding is it is more serious than last year because of the runoff from the mountains.

When you don't have water you can't generate hydroelectricity; you burn coal and you burn natural gas, and natural gas, as we know, has increased in cost to not only SaskPower but SaskEnergy as well.

We have a rate review panel. We have taken an interim rate increase as of September 1. This is not unusual. Other jurisdictions also have companies that take interim rate increases. In fact I searched the Internet to see where things were at in other jurisdictions. Rate increases might take place in April, May, January and they do not yet have an opinion rendered from the rate review panel.

We anticipate that our rate review panel will render an opinion by early December. The rate review panel's record as to what this cabinet has done, they have made their recommendation and I think in all but one case the cabinet has concurred with their recommendation. So the public has a significant opportunity to participate in the review of the SaskPower rate increase and the rate review panel will render its recommendation to the cabinet and I suspect that the cabinet will accept it.

Mr. Elhard: — Madam Minister, I'm looking at the presentation that was provided for us earlier today by the officials from CIC and I note with some interest on page 10 that the sale proceeds from assets sold by CIC over the years from 1995 to 2003 amounts to one billion three hundred and seventy-five point . . . . I'm sorry . . . three hundred and eighty-seven point five billion dollars. I guess it's $1.3875 billion.

That would just about cover the one and a half billion dollars in debt that you said CIC has reduced over the last few years. So we know how that's been achieved. Primarily, it's through the sale of assets.

But if I can address or turn your attention to page 9 of this particular presentation today, item no. 2 says that borrowing to pay dividends that exceed available cash is not sustainable. And in the words of your officials today that is what has happened. Non-self-supporting debt must be financed at future higher utility rates by future higher utility rates and/or lower General Revenue Fund dividends. That is what is anticipated to happen. We've got a proposal for a 9 per cent average utility rate increase and I think if I recall correctly the projections for SaskPower's contribution to the CIC dividend for next year is considerably less than it was announced for this year. And thirdly, while dividends are paid from cash, which apparently wasn't all on hand, CIC must also have sufficient retained earnings to support dividends.

These are the words of your own officials. And you know, I think they underscore and they make our point frankly that what happened at SaskPower was, if not deleterious to the point that they're going to be jeopardized financially going forward, it certainly was more onerous. It was a more onerous requirement of the company than certainly the people of the province would approve or accept, and certainly higher than ought to have been requested of them.

Hon. Ms. Atkinson: — I am going to read into the record the letter that was provided to myself from Mr. Wright and it was sent to Mr. Waller and I'll read it. It's dated March 16, 2004, and I'll provide copies to each of the committee members.

> Dear Mr. Waller:
>
> As requested, this letter is to inform you that the SaskPower Board of Directors approved, on March 12, 2004, a $168.5 million dividend payment to Crown

> Investments Corporation . . . in respect of SaskPower's 2003 fiscal year. This dividend payment represents 90 per cent of SaskPower's 2003 net income and is in accordance with (the) CIC's Dividend Policy for Subsidiary Crown Corporations, dated August, 1997.
>
> SaskPower is positioned to pay the 2003 dividend given the Corporation's $187.2 million net income and . . . (the) relatively strong balance sheet as indicated by a debt ratio of 56.5 per cent that is well below the target rate of 60 per cent. Furthermore, in 2003, operating cash flow was $253 million which is in excess of the above dividend payment.
>
> Should you require any further information on this matter, please do not hesitate to contact me.
>
> Yours sincerely,
> John Wright,
> President and Chief Executive Officer (of SaskPower)

And I would remind people that Mr. Wright is a former finance . . . or deputy minister in the province of Saskatchewan and helped us get the debt of this province under control in the 1990s.

The Chair: — Mr. Elhard.

Mr. Elhard: — Thank you, Mr. Chairman. I would also like to read into the record, and I will in a few moments time, the fact that Mr. Wright warned the employees of SaskPower in an e-mail that the SaskPower financial position was not as good as it would appear publicly. I'm prepared to read that e-mail, made available to SaskPower employees, into the record in a few moments.

I also know that Mr. Wright was conscious of the delicate situation that faced SaskPower financially because he understood that modern and contemporary standards of accountability that are required of executives of major corporations insist that CEOs take personal responsibility for the reporting of financial statements. And this is something that has grown out of, as we're all aware, you know the very ugly situations that have developed in the private sector in huge losses being incurred by companies in the States and in Canada to some extent.

I mean we're all familiar with the World Com fiasco, and the Enron fiasco, and Tyco, and most recently Lord Black and his Hollinger Corporation. Those spectacular failures of an abuse of public trust have provoked legislation in the United States, and I think it's referred to as the Sarbanes-Oxley Act of 2002. And it's provoked or challenged the Ontario Securities Commission and the Toronto Stock Exchange to come up with very stringent requirements for people who are presenting financial statements for public consumption.

And the obligation of financial officers and chief executive officers in the States has become such that the CEO or the chief financial officer have to sign off on their financial reports because the public demands it. And you know I think that the standard to which the public is going to hold us as legislators and the government of the day is equally significant, and it's a high standard and it's becoming higher.

And I think Mr. Wright was aware of those obligations and those requirements, because in his own communication with his employees, he indicated that things weren't as good as they appeared. And I think to characterize everything as absolutely all right now is contradicting what Mr. Wright said in some of his communications. I would like the opportunity to read Mr. Wright's memo into the record, if you would just give me a moment please, Mr. Chairman.

Mr. McCall: — Point of order, Mr. Chair, and if you'd care to table the document as well.

Mr. Elhard: — Sure.

Mr. McCall: — Thanks.

The Chair: — Members, this is approximately the time that we had agreed upon having a short break. I'm wondering rather than sitting and waiting, whether members would be open to taking a short break and reconvening at 2:30. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Agreed. We'll reconvene at 2:30 sharp.

The committee recessed for a period of time.

The Chair: — Thank you, members. We'll reconvene. I recognize Mr. Elhard.

Mr. Elhard: — Thank you, Mr. Chairman. I want to make note of the fact that I went to my office to find the e-mail and it's lost in the papers. I have a mess on my desk and I couldn't put my hands on it, but I will undertake to table the e-mail at our earliest possible convenience, as early as tomorrow if I can find it, but as soon thereafter as possible.

But having said that, you know that doesn't detract from the argument I was making before we took the break, Madam Minister, because I have, you know, with me the SaskPower 2003 annual report. And I would refer you to page 1, SaskPower overview, in which in the very first paragraph it talks about the future operational requirements and how they want to maximize efficiencies and so forth. But the last sentence on the first paragraph says:

> These pressures . . .

It's talking about the escalating costs that SaskPower faces in fuel and purchase power.

> These pressures were masked . . .

I underline the word masked.

> These pressures were masked by the foreign exchange gains recorded on the translation of U.S. dollar denominated debt into Canadian dollars.

The word masked speaks volumes about what the author believes the real financial situation was at SaskPower.

And if I may, Madam Minister, I'll refer you to page 10 of the same report, the top paragraph under management's discussion and analysis, again it says:

> Income before foreign exchange gains and equity investment income was $73 million in 2003, compared to $131 million (the year previous) . . . 2002. This $58 million decline was primarily due to the effects of higher natural gas prices and a change in SaskPower's generation (and so forth) . . .

There is a $58 million decline in profitability at the Crown corporation. And this was a fact that was known to the management of SaskPower.

And I guess the unfortunate thing about this, Madam Minister, is that even though, even though the President of SaskPower knew that there was going to be a huge decline in profits, even though we know from the officials at CIC that they had you know some prior awareness of that situation, neither one of them actually made the choice to impose a transfer of revenues, a dividend payment, to the General Revenue Fund to the tune of $169 million. That appears to me to be purely a political decision. A decision taken by, Madam Minister, your board, your cabinet, your government. And now the people of Saskatchewan are paying for that decision in a significantly higher rate increase across the province.

So, Madam Minister, I want to postulate. I want to make the point that we can try and justify these rate increases any way we want. Your government can say that we didn't have many increases previous and they've been marginal when they did happen, but as a result of this particular action, you can't define the dividend required of SaskPower as reasonable in the circumstances.

The Chair: — I just want to make mention, members, that the item before the committee is the report of Crown Investment Corporation of Saskatchewan. You made fairly lengthy references to a report for SaskPower, which I had not indicated to the members . . . or to the minister and the officials to be prepared to answer various specific questions to that nature. But I will open the floor to the minister and the officials to answer the general questions, and if there's specific questions that they are unable to answer because they haven't brought the proper officials, then . . . I just wanted to raise that with members.

Ms. Atkinson or Mr. Waller.

Hon. Ms. Atkinson: — Thank you Mr. Chair. When the SaskPower annual report was released and there was a technical briefing of the media — and I believe the Opposition was in attendance as well — both the minister and the CEO and president at the time, Mr. Wright, indicated that there would in all likelihood be a rate application made to the Saskatchewan utility review panel because of escalating costs of natural gas and a change in the electrical generation mix, with more reliance on coal and more expense in natural gas because of declining water tables. This isn't new whatsoever.

I would argue that the dividend that was taken by the Government of Saskatchewan was within our dividend policy. Our dividend policy looks at debt/equity ratio. SaskPower is well below the industry standard in terms of its debt/equity ratio. Even had we not taken the dividend that we took for 2003, we would still have a rate application before the rate review panel because the reality is, in the province of Saskatchewan, the cost to generate electricity has risen substantially because of the kind of electricity that we're generating, using more expensive natural gas and coal. And we have had declining water tables in the province.

A second point I want to make is that, in terms of our government processes, we receive recommendations from our officials and based on those recommendations, we make a decision on a number of different policy areas. When we were looking at the dividends for each of the Crown corporations, recommendations were made to the board of CIC or Crown Management Board. We received recommendations from our officials, and we were told in the context of the dividend policy, the debt/equity ratios, the financial health of the companies that these dividends were acceptable — were acceptable. Now I recognized at the time that there would be some, particularly in the opposition, who might argue that we were equity stripping or dividend stripping, not unlike what happened in the 1980s.

I put the question to the appropriate officials, including Mr. Wright, whether or not it was acceptable to obtain this dividend from SaskPower, given that the dividend that we were accepting contained in a sense a non-cash amount of money because of the currency situation. I was advised up and down the line that this was quite acceptable — quite acceptable.

I too was concerned about this and that's why I asked Mr. Wright to put in writing that it was acceptable. Had that company, had Mr. Wright said to me — because I agree with Mr. Elhard, that CEOs and presidents do have responsibilities; they do have responsibilities to their company — but had he at any time indicated that this was unacceptable or would create huge difficulties for this company, we would not have taken the level of dividend that we took.

Mr. Elhard: — Madam Minister, when did you or your government or your Crown Management Board make the decision to impose a $169 million transfer of revenues from SaskPower to CIC for payment of a dividend to the General Revenue Fund?

Hon. Ms. Atkinson: — We are going from memory here because we don't have our notes, but we . . . or I understand that this was raised in February because we became more aware that SaskPower was going to be in a position where it could . . . where it was going to have a healthy bottom line. And I will get you the information as to precisely what date we made the decision.

Mr. Elhard: — The reason I ask, Madam Minister, is that as part of your budgetary process you would have included a dividend from CIC the spring before. Can I assume then that since the decision was made about February or whenever the exact date was, that you jiggled the figures a little bit to make SaskPower's dividend higher and reduce the pressure on some of the other Crown agencies?

Mr. Swystun: — The application of the dividend policy for SaskPower's dividend was something that CIC was aware of throughout calendar 2003, as we watched both the earning situation operationally at SaskPower as well as the effect of the rising Canadian dollar on the value of SaskPower's debt. So this is certainly an issue that was an emerging issue throughout the year. As the dollar continued to rise it had an impact on SaskPower's results quarter by quarter throughout the year, as well as an impact on the projected results through to fiscal year end.

It was a unique situation in the sense that the rapid appreciation of the Canadian dollar, which was obviously far beyond what was anticipated and certainly was not planned for in the business planning process, had two effects. One effect was that the earnings outlook for SaskPower escalated very rapidly, and in fact we see the results at the end of the year and the large proportion of earnings that were related to this non-cash foreign currency gain.

But the other impact that emerged that was also unanticipated was that the earnings would be so strong that it would have . . . also would result in a fairly significant one-year decline in SaskPower's debt ratio. Or maybe to restate that a little more clearly, it resulted in a very rapid drop in SaskPower's debt ratio. As you can see it was about 60 per cent or just slightly above 60 per cent the year prior. As the US dollar debt was revalued as of the end of 2003 to a lower value which is in accordance with generally accepted accounting principles for the treatment of unhedged foreign currency debt. The value the debt declined, the value of the debt ratio commensurately declined. And it was an issue that became apparent as the year progressed. It was brought more clearly into sharp focus as we got closer and closer to year end. And that was the circumstance and of course we didn't know what the final result would be until after December 31, which is the date on which the debt gets repriced as of the value of the Canadian dollar on that date, and the consequence of that was that this was an issue that became apparent as the year progressed. The final impact in precise terms was not known until after year end.

So it had more to do with the circumstances surrounding the exact impact that the rising Canadian dollar would have on SaskPower's earnings at the end of the day rather than any other factors, such as the ones that you mentioned.

Hon. Ms. Atkinson: — But for the purposes . . . Just to add to what Mr. Swystun has said. For the purposes of budget setting, how the province sets its budget, when Treasury Board and the cabinet go through their cabinet finalization in consultation with the CIC board or Crown Management Board and all of the officials, they look at what can we anticipate in terms of revenues and expenditures from each of the Crowns, and what we can anticipate in terms of a dividend from each of the Crowns that then form the CIC retained earnings and therefore a dividend. And so you budget a particular amount of money for the purposes of entering that figure into the provincial budget because the provincial budget shows where our estimated revenues are going to come from.

Now for each of the Crowns, they will have a budget target in terms of what they're supposed to have in terms of retained . . . or in terms of earnings and what we then would retain. That will vary throughout the year. And we just released our quarterly reports where it appears NewGrade is up; I believe SaskTel is up; SGI is up; SaskEnergy and SaskPower are down, relative to what we had budgeted.

And so while the year end for the purposes of the Crowns is December 31, for when we set what the dividend will be for those Crowns, we're doing that closer to the end of March when you're basically ending your previous year's budget. So when did this information come to us as cabinet ministers in government or CIC people? I believe it came to us in February. I will get that information to be precise, but I believe it came to us in February as the officials in CIC were having discussions with the various Crowns about what this was going to look like for the purposes of the budget, the 2003-04 budget. Have I got that right, Blair? Yes.

Mr. Elhard: — What would have happened then to the anticipated dividend to the General Revenue Fund if it hadn't been for this sudden appreciation of the Canadian dollar? Because this is a large amount we're talking about — $113 million. How would you have accomplished the dividend?

Hon. Ms. Atkinson: — I think there have been years where you may anticipate that CIC is going to provide a particular dividend; it's been budgeted for in the budget. Sometimes because of revenues from elsewhere, the GRF doesn't take the dividend. I believe that happened in 2000.

In other years, should you not be able to meet your dividend target and should the debt/equity ratios not be appropriate for each of the companies, then obviously, because we are very familiar with what happened in the 1980s with equity stripping and adding debt to provide dividends, we would try and find money elsewhere. We would not, we would not, because we are so committed to the notion of public ownership in Crowns, we are not about to start equity stripping Crowns and get ourselves back into the kind of situation we had in the 1980s. So we wouldn't take the money. We wouldn't take a dividend from CIC if it wasn't available for us to take.

Mr. Elhard: — I'm not a financial wizard so, you know, I'm not completely tuned in to all the definitions. But I need to know, if Mr. Swystun or Mr. Waller can help me with this, is there a financial term to describe the act of taking more cash out of a company than there is available on reserve?

Mr. Swystun: — Well if your question is, did that circumstance apply to SaskPower, I don't believe that that was the case. If you take a look at SaskPower's financial statements from 2003, there's three sets of financial statements. There's an income statement, which describes profits for the year. There is a balance sheet or statement of financial position, which provides a snapshot as of the end of the year of the financial position of the company. And there's a third financial statement referred to as a statement of cash flows or sources and uses of funds which is admittedly not well understood, but it's actually very informative in terms of showing where the cash came from and where the cash went.

And what the statement of cash flow is for SaskPower indicated for 2003, was that funds from operations, in other words the cash coming into the bank to the company as a result of the day-to-day operations of SaskPower, was over $200 million. Which is more than enough to fund the dividend payment in the amount that was declared.

The reason that those funds from operations differs very substantially from the reported net income for the year is due to these non-cash expense items that I referred to earlier. And primarily it's depreciation or amortization of capital assets.

So in trying to understand the answer to the question, how could a corporation prudently pay a dividend of 90 per cent of earnings when paradoxically it would seem that a large portion of those earnings are from a non-cash item, a non-cash revenue, it's important to understand that there is also non-cash expense items that are also determinants of that net income. And that's maybe the one missing element here in terms of the explanation that helps to explain how SaskPower would be able to prudently do this.

Mr. Elhard: — I think I understand that having had the privilege of enjoying depreciation on a farm. But I guess I need a little more understanding in this whole area because if, as you describe, there is an ability through cash flow incoming revenue in excess of $200 million . . . Is that what you said or was it 4? Two hundred million? I think you used the figure 200?

Mr. Swystun: — In excess of 200 million, and it was 253 million for 2003.

Mr. Elhard: — Okay. Well in view of that I guess the confusion comes from what I heard the minister and other people say about the need or the justification for the rate increase. Because cash flow was under serious pressure, and the company needed an immediate 9 per cent average increase in rates to address that problem.

So on one hand we're saying, you know, cash flow through utility bills and payments of customer accounts and so forth is going to help cover the dividend that went to the General Revenue Fund; on the other hand the company was under such pressure for cash flow that they had to have an immediate rate increase. And the company needed 9 per cent now and if that was too much, the rate review panel could decide that and maybe that rate would be less in going forward at some point in the future.

So now I am a little confused about, you know, whether or not the company really did have the cash assets moving forward, the cash flow moving ahead or not.

Mr. Waller: — Mr. Chair, I'll endeavour to try and answer that question. SaskPower, effective September 1, applied for a rate increase. It did so because if you look at the second quarter results of SaskPower, the charges or the revenue it was bringing in was less than the cost of producing the commodity that it was selling. And you won't stay in business very long if you're selling a commodity for less than the cost of its production. And so that's really the reason for the need for a rate increase.

Whether or not a dividend had been paid last year has little impact on the income of the corporation in the current year. Its problem stems from water flow in the Saskatchewan River and the result of the low water flow as the corporation is unable to produce electrical energy through the dams, the dam system, and that is the cheapest of all of the electrical energy that it produces.

Its alternative source, and the source that it has to refer to when it can't produce hydroelectric energy, is it has to consume gas. It has been faced with the unfortunate situation that gas prices have increased significantly, and therefore the alternate fuel that it was using to generate the electrical energy to meet its demand was produced by natural gas. And its cost of sales or its revenue generated from sales of electrical energy produced by natural gas is actually less than the cost of producing that energy. And that fundamentally is the reason why the corporation has had to apply for a rate increase.

Mr. Elhard: — Mr. Waller, I think we're going to have to agree to disagree because, you know, I just think that while some of those explanations might be realistic and understandable to the layman, what they don't understand is why CIC got and passed on to the provincial government a record dividend payment, at least a record in terms of the last 10 or 15 years, and has come back to the consumer and asked for an average 9 per cent increase — 14 per cent in Saskatoon and the city of Swift Current. And you know, I just . . . They do not understand or cannot accept that explanation. I haven't talked to anybody yet who has said that the explanation is justifiable in view of the transaction that has occurred in terms of monies moving from CIC to the General Revenue Fund.

I offered earlier to table an e-mail that was sent to SaskPower employees by the then president John Wright, and I'm about to do that. Actually what I'm going to do is table a transcript because we didn't want to divulge confidences, frankly. And I have this available. I would like to make it available to the committee.

And I'd like to read from it if I may, Mr. Chairman. It was headlined, "Foreign exchange impacts bottom line in 2003, Volume 4, issue no. 4, dated 2004, 02/19." And it starts out by saying:

> As I indicated in my year-end message, our financial performance in 2003 was not as we had hoped. On the surface, this is difficult to understand, given that our net income — or profit — in 2003 will be the largest in recent memory. However, with the Canadian dollar finishing the year strongly when compared to the United States dollar, the true bottom line is somewhat masked.

There's that word again, as used in the annual report. But I would like to indicate that he started out this sentence by saying: "As I indicated in my year-end message . . . " So here he's addressing this very topic for the second time apparently.

And if we go through the entire thing, which I won't bother reading into the record unless, Mr. Chairman, you would like me to, I will move to the second-last paragraph:

> For 2003, our net income will be artificially inflated by tens of millions of dollars. This causes concern because we will have less profit available to reinvest in our generation, transmission and distribution infrastructure as we work to deliver power to our customers province-wide.

And the reason, frankly, that — and I'm not quoting here; I'm stating my own opinion — the reason that the company has less profit to reinvest in generation, transmission, and distribution infrastructure, which is the very reason given by the government for raising rates, is that the profit was artificially inflated and the government took way more money out of SaskPower in the form of dividends than it ought to have. Thank you, Mr. Chairman.

Hon. Ms. Atkinson: — Well thank you very much for reading that into the record. But I just want to reiterate to the public that Mr. Wright advised us that this dividend payment was quite acceptable. It was within CIC's dividend policy for subsidiary Crowns.

He also indicated in his letter that SaskPower was positioned to pay the dividend given the corporation's relatively strong balance sheet as indicated by its debt/equity ratio of 56.5 per cent and that the operating cash flow of $253 million was in excess of the dividend payment.

So I . . . You know, Mr. Wright had a particular message, I gather, that he wanted to convey to his employees. But he conveyed this message to the Government of Saskatchewan. And Mr. Wright was asked very directly whether this would have any impact upon the company. And we were advised that this was an entirely acceptable dividend to take and that it would not impact the financial health of SaskPower.

We rely upon our officials for advice and we certainly relied upon Mr. Wright's advice, given that he was the former deputy minister of Finance for the province when we were making our way out of the debt and deficit of the 1980s.

Mr. D'Autremont: — Thank you very much, in fact, as I would like to also talk about the letter that you received from Mr. Wright. I wonder if you could indicate to us, Ms. Atkinson, how you came about receiving this letter from Mr. Wright. Did you request the letter? And in requesting the letter, if you did so, what did you request from Mr. Wright concerning the payment of a dividend?

Hon. Ms. Atkinson: — Mr. Wright was requested to provide a letter given that I wanted to assure myself that the dividend that we were about to take was within the . . . well certainly SaskPower would certainly be able to provide this dividend. And Mr. Wright — who is a very forthright individual, certainly will tell you when he thinks you're wrong and so on and so forth — provided us with this particular letter that indicates that, as I said, that the dividend that we were taking can come from operating cash and that SaskPower has a strong balance sheet.

Mr. D'Autremont: — Very good. Mr. Wright did indeed then respond to your request as to whether or not SaskPower would be able to provide a dividend. He did not respond as to what kind of an impact, though, it would have on SaskPower in providing that dividend. You didn't indeed ask him what impact it would have on SaskPower, only whether or not SaskPower had the ability to provide the cash.

If I have $100 in my pocket and I owe 50 to somebody else, I still have the ability right now to give someone $100. It doesn't indicate the impact, though, it has on my debt or the requirements I have for that money, only that it indicates . . . only that I have the ability to pay it today. And you asked whether or not SaskPower had the ability to pay, not what impact was on SaskPower's operation in the future. And in fact when you look at not only the e-mail, but when you look at the annual report of SaskPower as signed off by Frank Quennell, one of your colleagues in cabinet, it clearly shows in there that the foreign exchange was not cash available to pay the dividend, that it masked the profit levels of SaskPower.

And if you go to page 10 on SaskPower, my colleague read one of the sentences at the very top. But I think that there's a second important sentence there, and I'll quote:

> Income before foreign exchange gains (are equity investment income), and equity investment income was $73 million in 2003 compared to $131 million in 2002.

So while there was an increase in sales, there was a decrease in net income. This $58 million decline was primarily due to the higher costs — effects of higher natural gas prices — than change of SaskPower's generation mix. So there's . . . while your official, Blair, is indicating that there was a $253 million cash flow available, that sales were higher, the annual report that your minister signed off on, that John Wright as the CEO signed off on, indicates that there was a $58 million decline in profits. And yet you're taking a paper profit of $113 million in the foreign exchange — none of which you have seen — which will probably take 10 to 20 years to actually realize on as you pay down that debt, and that's assuming that the ratio between US dollars and Canadian dollars remains the same. If that changes to our negative, then you lose that profit. You don't have that profit on which you've already paid dividends.

So, Madam Minister, there's only one area that that money is readily available from. Now we ask the question, where did the money come from to pay this dividend. And your official indicated it came from three locations — cash on hand, revenue cash flow, and debt. So my question is, how much debt was used to pay for this dividend?

Mr. Swystun: — Thank you for the question. Mr. Chairman, I would like to offer some clarification to the member's question. The comment with respect to where the money for the dividend came from is a different answer than the comment that I believe I made with respect to how new investments going forward are financed. When I indicated that debt financing is used to finance new investments going forward, that's a separate issue from the issue of where the cash came from to pay the dividends on last year's earnings.

The cash for the dividend on last year's earnings came from funds from operations, as I indicated. And Mr. D'Autremont is quite correct in observing that there was a decline in funds from operations relative to the prior year. Nonetheless, the funds from operations that were available were more than sufficient to cover the dividend as well as to allow SaskPower to retain funds within the company to meet other cash needs.

With respect to the question of the debt, the observation that the debt declines in value as the Canadian dollar appreciates is certainly correct and if the debt were to remain unhedged there certainly would be exposure to foreign currency losses going forward. However, SaskPower management recognized in 2003 through to end of 2004 that this very rapid appreciation in the

Canadian dollar and the effect that it was having in reducing SaskPower's debt presented an opportunity that shouldn't be missed. And SaskPower has in fact taken very aggressive steps to hedge a large portion of that debt.

And in fact many of those foreign currency, those unrealized, non-cash foreign currency gains from last year, have in fact now been crystallized. And just to give you an indication of the extent to which that's happened, as of last year for every 1 cent change in the Canadian dollar there was about a $9 million impact on SaskPower's profits. This year it's down to between 2 and $3 million impact on profits for every 1 cent change in the dollar.

So that gives you a little bit of a flavour for the extent to which SaskPower has in fact crystallized those foreign currency gains so as not to be exposed — certainly to the same extent as it has been in the past — not to be exposed to future declines in the value of the Canadian dollar.

Mr. D'Autremont: — Thank you. So you're saying that then the entire dividend was paid for from cash on hand from operations?

Mr. Swystun: — Yes. There were certainly funds from operations available to not only pay . . . be more than sufficient to pay the dividend. But the balance or the difference between the 253 million funds from operations and the amount of the dividend paid would obviously be available for reinvestment needs at SaskPower.

Mr. D'Autremont: — SaskPower's reinvestment needs — are they limited then to that difference of approximately $86 million in the next year?

Mr. Swystun: — No. In any given year SaskPower will have a fairly substantial reinvestment program and it's more in the neighbourhood of 200 million — perhaps higher in some years, perhaps less in others. And if I can perhaps anticipate where you're heading with this, it gets back to the question of, how is that size of capital spending program financed?

Well in a more normal year, with a more normal level of profits from operations as opposed to profits from foreign currency gains, there would be higher funds from, cash flows from operations. So that would be one source. And then the other source of financing is to have a mix between that equity capital and some prudent level of debt financing.

Mr. D'Autremont: — So if the excess, the profits from the foreign exchange, the $113 million there had not been extracted, then the monies would have . . . Those monies that were paid out as dividends — not the profits from the foreign exchange, but what was entitled as dividends and then extracted from the corporation as dividends — were still available, that meant, would mean then that the $200 million that is needed for capitalization within the corporation in the coming year, coupled with the profits, or the excesses on the cash flow from what was not paid on dividends, would have roughly translated into the $200 million that was needed. It would have been close; it wouldn't have quite covered that. Therefore there would have been little or no demand for debt this year, which if the capitalization goes ahead as you say, roughly on average $200 million a year, that will have to now be debt financed.

Mr. Swystun: — Well certainly a decision not to take a dividend from a company means that more capital is retained in the company, and certainly that means that more of that cash is available to fund capital reinvestment if there's a need for that. But once again, that line of reasoning I guess gets back to the question of when is enough capital or what is the . . . when is it enough to have . . . or what is the correct amount of capital to retain in the company. And the approach that is taken with SaskPower, as well as with the other Crown corporations, is to retain sufficient capital in the company such that you can have this mix of financing for foreign investments.

So we wouldn't view it as an optimal situation to have all of the new capital spending needs for 2004 to be financed totally with equity capital, because you're missing the opportunity to finance some of it with lower-cost debt financing.

Mr. D'Autremont: — It's one thing though to provide dividends with cash that is available from your net profits. And your new profits in 2003 were $73 million from operations and 113 million or so from paper profits from the foreign exchange differences. If you took 90 per cent of the cash profits — you know, $60 million plus — that would have been appropriate because there is no cash there to realize. You had to finance it from someplace else.

You financed it by taking from your cash flow and now you're trying to recoup that by increasing the rates by 9 per cent. And this is a decision that was made, obviously, by cabinet in consultation with CIC. Now I'm not sure what the consultation with CIC is, but if we look at what the minister requested from John Wright when he was president of SaskPower and the question was, can SaskPower pay, provide this dividend — yes, SaskPower can provide this dividend — didn't ask the question what impact it was going to have on the corporation.

Is that the kind of request that the minister and cabinet gives to CIC? Can you give us 200 million, can you give us 250 million, and don't ask what impact it's going to have on the corporations. Don't ask what impact it's going to have on their debt. Don't impact . . . don't ask what impact it's going to have on the ratepayers of those corporations.

People are going to be paying, in Saskatoon and Swift Current, 14 per cent more on their electricity bill because the government went to CIC and said, not what impact it's going to have, but can you pay that dividend? And the corporation's correct answer would be, yes we can, but not answering . . . Because the minister . . . John Wright's letter to the minister doesn't talk about impacts; it talks only about can we pay. Yes, we can. But it doesn't talk about what impacts it's going to have on the people and on the businesses and on the economic viability of Saskatchewan. And I think this was strictly a political decision, not a financial one.

Hon. Ms. Atkinson: — Well thank you very much, Mr. D'Autremont, for your interpretation of my request, which is not an accurate interpretation of my request.

I think it's . . . I wanted to reiterate, which I think I said earlier, I wanted to assure myself — and this is one of the jobs you want to do as a minister — I wanted to assure myself that the dividend that was being proposed to be taken from SaskPower would not have an impact upon the debt/equity ratio of the company, that it would not lead to what I certainly saw happen in the 1980s with equity stripping of the company. I wanted to know what kind of impact would it have on the company — you know, was this a good business decision.

I wanted to assure myself of that. And I believe that Mr. Wright, knowing Mr. Wright and having had a great deal to do with him, that he was going to provide me with an answer to that question. And in my opinion he did. What Mr. Wright said to me was that SaskPower is positioned to pay this, that it has . . . SaskPower has a strong balance sheet, which it does, and that this money could come out of cash flow; that it would not lead to long . . . you know, to more debt, and it would not be equity stripping, which according to the annual report that's what happened.

Now if you look at the annual report, I think it's fair to say the annual — which I have read, I read before it was tabled — the annual report is fairly clear that the cost of generating electricity in the province of Saskatchewan has increased. And it's increased because of the change of the mix of how we generate electricity. We are using less hydroelectricity. We are using more natural gas which has spiked in price. And we are also — as I understand it from the annual report — we also receive some of our electricity from other jurisdictions or other sources.

And so there was an increase in the expense to generate that electricity and a decline in the revenue. So the revenue was not covering the expense of generating this electricity.

The other thing that I want to just say — and I know that SaskPower officials will be here and you'll have every opportunity to cross-examine them as well — but SaskPower has been undergoing a process of rebalancing rates in the province, and we're practically done. And this has been going for some time.

So I would argue, based on all of the information that I've seen, and I've seen a great deal of information, that SaskPower's application for a rate increase — which has not yet been approved by the rate review panel, and we'll see what the rate review panel has to say about it — but their rate application is based upon the fact that it's costing more in the province to generate electricity.

And as Mr. Waller said earlier, when SaskPower released its second quarterly report — which is something that we are doing now — it's clear that they are taking in less money than they are spending. Well you can't do that for very long. And the reality is that there needs to be a rate increase. What that will be at the end of the day will be up to the recommendation from the Saskatchewan utility review panel.

So I guess I'm inclined to disagree with you. I know you're trying to paint a particular picture that this rate increase has to do with our dividend policy. It does not. It does not have anything to do with our dividend policy. And you're also trying to paint a picture that I didn't ask the right questions of Mr. Wright. Well in my opinion I did ask the right questions of Mr. Wright. And knowing Mr. Wright, who is a very forthright individual, who tells it like it is, he would not have said in writing that this company can pay this if they couldn't and if it was going to have a negative impact upon the company. He would've done that. And so I would . . . I maintain that it was acceptable to take this dividend, given the debt/equity ratio, and given that they had cash to pay for it. It did not lead to an increase in the debt of the company, and it certainly wasn't equity stripping.

Mr. D'Autremont: — Well, Madam Minister, if you asked the right questions, and if you asked whether or not there would be an impact to the corporation, why didn't Mr. Wright answer that question? His answer was, SaskPower is positioned to pay the 2003 dividend given the corporation's 187.2 million net income and relatively strong balance sheet as indicated by the debt ratio of 56.6 per cent. That is well below the target of six . . . 60 per cent. He didn't say it was going to have an impact on the corporation. He said the corporation had the ability to pay it, not whether or not it was going to have an impact in the future; not whether or not it was going to result in a ratio increase in the future.

I'd like to refer to Mr. Wright's e-mail to the employees of SaskPower, the third paragraph:

> The Corporation will not realize the benefits until SaskPower's foreign currency debt is redeemed — five to 20 years from now. As a result, SaskPower factors out foreign exchange gains or losses to show true financial performance.

True financial performance is on page 10 of the report where it says, "This $58 million decline . . . " in the net revenues of the corporation . . .

Again I quote from Mr. Wright's e-mail:

> For 2003 . . .

Mr. McCall: — Point of order.

The Chair: — I'd like to recognize Mr. McCall on a point of order.

Mr. McCall: — I'd like to make a request of the terms by which we refer to this e-mail, because first there wasn't an e-mail to be found to be tabled, then when it was tabled, it turns out to be a transcript. Now it may well be a transcript of a bona fide e-mail from John Wright, but we have no way of knowing that. So if you're going to refer to the e-mail, you know, please use the words alleged or whatever. But in terms of it being a provable, bona fide e-mail from John Wright, that has yet to be established before this committee. So please bear that in mind.

The Chair: — That's not technically a point of order but I will . . . I think it's a matter of debate and the debate has been noted. I recognize Mr. D'Autremont.

Mr. D'Autremont: — Thank you. From the transcript, it says:

> . . . (From) 2003, our net income will be artificially inflated by tens of millions of dollars. This causes concern because we will have less profit available to reinvest in our

generation, transmission and distribution infrastructure as we work to deliver power to our customers province-wide.

That speaks to the ongoing operations.

The fact that this huge dividend was paid out based on the paper gain of the foreign exchange transactions means that now the corporation has to either borrow money, which it is doing, or raise rates, which is exactly what it's doing, by 9 per cent on average and 14 per cent in some jurisdictions.

So if the true values, as outlined — Mr. Wright stating that as a result, SaskPower factors out foreign exchange gains — then you would have had a true picture of SaskPower's revenues, their net profits that they had available last year for a dividend — $73 million. Now this speaks to CIC's dividend policy and how that is structured, and how the government makes the requests to CIC as to what those revenues . . . dividends will be paid.

And you're taking additional funds out of there where there was no true cash value. They were a paper value. And that has resulted in the 9 per cent increase across the board in Saskatchewan. And that, in all likelihood, will result in additional debt to the corporation. So I think that the dividend policy seems to fluctuate to suit the needs of government General Revenue Fund rather than the ability of the corporations to pay those.

If that's not the case, then why — find your graphs here — did SaskPower's dividend rate in 1998 be 55 per cent; '99, 55; 2000; 55, 2001, 55; 2002, 65 per cent; and all of a sudden jump up to 90 per cent in 2003? Whereas the only two years where you were at the debt/equity ratio of 60 per cent, which is your guideline, you had 55 and 65 per cent dividend ratios. Prior to that, in '99 and '98, you were down to 56 and 59 per cent. You're now at 57 per cent and you're taking 90 per cent.

So does this fluctuate from year to year based on the demands of government revenue fund and of cabinet, or is it based on a long-term policy, on a long-term process, and if so, why did it change in 2003?

The Chair: — Just before the minister answers, I just wanted to point out that the minister did not take these, and so I would suggest that direct the comments to the Chair and through the Chair that we . . . In committee, we're a little less formal on the directive, but it's been made known to me that I think we should start to enforce that aspect of the rule. So I would just remind the member to put the comments to the Chair and through the Chair. I recognize the minister.

Hon. Ms. Atkinson: — Thank you very much. Earlier in the proceedings, Mr. Swystun outlined our dividend policy and the changes that have occurred over the years in terms of that dividend policy. This information was provided during the presentation. So I'd ask Mr. Swystun to reiterate again how our dividend policy has changed depending upon industry standards.

Mr. Swystun: — Thank you. Mr. Chairman, just to reiterate, I believe I did indicate in the presentation or in the course of the members' questions that the debt ratio targets do change occasionally as industry circumstances change.

In the case of SaskPower the dividend target back in 1998 was a target of 50 per cent, so a debt ratio of 56 or 59 per cent, as was the case in 1999 and 1998, would have been above SaskPower's target at that time.

The target changed, as I believe I indicated, as it became clear that SaskPower was unlikely to be facing fully competitive markets, as had been anticipated in the mid- to late-1990s, and that anticipation of operating in fully competitive markets was the key factor in establishing a debt ratio target of only 50 per cent.

When it became apparent that markets in Saskatchewan, along with most other jurisdictions in Canada and indeed North America, would be a lot less competitive than had been anticipated, there was a recognition of that, in that the debt ratio target was increased up to 60 per cent by 2002.

Now in 2002, the debt ratio as indicated on this chart is exactly 60 per cent — and we've rounded there, it was actually just a little bit above 60 per cent — and that was why the dividend rate was relatively low. By 2003, debt ratio had dropped as a result of this foreign currency impact on SaskPower's US dollar debt, and the dividend payout rate increased.

So the application of the dividend policy has been consistent over time. What does change is the industry benchmarks change occasionally, and you would note that with respect to SaskPower and I would note that that also happened with respect to SaskTel. And from time to time as the government's need for dividends from the Crowns changes, there could be some changes in the dividend rate.

And that's why you would see from '98 to 2001 the dividend rate for the Crowns that were in the red zone, if you like, was 55 per cent of earnings. And there was a decision made in 2002 to increase that to 65 per cent of earnings as the Crowns, particularly SaskPower, started to move closer to their targets and in recognition of the government's need for cash flow from the Crowns.

But the whole time, the application of the policy has been to set dividend payout rates with due regard to the financial health of the Crown corporations.

Mr. D'Autremont: — Mr. Chairman, does CIC have a written policy on dividends, and if so, could you table it, please?

Mr. Swystun: — There is indeed a policy. It's an internal policy document and it would be, I guess, a policy decision as to whether something like that would be tabled.

Mr. D'Autremont: — Well I would ask that, Mr. Chairman, I would ask that that request then go to the executives of CIC, to the Board of Directors of CIC, to cabinet, to whoever would be in charge of that. It's certainly I'm sure of interest to the public and to the legislature as to how that decision, those decisions are made on the dividends payment, and what the process is on setting the dividends and how it's administered.

Hon. Ms. Atkinson: — Mr. D'Autremont, I'll see what I can do.

Mr. D'Autremont: — In fact, Mr. Chairman, perhaps it might be worthwhile for this committee, as a committee, to formally make that request of the CIC. And to that end I would like to make a motion:

> That we request CIC to provide this committee with its dividend policy.

The Chair: — There's a motion on the floor by Mr. D'Autremont. Is there a seconder? Seconded by Mr. Weekes. Any — oh I guess not required for a seconder — any discussion on the motion? Mr. Yates?

Mr. Yates: — Thank you very much, Mr. Chair. We have an undertaking from the minister to review this issue with her various colleagues and those that are affected by the dividend policy. And I think that is sufficient at this time and the minister will report back to us on . . . after seeking consultation with her colleagues. So at this time, I don't think it's necessary for us to put forward a formal motion to have this tabled.

The Chair: — Mr. Weekes.

Mr. Weekes: — Mr, Chair, I disagree with that. I believe that policy should be made public; it should be made available to this committee. This is one of the areas this committee needs to look into to determine the operations of CIC in the Crown sector, and I strongly urge the motion to be carried forward so that the public of . . . people of Saskatchewan can see the workings of the CIC board and its Crowns.

Hon. Ms. Atkinson: — Mr. Chair, before you vote I can undertake to provide that to the committee. As I said, when I said I'll see what I can do, I will see what I can do because I really do believe that we need to be as open and transparent as possible and we're trying to do that before the committee.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Thank you, Madam Minister. It was my thought that a request from the committee might help you in that manner, that it . . . I was simply looking to assist you in the use of this and strengthen your hand with your colleagues in cabinet on that request. Since we have an undertaking from the minister, perhaps as the mover of this motion, I would move:

> That it be tabled for the present time.

The Chair: — Mr. D'Autremont has moved that we table his original motion. Any discussion on . . . It's not a debatable motion. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — That is carried unanimously. Any further questions to the minister? Mr. Elhard.

Mr. Elhard: — Thank you, Mr. Chair. Some of the other issues that I think that we would find it important to touch on today is some of the governance issues and accountability issues that CIC and the board which oversees CIC's operations might be trying to employ these days.

We talked, we mentioned earlier . . . I think in your presentation you alluded to the fact that the Conference Board of Canada has standards that CIC has tried to incorporate into its own operating procedures. Would the minister or either of her officials care to elaborate on some of the standards, particularly those of the Conference Board of Canada, what they are and how that will improve the transparency and accountability of CIC to the people of Saskatchewan?

Mr. Swystun: — Thank you. Mr. Chairman, the Conference Board of Canada governance index is a standard that it applies to publicly traded companies for them to use as a checklist for what constitutes best practice with respect to board governance of management of the companies. CIC has engaged the Conference Board to assess the governance practices within our subsidiary Crowns in terms of the oversight that those subsidiary Crowns boards of directors apply to the management of those companies with a view to taking the results of the Conference Board's review and using that as a tool to improve the governance practices within the Crowns over time.

The governance index that the Conference Board of Canada has developed addresses various aspects of what constitutes best practice for boards of directors in publicly traded companies. And it addresses things like whether the board of directors has an appropriate mix between outside and inside directors — inside directors typically being management officials of the company; whether the board has an active and appropriate committee structure to deal with all of the various aspects of governance, which would include things like human resources and compensation management, a governance committee, an active and functioning audit and finance committee. In some cases our Crowns such as SaskTel that have active diversification investment programs, that particular board has a specifically mandated growth and diversification subcommittee of the board. And so the governance index provides a way of measuring how a corporation is doing in regards to a whole multitude of factors that collectively would make up best practice in terms of board governance.

And we've had some periodic benchmarking on this relative to the publicly traded companies out there. And the report that the Conference Board has provided to us indicates that in their view the governance practices in Saskatchewan's Crown corporations would translate into top quartile relative to governance practices in place amongst large publicly traded companies. So we think that that's a fairly good indication that the governance practices that are in place in the Crowns stack up fairly well relative to publicly traded companies.

Mr. Elhard: — Mr. Chairman, I'd like to, you know, pursue this line of conversation if we could because as I mentioned, you know, considerably longer ago, you know, public confidence in companies is a big issue these days. And I understand that . . . Well I quoted or mentioned the Sarbanes-Oxley Act in the United States. And I read something just recently where the Ontario Securities Commission is coming forward with new guidelines, particularly as it applies to political appointments to boards. That's not where I'm going with this but, you know, there are a number of politicians at the federal level that have found quick appointments to various boards. And given the uncertainty of the public as to whether or not they bring expertise and oversight appropriate to the requirements of running a major company, the Ontario Securities Commission is planning to institute new guidelines.

Is the board of management of CIC familiar with those guidelines, and how are we moving in a similar way to provide the same kind of security of investment on behalf of the people of Saskatchewan?

Mr. Waller: — Mr. Chair, while the particular provisions of the Sarbanes-Oxley Act does not apply, nor do the TSE (Toronto Stock Exchange) rules apply to our Crown corporations we have, as a matter of best practice, tried to adopt those that we think are applicable to Crown corporations.

There is at the moment, and I think has been certainly ongoing in the last half-dozen years, a number of initiatives to improve corporate governance and the responsibility of publicly traded corporations to their shareholders. CIC has ongoing programs in place to look at those developments, to communicate those developments to the boards of the individual Crown corporations, and to review with the Crown Management Board the developments as they occur.

We have, for example, a session scheduled in October in Saskatoon at which members of the various Crown corporation boards are invited and that will deal with the latest developments in ethical conduct and those kinds of issues. So there's no single answer in terms of what we're doing. We're monitoring the developments, and as they occur we're attempting to initiate different programs that ensure that we remain at the leading edge of best practices.

Hon. Ms. Atkinson: — If I could just add to that, we appointed, we recently appointed people to become members of various Crown corporation boards across the province and we tried very, very hard to ensure that we had people with the proper skill sets. We particularly were interested, depending on the company, people that might have a background in engineering, business, finance, human resources, so you try and get people who know the industry inside out — which in itself can be difficult, particularly if they're coming from a competitor's companies. You need to give people an opportunity to be away from the competitor.

So we have tried to put people on to the board — given that these are very large companies in the Saskatchewan context, over $8 billion in assets in total, in a competitive environment — we've tried to appoint people that truly had the skills that are required. We also have tried to appoint people who are reflective of the province, so we have made a real effort to appoint young people, Aboriginal people, new immigrants, women, men, rural, urban. It's a real balancing act, but I am quite satisfied with the level of skills that people have, that they bring to the board in the various Crowns where we have appointments. Lawyers too, pardon me, lawyers.

Mr. Elhard: — Oh really . . .

Hon. Ms. Atkinson: — We need lawyers on these boards, yes. We have appointed quite a few of those. Mr. Waller.

Mr. Elhard: — You know, the issue I suppose is easier to address in terms of the board appointments to subsidiaries of CIC. Now as it stands, CIC itself is governed by a very political board because it's all members of cabinet. And that . . . I guess that begs the question, because of the nature of the makeup of the board you're not going to have all of those diverse skills in elected people necessarily representing the total oversight of the entire $8 billion public investment in these companies.

Can you as minister envision some point in the future where — and maybe the opportunity will come this fall in legislation — but could you envision in the future moving toward that direction even at the board of management for CIC?

Hon. Ms. Atkinson: — I don't in the near future, in this sense. You will recall that when Mr. Romanow was the premier, he moved ministers off the boards, off of the boards of CIC, and there was no longer a minister . . . or off the boards of subsidiary Crowns. There was no longer a minister responsible for SGI, SaskTel, SaskPower, SaskEnergy, and so on.

And there was one big, quote, "mega minister," a CIC minister who tried to know it all, tried to have all of the information. And I think for the purposes of . . . I certainly watched this as a member of the legislature and watched the opposition ask questions of one minister who was supposed to know everything. And I think at times it was frustrating for the opposition and also frustrating for members of the government, because you'd have to have someone from the Crown come over and basically answer the questions.

When the Premier changed basically how things are done last fall he reappointed individual ministers to be responsible and accountable for each Crown, which I think is important in terms of public accountability and responsibility. He did not put ministers back on the board of those individual Crowns, so ministers do not sit as a member of the board. These are basically boards that are independent from the government, so they have their own governance. They pick the CEO and so on and we ultimately approve it, but the boards go through the process. There is a minister responsible for CIC and several of the ministers who have, who are responsible for each of those individual Crowns sit on the board of CIC or Crown Management Board.

I think ultimately if you were to remove us — now this is my opinion — if you were to remove us from the Crown Management Board and appoint a private sector board or whatever, I don't know how you get at the public accountability issues. Because ultimately if we're sitting there, Mr. Elhard, you have someone to hold to account ultimately.

I'm not sure if we had, you know, six members of the Crown Management Board who came from the public, how you would hold them to account. And I think that was one of the difficulties when there wasn't an individual minister responsible for each of the Crowns. And I think it was quite frustrating at times when you were trying to get at something and the minister couldn't possibly know every detail of basically an $8 billion entity. Now that's my opinion. You may have a different opinion, but I think there has to be public responsibility and accountability, and people elect us and at the end of the day they can defeat us, and there is accountability.

Now in terms of do we have the skill sets to sit there as ministers of Crown Management Board, I do note we have a couple of lawyers that sit on Crown Management Board, Mr. Quennell and Mr. Cline. I do note we have a former credit union manager, Mr. Sonntag. I believe we have Mr. Van Mulligen, who's the Minister of Finance; that's a pretty important job in the province. I think he is doing a decent job. We have Mr. Wartman and myself.

Do I have the skills to be the Chair of the board? I've chaired a lot of committee meetings in my life and I think what you really need to be able to do is to understand the information that is being provided to you, and if you don't, to ask the questions. And if you need to have someone help you ask the questions, then you need to get some outside advice, which I do sometimes.

The Chair: — I just wanted to alert members that we do have members that have meetings that begin at 4 o'clock, so we don't have the opportunity today to go beyond 4 o'clock. So just to alert people for questions. Mr. Elhard.

Mr. Elhard: — I don't necessarily disagree with you in total. There might be an opportunity for a blend, you know, where you would have three or four members of Executive Council plus some outside expertise.

I guess the reason I'm asking that is, you know the role of an audit committee is pretty important. And I don't know if Crown Management Board has an audit committee. And if it does, who comprises that board? But I know the difficulty. If you're not an expert in figures and financial statements, I know the difficulty of reading an audited statement. And I know obviously there has been some, you know, precedent here where audit committees haven't picked up on very important expenditures.

And so, you know, it . . . I'm not denigrating the capabilities of the ministers. I'm just saying that maybe there is not enough variety; maybe there is not enough business experience or financial experience there; that it might not hurt to look at a model whereby the oversight of CIC is provided in part by political people, because there has to be that public accountability, but people who have very specific skill sets to bring to bear on the management and oversight of what is really the largest investment in Saskatchewan.

Hon. Ms. Atkinson: — If you think of CIC, really it's a holding company. We don't do direct investment any more. I think what CIC is, what we are trying to do is to manage a number of issues that go across the sector. The audit committees are certainly there within the individual Crowns.

We deal with issues like, we're trying to have a youth and Aboriginal initiative where we see our workplace as more reflective of the population of Saskatchewan. So that's one of the files that we're managing. We are also managing the utility bundle issue, which I'm sure we'll talk about at some stage. That's one of the areas that we're managing.

In addition we are trying . . . we manage the corporate governance issue, the performance benchmarks; how Crowns are performing. And in a sense CIC is the sober second thought. It's not unlike — I don't want to use this analogy totally — but it's not unlike the Department of Finance . . . (inaudible interjection) . . . No, the department . . . no, not at all. The Department of Finance where, you know, individual government departments come and they make their presentations and you have a group of Treasury Board ministers who listen to them so that there is a sober second thought.

And that's not unlike how I view CIC as the group of people that are there to be responsive and accountable and to take responsibility and to be accountable. And to have, to try and have as much as possible, given that these are very different Crowns, some consistent public policy across the piece.

Mr. Elhard: — Madam Minister, thank you for your time today and that of your officials. I appreciate the opportunity to exchange views and to have answers to our questions brought before the committee. Mr. Chairman, we have no further questions for today.

The Chair: — Thank you very much.

Hon. Ms. Atkinson: — Thank you. Just for the information of the committee, I will not be here tomorrow and from here on in the officials will be here to answer the questions. I thought it was important though today to hear from the Minister Responsible for CIC and I hope I have been able to answer your questions. And also I want to thank the officials that are in attendance today.

The Chair: — Thank you. I also wanted to, on behalf of the committee, thank the minister and all of her officials and people from the Provincial Auditor, and to advise that we will be dealing with a report by the Provincial Auditor. And I believe CIC officials will be here tomorrow as well. Is that my understanding? Yes. All right. In that regard I would entertain a motion to adjourn.

Mr. McCall: — So moved.

The Chair: — So moved by Mr. McCall. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — That is carried. This committee stands adjourned until 9 a.m. tomorrow morning.

The committee adjourned at 15:58.