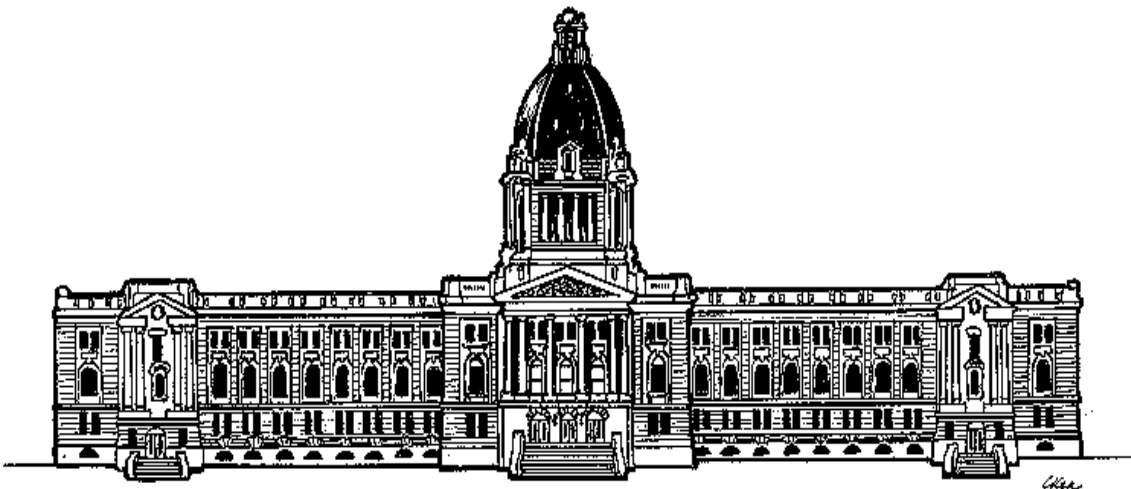




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES
2004**

Mr. Graham Addley, Chair
Saskatoon Sutherland

Mr. Wayne Elhard, Deputy Chair
Cypress Hills

Mr. Dan D'Autremont
Cannington

Mr. Andy Iwanchuk
Saskatoon Fairview

Mr. Warren McCall
Regina Elphinstone-Centre

Hon. Maynard Sonntag
Meadow Lake

Mr. Randy Weekes
Biggar

The committee met at 10:00.

The Chair: — I call the committee meeting to order. This is the Standing Committee on Crown and Central Agencies. Some administrative issues. Just to remind members that the committee meeting is being Web cast and is available for in-house television viewing. Following today's meeting the full meeting video streaming will be up in the Legislative Assembly committee Web site. As we know, *Hansard* is not available until the second week in November, and the television rebroadcast will also occur in November. Also, members, tomorrow's meeting is cancelled and will be rescheduled at a later date.

The business before the committee today is the 2000 annual report and related documents for SaskPower. The proposed order of business for today's meeting is introduction of members.

A Member: — Three, not 2000.

The Chair: — That's what I . . . is that not what I said?

A Member: — No. No.

The Chair: — What did I say?

A Member: — 2000.

The Chair: — Oh, 2003. The 3 was normal sized; I just didn't read it. We have Mr. Iwanchuk, Mr. Yates filling in for Mr. Sonntag and capturing the mistakes of the Chair, Mr. McCall, Mr. Weekes, Mr. D'Autremont, and Mr. Elhard. We'll have an overview of the Provincial Auditor and Deloitte & Touche and then a statement by the minister and then followed by questions and answers.

We're scheduled to take a lunch break from noon to 1 and then an afternoon break and then adjourn. So, I guess, introduce yourself from the Provincial Auditor's office and make any statements that you have.

Mr. Martens: — Thank you, Mr. Chair. My name is Andrew Martens, the principal with the Provincial Auditor's office. With me today is Ed Montgomery, the deputy provincial auditor that's responsible for our work at SaskPower; behind him is Phil Creaser, an information technology specialist in our office; and at the back we have Leslie Wendel, a principal also involved in the audit of SaskPower. With us is Bob Watt, the partner in charge of the audit with the appointed auditor, Deloitte & Touche. I'll first ask Ed Montgomery to give our summary comments on the audit and follow that Bob Watt will give the appointed auditors' comments. So, Ed.

Mr. Montgomery: — Thank you, Andrew. Mr. Chair, committee members, with regard to SaskPower we found the financial statements included in SaskPower's 2003 annual report to be reliable. Also the financial statements of SaskPower's wholly owned subsidiaries and the Power Corporation's superannuation plan were also reliable. SaskPower, its subsidiaries, and its pension plan had adequate rules and procedures to safeguard public resources. And they

complied with legislation governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. In carrying out our work, we work together with the appointed auditor, Deloitte & Touche, and we received excellent co-operation from both Deloitte & Touche and also from SaskPower management.

During 2003 we also carried out some follow-up work on three recommendations made in our 2002 Spring Report. These recommendations were agreed to by your predecessor, the Standing Committee on Crown Corporations, and we were pleased with SaskPower's progress on these recommendations.

In 1998 SaskPower made a major investment in its information systems. SaskPower estimates it will obtain benefits of 120 million from improvements in processes enabled by the new system. The original cost of the system was actually approximately 58 million.

When public money is spent on large infrastructure projects it's important that the benefits of these projects are achieved. In practice, the installation of complex new information systems are always challenging and many corporations expend so much energy installing the systems that they do not adequately follow up to ensure all the potential benefits are achieved. We've been pleased with SaskPower's focus to ensure it achieves the benefits enabled by the new system and have been working with SaskPower to review its processes to realize, measure, and report on the benefits achieved from the new system.

We have two recommendations that continue regarding this work and they're set out together with SaskPower's progress on pages 117 and 118 of our 2004 Report Volume 1. As I have said previously, we are satisfied with SaskPower's progress on those recommendations. Further discussion of this matter is also set out on page 24 of SaskPower's annual report for 2003.

And that ends my opening comments other than to say we'll be pleased to answer any questions of the committee.

The Chair: — And the member for Deloitte & Touche, do you want to introduce yourself?

Mr. Watt: — I will. Thank you, Ed. I'm Bob Watt, the engagement partner at Deloitte & Touche responsible for the audit of SaskPower.

We conducted our 2003 audit at SaskPower, including its subsidiaries, and reported to the members of the Legislative Assembly on February 6, 2004. Our auditor's report was unqualified and stated that in our opinion the consolidated financial statements present fairly in all material respects the financial position of the corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. Our report can be found on page 28 of the 2003 annual report.

As indicated by Ed, we also work with the Office of the Provincial Auditor on reporting to the members of the legislature on other matters. I wish to acknowledge the excellent working relationship we have with the board in

management at SaskPower. A set of financial statements of the complexity and scope of SaskPower results from a team effort to ensure transparency and clarity in public reports.

I also wish to acknowledge the strong working relationship we have with the Office of the Provincial Auditor and we are pleased to assist their office in discharging their obligations under The Provincial Auditor Act. And I, like Ed, if there are any questions, would be pleased to answer them. Thank you.

The Chair: — Do members have any questions for the Provincial Auditor's office or Deloitte & Touche at this time?

Okay. Then we would welcome Minister Quennell, Minister Responsible for SaskPower. And if you could introduce SaskPower officials and proceed with your opening statement.

Hon. Mr. Quennell: — Thank you, Mr. Chair. I'm pleased to be here to give brief remarks, answer any questions the committee may have on the 2003 fiscal year at SaskPower.

Before I begin, I'd like to introduce to the committee the SaskPower officials who are here today. Ms. Pat Youzwa, president and chief executive officer. Mr. Bill Jones, vice-president of corporate and financial services and chief financial officer. Mr. Rick Patrick — maybe he's behind me — vice-president of planning, environment, and regulatory affairs. And Keith Moen, manager of communications planning.

All the information that I will reference today is available in the 2003 SaskPower annual report package, which include the financial statements of SaskPower subsidiaries as well as the Power Corporation Superannuation Plan annual report.

SaskPower performed well in 2003 and continued to fulfill its mission to deliver power in a safe, reliable, cost-effective and environmentally responsible manner. Over the year, the corporation completed and initiated a number of very important projects that are improving service delivery and enhancing reliability for Saskatchewan people.

Key initiatives completed include electrical generation projects at the Cory cogeneration station near Saskatoon, the Cypress wind power facility near Gull Lake, the Boundary dam power station in Estevan, and at the Nipawin hydroelectric station.

System reliability for northern customers was improved with the completion of sections of the PA8 power line rebuild project.

SaskPower continued offering an optional GreenPower product to its customers and focused on enhancing customer satisfaction through energy conservation programs and a number of service enhancements.

SaskPower initiated its GreenPower portfolio, most notably with the announcement of 150 megawatt expansion to electrical generation from wind in Saskatchewan.

And finally, SaskPower launched several distributed generation pilot projects with private sector partners, including a flare gas project near Carlyle, a wood waste project near La Ronge, and a hog manure project near Cudworth.

In simplest terms, SaskPower has been focused on strengthening its core business and providing good service at reasonable rates to Saskatchewan people and businesses.

I extend my thanks to Mr. John Wright, SaskPower's former president, for his leadership and accomplishments during his tenure at SaskPower and I wish him all the best as Saskatchewan's deputy minister of Health. I also extend my thanks to Ms. Youzwa and to all SaskPower employees for their commitment and dedication to our province and its people. Thank you, Mr. Chair.

The Chair: — Are there any questions for the minister? Thank you for . . . oh, Mr. Elhard.

Mr. Elhard: — Thank you, Mr. Chairman. Good morning to the minister and his officials from SaskPower. We welcome you here today and we have quite a list of topics we'd like to cover. I think there's some significant interest among the general public about SaskPower and the way it operates, and the cost of operation and the portion of that cost which will be borne by the subscribers to SaskPower services.

Before we get to some of those questions, though, I would like to revert just quickly to something that was raised in the auditor's report. And the opportunity to raise that question passed so quickly I didn't have time to respond. One of the episodes that was referred to — one of the issues — was the implementation of a new information system at SaskPower, and the benefits over the five years of that were expected to be substantial. I think you report now that the expected benefits are anticipated to amount to about \$120 million. I note as a result of comments in the annual report on page 24 that the original estimate was \$167 million worth of benefits anticipated. We're missing the target by some \$47 million and I'm wondering if somebody could explain why the target has been missed by such a substantial amount.

Mr. Jones: — Mr. Chair, and Mr. Elhard, thank you for the question. We at SaskPower reviewed the initial business plan and went through sort of a reassessment of the original estimates and I'd be pleased to provide the committee — I don't have it here — what the precise difference was between the original estimate and the new benefits. But if that's helpful to the committee, I can certainly undertake to provide that.

Mr. Elhard: — I think it might be helpful for us because, you know, that forecasting scenario or the ability to forecast as accurately as possible is important to the success of your utility, and all utilities and companies generally. And in view of a \$58 million expenditure, the anticipated returns are not quite as, are not nearly as substantial as had at one time been estimated. So I think it would be of value to the committee to know why those targets are less than anticipated.

I'd like to turn my attention to the annual report just quickly. There are some questions that come to mind just looking at some of the graphs and some of the figures off the top, and I refer to, actually the first page of the report, actually the cover page of the report, looking at the 2003 revenue graph. I see here by the graph that revenue is almost entirely generated in Saskatchewan with sales amounting to 89 per cent of the total. But it does indicate that there are export sales that account for 9

per cent of the total.

I'm wondering if you could delineate for us what those export sales are, to whom they go, and what potential there is for additional export sales.

Ms. Youzwa: — The export sales, there's two types of export sales. The majority of these are sales that SaskPower makes to markets outside of Saskatchewan, using its own generating facilities. And we do that on a short-term basis when we're able to find a buyer for power at a price which is greater than our costs, and so that we're able to take those gains and bring them back into Saskatchewan and use them to offset the costs of providing service to our customers.

We also have a small amount of export sales which are accounted for by our subsidiary, NorthPoint Energy Solutions, who has a mandate to engage in buying and selling activity as a way of generating some growth activities for SaskPower. These are small-volume, short-term types of transactions, but most of the money, the numbers here, would come from exports from SaskPower facilities. And they would go to a variety of markets, Alberta predominantly. Manitoba was also an important area for exports as well.

Hon. Mr. Quennell: — If I may add to that, Mr. Chair. The exports in 2003 would have been to Alberta, Manitoba, and North Dakota. Manitoba would have bought more power than usual because of low water levels in Manitoba and northern Ontario. And that's a circumstance that I believe has again changed, so we wouldn't expect the exports into Manitoba that took place for a year or two.

Mr. Elhard: — Mr. Chair, to the minister, would these exports be described as spot market sales or are they part of a longer term agreement?

Hon. Mr. Quennell: — They're short-term sales. The infrastructure of SaskPower, the transmission and distribution lines are designed for the core business of providing safe, reliable power to domestic customers in Saskatchewan.

Mr. Elhard: — Is it possible for SaskPower to look at the potential for export provision in lieu of the limitations of the infrastructure that exists? Is there seen to be, or does there appear to be real export potential that SaskPower might want to avail itself?

Ms. Youzwa: — There's I guess two considerations. One is whether there is a demand for power that we could serve from Saskatchewan in a competitive way in relation to other suppliers who might be looking at those markets. And the second thing is whether or not we have the infrastructure, and it's not just the generation facilities in Saskatchewan to serve external markets, it's also the biggest sort of hurdle is the amount of capacity we have to move power from Saskatchewan to other markets.

We currently have interconnections to Alberta, south into North Dakota, and east into Manitoba, but they are very skinny, if I can call it that. They're there and they have been built for short-term emergency and reliability considerations, not for transferring large amounts of bulk power across the border. So

it's the interconnection and then it's the capability of the transmission system beyond the border to carry it to a large market, and that's a pretty significant sort of hurdle to get over. So there are markets that may potentially be buyers of power from SaskPower. The biggest hurdle is the ability to have the transmission system to be able to deliver the power in a competitive way.

Mr. Elhard: — Mr. Chairman, to the minister and his officials. Part of the rate increase application that SaskPower presently has before the review board indicates that there are going to be costs associated with infrastructure upgrades. Is that to be taken as merely a maintenance type of upgrade? Or would it be possible for SaskPower to include as part of that application an increase in capacity for the infrastructure?

Hon. Mr. Quennell: — On this application I think I can fairly say the purpose is to maintain and improve the infrastructure required for the domestic market. We have not increased rates so that we would have room for other major projects like expanding our ability to export electricity. There are reasons why we might want to consider doing that, but that's not part of this rate application.

One is the reason the member refers to, and that is to increase our ability, or somebody's ability, to export electricity from Saskatchewan. And the other would be to more closely integrate ourselves with the grid, perhaps with Manitoba, and that would give us some more options on how we'd be able to generate electricity in Saskatchewan.

Mr. Elhard: — If it's not part of this particular application — let's just set that aside — is SaskPower looking at the potential of developing that increased capability on the infrastructure, on the expectation that energy exports, electrical exports, might be a very profitable business?

And the reason I'm asking the question, frankly, is that if you go back to August 2003, August 14, when we saw the, you know, the domino effect of a power interruption in northeastern United States — you know, it came up into Canada; it blacked out the entire northeast part of the US and only maybe good luck or good management prevented it from working its way through the entire grid — it seems to me that anything I've read lately would suggest that there is a growing demand for power. And if Saskatchewan is in a position to expand its power generation capacity and is willing to look at increasing its export opportunities, there might be a significant role for SaskPower to play there to the benefit of the people of Saskatchewan.

Hon. Mr. Quennell: — I think it's fair to say that SaskPower is looking at its options for integration and improvements to its transmission and distribution lines for both the reasons I set out, and specifically being able to export electricity into Montana, as well into North Dakota.

The member's reference to the blackout highlights one of the challenges of integration, and that is we have a continental electrical distribution network. And I think it's now generally believed that the problem started in Ohio, but we know that it extended up the eastern seaboard and into Toronto. And the member wondered whether it was good luck or good

management that it didn't go further. For what it's worth, I tend to think it's luck where it went and where it didn't go. SaskPower is working to conform with the electrical standards, the national electrical standards of the United States, so that we can be a proper partner in the intercontinental electrical system.

Mr. Elhard: — Mr. Chairman, would the minister care to offer this committee the various options that SaskPower's looking at to increase its generation capacity?

Hon. Mr. Quennell: — In the medium term, the government is committed to electrical generation, new generation of electricity from non-emitting sources. So in the short term, that is for the most part wind power. And for the short term, the next four or five years — next four years, I think safely said — that is . . . new capacity is going to be at Rushlake Creek, the 150 megawatt wind facility there, as well as other environmentally preferred power projects that come forward in that program. And we are soliciting programs from the private sector — a number of those are also wind, as the member will know. That's the short term.

In the longer term, I believe SaskPower, like any responsible electrical utility company, will be looking at a range of options. And there are only so many ways of generating electricity.

Mr. Elhard: — You know, I'm interested in the wind power issue and I think we'll probably want to cover that in depth at some point in today's committee meeting. But in view of sort of the limitations of wind, if I remember correct, we have about a 3500 megawatt generation potential, and will that include the 150 megawatts at the Cypress wind power project . . . no, I guess the Rushlake power project will bring on stream? And going forward, is that going to be sufficient to meet our need for power in the province?

I'm just wondering if SaskPower has estimated what its potential requirements will be and how quick additional requirements will be necessary and if that particular wind power project, given the limitations of wind, will meet our expectations and our needs over the next 10 years, for instance?

Hon. Mr. Quennell: — I'll let the president comment upon forecasts. We are currently at a capacity of approximately 3,500 megawatts, as the member referred to. We will be adding 150, with the . . . when we facilitate Rushlake Creek That doesn't take us to, that doesn't take us to 5 per cent yet. Denmark — and I appreciate the circumstances are different because of the integration with a bigger grid — Denmark I understand is at 16 per cent.

There are limitations. We may be approaching them. But those limitations may change as we make other changes in how we distribute power and how we integrate with our neighbours.

As to forecasts for needs over the next, I guess decades, decade or two — I think the member is looking further ahead than the next three or four years — I would refer to the president of SaskPower.

Ms. Youzwa: — Thank you. We do on an ongoing basis keep a long-term kind of view on what . . . where we think the demand for electricity will grow to in Saskatchewan. We look at that in

comparison to the generation fleet that we currently have or have under contract, what it's expected life is of the various generation units. And with that, look at when we'll have to add more generation capacity to meet load growth. So that's an ongoing supply development exercise that we do and we update on a regular basis.

Where we are today is that, as the minister indicated, we are looking to meet load growth in the near term with generation sources which do not add to our emissions challenges. One of the major issues that we have to manage going forward is how we're going to generate electricity and meet higher standards for environmental performance.

Kyoto is a significant challenge for us. And since we are so very heavily reliant on fossil fuels to generate electricity, while we look to determine what the implications of meeting higher standards for CO₂ emissions and other emissions like mercury will be on our existing fleet, we've made a strategic decision to add generation which doesn't add to our emissions problem. And the wind power project is part of that GreenPower portfolio strategy. Our environmentally preferred power initiative is also in that . . . is an important part of that strategy as well.

Longer term, as load grows and generation . . . existing generation needs to be replaced, we will have to look at a broad range of options. One of the things that we are actively engaged in is looking at new technology to utilize coal in the future, to see if we can prove up technology which is technically feasible and economic, to be able to continue to use coal as a fuel source in Saskatchewan. We do have ample supplies of coal in southern Saskatchewan and we are actively engaged with other utilities and others to look at technical solutions for new ways of generating electricity with coal. But those are longer . . . They will take some time before we know how practical those will be.

Natural gas remains an option. We have added gas-fired generation and that continues to be an option for us, though we do have some concerns about the cost of fuel and the volatility around the price of gas and its impact on the cost of electricity. And we're also looking at hydro. Basically the whole portfolio is open and we keep all of our options and we evaluate all the options available to us on an ongoing basis.

But the addition of baseload generation is with our GreenPower portfolio, and the selection of our best choices for baseload. It's not likely we'll have to add that until into the 2010 period. So we're looking to buy some time with and meet load growth without adding to our emissions problems, while keeping our options available for the longer term, and evaluating to make sure that we can make the best choices.

Mr. Elhard: — Mr. Chairman, to the minister and his officials. What is your anticipated generation capacity of the environmentally preferred projects that you've invited? You must have some idea of the ability of those projects to assist SaskPower in their long-term requirements.

Ms. Youzwa: — I'm going to ask Rick Patrick to come and speak to this. He's responsible for supply development and he's our vice-president of planning environment and regulatory

affairs, and he can certainly speak to this.

Mr. Patrick: — Thank you for the question. The analysis that we performed is done in the context of a 20-year planning horizon for supply development; and we have to be very cognizant of the ability of industry, if you like, to make technologies available that we can really apply. There's lots of theoretical stuff out there that people talk about but it's not necessarily truly available, either technically or economically. So one of the things SaskPower does a great deal of is trying to examine the gaps that exist either technically or commercially between what's out there and what we can actually apply.

Well that's sort of the introduction. We have looked at renewables. We have done an analysis in conjunction with Saskatchewan Research Council on the potential for using essentially waste materials that are usually of a biomass nature of some sort or other, or other materials that are currently being disposed of with no value added.

We believe that there is a potential, and I use the word advisedly — potential — because it doesn't mean that it's going to be economic in the near term, but there is potential for several hundred megawatts of generation based on the use of materials that are now considered to be waste materials.

And we're working through our environmentally preferred power program and through our demonstration project program for small-scale renewables to demonstrate technology packaging to see whether the stuff can work, because what we're trying to encourage in Saskatchewan is a vibrant entrepreneurial community — basically independent power producers who, because they have access through their other lines of business to these waste materials sources, if you like. In the case of, for instance, saw mill operations, they usually generate a big pile of bark or wood waste and right now it's simply generating methane which is a negative in a Kyoto sense to Saskatchewan. But the stuff sits without value, and so we're working with these sorts of people and others to find a way to use their wastes to produce electricity and to essentially solve the waste handling problem. And that's why we've got several demonstration projects currently underway.

Quite honestly, they'll not all prove to be economical over the long term, but you will not know until you try. So we believe as the question, I guess, asked, is there potential, yes. Potentially a few hundred megawatts, several hundred megawatts, if we can get these things to work technically and economically.

Mr. Elhard: — I'm interested in those types of projects, because they are socially and environmentally responsible and I would applaud the concept of working the entrepreneurial spirit of the proponents into this equation. I think that's an important part of generating success, if I can term it that way.

But, you know, I wonder also about counting on that if we're putting any weight on the viability or the provability of these technologies, that we just aren't really in a position to place right now.

What I'm getting at . . . I might as well be as direct as I can, I guess. If we've got 3,500 megawatts of capacity now, we're anticipating another 150 megawatts from the Rushlake wind

power project — which because of the nature of wind, you know, is not completely reliable — and if we've got potential in these other areas but unproven potential at this point and maybe not commercially practical for upwards of 10 years or something like that, what are we doing in the meantime? How do we fill that gap between what we've got, what we might have, and a growing need for power in the province?

Mr. Patrick: — If I may. It's a good question. The answer is first off we're not going to get caught short because you have to understand in the electric business as never before — and this is not a peculiarity to Saskatchewan, this is across the industry; it's across Canada, it's across North America, it's across the world — there has never been a bigger gap between, if you like, available, commercially proven technologies and the apparent need for improved environmental performance. There is a huge disconnect now between what we believe the society wants through either Kyoto or other emission management strategies that sometimes are not currently available in regulation but are being proposed.

And so in our business, because we manage a very long-lived asset fleet, anything we build has a minimum life of anywhere from perhaps 20 years as a minimum — and that's usually the smaller scale, renewable stuff — to arguably 100 years if it's hydroelectric; and if it's major thermal, probably 40 or 50 years. We have to make decisions that are going to be robust over the entire life of those projects, so you don't necessarily plan only for the regulations that exist of the day because it is quite possible within the life expectancy of those projects that they will see significant other regulatory change. And so as a minimum, you need to be cognizant of that and at least position the technology package so that it's at least adaptable in the future to further modification.

That being said, we do not put our eggs in one basket. The generation fleet of Saskatchewan to date has been successful because it is a mix. We have a portfolio of some renewables now — hydro, gas, coal, and other things — and in the future will be that. Based on my knowledge of what's available, I can't imagine that we're going to eventually pick a single technology pathway and expect it to do all things. I don't think it will ever be that simple.

In the case of things like wind and the current GreenPower portfolio, the way we manage what we call the supply-demand balance is we constantly monitor what we have and what we think we're going to need. And every once in a while those supply and demand balance will cross and at that point of equilibrium, that's the point where you need something new.

Right now that equilibrium point is at about 2010. So what we're doing now with the wind project, with renewables, with our environmentally preferred program, with our technology demonstration projects is trying to prove out the availability of other sources of generation. We're not counting on those things to keep the lights on at this time. What we're trying to do is create an environment, a business environment if you like, that will make those alternatives available to us so that when we need the next tranche of generation they become available to us.

If they're not available to us, we will default to other things that we already know are available to us. As the president said

earlier, we can always default to natural gas. It's a proven technology, relatively low capital cost, good environmental performance, but unfortunately exposed to a fuel which has increasing risk over time because natural gas is a problematic fuel, increasingly so because of the stresses on that industry.

We always have the ability in the short term to do perhaps a short-term import contract from Manitoba. Historically we have done that, in the past have done that to prove out low growth.

What I'm trying to say is that load moves up and down on an annual basis, and you don't necessarily, just because you might see some load increase in a particular year, immediately run out and start building something. What you usually do is wait for a few years to embed that load growth to assure that it's really there. When you're confident that it's really there and needs to be served on an ongoing basis, then you build or acquire some new generation, however you choose to do it.

In the meantime, so that you can manage the load, we occasionally will purchase power off the grid, usually from people like Manitoba in the short term to backstop us. When we're convinced we need something, then we go ahead and do it. And we've done that historically for the last, you know, 40 years probably, and I suspect may do that in the future as well.

There's three things that cause us to need generation in the future. There's load growth, and that's a variable thing but generally it's in the order in our province of something like perhaps 50 to 70 megawatts per year against the background of roughly 3,500 megawatts of capability.

There is unit retirements. And I would make the comment that all of North America is now poised on the brink, as Saskatchewan is, of starting a significant replacement program for old infrastructure. We built a lot of stuff in the '60s and '70s and early '80s and really haven't built an awful lot of really big stuff in recent times. There's been a lot of gas generation built, particularly in the United States in the last 10 years, but the big, old baseload stuff is now starting to wear out. And in Saskatchewan you're going to start seeing the retirement of the big baseload coal fleet in the second decade. And so we're planning today for the replacement of the baseload units, the first unit predicted to come off line in 2013. This is just part of a 20-year scenario. There are no surprises in this; we're well aware of the retirement schedule. We're well aware of the condition of our units and their life expectancy.

The third element that we have to deal with is what we call mid-life unit refurbishment. Particularly in the case of coal-fired generation, which is an extremely difficult and taxing technology issue, those units wear out every day as they run. You're burning fuels and you're handling ash and the units can't last forever without significant ongoing maintenance and occasional major rebuilding.

If you add those three things together, in the next roughly 10 years, SaskPower will be making about 2,000 megawatts of decisions that deal with load growth, refurbishment, and unit retirement. The effect of those decisions will come into play from now and over roughly the next 20 years. You know, it's a well-orchestrated thing. What we do all the way through that piece is determine what is available commercially, what the

performance of that equipment is, both economically and environmentally, and we see how it fits with our need. When we get to a point where we have to make a decision, we pick from whatever is truly available. We're not necessarily hanging our hat on any particular thing in a sort of a wishful manner. If it turns out that these things we've been talking about really don't bear fruit, then we will not use them at that time. At some point hopefully they will mature to the point where they become a true alternative for us and we can choose from them.

The analysis that's performed when you make the selection is based on a life cycle assessment of their performance both economically and environmentally, and so when we go to pick something we bring everything to a common level of analysis. So whether you are comparing wind to coal or gas or hydro, at the end of the day they're all equally evaluated in terms of their economic and environment performance and you pick the best at that point in time. So you won't say today for sure what we're going to do in each of those decisions for the next 20 years. All we can say is today we have certain things available because we're choosing to invest in closing commercial and technology gaps. Over the next period of time we hope these things will come to fruition and we'll be able to utilize them. If they are, we will; if they aren't, we'll do whatever we can alternatively.

Mr. Elhard: — Mr. Chairman, that was a very thorough answer and I appreciate the complexity of the issue and the need to have a pretty good grip on the options and opportunities facing us.

The question that comes to my mind, and I think I in some terms posed this earlier to the president, but when you're doing that kind of analysis and planning and looking at options and outlining time frames and those kinds of things, does the potential for exporting even more power factor into your decision making?

Mr. Patrick: — Yes, if I may, the answer is yes, but you have to understand the way the marketplace and electricity operates. First off you have to have a product to sell that somebody wants to buy. Now it's true enough that there is low growth in all of North America, so yes people want to buy electricity. But they want to buy it at a price that's the best they can get their hands on, which means that your form of production has to be equal to or better than whatever their alternatives are.

We've got essentially two problems in Saskatchewan when it comes to bulk export of electricity. As the president said, we do niche playing; we take advantage of opportunities on the spot market. But if you're going to build significant plant or transmission for long-term commitments, you either are going to be dabbling in a merchant plant environment, in which case you are subject to the vagaries of the marketplace — you'll either succeed or not depending on your positioning — or you need a strong bilateral agreement right up front. That's the best way to do business. You basically want to have a long-term commitment to a customer and the assurance of that power purchase agreement basically pays for your infrastructure. We have looked at that historically, but the problem we have in Saskatchewan is twofold.

To the immediate south of us there is a tremendous shortage of

electrical transmission capability in the United States. We have a tie through to North Dakota, but it's a relatively small line. And that line has been examined many times to see whether it can be expanded and at what cost, and we're well aware of what those things are. But beyond that, in the United States there is a big gap between that point, if you like, and the major east-west grids that cross the United States.

So there's a lot of infrastructure that we'd need to have that just doesn't exist, and somebody would have to pay for it. And if you could get it paid for as part of a bilateral agreement, that would be great. But then that takes you to the second part of the problem, which is you have to have a product to sell which is inherently competitive with that marketplace.

The reason why Manitoba is so successful in their business is because they're selling very, very, very, very cheap hydroelectric power into a marketplace which is otherwise served with either natural gas or coal-fired generation immediately south of them in the Minneapolis area.

Immediately to our south are the North Dakota and Montana lignite electric utilities, which we, I might mention, we collaborate with closely on issues of lignite technology because we share a common technology link because of the commonality of our fuels. That being said, because they're using the same we are, their production costs are the same as ours. I mean, technology is technology; thermodynamics are thermodynamics; and at the end of the day there's really no magic to making electricity. It's a function of the technology you apply and the fuel you're burning.

We don't have an inherent leg up to the straight south based on the fuel type. Our lignite is, although it's not incredibly expensive generation, it's significantly more expensive than hydroelectric, as is the case in Manitoba, and it's essentially the same price as the people to the immediate south. So if you're going to tap into a US marketplace, we have to get overtop of the lignite utilities to the south, who already have a product that's the same price and they're already closer to market. So by the time you add the transmission gap and the fact that we don't have an inherent supply advantage on cost, it's not a given that we can find customers who necessarily want to buy from us preferentially.

The thing that sets the price in the marketplace generally is natural gas, and similarly we have natural gas generation but so does somebody else. And so again it's not a given that if we produce gas-fired generation, that it has a leg up in the marketplace. It basically does not, unfortunately.

We've certainly looked at it, and over the years and in my tenure there's been a number of large studies done, way, way, way, way back that actually predates me. There were some studies done which contemplated large, coal-fired generation in the southern coal fields designed around an export marketplace, but again you couldn't build a marketplace because no transmission and southern utilities doing exactly the same thing we are.

So you know the good news is we're looking at it; the bad news is we don't have a natural advantage.

Mr. Elhard: — What about the possibility of the increasing demand from the tar sands development in Alberta? Is there an export opportunity for us there?

Mr. Patrick: — There is certainly a demand in the tar sands area but again you have to look at the ability to serve that marketplace. The tar sands need basically three things. They need electricity, and if you look at our ability to make electricity and the Alberta utility's ability to make electricity when it comes to coal generation, they've got an advantage over us because they have a superior fuel and they're closer to market. If you use natural gas, again, same technology, the gas is close to them, they're closer to market; no advantage for us.

The other thing the oil sands people need besides electricity is heat and hydrogen. They need heat for extracting the bitumen from the sand, and so what you need is a plant which produces residual heat which can be sold into the oil patch which they use to separate the bitumen. So again, it's a physical thing. They want to be close to the oil sands.

The third thing they need is hydrogen because when you upgrade heavy oil into transportable oil, you do it by adding hydrogen molecules. Part of what they do in Alberta is convert natural gas currently to hydrogen. They are very rapidly moving to the gasification of other materials like bitumens, coke, and coal to make that hydrogen because the oil sands have the potential over time to literally use all the remaining natural gas in Canada and north just to upgrade the oil. And so they are working on this . . . (inaudible) . . . but again it's an issue of physicality because you can do it essentially local to the oil patch because the residuums that come out of the oil upgrading industry are there physically at that location, and from purely a materials handling point of view are best actually processed close to it.

So the answer is theoretically they need our electricity, but practically speaking we don't have a market advantage unfortunately, for these other reasons.

Mr. Elhard: — In view of the limitations to the export potential that you've described, are we as a company, as a province, as an industry, really going to be landlocked in this whole area? Are we simply not going to have the opportunity to go outside the provincial boundaries to any greater extent than we already have? And that's been accidental.

Mr. Patrick: — Based on the use of natural gas and our native coal — and I speak to this advisedly because we can always be surprised by the future — but it's not obvious to me given the cost and the technology and the transportation issues around the use of those fuels that we have any significant ability to become a big player in the export marketplace working with those fuels.

Mr. Elhard: — In view of the limitations on that potential maybe, and understanding that we have some limitations of our own right now, does SaskPower have contractual obligations to buy power from other sources if we need it? Or do we have ongoing contractual obligations to purchase power on a consistent and day-to-day basis?

Ms. Youzwa: — We purchase power from a number of projects and we have long-term power purchase agreements with them.

For example, the Meridian cogeneration project which is at the Lloydminster Upgrader, we have a 20-year . . . a 25-year power purchase agreement with that joint venture. We have a power purchase agreement with the Cory cogeneration facility. We have a power purchase agreement as well with the SunBridge wind project in the Gull Lake area. So when we are purchasing, we're buying power or counting on buying power from someone other than SaskPower; we tend to lock in the supply by entering into a long-term power purchase agreement. And they tend to be 20-years plus, which is tied to the physical life of the assets that will be supplying us.

Mr. Elhard: — Mr. Chairman, those agreements though are all with facilities, generating facilities within the boundaries of Saskatchewan. Do we have any such agreements with producers outside of Saskatchewan?

Ms. Youzwa: — Not at this time.

Mr. Elhard: — Thank you.

The Chair: — Mr. McCall.

Mr. McCall: — Thank you. I guess the line of questioning my colleague opposite had been pursuing raised a number of questions for myself. And just a point of clarification, in terms of the import/export. Is Saskatchewan in the past year a net importer or a net exporter of energy?

Ms. Youzwa: — I don't have that number right in front of me. Our import and export activity is very short-term. We have, and we do it to optimize our costs, we have generation capacity that we either own ourselves or have under contract to meet all of our requirements in Saskatchewan. We only do the short-term exporting or importing if we can lower our costs for our customers. So we import when we can find it cheaper than we can produce it ourselves. We export when we can sell it and make a profit and bring that back to the utility, to the benefit of our customers.

But overall, if we'd had no export or import activity, we have . . . we always plan to have adequate generation capacity to meet our requirements.

Mr. McCall: — Okay. And I guess just to restate the question in a different way, I'd read a newspaper article a couple of weeks ago that had stated that Saskatchewan was a net importer of energy. And I guess you know in terms of the . . . what's being stated here, that's obviously not the case. Is that a fair statement to make?

Ms. Youzwa: — Was that net imported energy or electricity?

Mr. McCall: — Electricity, I believe.

Ms. Youzwa: — Yes. I will get the numbers for you later today, the actual numbers of gigawatt hours we exported and how many we imported to give you the net difference. I just don't have it at my fingertips right now.

Mr. McCall: — But I guess it's a fair statement to say that Saskatchewan has self-sufficiency in terms of our load requirements?

Ms. Youzwa: — Absolutely.

Mr. McCall: — And that's, you know, in terms of the 20-year horizon, that's been the plan, that is the plan, and that will continue to be the plan is to achieve that self-sufficiency in terms of our electricity needs.

Mr. Patrick: — Yes. As the president said, we're self-sufficient and our design of the system always is for that. And so when they talk about a net thing on an annual basis, first off, you're talking about a flow of electricity that is a small fraction of the total generation within the province. And if you look at the 2003 number, our exports were apparently about 1,700 gigawatt hours out of a production of about 17,000.

At any particular point in time, we may have — for that small number — we may have sold 1,700 and imported 1,701. It's depending on the marketplace at the time because we by and large do that to optimize our internal economics. So if there's cheap power out there that's cheaper to import than for us to produce locally, that's what we will do. If it turns out that there's a hot market out there and we can sell it, we may sell more than we ever bring in. So it depends very much on the year in hand.

You know in the case of — I believe last year — Manitoba Hydro had the misfortune of running out of water, so we were selling them electricity like crazy. That is not normally the case. A couple of years ago Alberta was short because they were caught up in their supply crunch. We sold them some power. They've since made up the deficiency.

So it really kind of depends on what's going on around us within our regional marketplace, and it's not even all that predictable in the long term because it tends to depend a great deal on things like seasonal precipitation and sort of whatever is going on in the near term in those marketplaces. So it doesn't threaten the local security of supply at all. It really is just a balance between sales opportunities and import opportunities to optimize our own system economics.

Mr. McCall: — Okay. In terms of managing the demand side of the equation, I was wondering if we could have some comment on what's being done in terms of the conservation approach, in terms of reducing that demand.

Ms. Youzwa: — We have a number of initiatives that we've had in place for some time.

Probably our most mature initiative is around our energy solutions program that we deliver in partnership with Honeywell. It's a program that we, it's an energy performance contracting program and we make it available to our commercial and public institutional customers. And it is a program that allows customers to come in and we'll do an audit to determine what opportunities there are for achieving energy efficiency and then allows customers to go forward with a retrofit to their facilities to achieve those savings, and the retrofit to be paid for through the actual energy savings that are realized. We are, I think, into the fourth year of that program and we've had some, I think, considerable success with it.

Beyond those customers, we provide information to our residential customers, which is by far our largest customer base; and we do this in partnership with SaskEnergy. We provide information to allow customers to do an audit of their own homes to determine how they use energy, so it's both gas and electricity, and to determine if they made certain changes what kind of savings they would realize on their power and gas bills. And that's available through our Web site and that's a self-directed audit and that information is made available to customers.

We also have been working on, one of the customer groups that have had real challenges in dealing with rising energy costs have been some of the municipalities that operate skating rinks and curling rinks. And given the seasonal nature of those operations and the structure of our rates, there has been pressure on those facilities.

We have launched a pilot program which is our community energy performance contracting program to work with some communities to see if we can introduce an EPC (energy performance contracting) contracting initiative to help them learn how to retrofit and operate facilities to realize energy savings as well.

Our plan is to have three pilots, and when we've completed those pilots we'll then evaluate those programs and see if there's an opportunity to extend it beyond that. Where we are today in the pilot projects is that we've selected the first community, which is the community of Watrous, and we're working carefully with them. And we're also working in partnership with the Saskatchewan Research Council on that.

Mr. McCall: — Very interesting. I'm sure you'll have a lot of interest from communities to get lined up for those pilot projects.

I guess returning to the question of conservation overall — in terms of managing that load growth, which is about 50 to 70 megawatts per year — in a macro sense going forward, do you have any kind of numbers assigned to what you see coming from conservation efforts to manage that load growth, to constrain that load growth?

Ms. Youzwa: — Certainly managing load growth is one way of dealing with the whole challenges around additions of supply, electricity supply and generation as Mr. Patrick has already talked about. And to be able to integrate that into our, sort of, plans for the future, we would need to have a very good idea of what the potential is for demand-side management. And that's going to be largely the potential that exists with our larger customers. Over half of our load comes from large industrial and oil field customers. Our residential customers — and we have programming in place there — individually they don't . . . the amount of electricity they use is relatively small.

So we are looking at, sort of, doing some work to determine what the potential is to realize savings or demand-side management and load growth curtailment. But that's really important to look at how those customers use electricity and what the potential is there to realize savings. Once we've got that more detailed work completed then we'll be able to set any kind of targets as to where we move forward. But we're not at

that point yet. I don't know, Rick, if there's anything you wanted to add.

Mr. Patrick: — We're studying it. Historically there's been a lot of utility initiatives aimed at conservation which really didn't prove to embed long-term load reduction. The approach we're taking is to try and find ways to work, particularly with the larger customers, to embed permanent change. Because demand-side management we consider to be a legitimate supply option. If you can manage your customers' loads in a way that reduces system peaks or causes them to make process decisions for their own industries that make them a more efficient process, if you like, than you can embed permanent change. Failing to do that, it becomes a very capricious thing.

And if you — as has been done in some other jurisdictions historically, not particularly in Saskatchewan — you know, give people compact fluorescent light bulbs, example, as giveaways, they're fine as long as they last, but if they're not replaced with another one, then you really haven't embedded a permanent change and you can't count on it. And probably in the late '80s, particularly, there was a huge amount of money spent within industry doing those sort of giveaway schemes, and at the end of it there was really nothing permanent in place. And we don't intend to go down that road.

Mr. McCall: — Okay, very interesting. I guess on this round of questions, just one last question. It's sort of a matter of personal interest. You know, every fall driving through Saskatchewan I'm always struck by the flax straw that's left out in the fields. I was just wondering, in terms of the work that SaskPower is doing with the Research Council, is there anything being contemplated in terms of using that particular biomass from the flax straw in terms of environmentally preferred energy generation projects?

Mr. Patrick: — We haven't specifically looked at flax straw, although I think Research Council has done some work on it. The work we're doing to, if you like, experiment with technologies would allow us to use those materials. We're doing some work with gasification technology, and some of the things that would allow us to use biomass materials, whether they're flax straw or simply something else, really, from a processing point of view is kind of all the same, really, if you're making electricity.

The general comment I'd make with respect to that issue is that the thing that makes the economics really, really tenuous for biomass projects is the materials handling cost. You really need to have access to a large amount of material in a central location that doesn't have to be moved hardly at all to the combustion process. As soon as you start putting any significant material handling cost on biomass materials, the economics basically just go right out the window.

And so right now what we're working primarily on are existing biomass sources which tend to already exist or tend to be, by their nature, confined to localized areas so you can minimize the handling cost. It's just the nature of the beast. And if you have to, sort of, pick the stuff up and truck it for 50 miles to get enough of it together to be worthwhile, it usually just blows the economics right out of the water, unfortunately. But from a theoretical point of view, the work we're doing would support

the use of the materials, if you can somehow manage the materials handling issue separately.

Mr. McCall: — Okay. And I guess just in the current context around emissions, I can't help but wonder about this equation we have where people are burning off their flax straw, and if there's a way to inject that into the equation in terms of the financial viability of something with flax straw. But I appreciate the points you raise. Anyway for this round of questioning I thank you very much for some very interesting and informative answers.

The Chair: — Mr. Yates. Mr. D'Autremont.

Mr. Yates: — Thank you very much, Mr. Chair. I have a number of questions. I'd like to start where my colleague left off, talking about energy conservation and the role it could play or may play in the future.

As we know, over the last decade there's been a significant move to energy efficient appliances, energy efficient homes, new standards being developed. Is there any look at what the next generation of those types of developments mean as far as load goes? And are there any discussions about perhaps putting new standards in place in Saskatchewan, such that new homes being built are built with energy efficient lighting fixtures as an example and those types of developments, so that we from a certain point forward move ahead putting into place higher energy conservation standards or reduction standards?

Just an example, R-2000 homes came into place I don't know, 15 years ago, 20 years ago now, and there's more and more R-2000 standard homes being built. And just wondering what the thought process is along those lines, what the potential is to mitigate load growth in the future, and if there are any studies or discussions about what the potential impact of moving down that road might be.

Hon. Mr. Quennell: — Oh, I'm sure Mr. Patrick has some interesting thoughts, information, on this subject. I have noted from my own reading that there has been a growth in energy use by the household. There has been a decrease in the amount of energy used to heat the household and for the reasons that the member referred to — better insulation; better construction of homes. There's been a decrease for the amount of energy used to heat water for the household; and that is also for the same reasons I think, better insulation.

There has been a growth in the increase of electricity by the North American household — not because the products aren't more efficient, they are more efficient. TVs use less electricity; washing machines use electricity. The fact is we have more stuff. We have more TVs, maybe twice as many as we had, say, 1987. We have appliances that were not invented 20 years ago. We have personal computers, we have modems, we have fax machines, and we have more appliances. So even though the standards have improved, the use by the home has increased. So the question about home construction, appliance standards, those are good questions and we should continue to look for efficiencies, but I think the remarks that were made about where the savings can be made by our largest customers is an important point.

Mr. Patrick: — Just a couple of comments. The folks in our shop who speculate on future load requirements, and the folks that have the crystal ball if you like and look into the future, actually use a technique where they anticipate what they call natural conservation or demand-side management. There is a way within their methodology that presumes a certain improvement over time on the efficiency of appliances and whatnot, because there is a trajectory for that stuff already and they're cognizant of that and they build that into the supply equation. So it's not as if we're assuming in the future every fridge in 20 years from now is going to be as efficient as only the fridges are today. They build that in already.

As the minister said, people keep adding stuff. The mandate of SaskPower in the very narrowest sense is to keep the lights on in response to whatever demand is made upon us. We do not have within the utility the ability or the authorization to ration electricity. If societies want to significantly influence the use of electricity, that's a matter of public policy that lies outside of the specific realm of the utility. In the case of that I'd have to defer to the minister to comment on it, not to put the issue on his shoulder. But there's two parts to it. It's the desire of the society to somehow conserve in an aggressive way and that goes really far beyond a utility.

The piece that the utility can do is to work with customers to somehow encourage them through whatever means to be as efficient as possible and to embed process changes that we can count on, as I said earlier, so that we can treat it as a supply option. And as my president said a few minutes ago, we think that in Saskatchewan there is some progress to be made with our industrials because we work closely with them in any event. And because they make process changes all the time over time in any event, if we can influence them to do certain things then it may slow the rate of growth. But in terms of convincing people to not have another TV set or another VCR (video cassette recorder), that to some degree is difficult for us.

Hon. Mr. Quennell: — If I might, and I don't want to interrupt the member's lines of questions if he has more, but there was a question asked previously about whether or not SaskPower was a net importer or exporter of electricity. For the year in question today, the year of 2003, I have been informed that SaskPower exported 1,761 kilowatt . . . kilowatt? Kilowatt hours?

Ms. Youzwa: — Gigawatt hours.

Hon. Mr. Quennell: — Gigawatt hours. Gigawatt hours. Excuse me, Mr. Chair . . . and imported 1.141 million gigawatt hours. So for 2003 we were a net exporter of electricity, to answer the member's question.

Mr. McCall: — Thank you.

Mr. Yates: — Thank you. My next question fits quite nicely into the minister's last remarks. When we are looking at whether or not we are importing electricity or exporting electricity, but in particular importing electricity, is it fair to say that we would import electricity if in fact we could buy from Manitoba Hydro generated electricity cheaper than firing up secondary gas-fired or natural gas-fired generation, and that would be decided basically on an hour-by-hour sort of basis or minute-by-minute, even, basis and that is a normal course of

business day by day?

Hon. Mr. Quennell: — I think that's a fair summation, yes.

Mr. Yates: — Okay, thank you. That ends my questions.

Mr. D'Autremont: — Thank you very much, Mr. Chairman. Mr. Minister, and your officials, welcome today.

I'd like to go to the annual report, although I do have a lot of questions that were generated from the previous questions. On the first page of your annual report, the first paragraph, it states:

Although sales increased in 2003, escalating costs — particularly in fuel and purchase power — continue to put pressure on the Corporation's bottom line.

Is that true in 2004, and if so, is it fuel and purchase power that are the areas that are putting costs, or is there some other area as well?

Hon. Mr. Quennell: — I certainly believe that at least in the first quarter — and perhaps the president can make comments beyond that — that sales continued to increase. My understanding is, and I stand to be corrected, that with growth in the manufacturing sector and growth in the oil fields, the demand for electricity has grown. But certainly the concerns about rising fuel costs are even more relevant to 2004 than to 2003.

Mr. Jones: — Thank you, Chair, Mr. D'Autremont, for the question. As we indicated in our second quarter report, one of the concerns that we faced during the year was the poor hydro conditions. And as a result of being able to generate less electricity from hydro, which is relatively an inexpensive source of generation, we had to go to more expensive sources, which were gas and so forth. So predominately the big issue was our rising fuel and purchase power costs in 2004.

Our third quarter report, we're just finishing now; and it will show a bit of a rebound in earnings compared to the second quarter. Again the main problem, if you like, is on the cost side and it's fuel and purchase power costs.

Mr. D'Autremont: — What impact is that going to have then on the 2004 bottom line for SaskPower, with these costs continuing to escalate?

Mr. Jones: — Chair, and, Mr. D'Autremont, I thank you again for the question. We expected a bottom line for 2004 net income, I believe it was in the order of 48 million a few months ago when we did the second quarter report. We're currently now in the process of revising that and we expect that net income for SaskPower will be approaching \$70 million for 2004. The forecast that I would . . . just working on at this point, I believe was 67 million, but a number of things are changing. So a round number would be about \$70 million is the forecast for 2004.

Mr. D'Autremont: — Thank you. This initial 48 million now revised up to roughly around 70 million, is that taking into account the possibility of the rate increase being agreed to?

Mr. Jones: — Yes, the \$70 million forecast at this point in round terms includes the impact of the interim rate increase, effective September 1.

Mr. D'Autremont: — If that rate increase was not there, what would be the bottom line for SaskPower?

Ms. Youzwa: — I believe the incremental revenue from the 9 per cent increase effective September 1 is \$34 million this year. So it would be \$70 million minus 34.

Mr. D'Autremont: — So roughly cut in half then . . .

Ms. Youzwa: — Yes.

Mr. D'Autremont: — . . . of your current projection.

The projected \$70 million net profit in comparison again to last year's second . . . the last sentence in that initial paragraph in the annual report:

These pressures were masked by . . . foreign exchange gains recorded . . . (in) the translation of U.S. dollar . . . (denomination) debt into Canadian dollars.

Again we see the Canadian dollar at this particular point in time rising versus the American dollar. So that \$70 million, is any of that a gain from foreign exchange?

Mr. Jones: — Mr. Chair, Mr. D'Autremont, thank you again. The forecast at this point was based on a 75-cent dollar so that it included a \$2 million foreign exchange loss. That's why I just advised we're working on it. There's been a number of things that have changed. The Canadian dollar that we look at in terms of the net income impact, you look at the beginning of the year or the close of last year, which was 77.38 cents US if I recall correctly. So the forecast when it was done, this was a month or so ago, we assumed for conservative reasons — the exchange rate has bounced around — a 75-cent exchange rate which meant that we would have incurred a foreign exchange loss. So there was that \$2 million loss. In fact if you use the exchange rate today that's closer to 82 cents, there would be a foreign exchange gain, and hence your net income rises from the 67 to that \$70 million range.

Mr. D'Autremont: — A 1-cent change in the foreign exchange rate translates into what kind of a change for SaskPower?

Mr. Jones: — Chair, Mr. D'Autremont, again thank you. As of this point right now, a 1-cent change in the exchange rate is roughly \$1 million change to net income. That compares with 10, 11, \$12 million a year ago. The reason for the difference is that over the course of 2003 and 2004 we have moved to eliminate that foreign exchange risk from our books. And we have hedged substantially, all of the Canadian . . . US dollar debt, we've hedged it back into Canadian dollars. We have a small amount remaining, but we continue to look at removing that risk from our books. And our strategy has been over the course of the last 18 months roughly to hedge in line with the strengthening of the Canadian dollar. So we've taken chunks, \$25 million chunks, over the course as the Canadian dollar appreciated.

Mr. D'Autremont: — Well I think that's probably a good move. At least we're dealing in our own dollars and any gains and losses are, you know, relative to our own terms and that's not something we have to worry about then.

What impact did the foreign exchange gains that we had last year in 2003 in relationship to the dividend that was paid out, what relationship did that have to the need for changes to the rate structure that we are currently seeing happening with the proposed change as of September 1?

Hon. Mr. Quennell: — Mr. Chair, the relationship is, if any, is far from direct. The net income in 2003, as the member is aware, we have \$187 million. Of that, \$113 million is a foreign exchange gain. As the member is aware, that's not cash, that's accounting. However, all the expenses are not cash; some of them are also accounting. And there is depreciation in the same magnitude as the foreign exchange gain.

The cash from business for SaskPower for 2003 is approximately \$200 million, which is more than \$160 million dividend. The return paid on a business to its shareholder, in this case the people of Saskatchewan largely for health, learning, and infrastructure such as highways, does not control what higher costs that business will sustain in the future, in this case fuel and purchase power. And that's why I say the relationship, if any, isn't very direct.

Mr. D'Autremont: — Thank you, Mr. Minister. Mr. Minister, isn't depreciation though normally considered accounting practice for replacement or maintenance of your existing asset; that as the value of your asset diminishes through depreciation it's also diminishing through actual usage?

Mr. Patrick referred to the fact that as you operate your plants they are depreciating, they are diminishing in value, that there is expenses associated with actual operations and deterioration. Doesn't depreciation take that into account and that's why it's there, to allow you to have a revenue flow for replacement and maintenance, rather than to offset any paper gains in another area?

Hon. Mr. Quennell: — I think all those comments are fair, Mr. Chair. The only point I wanted to make, because I don't want to leave a false impression with the committee or with the public, is that the cash income, the cash business for SaskPower is more than sufficient for the dividend.

And the reason why I make that point is because a misperception can arise from the portion of the income that was the foreign exchange gain which we all acknowledge was not a cash gain.

If we want to look at the appropriateness of the dividend, and I expect the committee does want to look at that, the 90 per cent dividend is based upon the policy set out that as long as SaskPower's debt/equity ratio is at 60 per cent or approximately at 60 per cent, a 90 per cent dividend is quite sustainable. And that's the relationship to the dividend to the actual financial management at SaskPower. That debt/equity ratio is, for utilities of any ownership type on the continent, quite good and compared to other public utilities in Canada, exceedingly good.

The 90 per cent dividend is hardly historic in its proportions. The penultimate year of the previous administration, so that would have been '80 or '81, saw SaskPower paying a dividend in relation to its net income of, I think, 137 per cent. Now that's not sustainable. So that administration followed that up with a dividend payment of 247 per cent.

And it's in that context that I think we should look at very responsible financial management on the part of SaskPower and a quite sustainable dividend rate of 90 per cent given the debt/equity ratio for that corporation.

Mr. D'Autremont: — Mr. Chairman. Thank you, Mr. Minister. So you're saying that bad management in the past in comparison to your management today means you're not quite as bad, is acceptable?

Hon. Mr. Quennell: — Mr. Chair, I am contrasting current practice with past practice. The debt of SaskPower and the financial management of SaskPower has an effect on the credit rating of the province of Saskatchewan. And if the management of SaskPower was not good, as well as financial management of the province of Saskatchewan as a whole, we would not have seen the credit upgrades and a couple of recent credit upgrades that we have seen over the last decade.

Mr. D'Autremont: — Well we have seen the finances of the province return to deficit positions the last number of years. And, Mr. Minister, if that continues we have the possibility of having downgrades in our credit rating; because as we all know, increasing debt is not sustainable over the long term. And so that is an area of concern I believe for the entire province; it's an area of concern within the Crown corporations. If you're borrowing money to pay for operations, that does not sustain your industry.

The depreciation allowance that would have been applied which would normally have been utilized for maintenance, the cash that that provides, what . . . was changes . . . did it necessitate changes to the maintenance schedules or to replacement schedules? Because the 90 per cent dividend was not applied to the net cash return but rather to the foreign exchange gains that were, as you yourself stated, simply paper. The net cash returns were — what did you indicate here — 70 some million, 78 million, I believe, or 73 million; 90 per cent of that is a lot different than 90 per cent of the 160 . . . or the dividend was 169 million and the net return was 187 million. So were there any changes necessitated to the maintenance or replacement schedules of equipment because of that dividend?

Mr. Jones: — Chair, Mr. D'Autremont, thank you for the question. The short answer is no. But I would add that we try to manage our budgets as frugally and as carefully as we can. But there was no connection between the dividend and the foreign exchange appreciation, which was a non-cash item in our day-to-day operations. And in fact I would point out that much of the gain in the Canadian dollar happened in the latter, very latter part of 2003, and was very much a surprise, not only to us to be frank, but to most of the folks involved in foreign exchange markets, capital markets, and so forth. But throughout the year we continue to maintain infrastructure in order to accomplish our number one job, which in essence is to keep the lights on for our customers.

Mr. D'Autremont: — Thank you, Mr. Chairman. Did the dividend payments based on the non-cash foreign exchanges mean that there was any changes necessary to the maintenance or replacement schedules in 2004?

Mr. Jones: — Chair, Mr. D'Autremont, again thank you. The simple answer is no. The different issues, our maintenance schedules and so forth, and budgeting take account of many, many issues, including the needs of the equipment, the requirements of our customers, and so forth. They're based upon our budgets and business plans. They are not . . . this particular issue was not involved in terms of budget making and maintenance and so forth.

Mr. D'Autremont: — Okay, thank you. On page no. 9 under financial results it says, income from foreign exchange gains and equity investment income, 73 million. What portion of that was the foreign exchange gains?

Hon. Mr. Quennell: — No portion of income before foreign exchange gains is foreign exchange gains. Foreign exchange gains is the next line, Mr. Chair — \$113 million.

Mr. D'Autremont: — Before foreign exchange . . . Oh sorry, my mistake in reading the first one. The foreign exchange for 2004, you say it's only going to be roughly, currently \$1 million change. Was there any costs related to the transfer of the funds from US to Canadian dollars, the hedging?

Mr. Jones: — Chair, Mr. D'Autremont, thank you. I guess point one would be at this point in time, my best estimate or forecast is that SaskPower will experience for the entire 2004 year a foreign exchange gain likely in the order of 2, 3, \$4 million. For each 1 cent change or appreciation strengthening the Canadian dollar relative to the US dollar there is approximately a \$1 million change. And we're well . . . I guess we're 3 or 4 cents above the close of last year currently.

Point two is, over the course of the last year and a half or as we hedged the US dollar exchange rate liability associated with our US dollar denominated debt, there is a cost associated with that. And those costs are built into our financing costs and so forth, and built into the forecast numbers that I have given you.

But in essence it is built into financing costs over the remaining life of the debt issues, which in some cases can be 8, 9, 10, 20 years time. So in a sense I do not want to leave the impression that hedging US dollar denominated debt is not costless. There is a cost there, but we felt it was reasonable and in the interest of the corporation to remove that volatility of or risk exposure to the US dollar/Canadian dollar exchange rate.

Mr. D'Autremont: — The hedging costs, are they a fixed rate cost or are they a variable percentage cost?

Mr. Jones: — Chair, Mr. D'Autremont, thank you, they are a fixed cost. They are not floating but they are a fixed payment that, if you like, is amortized over the remaining life of the debt issue.

Mr. D'Autremont: — Well I'd like to go to some of the questions that were raised from some of the other comments that were made earlier. There was discussion of exports,

particularly exports, I'm interested in, going west into Alberta. Those exports I believe need to be phase changed, do they not, when they cross the border?

Ms. Youzwa: — Yes, they do.

Mr. D'Autremont: — When that phase change occurs, who provides that service, so to whom does the expense accrue? Is it to us as the exporter or to someone else as the importer?

Ms. Youzwa: — There's a converter station, there's a fiscal converter station, that makes the appropriate changes. That's imbedded in the transmission costs that are associated with moving power from a generation source into the market. And if you're going into the Alberta market, you're bidding into the pool price, and so we would pay the generation cost plus the transmission cost to deliver to the Alberta market.

Mr. D'Autremont: — Thank you. So any further transmission in that direction, would that entail putting in another facility for a phase conversion?

Ms. Youzwa: — If we were looking to expand capacity to move . . . transfer capability to move power from Saskatchewan into Alberta or into any part in the western part of North America, it would require additional converter capacity.

Mr. D'Autremont: — Would an alternative be to generate that electricity at the phase necessary? Would that be of any value to us?

Ms. Youzwa: — I'm going to let Mr. Patrick, our engineer, answer that question.

Mr. Patrick: — Short answer is no. The problem is that unless you could build a facility that was absolutely dedicated to the export market if you like, and had no other purposes in Saskatchewan, it would then become unusable within Saskatchewan unless you could do the conversion here. So it really doesn't make sense to do that.

Mr. D'Autremont: — Okay. One of the areas that I believe that is a huge cost to all electrical generators is line loss. What is SaskPower doing in research in that direction to try and lower that cost?

Mr. Patrick: — The folks that manage the design of the network are always looking at ways to make that line loss as small as possible, and there's a couple of ways you can do it. One is the flow of electricity around the province can be managed in such a way that the lines are, if you like, as efficient as possible. So it's the voltages you operate, where the lines go, their carrying capability, and some other electrical stuff those folks can do.

The other side of it is where you place your generation. Because if you place your generation in places where it is, if you like, most removed from the point of consumption, then you incur the maximum loss if you like, or a greater loss. So when we are siting generation facilities, we try to strike a balance between an optimal place to put the generator and its effect on the transmission grid as a whole. And that's always part of the total valuation of a project is the line loss.

Generally the electrical epicentre of the province is sort of in the Saskatoon area. The reality is that if you're building coal fire generation, the example, coal is in the coal fields in the South, so you incur a larger line loss if you have a coal fire plant. If you build for instance a natural gas fired generator, which is more easily sited because it needs less infrastructure, you could put that closer to load.

So hence the Cory cogeneration project near Saskatoon enjoys . . . in fact I think it provides actually a benefit to the system and provides an improvement to the transmission capabilities. So that's part of the economic evaluation where projects, if you're comparing two projects, line loss is part of the total project economics.

Mr. D'Autremont: — So line loss would be one of the liabilities to wind power in the Southwest, the fact that they are not close to the major market centre.

Mr. Patrick: — Yes.

Mr. D'Autremont: — What is the difference in generation costs between wind power, as currently being provided, and our current coal-fired plants, our thermal plants, and our current hydro plants?

Mr. Patrick: — If you're comparing . . . First off just let me make the comment that that's an apples and oranges question because whenever you build new anything, you really need to compare it to something else that is also new, because it is generally a truism that new stuff always is more expensive than old stuff for a whole bunch of reasons, not the least of which is a lot of our existing assets are significantly depreciated and that helps reduce our production cost.

If you do want to compare wind with the existing fleet, the average operating cost of the mixed fleet as it currently exists today is about \$45 a megawatt hour; that's everything — that's coal, gas, hydroelectric, all the stuff that already exists.

If you build brand new wind, the cost of production as delivered to our grid is about \$65. But I would hasten to add that if you built a brand new natural gas fired plant, it's about the same. If you built a brand new coal fired plant, it'd be even more. If you built a brand new hydroelectric plant, it would be even more. So you know it's unfortunate that new things tend to raise your system cost compared to the old stuff, but when you're making new supply decisions you really have to compare new things against new things.

Mr. D'Autremont: — Obviously then your offset between wind is gas, at the present time; that's something that can come on stream — wind, roughly a year; gas, probably comparable — and so the costs there would be comparable. One of the difficulties with wind is it doesn't always blow — winds — as it does always in the Southwest.

When you have wind generation, though, in your system, do you have to build in the capacity to supply an equivalent amount of electricity for those days when the wind does not provide its energy?

Mr. Patrick: — The grid always has to have the ability to

supply the peak demand and we already have that. The wind we're building now adds essentially pure, non-polluting energy. It has no capacity capability; we have not given it any of that yet. It depends on how it performs in the future and how we . . . (inaudible) . . . it for that. But we have not had to build any additional capacity to backstop it because what we're able to do, we manage the wind variability by using the unused reserves within our hydroelectric reservoirs and our natural gas turbines — which are not designed for high capacity factors because of the way they're integrated in the system — to backstop the wind.

The 150 megawatt wind project we believe at this time probably fully utilizes our existing sort of flexibility of the existing fleet, and we currently have underway an engineering study to examine the consequence of adding more significant wind. We would not add another large wind project without completing an engineering analysis first.

The Chair: — Members, we're getting close to adjournment for a recess for lunch and Mr. Weeks and Mr. Iwanchuk have been very patient. So I'm wondering if we could go to Mr. Weekes and Mr. Iwanchuk, and then everyone will have had a chance to speak in the morning session. So, Mr. Weekes.

Mr. Weekes: — Thank you, Mr. Chair. Good morning to the minister and your officials. I just want to go back to the discussion over converting energy to export to Alberta, and I believe you made the comment to all of northwest . . . North America. Are we on a different . . . We're on a different phase, I take it, from that . . . from the rest of North America, and could you just elaborate on that, explain what you mean by that?

Ms. Youzwa: — You have to look at it within a North American context. It's not just Alberta, it's Alberta, British Columbia, and going down into the US, down to California, is on a different phase than the rest of North America. We are sort of consistent with utilities in jurisdictions east of the Alberta border and down south into the US. I believe though the exception is Texas, which is unique and stands on its own as yet a different sort of area and different phase.

Mr. Patrick: — If I may? The North American electric grid, there's an eastern grid and a western grid. And the reason why that exists is because of the difficulty of building robust transmission in the US across the Rocky Mountains, basically. And so what happened, as the North American grid developed, just for purely physical reasons, there's a heavily interconnected eastern piece of which we are at the extreme western end of. It's not because we've chosen to be different; that's the way the grid operates. And so we're hooked to the eastern part of the grid which operates in a particular phase.

The western grid, which is only very tenuously connected to the eastern part, operates slightly out of phase with us; but it basically extends, as the president said, really from Alberta and west all the way down to the . . . down the western seaboard of the United States. And it's just because of the separation of the mountain ranges and the fact that there aren't a lot of really massive transmission ties.

If there was a more capable transmission interconnection, the two systems could operate at the same phase, but that's not the

way it actually exists.

Mr. Weekes: — Thank you. What is the cost of converting the power then when it is exported to Alberta or those northwest states?

Ms. Youzwa: — I don't have that information but we will get it for you this afternoon.

Mr. Weekes: — Okay, thank you. Just going back to other options of electrical generation. You've made reference to other things that may or may not be feasible. Just a couple of areas that I just want you to comment on or if you could list the other areas that you are working on. One is solar power. Is that a possibility in the future and where is that as far as cost effectiveness?

Mr. Patrick: — SaskPower has a demonstration solar project on the roof of the Science Centre here in Regina. And that's part of our portfolio of small-scale demonstration projects to examine the sort of technology and economics of the different ways of making electricity.

The conversion of solar directly to electricity through currently available solar panel technology is extremely expensive. To put it into context, the electricity that comes from that solar demonstration project I believe comes into our grid at about \$360 a megawatt hour compared to the \$45 average grid cost that I mentioned earlier.

So the promise may be there for the future, but certainly in the near term it would be terribly uneconomic to sort of build vast regions of solar panels and expect to get cheap power from it. I mean, it's certainly free of emission but there are other ways to get the same environmental performance and not spend nearly so much money.

Our view is that the best way for Saskatchewan to utilize solar is through the use of passive energy systems in building design. There's lots of good design going on today in the world where you incorporate natural solar mechanisms and certain specialty building materials into the construction of buildings to basically take advantage of the natural heat from the sun to minimize the sort of energy footprint of the structure itself. It may show up more in the form of the space heating requirement than on the electrical consumption side. So it's really best, we believe, integrated into building design standards.

Mr. Weekes: — Thank you. The other option that we haven't discussed that seems to have raised profile in the public again is nuclear generated power. What is SaskPower's position on that? I have known in the past that it's been an option that you've said exists. What is a . . . Well just what does SaskPower think about nuclear generated power and have you done studies and where does that stand?

Mr. Patrick: — Okay. If I may . . . Thank you for the question. As I said earlier on, there is no silver bullet for this future generation issue. Every generation technology and the fuel that accompanies with it produces, if you like, a portfolio of risks that have to be managed. Generally you seldom . . . in fact, you cannot currently find a singular technology that's supported by a particular fuel which produces the best economics, the best

environmental footprint, the least, you know, risk and all that. It just doesn't work that way.

Everything has got positives and negatives, and nuclear is the same way. And because there are no clear winners and at the end of the day you wind up selecting from a list of choices which have good and bad things about them — and really your decision to proceed along a pathway, I think, is based on your ability to manage the risks that go with it to the best of your ability — requires us to look at all possible generation alternatives. There are so few available to us as a utility we have not dismissed out of hand any particular technology. Hence we do pay attention to nuclear, even though there is, you know, some controversy around the technology.

Atomic Energy of Canada has been working on a new design, the ACR-700, which is their latest generation of nuclear reactor. It's a 700-plus megawatt design. The licensing process is just underway, I believe. They have not received their licensing to produce the reactor and position it, if you like, in Canada for sale. But that's a process that's underway and I believe should be completed by about the end of next year.

The numbers that we have seen to date indicate that the cost of production from that kind of a plant would be very, very competitive with anything else we can possibly imagine coming up with. But you have the issue of waste fuel management and public acceptance.

The design, as we've seen it from a purely technical engineering and economic point of view, has some very encouraging features to it. It appears to be economic. They've certainly streamlined the design, so I think ongoing maintenance costs and whatnot would be more easily handled than have been the case in the previous designs.

The issue of wastes would have to be somehow managed and the public would have to be comfortable with how that would occur. There are people working on that within the industry. We're not one of those groups, but there are people that are working on the waste management disposal issue and the sort of regulatory issues around that.

The other thing though for Saskatchewan, and it's probably the biggest issue to face us, is that those are very large units compared to the size of our system. The biggest unit sizes in Saskatchewan today are essentially 300 megawatts. And you have to design a system so that if your largest unit trips off line unexpectedly, there's enough reserve margin in the other stuff that's running to keep the lights on. If you've all of a sudden got 700-plus megawatt units tripping off unexpectedly — and they can; this is not a perfect industry; things can happen — you have to somehow backstop that so the lights stay on. It's difficult and expensive to do that when the size of the unit is so much larger than really what our system can normally tolerate.

I characterize the nuclear question as being a regional solution which would require integration with neighbouring provinces so that you've got multiple people sharing the output and sharing the responsibility for stabilizing the grids in the event that the unit goes down. So, you know, you'd have to have a sharing arrangement with, you know, perhaps Alberta, Manitoba as well, to make that work out from a physical point of view.

Mr. Weekes: — Thank you for that answer. To the minister: your colleague, Mr. Cline, spoke recently, made comments in the media that was favourable to nuclear power generation. I believe his comments were around, they wouldn't stand in the way of a private investment in that industry. I just was wanting to know what your thoughts are on that and what the government's position is on nuclear power generation.

Hon. Mr. Quennell: — Well my thoughts are that I agree with Mr. Cline's comments, including his comments about the economics. And we had a very useful, I think an educational, discussion earlier in the session this morning about the economics of exporting electricity from Saskatchewan and the difficulty of doing that. The transmission lines that go from Saskatchewan to our southern neighbours to the west are open for private use. A party that wants to build a generator of any type and export electricity into the United States can use those lines — would probably need to talk to SaskPower about improving the link, clearly — but I think SaskPower . . . I know SaskPower would be open to those discussions.

But that party, that private party, would have to know that they have a market or probably a contract for electricity at a price that's going to cover the costs of that generating plant and pay them a profit. I assume that no proposals have come forward for such plants — nuclear or otherwise — because the economics just aren't there at the moment for the reasons that were set out this morning as to the ability to compete in the neighbouring markets with electricity at a price lower than they can produce it themselves in that market, whether it's North Dakota because of coal or Alberta because of coal.

Mr. Iwanchuk: — Thank you, Mr. Chair. I'd like to thank the minister and his officials for a very thorough and informative morning session here. I listened, as I particularly felt comforted, that we wouldn't get caught short, or that we have analyzed low growths or exporting and importing capabilities, the transmission discussions, natural gas, our projects that we have going.

I have just a question around that. The community of Watrous project. I was just wondering if you could elaborate a bit on that.

Ms. Youzwa: — We wanted to start our first pilot under our community EPC program with the community that had a number of different facilities that we could bring into the project, and we had a process for . . . and we worked closely with the Saskatchewan Urban Municipalities Association to identify a community that had a skating rink, a curling rink, administration offices that could be brought into a project.

And what happens is we are working with the Saskatchewan Research Council, who is going to bring the technical expertise to look at the audit and what energy savings are possible with retrofits and changes in operations. We don't within SaskPower have that technical expertise, but we have learned with our Honeywell partnership that we bring certain strengths to this kind of program and we can bring a partner who has access to technology and technical expertise to round out the package, if you will, for our customers.

So in the case of the Watrous project we're working with the

Saskatchewan Research Council. They are the individuals who actually go in and determine what changes could be made, what potential savings there would be if the changes were made, and then will report back on how . . . and to the town of Watrous to then take it to the next step towards implementation. So I think we're in the process of getting . . . we haven't completed the audit work; I think that hasn't gotten underway. I think we're pretty close if not completed our arrangements with the SRC (Saskatchewan Research Council) and with Watrous itself. So we'll await to see what the outcome of the reports are and then move it forward from there.

We also want to do two more projects. The second project we're targeting, we would like to do a First Nations community with our second project. And we're still in the process of doing community selection and we're working with the Federation of Saskatchewan Indian Nations to help us identify an appropriate community that meets our requirements and that might be interested in participating.

And after that we'll then look for a third pilot, but we're going to move ahead with the first pilot and then pick the location for the second one before we determine what we need for the third pilot project.

Mr. Iwanchuk: — Just a question out of that. Is there a time frame for when these will occur?

Ms. Youzwa: — I would have to check back on the project schedule for the Watrous and I'll get that specifically for you after lunch. I know that we're well underway with the Watrous project.

The First Nations project, we had been hopeful that we would be able to have made an announcement on a community selection earlier. It's taken us a little bit more time but we want to ensure that we're working in consultation with the FSIN (Federation of Saskatchewan Indian Nations) and that the communities that are identified in our selection process gives us the best pilot we can. So it'll take a little bit longer.

Mr. Iwanchuk: — I just wanted . . . it was of some interest, they might have changed some of the discussions around the exchange rates and that. But in terms of the comparisons, and I might have missed this, the comparisons in the dividends that are payable by SaskPower, or in the increases and how they compare with the private sector or nationally just across Canada or internationally, I guess.

Mr. Jones: — Chair, Mr. Iwanchuk, thank you for the question. In general, corporations pay varying dividends depending upon circumstance. And in general it's a balance between what the owner requires and what the corporation wishes to . . . or the shareholder, I should say, on the one hand or the owner, and you have to balance that with the needs of the corporation for reinvestment, and so forth.

But in general what I can report to you and to the committee is that in the case of SaskPower, our overall financial situation is one of the strongest amongst the Crown owned utilities in Canada. I would argue it is, my opinion is, it is the strongest. In Ontario they have done, they've taken some debt away from their electrical utilities and moved it into a separate corporation.

But if you added that all together I would argue that SaskPower has one of the strongest balance sheets amongst the Crown owned utilities. And the indicator of that would be the debt/equity ratio which is currently in that 60 per cent range at this point in time.

Our balance sheet also compares pretty well with investor-owned utilities that in general require more equity, more of an incentive for investors to remain with the company. And we're in the middle of the pack in terms of the strength of our balance sheet as indicated by our debt/equity ratio. Some of the better capitalized investor-owned utilities have debt/equity ratios in the 40, 50 per cent range. But there are some that are in the 60, 70 per cent range. So we're sort of in the middle of the pack there.

In terms of dividends, dividend rates can range anywhere from close to 90 per cent, if not above that, down to zero. A company and its shareholders may choose to not take a dividend in a particular year. So there are a variety of cases throughout Canada in the electrical utility industry and other private sector companies.

The Chair: — Thank you, members. It is approaching the time of regular scheduled recess. So the committee will stand recessed until 1 p.m. And just to advise members and the public that this room will be locked over the lunch hour, so you may leave information but you won't have access until just before 1. Thank you.

The committee recessed for a period of time.

The Chair: — Members, we will reconvene the Standing Committee on Crown and Central Agencies and I'm . . . check with Mr. Iwanchuk who had the floor. Are there any further questions? You have further questions? Okay, Mr. Iwanchuk and then Mr. Weekes. Mr. Iwanchuk doesn't have further questions, so I'll recognize Mr. Weekes.

Mr. Weekes: — Well thank you very much. I just want to go back to the nuclear issue somewhat more. Mr. Chair, I know the First Nations people have been on record as being in favour of nuclear development. Some Aboriginal groups have been in favour of nuclear development in their area and they've even gone on to say that the waste could be stored in the mines in the North, in their area. And other comments that they have made, when it comes to hydro projects in the North, they have found that it is also destructive to the land that affects their traditional ways and their homeland.

Given that there is some acceptance of nuclear power generation from the First Nations people, and I understand they'd be willing to even be partners in those projects, I'm wondering if the, Mr. Minister, if the government through SaskPower would consider being a partner in nuclear power generation with not only First Nations people or any private investor that wanted to do a project.

Hon. Mr. Quennell: — Mr. Chair, I wouldn't want to make and I expect the member didn't want to make a blanket statement about First Nations people's position on nuclear power because I think it probably varies throughout that community as it varies throughout the larger community. There

may have been a tribal council who suggested at one time that they would like to be involved in the nuclear industry at some stage or other, but I don't think you could make the comment that any part of the Saskatchewan community is actively looking for the opportunity to be involved in nuclear power. And certainly the First Nations community, as a community, has that position. I don't think that's a fair representation and I know that's not what the member meant to say, but just for the purpose of clarification.

Secondly, I think the difficulty with the economics of generating electrical power within the province of Saskatchewan by a nuclear source was well discussed this morning. I'm certainly willing to discuss it further but I think Mr. Patrick pointed out some of the difficulties with putting a generator as large as that would be into the Saskatchewan system, and that it's the economics as much as anything else that prohibit that option being seriously examined at this point in time.

Mr. Weekes: — Yes, I'd like to make that clarification as well. I didn't mean that the First Nations had a policy of supporting nuclear power generation. But, I mean, there's been positive comments made by certain individuals and certain communities.

I'd like to just pursue the matter of the cost-effectiveness of nuclear power generation. Has SaskPower done studies that laid out all the pros and cons of the economic side of nuclear power generation?

Mr. Patrick: — Based on the information that we've received from Atomic Energy of Canada,— and you have to understand we're wholly dependent on them for the information because we have no other way of independently verifying the cost of their new design — but based on the information that they've basically released into the public domain, it appears that the cost of generation from a nuclear facility would be in the order of 60 to \$80 per megawatt hour which compares very favourably with natural gas — on the margin anyway. So it's . . . from what we're hearing it looks to be very competitive with the other sources that we can consider at this time.

Mr. Weekes: — And also you made reference to a new model of a reactor and that a particular size was . . . you'd mentioned is a problem, but there are other sizes of reactors that could be used that were smaller and less expensive to develop?

Mr. Patrick: — Canada through its nuclear history has always used the CANDU reactor concept which uses heavy water and has certain intrinsic safety features built into its design. There are no CANDU reactor designs that are smaller than the one that's being currently proposed by AECL (Atomic Energy of Canada Ltd.). I shouldn't quite say that. There was a previous design used by Ontario Hydro some years ago that was a little bit smaller — I believe 660 megawatts.

But the new one is somewhat in the excess of 700 megawatts, and the other designs that they have are in the order of 900 megawatts, so they tend to be bigger. And the reason they do that is they've really designed their reactors for an international marketplace which generally likes big machines. They've not made any attempt to design their machines really to fit easily

into any of the smaller Canadian grids. Their marketplace, if it exists at all in Canada, tends to be Ontario. And the Ontario grid is large enough to support units of that size.

There are other smaller reactor designs in the world, but they're different technologies and they're produced in other countries. Whether or not we would want to go that way, I couldn't speak to that. I'm not an expert on those other designs or their availability.

Mr. Weekes: — Thank you. I'm just wondering about . . . Of course it's a very contentious issue, the whole nuclear development issue. Has the government done any polling of Saskatchewan people concerning their acceptance of having a nuclear power plant or . . .

Hon. Mr. Quennell: — Well I'm not aware of any polling that's been done recently.

Mr. Weekes: — Thank you. I just wanted to go back to some of the other areas of power generation. You had mentioned that there's a — I believe it's up and running — a hog barn at Cudworth that is cogenning and I'd just like to know a bit more about it. My question leads to, has it got applications to not only hog barns but let's say intensive livestock operations, cattle operations, and what about sewage from the cities and towns in the province? Is there any application there and what is the possibility of those types of proposals?

Mr. Patrick: — The experiment at Cudworth is proceeding very nicely and it so far has proven to be quite successful. We had worked closely with the hog industry on sort of this notion, and it's one of those rare win-win examples where they are not faced with specific regulation yet on the management of their waste materials, but their waste over time perhaps may become more problematic, and certainly even now presents some siting difficulties. Because when proposals made for an intensive livestock operation, people within the immediate vicinity are always concerned about the management of whatever the wastes are going to be or whether there's going to be a smell or whatever.

In the case of the Cudworth operation those folks, the hog operation people, had been looking internationally to find waste management technologies that would help them sort of make their operation more acceptable, if you like, to their neighbours. But in order to make that waste management cost-effective you needed to produce a value stream from it other than simply managing the waste as a pure waste material with no other intrinsic value.

And it turns out that because of the technology they've selected and we work with them on, that this so-called bio-digester, which really just ferments the hog manure into methane gas which we then can burn in small, we call microturbines, it allows us to basically handle their waste material and you wind up with essentially an operation which produces no undesirable waste streams.

The answer to your other question about whether you can apply it to other operations is, yes, in principle it could be applied to other intensive livestock operations and within our shop we've been looking at some design to deal with feedlot operations as

well as a technology to deal with the renderings from slaughter operations as well. Beef rendering or cattle rendering is increasingly a problem in our society, because of course it can't be recycled through the feed industry any longer so now you've got a large waste stream to be managed.

And again, generally it's a truism that anything biological, any kind of biomass — it doesn't matter whether it's from animals or from agriculture — all has more or less the same heat content, if you like. It's simply a matter of materials handling, finding some way to extract the value from it. Because there's a lot of this stuff potentially around, and we think over time might be subject to increasing environmental regulation and hence has to be managed. It either becomes managed as a waste stream and simply adds cost, or you could manage it as a potential value-added commodity, treat it as a fuel if you like, produce a secondary stream of benefits — electricity in our case — and again, wind up with one of those rare win-win things.

And I think there's actually a very good opportunity in Saskatchewan to expand what we've been doing to other agricultural and livestock operations. But we're still in the experimental stage because the economics right now are very precarious on these things, and generally if it was truly, easily economic, it would already be done by somebody. So we're right on the cutting edge of getting it to work and of getting the technologies functional and then sort of working out what the economic packaging has to look like.

But we're quite optimistic and as I mentioned much earlier this morning, we think there's a potential in Saskatchewan for, over time, perhaps several hundred megawatts of this sort of stuff. But it will depend on the site-specific nature of where this stuff is available and what the costs are associated with it, and what the other considerations around it for materials handling and waste handling and whatnot. So we think it's quite promising but it's a living experiment if you like, at this point.

Mr. Weekes: — And also as far as sewage from cities and towns, is that applicable here?

Mr. Patrick: — We haven't done anything. There are some people elsewhere who have done some work with sewage to try and capture the methane that exists within sewage. It's not obvious to me in Saskatchewan because of the relatively small size of those operations that you could probably generate enough fuel to probably make it really worthwhile. It's not that it's impossible, but I'm not sure the economies of scale exist at the size of the cities we have.

Mr. Weekes: — You mention it's a pilot project now at Cudworth. What kind of an agreement do you have with the hog producers there as far as the cost, and how is that agreement worked out?

Mr. Patrick: — I don't have the details here. And we can get them for you, but basically we buy the electricity from them at a set price. And it's really just a power purchase agreement there; they become an effective small generator and we buy the power from them.

Mr. Weekes: — Just a question, a more general question about cogeneration and also projects that are just private in nature — I

mean, that could be anything from a windmill in somebody's backyard to a more major project on the Saskatchewan River. I understand that the government through SaskPower controls that and has not allowed it in the past without their agreement or without their partnership. And is that the case and what outlets are there for private generation of power or projects?

Ms. Youzwa: — At the current time, any customer can generate electricity for themselves and serve their own electricity requirements with their own generating plant as long as it's located on their property, their site.

Any independent power producer who would like or has a market to export power from SaskPower . . . from Saskatchewan or to serve the two cities that own their own distribution systems can ask for transmission service from SaskPower and we will provide it. We have a posted tariff and those services are available for wheeling power.

We also have a small producers policy. So if you have someone who is, would like to produce electricity and it's on a smaller scale, we will buy power from those projects and we have a set price which we will pay for that power. And that's reviewed on a regular basis and that price is posted, if you will.

I guess the last opportunity for private sector power producers is to participate in our environmental preferred power initiative where we have put out request for proposal for projects. And as I mentioned earlier this morning, we have finished the first phase of that and selected three projects, and we are planning to have another phase moving forward in the near future.

Mr. Weekes: — You'd mentioned that it's under current legislation that those rules apply. Is there plans of changing that legislation?

Ms. Youzwa: — The most recent change we made was to open up access to our transmission system, which we implemented in 2002. And that really opened up access on a wholesale basis, as I mentioned earlier, for independent power producers in the two city distribution utilities. At this point we have no further plans to open up the transmission system to any further than what I've already described.

Mr. Weekes: — Thank you. Could you give us some insight into the agreement that SaskPower has with Coronach and the cogeneration project down there?

Ms. Youzwa: — I think, Mr. Chair, you might be referring to Cory.

Mr. Weekes: — Oh, Cory. Sorry, yes.

Ms. Youzwa: — Cory, yes. Happy to do that. Cory is a potash mine which is owned and operated by the Potash Corporation of Saskatchewan. We are involved in a joint venture with ATCO Power. ATCO and SaskPower International have built a cogeneration facility which is located at the Cory potash mine. It uses natural gas to produce steam, and the potash mine uses the steam in its production process. And we produce . . . and it's also used to produce electricity, and SaskPower buys the electricity from the joint venture.

Mr. Weekes: — Thank you. Nothing at this time.

Ms. Youzwa: — If I may just add, Mr. Weekes, I believe before lunch you asked a question about the cost of converting electricity for exports. I do have that information for you. I'd be happy to provide it now. It costs at the present time for us to export electricity about \$7.50 a megawatt hour into Alberta. About a third of that, or \$2.48, is the cost for conversion.

Mr. Weekes: — Thank you.

The Chair: — I have Mr. D'Autremont.

Mr. D'Autremont: — Thank you very much. To follow up on what my colleague was asking questions about, the current regulations for generation of electricity by private parties, has the government talked to SaskPower or has SaskPower recommended to the government that there be any changes to the current legislation dealing with that?

Hon. Mr. Quennell: — I haven't received any advice or recommendations along those lines from SaskPower.

Mr. D'Autremont: — So someone who wanted to put in a small form of generation of any kind like a wind turbine or solar collectors for their own use, there would be no conflict; they don't have to get permission from SaskPower to do that?

Ms. Youzwa: — Yes, if they are supplying their own facilities and not interconnecting to our facilities, then they can go ahead and do that. If they're going to connect to our facilities, then we have certain requirements that we'll have just to ensure that the connections and the maintenance of reliability and the safety of our system.

Hon. Mr. Quennell: — And if I may add . . . Mr. Chair, if I may add to that. The concern that was raised by Mr. Elhard this morning about power blackouts rolling across the continent makes issues of connections into our system — because our system is tied into other systems across the continent — all that more important.

Mr. D'Autremont: — Thank you. The safety factor are also very important. When you're talking about a connect and interconnect, if a person sets up a system of their own where they would normally generate electricity for themselves, but as Mr. Patrick said, things don't always work perfectly so their system for some reason malfunctions and they can then switch over and draw power from SaskPower, is that the kind of interconnect you're talking about? Or is it an interconnect that you're talking about where they would supply power to themselves and may, as well, supply power into the grid?

Ms. Youzwa: — It could be either — both circumstances.

Mr. D'Autremont: — And so is it in the first case where they're normally supplying their own and when their grid connect would only be to draw power from SaskPower, is it only a safety question there, or are there other questions as well?

Ms. Youzwa: — There's a safety question, but they would also have to have an arrangement with us to pay for the cost of

standby services. Because for us to have the facilities there and to have the infrastructure there so when their own power source goes off line, the lights stay on and we're able to provide backup, there's a cost associated to SaskPower to have that available. And we would need to ensure that the customer had an arrangement with us to pick up the cost of having that standby service available.

Mr. D'Autremont: — Would that cost be a flat rate, the normal monthly fee that we all pay, I mean, depending on the size of the operation obviously? But, I mean, if you've got to have a 10,000 kVA (kilovolt amperes) transformer sitting there, that's a heck of a lot different than my 7 on my pole. So is it related to size, is it a flat rate, is it a variable rate — how is that determined?

Ms. Youzwa: — For very large customers, and we have some in Saskatchewan who do self-generate and then take some backup services, we would have contractual arrangements with them for the services that they need from SaskPower. But they would be for the very large customers. That would be as per contract just because there's uniqueness to their site and what kind of services and facilities we'd have to have in place.

For the very small customers, off the top of my head I don't know that if we have very many of those customers and that . . . self-generate and then take sort of backup services from us. I don't know, Mr. Patrick, if you know of any . . .

Mr. Patrick: — No, I'm not actually aware of anybody who's like that. But it would be a site-specific thing. We don't have a standard for that because it really hasn't been an issue to date but it would be a function of how much facility has to be there to provide that backup to them and there would be some kind of a pricing structure based on those assets.

Mr. D'Autremont: — There is a piece of legislation before the Assembly right now that deals in part with this and this is not the place to discuss that — it's on the floor of the Assembly — so I don't really want to get into that. But some of the logic that was perhaps behind some of that which would also be on the floor of the Assembly but that's why I was asking those questions.

The generation of electricity in Saskatchewan in large part is by coal. I don't have the page turned to that graph here right now, but in a conference that I attended this summer, there was talk in the US of the coal subsidy to their electrical generation. Are you aware of that and do you have any information on it?

Mr. Patrick: — I'm not sure exactly what you mean by a coal subsidy. Can you . . . in the context of words you've used, sir, I don't recognize the issue and I can't add any elaboration to it. I don't exactly know what that reference means.

Mr. D'Autremont: — Okay. Well I wasn't aware that it was there either until this conference, and the participants there this summer started talking about the subsidy to the coal for electrical generation. And when I asked questions about it, nobody had any numbers.

Mr. Patrick: — If I may, it depends perhaps on the terminology. There is reference made to, if you like, subsidies

to the fossil fuel industry because of the monies that government put in to support research and other initiatives. And the people who are, if you would characterize as sort of being anti-coal, often criticize governments for putting research money into things like clean coal technology or similar things like that, or into any perceived public monies that flow in and somehow aid and abet the continuing use of that fuel either in the present or in the future. And so sometimes in the context of that, people talk about fossil fuel initiatives as being somehow subsidized. Beyond that I'm not at all aware of anything going on in the States where utilities actually get money if you like, because they're using coal.

Mr. D'Autremont: — Yes. Well the impression I had as well that it wasn't a direct subsidy, but it was certainly referred to and when I tried to find out about it nobody seemed to have any information, so I just wondered if as an electrical generator who deals with that market as well, if you were familiar with any of it.

Another area that, because of the Kyoto agreement, that I think is very interesting that I'm wondering where SaskPower is on this, is CO₂ emissions. What is SaskPower doing with its CO₂ emissions? What does it propose to do with its CO₂ emissions in the future?

Mr. Patrick: — If I may, if you can perhaps envision our supply future in roughly three time blocks in this correspondence to the 20-year planning horizon I referred to earlier, between now and roughly 2010, the GreenPower portfolio and all of the things that it contains, which is the large wind, the EPP (environmentally preferred power) program, our demonstration project for distributed generation, our work on demand-side management, all of those things are geared at trying to accelerate the availability of lesser emitting generating technologies to this province. And the environmental attributes of those projects by our definition are that they have to improve the environmental performance of the province.

So in the near term, we're working on trying to get, if you like, that smaller scale renewable stuff sort of up and running. So that's part of the response because insofar as we're able to actually get that stuff going, it will over time, if not replace our existing fleet of generators, at least support them in a way that doesn't add to the environmental burden. So that's one, if you like, package of initiatives.

In the period roughly from 2010 to roughly 2013, we are working with others to try and accelerate the availability of certain technologies which by their design, again, are less emitting. And a couple of the things that we're working on are clean coal technologies which by our design standard, if you like, would produce an environmental footprint that's equal to or better than the most modern of gas turbines, which are usually used as the reference point nowadays for environmental good performance.

So through the Canadian Clean Power Coalition, through the International Test Centre here at the University of Regina — which are working on trying to optimize the carbon capture technologies that are available to extract CO₂ from smokestacks — working with the Weyburn monitoring project, which is the EnCana EOR (enhanced oil recovery) project but our interest in

it is that it's co-funded by the International Energy Agency, which we participate in, and it's to establish the protocols for long-term storage and monitoring and the regulatory issues for carbon dioxide storage in the ground.

We have separately engaged a geological study of southern Saskatchewan to determine the reservoir potential for what we call deep aquifer storage of carbon dioxide because if you use fossil fuels and are able to extract the carbon dioxide, you have to put it someplace. If it's not going to be used for EOR entirely, it needs to be disposed of. So we're finding places to put it in the ground. It turns out that's in southern Saskatchewan and we've mapped out a golden triangle from Estevan through Coronach up near the ... to Belle Plaine. And geologically there's all kinds of opportunity there for long-term storage of carbon dioxide, so that's a good thing.

We're looking at a technical initiative called polygeneration which is the gasification of materials which could vary from our lignite coal, which we have lots of but right now there aren't commercially available technologies to gasify it. But initially this would be perhaps targeted at working with the oil industry. If the heavy oil industry wants to expand in Saskatchewan and build more upgraders, those upgraders produce waste streams of coke and heavy bitumens that are more or less a waste product right now.

There are currently available technologies whereby you can gasify this stuff; you turn it basically into a synthetic fuel and hydrogen and other things. We can take those synthetic gas, run it through modern gas turbines, make electricity, and add value if you like to that waste management stream.

You can also build a petrochemical industry on that basis, because once you've got synthetic fuels you can modify their chemistry fairly easily using conventional technologies that are available off the shelf today to make a whole wide range of industrial chemicals. So we're currently working with the oil industry and others in this province to explore the potential for aligning power generation with an expansion of heavy oil production in this province.

And those things coming together create the opportunities, the technical platforms, that would allow us to use coal in the future. Because you need to have the technologies for the coal itself, which are things like gasification and some other technologies which we're currently working on.

You have to have a way of extracting the carbon dioxide from the stack. The university's doing that for us, and we have a pilot demonstration project operating at Boundary dam power station. It's the only one in the world that's doing this right now where we're actually pulling CO₂ out of the smokestack and working with it — and working with people at Weyburn to see if you can put the stuff in the ground and how you would monitor it over its lifetime; looking at deep aquifer storage for long-term, permanent storage. We're dealing with all of the elements.

We've also initiated discussions with Industry and Resources in this province and the Department of Environment to look at the regulatory and permitting issues and policy issues around long-term management of carbon dioxide, because this stuff is

very unique in that you're talking about disposing of it for literally hundreds and thousands of years. So you have to have good public policy and regulations around how you put the stuff in the ground and how you're going to maintain it.

So we're making sure that we've got sort of all of the initiatives underway, and as these things come together they allow us then with some confidence, if you like, to advance the notion of doing these things.

We're also working — you mentioned earlier, the gentleman had mentioned First Nations — we're also working right now with a number of First Nations groups on some potential hydro development in northern Saskatchewan because there are some niche opportunities that have relatively minimal environmental impact and we're working with those folks to try and get those projects up and running. So we've got quite a number of initiatives to make sure we've got reasonable supply options that deal with all those matters.

Mr. D'Autremont: — Thank you. That was a very comprehensive answer. Does SaskPower then view CO₂ as an asset or a liability?

Mr. Patrick: — We take the view that the glass is half full, not half empty, and we believe that, properly managed, carbon dioxide ... I'll rephrase it. Properly managed, the need of the province to deal with this many thousands of megawatts of decision over the next number of years represents a huge opportunity for this province. And that rather than treating it as a burden to somehow be endured, if we're clever about it, we think the province can use this as really a springboard into the future and really offers the basis for economic growth. And it's really a combination of perhaps government inspired on the one side because governments have the obligation to deal with these environmental issues, but strongly based on working with the private sector because we see in a lot of cases them being the natural actual doers of the project. So we're working on both sides of this.

So we think CO₂ initially will appear to be a burden but we think over the long haul really represents a positive opportunity. But not a zero cost opportunity. I have to be clear about that. I mean this stuff is not free and easy because you're talking about technologies that are only being advanced now, and generally, as I said earlier, these new things tend to cost more than the old things. But inevitably we have to deal with the conversion of our old fleet to something new anyway.

Mr. D'Autremont: — What volumes of CO₂ would you be looking at coming off the stacks of our coal generation?

Mr. Patrick: — Currently Saskatchewan Power is generating roughly 60 million tonnes of carbon dioxide per year. And to put it into sort of rough figures, a 300-megawatt coal-fired unit produces slightly in excess of 2 million tonnes of carbon dioxide per year.

Mr. D'Autremont: — The project with EnCana down at Weyburn, do you have any idea what they're injecting for volumes of CO₂?

Mr. Patrick: — I believe that they have contracted for 5,000

tonnes a day which, on an annual basis, is roughly equivalent to one of our 300-megawatt units. They're not using that currently. They don't have the injection capability. I believe they're putting in the ground something less than 3,000 tonnes a day.

Mr. D'Autremont: — I believe that gas that they are . . . the CO₂ they are putting in, is being imported at the present time from North Dakota or Wyoming. I know that there was discussion in Wyoming, I don't know if that ever came to be.

Mr. Patrick: — It comes from the Dakota gasification plant . . .

Mr. D'Autremont: — At Beulah.

Mr. Patrick: — . . . at Beulah.

Mr. D'Autremont: — Okay. Has SaskPower entered into any discussions with EnCana to supply or does SaskPower have the current capability to even supply that CO₂?

Mr. Patrick: — We've had numerous discussions with them and other players in the oil industry, and the simple reality is that although the technology is theoretically possible, the engineering studies we've done produce a cost of carbon dioxide that is considerably in excess of what the oil industry is prepared to pay at this time.

Mr. D'Autremont: — So what happens with our CO₂ then currently is it just goes up the stack?

Mr. Patrick: — Yes. It just goes to atmosphere.

Mr. D'Autremont: — Which, if the agreements — the CO₂ agreements, Kyoto — come into place, that will be a severe impediment to Saskatchewan, if that continues to be emitted to the air.

Mr. Patrick: — The work we've done to date, we have done complete engineering studies on all our coal-fired units to determine the cost and effectiveness of retrofitting cleanup technology to the existing fleet of nine coal-fired plants we have, coal-fired units. The economics of doing that are very, very poor. It's an extremely expensive thing to retrofit existing plants. It's far cheaper, based on what we understand . . . Based on the availability of credits and offset trading mechanisms right now in the world, it makes more sense for us to let the old units live out the rest of their lives and to pay, if you like, the economic penalty that goes with their emissions and design our next fleet of generation, the new stuff that will be coming on line, to basically deal with the carbon issue.

Mr. D'Autremont: — In looking at buying carbon credits someplace, where have you been looking? Have you looked at the availability of carbon credits within Saskatchewan? I'm thinking of the farm land that we have in Saskatchewan that is a theoretical carbon sink providing that it is under growth — not being summerfallowed. Now the question is, is whether the federal government is going to allow that to happen or not is another matter. But has SaskPower been giving any consideration to that kind of purchase from the agricultural producers of Saskatchewan?

Mr. Patrick: — The answer is yes. We've had numerous

discussions with any number of bodies that represent soil management groups and others in the agricultural industry. There's many ways in which you can sequester carbon and generate a carbon credit. We've been following it closely. We belong to a Canadian association called the greenhouse emissions management coalition. And we've been looking at it and studying the market mechanisms, if you like, for carbon trading.

The problem we have right now is that there actually is not a mechanism in place. There's lots of people talking about it but there actually has not been established yet, if you like, a Kyoto and Canadian federal government approved trading mechanism that we can actually go to. We believe that will evolve over the next few years where there'll actually be a storefront where you can go and buy, for some kind of a price, carbon credits.

In the absence of that, we have not been spending money sort of speculatively, buying carbon credits sort of on spec. The fear being that until the rules are clarified and governments decide how they want to manage it, you could actually wind up buying something that actually has no value. So we've actually been staying away from it, but we're, if you like, plugged in to the process.

Mr. D'Autremont: — Okay. You were saying that, earlier, that new projects always cost more money than the old projects. So when you're looking at costing out a new project, the cost of the CO₂ disposal for the extraction process, is that built in to those cost figures that you would be developing?

Mr. Patrick: — Yes.

Mr. D'Autremont: — So when you look then at the old mixed rate that you have now of roughly \$45 a megawatt hour, that doesn't include any disposal, does it, or any collection of disposal of CO₂?

Mr. Patrick: — No it doesn't, but when we evaluate new supply options, we always include the carbon penalty appropriate for whatever that supply option is. So for instance when we did the economic model on the wind project, we determined as a comparison to, say, natural gas, what the benefit was to the wind and what the penalty was to the gas for its emissions. So it's part of the life cycle economic evaluation of the project.

Mr. D'Autremont: — So with the roughly \$65 for either wind or gas, the CO₂ emissions are built into that gas cost.

Mr. Patrick: — Yes.

Mr. D'Autremont: — Okay. I'm not sure if you gave me a number for the recovery if you were to put recovery on the current plants that are in place.

Mr. Patrick: — For carbon dioxide?

Mr. D'Autremont: — Right.

Mr. Patrick: — The hardware package to facilitate carbon management on a 300 megawatt coal unit is about \$300 million capital and a potential operating cost. And it is a lot of variables

in this, but operating costs that could be in the order of \$100 million a year.

Mr. D'Autremont: — So what would that add to the cost . . . to your mixed costs of generation?

Mr. Patrick: — Well if I could answer it just a little bit in a slightly different way. I'd indicated earlier the mixed cost is roughly \$45. If you look at the current production cost today of a coal-fired unit by itself, it's about \$20, 20 or \$25 on the old coal units, and that's without carbon management. If you added this apparatus and actually collected the carbon to manage it, that \$20 would become something like \$70.

Mr. D'Autremont: — It would add roughly \$50. So not cheap. What of the other emissions that come out of the stacks from the coal-fired plants? You have ash, what other emissions and what do you do with them currently?

Mr. Patrick: — Nitrous oxide, sulphur dioxides, mercury particulates, are the main ones that we come out of. The particulates are currently managed with what we call electrostatic precipitators, which basically collect the dust and remove it. And we just recently in fact finished a retrofit at Boundary dam, where we now have modern precipitators on all the units, and the effect of that was about an over 99 per cent reduction in particulate emissions over what they were originally. So that was a very effective program.

The Saskatchewan coal is a relatively low sulphur fuel as these things go, and our sulphur emissions are actually not that bad, and our units actually have no specific sulphur management methodology on them except for our Shand power station which was the last coal plant we built, and it actually has a sulphur scrubbing device on it the older units do not have. But in any event our stack emissions are all compliant with current Saskatchewan regulations.

Nitrous oxides are produced simply because of the nitrogen in the air going through the combustion process. Again, our nitrous . . . we don't have any specific nitrous oxide management technologies on our units. It's commercially available but we haven't needed it because our stack emissions are compliant with Saskatchewan regulation at this time.

If we were going to build a brand new plant tomorrow, another coal plant if you like, there are a set of what are called new source guidelines, which is a federal regulation which would supersede the provincial one, if you like. And it would require the addition of hardware that we have not historically used on our units.

Mr. D'Autremont: — You talked earlier about a built-in retirement plan for the facilities; you know, that you have a life expectancy of roughly 40 years. What is that retirement plan at present? I believe the Boundary has just gone through a major refit on at least some of the boilers; I don't know if all of them or not. But what is the life expectancy of the various plants around the province?

Mr. Patrick: — It varies depending on the plant, its technology and its age, and what's been done to it. It's generally a truism in our business that we are able to life extend units far beyond

their original design life. A good example of that will be the oldest units at Boundary dam were built in 1959 and 1960. So they're currently, what, 45 years old.

The first unit schedule retirement at Boundary dam is Boundary dam unit 1 in 2013, so by that time it's over 50 years old. The unit was originally designed for 30 years of life or 35 years of life, so the material sciences if you like of nowadays have allowed us to push its life far beyond its original concept. And that's generally what we do because it's usually cheaper to rebuild and repair what you've got than to throw it away and start over again, and we do that.

There are however finite limits to that. There does become a point when, not to be sort of overly technical, but things that are called creep and fatigue. These are material failure mechanisms and metals that operate at high pressure and high temperature, which is the normal life of a generating unit that burns coal. Eventually the materials just start to come apart and it just isn't economic to replace them at that point, or the unit is so old as that it's inefficient compared to the alternatives available of the day.

It's essentially an economic decision based on the cost of refurbishment, and usually updating it with respect to environmental controls. And so the question is, is it cheaper to add all the gadgetry to an old unit or basically at some point throw it away and start over again? And that's kind of the methodology we use, but we've got . . . and historically have shut units down from time to time. They live their expectation.

When the Shand power station came on line in 1992, when it came on line, we shut the old Estevan generating station down at that time because it was very old, and that's true of all of them. There is, for all our units, there is actually, there's a birth date, there's a normal end-of-life date, there's a life extension date, and then there's a projected retirement date based on our models. So every one of the many units we have has this model in place and plus or minus a few years it's a pretty reliable model so — and we have many generating units — so there is also a whole plethora of these things.

Mr. D'Autremont: — You were saying that as of the present design of our system that we're more or less reaching our capacity with wind generation because of the need to have backup with the new Rushlake one going on line at some point.

What plans do you have then to replace the generation capacity of Boundary's 1 and 2? We say possibly retirement of 2013, so roughly nine years from now. New plants, depending on what kind of a design you go to, take a significant period of time from the planning stage to the actual turning the switch on. So what is SaskPower's plans to deal with that potential retirement date?

Mr. Patrick: — Very good question. In our 20-year plan, prior to the need to have the solution in place, we work backwards from that and give ourselves the lead time to implement what we think is the potential, most likely solution. So in the case of the Boundary dam retirements, we need to be working on — as we are currently — the engineering design for whatever that is going to be. Because by the time you make the decision, acquire the necessary approvals — both political and environmental —

and all the permitting required, and actually build and start the facility, you've got to give yourself about seven years.

And so what we are doing as we speak is beginning the pre-feasibility engineering for a modern coal-fired unit — a baseload, coal-fired unit — based on what we believe are going to be the workable technologies of that era. And that will become our base case for our replacement. But in the event we choose not to go that way, we have a couple of other alternatives. Natural gas, as we mentioned earlier, is always a backstop, and then these other renewables, and other things.

So right now we're working on a design for basically a clean coal technology plant based on technologies that are actually available today. These are not speculative. We could actually go down to the corner store and buy these things and they will work. They represent, if you like, a logical extension of the previously used coal technologies.

Mr. D'Autremont: — This new potential plant though, will it incorporate things like the CO₂ scrubbers, like some of the other scrubbers that may be needed to meet the new federal regulations?

Mr. Patrick: — Yes, we would configure the plant to have the flexibility to achieve all of those outcomes. A question to be answered . . . yet answered is whether or not we'd equip the plant from the outset with all the gadgetry or simply lay it out so that it could be easily added at some future date.

Mr. D'Autremont: — Okay, thank you.

The Chair: — Mr. Weekes, and then Mr. Elhard.

Mr. Weekes: — Thank you, Mr. Chair. I'd just like to pick up on Kyoto and what's happening with Kyoto. Now that the . . . that Russia has signed on, it's in force. We debated that in the legislature back a ways. And at the time, initially the premier of the day was more or less supportive and then changed his mind.

I'd just like to know where we are. There was a lot of discussion about a made-in-Saskatchewan, made-in-Canada plan or aspect to Kyoto. Given that the energy producing provinces in Canada are really going to be negatively affected, because we're producing the energy — and I understand that's where the Kyoto is going to take effect — versus the energy consuming provinces, I'd just like to know, at the government level has there been any discussions about a made-in-Canada plan around Kyoto? And then, how is the energy producing provinces going to be protected or offset some of the damaging effects of implementing Kyoto?

Hon. Mr. Quennell: — I think for this afternoon we should be limiting ourselves to SaskPower's role in respect to this matter. And what we have seen even in the 2003 year that we're discussing today, at least in part, is a decline in our dependence upon coal from maybe a high of 60 per cent to — as you can see from the inside of the cover page of the annual report — 47 per cent.

Saskatchewan, specifically SaskPower, is committed to non-emitting sources leading up to 2010, as we've heard, and is expanding its capacity for wind power — not to the saturation

point but certainly towards approaching what we can do under the current infrastructure circumstances. So all those steps are being taken by SaskPower.

And you've heard from Mr. Patrick in particular today about the demonstration projects, about the environmental . . . environmentally preferred power projects, all of which contribute to SaskPower's ability to further limit its greenhouse emissions.

And what position Saskatchewan might play in the federal government . . . in complying with the federal government's obligations in the Kyoto Protocol and in respect to hydrocarbon industry and other industries, I'm not sure if this is the proper forum for that discussion.

Mr. Weekes: — Well, thank you. My question is obviously relevant to SaskPower. And so just based on SaskPower's business, what . . . Is there any negotiation . . . I mean, it's quite possible that when Kyoto is fully implemented that possibly SaskPower could not meet its target. So given that possibility, and as an energy producing, electrical producing Crown corporation, I'm wondering what is going on as far as offsetting that potential and the loss to the economic growth to the province. What discussions are there with the Government of Canada to offset that possibility?

Mr. Patrick: — If I may, we've been having discussions, we SaskPower — and this is with the full knowledge and collaboration of Industry and Resources who carry the file for this — have had numerous discussions at the federal level for a number of years now about really what's called the allocation formula. The big issue for everybody at the end of the day is how much of the burden of reduction are you expected to carry. And the federal government has floated five potential allocation methodologies, and we've had ongoing discussion with them about the ones that we prefer. And obviously the ones that we're advocating are the ones that are least injurious to SaskPower and hence the province. So there is that ongoing discussion.

The other way in which we engage the federal debate because there have been public consultation processes at the EnerCan who are in charge of this federally, have been floating out; we've been involved in all of those through the piece. But we're also engaged in the file through the Canadian Electricity Association of which SaskPower is a member. The CEA (Canadian Electricity Association) is the umbrella organization for all the electricity industry in this country.

And the CEA effectively is a lobby group for us, if you like, at a national level dealing with the feds on these matters. And so we work closely with the CEA and we're an integral part of them and we have people working in their technical groups. And some of us are on some of their more senior councils, if you like, really advocating ways and means and methodologies to deal with the allocation of the reduction burden against the electric sector.

The electric sector currently has been given the target of reducing its annual emissions by 20 million metric tons per year. And then the issue becomes how do you then distribute that 20 million metric tons reduction to the individual electricity

players within the country. And so SaskPower has obviously been pushing for the allocation methodology which is least injurious to us. And there are some allocation methodologies that are very injurious to us. There are none that let us off scot-free; there is no free lunch on this one. But we're working hard to try and, you know, make the one as least painful as possible.

Mr. Weekes: — Thank you. Just to turn to another topic, the Saskatchewan rate review panel. The panel requested a consultant review and report on the rate review requests, and I'm just wondering does SaskPower have that consultant's report and if it does would you table it?

Ms. Youzwa: — The panel currently has our rate application proposal under consideration and has hired a technical consultant to assist it, the panel, in it's work. And we've been working with the consultant to provide whatever information they require to do their job and answer questions. The consultant to my knowledge has not reported to the panel yet, and so that is still work in progress and that report is still in preparation.

Mr. Weekes: — Thank you. Nothing else at this time, Mr. Chair.

The Chair: — I have Mr. Elhard and then Mr. Iwanchuk.

Mr. Elhard: — Maybe I could address a follow-up question actually to the minister. I understand that the consultant's report has normally, as a result of the flowchart, been made available not just to SaskPower but to the other people who are parties to the arrangement, such as applicants and communities that might be affected. Is it going to be a matter of fact that the consultant's report will in fact be made available to the city of Swift Current, the city of Saskatoon, and other interested parties?

Hon. Mr. Quennell: — That's a question that I could speculate upon, but it really needs to be directed to the panel.

As you've just heard from the president, it's not SaskPower's consultant. It's the panel's consultant. It's a report being prepared by a contractor to the panel, and so what the panel decides to do with their report is its decision. It's not property of SaskPower.

Mr. Elhard: — As a member of the cabinet, would the minister be prepared to recommend to cabinet that a directive be given to the rate review panel that the consultant's report be made available to those cities?

Hon. Mr. Quennell: — I'm reluctant to make directives to the rate review panel.

Mr. Elhard: — Would the minister be prepared to provide a copy of the consultant's report to this committee?

Hon. Mr. Quennell: — Well I'm going to leave it to the panel to release the report to whom they believe they should release their report to. I assume that they will follow past practice, and the member has set out past practice as he understands it.

Mr. Elhard: — Yes. The understanding is that there was a comment made by one of the members of the rate review panel that previous established procedures may not be followed in this instance and I just want to be sure that it is; that a report of the consultant's work is made available to the applicants, as well as to SaskPower, given the very unique nature of the situation facing the communities involved — particularly Saskatoon and Swift Current since they have serious disagreements with the outcomes of the methodology that were used to determine whether or not the 14 per cent rate hike was legitimate.

Ms. Youzwa: — I can hopefully provide some clarification here because I was at the public meeting when these issues were raised last week in Saskatoon. And I think in retrospect that there needs to be clarity between what is our methodology and what is our cost. Our numbers are themselves.

The methodology is the formulas we use to take the costs that we have to produce and deliver electricity to our customers and to allocate them to particular customer groups. And we have, at the request of previous panels, had our methodology reviewed independently twice. And we have provided those reports to the panel as requested. And those reports essentially validate that the methodology that we use follows industry norms and practice. That's really the formulas, if I can put it that way.

The application of those formulas to our actual costs, they're . . . underlying our current rate application is the job of the panel and the panel's consultant to determine. And while the methodology is to be taken as a given, the costs that we're putting forward as being our costs of running our business, that information is provided to the panel and their consultants and they're able to validate that we used the methodology and applied them to the costs in a fair and reasonable and consistent way. And we're providing all of the information that the panel and their consultant requires, to make sure the numbers, the costs, are in fact fair and reasonable. So the difference between the formulas and the actual number is the cost.

Mr. Elhard: — Well let me go back then to this question. Is the methodology employed by SaskPower and verified by the consultant, is that methodology public information? Is it available generally to the public or to the people with whom this application is going to impact?

Ms. Youzwa: — Methodology itself, we don't release to the public because the methodology involves identifying specific customers and their use of electricity, their load, and the nature of our costs for serving them. And we've always held the view that we needed to be respectful of the commercial sensitivity of that information and that we had a responsibility of keeping it confidential. We've provided it to the consultant who is under a confidentiality agreement with us, to validate that the methodology is fair and reasonable, but for us to disclose that publicly becomes a bit of a challenge.

Mr. Elhard: — Is it possible then that that request of the consultant, that he maintain confidentiality, is part of the reason why there's a likelihood that that information will not be shared with the cities of Swift Current, as would normally have been the case, the cities of Swift Current and Saskatoon.

Ms. Youzwa: — The concerns we've had around

confidentiality with this application is the same as they would have been for the last two applications. It's no different than it has been. And in the past we have had numerous discussions with both the cities of Swift Current and Saskatoon on this particular issue, so this is not new. They are well aware of the concerns and the constraints we have around revealing detailed cost information.

Mr. Elhard: — As I understand it, the city of Saskatoon has said that when they plug their numbers into what they think the formula is, they come up to a different conclusion than SaskPower does. How are we going to ascertain whose numbers are right if we don't have access to the methodology? Is this a matter of taking it on faith?

Ms. Youzwa: — That's the job that's been given to the panel. That's the responsibility of the panel, and that's the task that they've been asked to undertake, and then to provide their views and recommendations to the government. And that's why, as I understand it, they're given the ability to hire technical experts to support them and to be able to deal with us — because some of this does get to be very technical — and come in and look at the numbers that we have, and our methodology, and form an opinion as to whether it's fair and reasonable.

Mr. Elhard: — As you can appreciate though, you know, there's certainly room for dispute and argument on this whole issue. And without knowing the methodology, and without being privy to that, there is going to be no resolution.

And I guess the other thing frankly is that there doesn't seem to be a great deal of public confidence in the process, the rate review process. We've got a situation where, you know, we have a panel that is maybe a little less than autonomous in regards to how it does its work, and how it was appointed, and the fact that the rate increase has gone ahead in spite of the fact that the rate review panel hasn't even seen the application. Those things all cast aspersions and doubt on the validity of the process.

And so I, you know, I would ask again that if we're going to resolve this situation in a respectful and appropriate manner, it might be important for the methodology to be, if not publicized at least in some way which protects some of the issues that you've raised, maybe it should be shared with the city of Saskatoon. They're not competing directly with you in terms of electrical delivery within their boundaries.

Hon. Mr. Quennell: — Mr. Chair, I don't think it's an issue of competition. I think it's an issue, as the president pointed out, a matter of confidentiality. And secondly I would like to make a comment about the interim increase that is not a practice that is unique to Saskatchewan, an interim application, an interim increase while we are waiting for the rate review panel recommendation. It's not exceptional or, as I said, unique to the province.

And if the recommendation of the panel results in a decrease in the application there would be, or to any particular class of customers, there would be a rebate to those customers.

Mr. Elhard: — Mr. Chairman, the minister's answer is one

we've heard before. I guess that would cast SaskPower in the same category as Revenue Canada because they want to take my money and hold it interest free too and then give me a refund if I qualify at some point. And that's basically what you're suggesting is going to be the case here.

You know, the reality is that the people of this province are finding it difficult, first of all, to accept the necessity of an average 9 per cent rate increase. But when the process that justifies the increase is as, sort of, concluded by the existing rate review panel, I think that, you know, we owe the people of the province more respect than that. The increase being necessary — I'm assuming that that case can be made. If that is the case going forward then I think the credibility of the panel would be considerably enhanced if they were given the opportunity to pass judgment on the application before the increase was in fact instituted.

And so, what we've got in this current situation, Mr. Minister, is a situation where the necessity of the rate increase is questioned by the people of the province. The process is being questioned by the people of the province. And in view of those what I'd call serious impediments to public support for this, it might have been wise for the utility and the provincial government to insist that the rate review panel hold their hearings, undertake their studies, and render their decision before such time as the proposed increase was put into effect.

Hon. Mr. Quennell: — Mr. Chairman, I'm not sure where the question was in there, unless the member is inviting me to comment upon his comment. And I guess my response would be that because of the circumstances in respect to, particularly in respect to water levels and the availability of electricity from hydroelectric facilities in the province and the high price of both natural gas and purchase power, that the financially responsible position for the corporation to take is that an interim increase which would be a smaller increase than one that would perhaps be necessary generally for 2005, take place September 1, 2004. And that the rate review panel review that increase as well as the application for the permanent rate changes and give its recommendation.

Mr. Elhard: — Mr. Chairman, the nine per cent increase as an average — and I'm almost reluctant to use the average figure because it represents the lesser of a substantially higher figure for a number of people in the province — but just taking that as an average, that nine per cent increase is not a marginal or even small incremental increase, it's a significant increase. Not just for individual consumers, not just for individual householders, but especially for businesses that plan their entire year's operation around a budget that would not include, in anybody's expectation, a nine per cent increase in electrical rates. And so you know given the difficulty that that kind of an increase causes, a hardship it might in fact cause on individuals and businesses, they were at the very minimum entitled to significantly longer notice, and an opportunity to redraw their budgets and adjust their spending to accommodate an increase of that amount.

What is particularly troubling about the increase is not necessarily even the justification for it, the water levels and the increased cost of natural gas, I think everybody recognizes those factors as being legitimate. What's particularly troubling,

Mr. Minister, is that it's only six months ago or less that the provincial government said that SaskPower made tremendous profit, identified it at \$189 million, and talked about SaskPower's financial strength and its ability to pay a significant dividend to general revenues, and that things were so flush that there wasn't any difficulty for SaskPower to undertake its obligations to the General Revenue Fund to the provincial government. And then a mere matter of three and a half months later it's pleading poverty as a Crown corporation. And there is not just a disconnect between what was said earlier in the spring as it regarded the profit and the dividend, but what SaskPower's new situation was.

Now without, you know, without pointing fingers there's a real credibility gap that is associated with that kind of contradictory information. And now we have this 9 per cent increase based on the requirements of the company to maintain cash flow and, you know, ratios of acceptable financial nature in terms of investment and so forth. We have this 9 per cent increase suddenly thrown into the mix and demanded of consumers without even the legitimacy of a rate review hearing.

And if the government has credibility on this, a credibility problem on this, it has to do with all those factors. One time we've got the most profitable picture that this particular utility has generated in years and years; we're providing huge dividends. Three and a half months later they're got a cash flow problem; they're not going to be able to meet their obligations. There is serious implications for the long-term financial viability of the utility, the rate increase is rushed into place, and now after the fact we're going to have this rate review panel look at it. And nobody's really bought into the idea that the rate review panel has a lot of credibility anyway.

So, Mr. Minister, if the government is to maintain its credibility on this topic, I would suggest that you would be well-advised as a governor, as a member of the cabinet responsible for SaskPower, to recommend that this rate increase be put in abeyance today until the information necessary to justify this is at least made available to the committee for consideration — the rate review panel.

Hon. Mr. Quennell: — Mr. Chair, the member is correct when he states that 9 per cent is a system average and not necessarily the increase that any particular customer or any particular class of customers is going to be confronted with.

SaskPower has approximately 437,000 accounts. By far the largest group of accounts are urban residential customers — 262,000 customers approximately. The revenue change proposed to the rate review panel for that group of customers is not 9 per cent, it's 8.7 per cent, and that will be an additional cost to a customer such as myself of \$6 a month in electricity rates. The increase proposed to farms is 7 per cent and to urban commercial customers is 8 per cent.

So the member is quite correct that 9 per cent is a system average. Most, actually most accounts will have a smaller increase than that. And as I said, for most customers of SaskPower — for 262,000 of the 437,000 customers — the increase is approximately \$6 a month.

The Chair: — I have Mr. Iwanchuk, quite patient.

Mr. Iwanchuk: — Mr. Chair, just a question on . . . We had been discussing on bringing on different energy sources. And my question would be around the repowering of the Queen Elizabeth power station, and I was wondering what that adds to our system or . . .

Mr. Patrick: — A couple of years ago we did the first of what may be a two-phased project. The Queen Elizabeth power station has three generating units. The first two units are steam turbine units that were built in 1959 and 1960, so they're relatively old. And another unit, a 100 megawatt gas fired unit was added in 1973. So the plant in its totality is a relatively old station. And the older units were very nearly at the end of their technical life, and we had a choice to make of basically shutting the place down or finding a way to sort of rehabilitate it.

So a few years ago we did what was called a repowering, and what we did was we added six 25 megawatt each, 25 Hitachi turbines, which were constructed in part using the facilities that Hitachi Canada Industries have in Saskatoon. And they're gas turbines and we recover the waste heat from the exhausted turbines, use that to generate steam, and then use that generated steam to replace one of the old boilers. And that steam in fact then powers one of the existing old steam turbines which has also been rehabilitated.

The net effect of that is to add 150 megawatts of capability, which is the six times 25 megawatt turbines, but more importantly to raise the efficiency of the plant from its previous thermodynamic efficiency of something less than 30 per cent to something approaching 40 per cent. So it was again one of those happy opportunities where we were able to reuse old infrastructure and raise the thermal efficiency significantly at a fairly modest cost.

We are contemplating, but have not approved and it remains to be seen whether we will approve, some subsequent phases of that because the remaining rest of the old plant is approaching a similar situation and again offers the opportunity for a similar improvement.

Mr. Iwanchuk: — Okay, do we have any other projects like that in the province or . . . ?

Mr. Patrick: — Not really. One could theoretically repower some of the equipment at the old coal sites but it's not likely to be economical to do so. One of the main reasons being that in the case of the coal-fired units they are in the South and there's generally not good natural gas service to those sites so if you were going to actually use natural gas-fired turbines as the heat source to make steam with it, it would take a significant infrastructure increase in the gas system. It would expose us to a lot of additional gas risk.

It might make more sense to repower the plants using what's known as coal gasification technology where you actually produce synthetic gas using coal as the feedstock rather than natural gas. But I suspect we would not do that as a retrofit to the old plants. We've looked at the numbers. The economy just really isn't there to do it. It makes more sense to at some point retire the units as is and replace them with new stock.

Mr. Iwanchuk: — Mr. Chair, just a question that arose. In

terms of those questions about the autonomy of the rate review panel, just before I get to that I was just wondering where the discussions were to date on the rate review.

Ms. Youzwa: — The process is that — as I understand it — is that the panel has held three public meetings, one in Regina and two in Saskatoon, and that concludes its public meeting process. I think that customers or stakeholders who have a view on the rate application can still provide those views to the panel either electronically by e-mail or by letter or written submission. I think that avenue is still available to anyone.

The panel, as I mentioned earlier, has a consultant working for it and the consultant is still in the process of doing his work and will be preparing a report. My understanding is that the expected date for a report from the panel is December 3. Now that's our understanding and whether that's a firm date or a planned date, I can't confirm. But that's our expectation is that the early December the panel will complete its work and then offer its report to the government for consideration.

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

The Chair: — Members, it's close to the time of a recess break. Would that be appropriate for members? Okay, the committee will stand recessed for a few moments and reconvene in about 15, 20 minutes.

The committee recessed for a period of time.

The Chair: — Thank you, members. We'll reconvene the Standing Committee on Crown and Central Agencies.

I had a couple of questions for you, Minister. I'm fortunate to have the Canadian Light Source synchrotron within my constituency. In fact I was at the opening, and I was so inspired I wanted to change the constituency name temporarily to Saskatoon Synchrotron. I think I need to have the Assembly approve that. But my question . . . They did unveil a recognition of all the people that had a contribution to the synchrotron and I was wondering what — and they also recognized SaskPower — and I was wondering what the contribution that SaskPower did contribute to the synchrotron and what value they see in that contribution.

Hon. Mr. Quennell: — You are correct. SaskPower did make a contribution or investment in the synchrotron. And it was for the purchase of a beam line. Pat, do you have some comments on that?

Ms. Youzwa: — Yes, we have made a commitment to a beam line. The size of the commitment is \$2 million. That beam line is yet to be constructed, and when it is completed we will then look at the application of that technology to some of the issues and challenges that we have in SaskPower.

The Chair: — Thank you. Also you had indicated earlier that you had some answers to previous questions; perhaps you may want to proceed right now.

Ms. Youzwa: — Thank you, Mr. Chair. The question had come . . . was raised before lunch in regard to our timelines around our community energy management pilot projects. And I do

have some information for members this afternoon. In regard to the Watrous project, I am told that our audit of facilities is now completed and that we have an approved retrofit plan in place. And we expect to complete the pilot with the community of Watrous by May of next year.

In regard to the pilot with First Nations community, we had selected six potential communities and we are going to . . . we did initial site visits and we're now going to revisit three of these communities this fall and we hope to make a selection and an announcement of where the second pilot will be in December of this year. After that our plan is to have the audit and the retrofit plan sort of . . . work start in 2005 and our completed project will be sometime later.

The Chair: — Mr. Elhard.

Mr. Elhard: — Thank you, Mr. Chair. I'd like to, Mr. Minister, return to some of the areas of questioning that we were . . . embarked on prior to the break. And I guess I need to, for my own familiarity with the process, ask you what role does SaskPower play and what role do you as minister play in the determination of overall dividends paid by Crowns to the General Revenue Fund?

We know what the dividend was. We know what was taken out of SaskPower's profit for payment this year. At what point does SaskPower become aware of or respond to the request for dividends?

Hon. Mr. Quennell: — The level of dividends is determined by Crown Investments Corporation.

As Minister Responsible for SaskPower, I am one of the members of the Crown Management Board. The proposed dividend level is communicated to SaskPower and SaskPower would respond as to whether that is a viable dividend for the year in question. And in this case the response was positive. That was a response was communicated by the previous president, John Wright, to the Crown Management Board.

Mr. Elhard: — At that time, was the board of SaskPower and the minister responsible aware that the lion's share of the profit was actually going to be a paper profit based on exchange?

Hon. Mr. Quennell: — The fact that, as you say, a lion's share of the net income would be the foreign exchange gain would have been known at the time, I think.

Mr. Jones: — Chair, Mr. Elhard, thank you. If I can just perhaps explain the process. We begin a business planning process early in the calendar year and then carry that through, through the spring and pull together various documents — forecasts, requests from various areas of the business and so forth — look at projections for things like gas prices and so forth. And we put together a business plan that is brought forward to our executive, to the board, at roughly this time of the year, in the fall, normally October, November. And then it would go on from the board process to CIC (Crown Investments Corporation of Saskatchewan), the holding company for us, for final approval, usually late in December and so forth.

So in terms of that process, probably you know by this time of the year in 2002 when we were doing the 2003 business plan, we were watching very carefully what was happening to the Canadian dollar and we were concerned that it was going to go against us and so forth. So at that particular time I believe the projection for our net income was in the, I think, the \$100 million range, if I recall carefully, at that point in time. It's a while ago and so forth.

So we did not . . . That's the business plan and then throughout the year we monitor what happens and so forth so by the end of this last, sort of November, December, we were seeing that strong appreciation of the Canadian dollar which was moving up our net income — again a non-cash net income.

But at the same time what was happening is throughout 2003 is significant cost pressure, especially as I spoke earlier, about fuel and purchase power costs. And one of the key elements was the decline in hydro generating conditions. So you had, if you like, a large hit to the expense side and you had this appreciation of the Canadian dollar going at the same time.

Mr. Elhard: — Mr. Chair, the minister indicated earlier that a 90 per cent dividend payment is not unusual assuming that other things are equal, for instance the debt/equity ratio being roughly 60 per cent and that's the benchmark or the target that the government sets.

If in fact CIC had asked SaskPower for 90 per cent of the \$74 million that was real profit prior to the foreign exchange component of that figure, there wouldn't be much argument on our side to the validity of the request or the movement of the money to general revenue.

But the problem becomes, I think, pretty apparent when the lion's share of the profit is . . . And I'm talking about \$113 million based on exchange rate benefits that came back to us, and the transfer to the General Revenue Fund as a dividend amounted to \$169 million. So that impacts SaskPower's cash flow by \$95 million. And either that \$95 million has to come from SaskPower in the form of new debt or from the cash flow of the company.

And I guess that's the point I was trying to make before the break, that knowing that would be the case and deciding to go ahead with that type of, that exceptionally high transfer of monies to the General Revenue Fund, it really impacted unfairly or unnecessarily SaskPower's cash flow. And in fact the delicate position the company was in as of July when it was said that cash flow was precipitous and that it was complicating the operating abilities of the company, that should have been taken into consideration when the exceptionally large dividend was made to the General Revenue Fund.

And so the question becomes in the mind of the public, I think, why would the government demand that kind of dividend payment, that extravagant dividend payment, knowing that most of it was going to have to come from either borrowed funding or from the cash flow of the company and then three months later say that the cash flow is so debilitated that an immediate rate increase is necessitated? That goes to the confidence issue, Mr. Minister, as to the wisdom and the necessity of this whole rate increase argument.

Going forward now, we're going to have a situation where once again we may benefit from rate exchange, although it won't be necessarily as high as it was in previous years because of the hedging that we discussed earlier this morning. But are we anticipating . . . given what we know now, are we anticipating a dividend of anywhere near the substantial levels that was taken out of SaskPower's basic equity position this past year?

Hon. Mr. Quennell: — Well I think the latter part of the question is difficult to answer from SaskPower's point of view. SaskPower doesn't set the dividend, although I think SaskPower quite rightly sets out whether it believes it's a sustainable and viable dividend, as was done in this case.

I think we need to be careful, Mr. Chair, not to confuse and interchange too easily cash flow and net income because I think we acknowledge, all of us here, that the net income in 2003 included \$113 million on foreign exchange accounting. And the cash flow situation is actually quite different. And as I said, in 2003, to the end of 2003 there's \$200 million cash from business, which is different than net income and which is more than the \$169 million dividend payment.

When we're referring to the viability of the payment, terms were used before the break about the government saying that SaskPower had made a tremendous profit in 2003, and I can't help thinking that those must be references to something I said as minister responsible. I was speaking to the financial circumstances of the corporation. And I stand to be corrected if the member can show me anywhere in the record where I was bragging about the tremendous profit made by SaskPower.

What I attempted to do at the time and am attempting to do today is have fairly set out the financial circumstances of the corporation. So I would have said at the time, this is the corporation's net income. In response to questions in the legislature, I would have discussed, as the member might remember because I believe he asked the questions, the cash available and its relationship numerically to the dividend that was paid.

Mr. Elhard: — Mr. Minister, the issue is pretty simple in the minds of the voting public and in the people who pay the bills for SaskPower, who pay their bills to SaskPower. The fact of the matter is that a rate increase was desirable; a rate increase application was undertaken by SaskPower because their cash flow was limited and because their operating costs had expanded considerably, and there was other concerns about long-term costs related to infrastructure.

If SaskPower had not paid the additional monies to the General Revenue Fund through a dividend request, would that money not have been available to offset some of those additional concerns? And having paid the \$95 million over and above the real profit of the company last year, the hard, cold cash that the company profited last year, where did that \$95 million come from? Did it come from borrowing or did it come from cash flow?

Hon. Mr. Quennell: — I'll let Mr. Jones refer to cash management and what's done over time in respect to payment of the dividend and from where the money goes. But again I think, Mr. Chair, are we talking about the net income number?

Are we talking about, as the member says, cold, hard cash? Because the cash from business in the year 2003 and the net income number aren't the same number. And that's something accountants understand far better than I do. But as far as the cash management in respect to the dividend, I'll let Mr. Jones comment on that.

Mr. Jones: — The Chair, Mr. Elhard, thank you for the question. The CIC dividend policy states that we are to pay a certain percentage of the net income as determined by CIC. We will recommend to our board what we at SaskPower in turn will recommend to CIC as part of the process I talked about.

And just to go back to the previous question, for example, this year we are in the process of putting together our business plan. I have not finalized what I will be recommending to our board, but according to the CIC policy as it now stands, it looks like we'll be at about that 60 per cent debt/equity ratio. So it's likely — because I'm working through the numbers right now in the document — it's likely that I will be recommending to our board a 65 per cent dividend rate as per what I understand the CIC dividend policy. So that's for the coming year — to try and give you a flavour for how we operate internally.

With respect to the 2003 dividend that was declared, that dividend, again pursuant to the CIC policy, is declared in the year and is payable quarterly with a one quarter lag. And so there is a formula, if you like; it's set out in the CIC policy how we actually pay it. And so the question of did we pay it from borrowing, did we pay it from operations and so forth, let me try and answer it this way. We do not borrow for paying dividends or for investing in infrastructure or for providing salary payments and so forth. All of those requirements, those cash outlays, go into our cash management mix together with all of the revenue inflows, for example, and other cash that comes in, and if we are short on a particular day, we have to go and borrow money.

If, for example, we have more money than we need, then we'll go and invest it. That's our cash management activities. So by and large what I'm trying to say here is that if you look at for 2003, the cash from operation was in the order of 200 million-plus compared to the declared dividend, and that declared dividend was 169 million. So that you can say, well the cash from operations is more than enough to pay for the dividend, but I do not . . . I don't put a tag on a dollar in there; it all goes together. So it's very difficult to say, well did I borrow for the dividend or not.

What I can say though, is in general for any corporation, the company that pays dividends, their debt will be higher than it otherwise would have been because they do not have those money. That's a truism; that's the case for any company.

Mr. Elhard: — Just to follow up that response or . . . That mix of sources of revenue that you talked about, had that mix dropped to what you would consider a precipitously low amount, compelling the institution or the requirement of an immediate 9 per cent increase in rates as an average?

Mr. Jones: — Chair, Mr. Elhard, that's . . . again the short answer, to be blunt, is no. I would submit to the committee that the dividend essentially is a separate issue than how we

calculate a rate application.

A rate application was based upon the costs of generating electricity. And those costs include, as we've talked about, fuel and purchase power costs, our wage costs, other supplies, and so forth — those are all of the costs — finance charges, depreciation, and so forth.

There is also a charge for the equity in the company. We include that in how we establish our rate that we are going to charge our customers. There's currently about 1.4 billion in equity in SaskPower. And we assign a return to that which we think is appropriate for the use of that money and charge . . . and put that as part of our rate base, so to speak.

So in essence what I can say is that when you in general pay a dividend, you reduce your retained earnings or your equity position. So in a sense, with equity in a corporation coming down, the charge for that equity is higher than debt; so that in the near term there's less of an impact on rates the more your equity comes down. Now I know that's technical but the rate we charge for equity in our rate setting is 10 per cent. The cost of debt today, for long-term debt, we were able to go to the markets here a month ago through the Department of Finance — which is the way we normally do it — and we received long-term funds at roughly five and a half per cent.

So in my judgment the two are separate. The dividend in a sense is a balance sheet item. Where I think it gets confused perhaps is that the policy bases it upon net income. And that's sort of how it gets confused, in my judgment.

Mr. Elhard: — It probably would take longer than we've got this afternoon for me to be completely clear on that, that whole scenario. But you did allude earlier as well to a 65 per cent figure that you would recommend in terms of a dividend. Would you give us just a little more explanation as to, you know, how you would arrive at that figure and what you're basing that particular amount on?

Mr. Jones: — Chair, Mr. Elhard, thank you for the question. That is based upon my interpretation of the CIC dividend policy, which says that if we are at our target debt/equity ratio, or above it, then you would pay 65 per cent. In other words, we would keep some of the net income within the company to help us move towards, over time, towards the targeted debt/equity ratio.

So that's what in a sense the CIC debt policy, the hinge if you like, whether it's 65 per cent or a higher amount, the hinge for that is the debt/equity ratio compared to the debt/equity ratio target.

Mr. Elhard: — So where does the 90 per cent expectation come from that SaskPower was obliged to respect in the last dividend consideration?

Mr. Jones: — Chair, Mr. Elhard, thank you. If a corporation such as SaskPower — this is my interpretation of the CIC dividend policy — if a corporation such as SaskPower, if their debt/equity ratio is currently below their target, and by this target which is not only recommended by management but also approved by the board, what that suggests according to this

policy is that more of the cash for the company can be paid to the owner or the shareholder and you can still move . . . you're still below that target. So you have that flexibility to do that. In a sense it's an indicator — one indicator — of affordability, if you like.

Now I would caution that we're talking about one year. Taking large dividends over a long period of time, I would have difficulty with that and I would be recommending to my board that maybe the CIC dividend policy doesn't work for us. And therefore, in the interests of the financial integrity of SaskPower, we cannot afford to sustain that over time.

The Chair: — I have Mr. Yates and then Mr. Iwanchuk.

Mr. Yates: — Thank you, Mr. Chair. I want to go down a line of questioning to do with the rate review. I understand that we've been going through a rate rebalancing process over the last number of years and I'd like to know what role, if any, rate rebalancing played in the application before the rate review panel. And could you give us some indications what that rate rebalancing did and its purpose, and the impact on various stakeholders as a result of rebalancing.

Ms. Youzwa: — Mr. Chairman, thank you for the question. Rate rebalancing is an initiative that we . . . and a program that we started two years ago. When we put a rate application forward — I think it was in 2000 — we announced at that time that it was our intention to start a program of rate rebalancing and to have rates rebalanced over a multi-year period, and we would do it in phases. And what rate rebalancing means is that we wanted to take the rates that customers pay for power from SaskPower and make them more closely aligned with our costs of serving those types of customers. And we measured this with something that's called the revenue-to-revenue requirement ratio.

And we wanted to have all of our customers within a range of .95 to 1.05 — which means that if you're at .95, to put it quite simply, the rates that you pay covered 95 per cent of our cost of serving that customer group. If you're at 1.05, you're paying a bit of a subsidy or a premium, at 1.05.

When we started this program, we had a number of customer groups who were outside that range. And we had some customers that were paying as much as 20 per cent above our cost of service and we had some customer groups that were paying almost as much as that on the other side receiving a subsidy. So the idea and the initiative was to bring everyone's rates more closely in line with our cost of serving by customer group.

In order to not create too large an increase for a particular group through one application, we decided to phase this in over multiple applications. And so when we put the application forward in 2000, that was the first phase.

We did a second phase with the next application that we put forward in 2001, which went into effect January 1, 2002. And with this application, we essentially complete the rate rebalancing program. We will have brought all of the customer groups into our desired range of .95 to 1.05.

To give you an idea of where people lie on either side of 1, if I can put it that way, because at 1, for every dollar you pay for power, it costs us a dollar to provide you the service, so that's the perfect balance. But we have some customers below and some customers above.

The customers who will be somewhat below 1 will be our residential customers and our farm customers. And they will be at revenue-to-revenue requirement ratios at the end of this rate application of .97 for residential customers and .99 for farms. We will have commercial customers slightly above 1, at 1.02, and so they're paying a little bit of a premium. On the other hand, households and residential are getting a little bit of a subsidy from those customers.

There are some customers are power customers and are reseller customers which we are moving to a revenue-to-revenue requirement ratio of 1, which means that they are neither receiving a subsidy nor providing a subsidy. What they will pay in their rates for power reflects our cost of serving them.

Mr. Yates: — Thank you. Mr. Chair, I have a couple of additional questions. In the rate rebalancing, in order to do the rebalancing, of course, an application would have had to go before the rate review panel. Is that correct?

Ms. Youzwa: — Yes, that's right.

Mr. Yates: — Okay. And so this rate rebalancing was part of this particular review. What actual cost implications does that rebalancing have on some of the groups that may be concerned? As an example, you indicated some groups moved from .95 to 1. And so if there is an increase of, for them that's above say the average, it's not as a result of them paying more than . . . it's the amount of the rebalancing versus, you know, something that's in the actual formula different.

Ms. Youzwa: — Yes, that's correct. The rate increases that we're proposing, they're the combined effect of higher rates overall to meet our higher costs of providing electricity plus an element of rate rebalancing. So for example, if you look at our reseller customers, who again are the cities of Saskatoon and Swift Current, they are looking at rate increases of 14 per cent this year and 2 per cent next year. At the current time the reseller category is at .95, so they are well below 1. And so the 14 per cent represents what it takes to move them to a revenue-to-revenue requirement ratio of 1, plus to pay for their share of our increased costs.

Mr. Yates: — Would it be fair to say those customers that were below 1 before or below 1 today are actually being subsidized by somebody else?

Ms. Youzwa: — Yes, that's right.

Mr. Yates: — All right. My next question has to do with, could you just articulate for us what you expect the increase to be for the average family in each of those various groups — residential, farm households — to put it in some terms that people on the street understand?

Ms. Youzwa: — For the 9 per cent increase — which we're proposing becomes effective September 1 of this year — for

your urban residential, the average impact is \$6 per month. And I should clarify here that when we . . . what we call an urban residential, we follow the definitions of The Urban Municipality Act, so it's not just the large cities, it refers to anyone living in a village, town, or city in Regina — within the urban municipal sort of boundaries of any village, town, or city.

The farms, I think as the minister had indicated earlier, will pay an average \$10 per month with the rate increases. Urban commercial customers, the impact is \$29 per month, and for rural commercial customers, it's \$44 per month.

Mr. Yates: — Thank you, Mr. Chairman. My next question has to do with, would the city of Regina as a result . . . I believe that the city of Regina gets a — oh I don't know what the correct term is — a payment from SaskPower and SaskEnergy for a . . .

Hon. Mr. Quennell: — . . . for a municipal surcharge. It's a . . .

Mr. Yates: — A municipal surcharge.

Hon. Mr. Quennell: — It's a tax on electricity by the city but collected by SaskPower for the municipalities.

Mr. Yates: — And paid directly then to the city. Do you have any idea what the impact, the positive impact to residents, say of the city of Regina, would be in regards to that and perhaps any other communities, in dollars?

Ms. Youzwa: — I don't have the specific number for Regina, but I can tell you how the system works. The city of Regina will receive municipal surcharge revenues and they also receive from us a grant in lieu of taxes because we do not pay property taxes within the city's boundaries. And those charges are calculated as a flat percentage of the value of the electricity that we sell within the city's boundaries. So we will collect that and then we flow it through to the cities.

When our rates go up, our . . . the amount of the revenue, electricity revenue that we'll collect from energy sales within the city will go up. And if you apply that flat percentage to the higher number, the city will receive higher revenues after the rate application than they did before. The city then takes that into its . . . together with its other sources of revenues and it makes the determination as to where it's going to apply those revenues — whether it's property taxes or provide a provision of services.

But generally the municipalities that receive municipal surcharge do get a revenue benefit every time we go forward with rate increases.

Mr. Yates: — What percentage is that? Do you have any idea what the municipal surcharge is percentage-wise for municipalities?

Ms. Youzwa: — I have it with me. Just give me a moment to find it.

Mr. Jones: — Chair, Mr. Yates, thank you. The question was what is the percentage of revenue for grants in lieu or the municipal surcharge?

Mr. Yates: — The municipal surcharge cost. What is the percentage that you collect?

Mr. Jones: — It's 5 per cent; 5 per cent of the value of electricity sales in that jurisdiction.

Mr. Yates: — So the amount of money you . . . money generated by the city as a result of this would not be an insurmountable sum; it would be tens of thousands, if not hundreds of thousands of dollars as a result then.

Hon. Mr. Quennell: — The increase in revenue to the city of Regina would be in the hundreds of thousands of dollars.

Mr. Yates: — Okay, thank you very much, Mr. Chair. Is it safe to say that we are now concluded with rebalancing for the foreseeable future?

Ms. Youzwa: — We had initially set out the rebalancing program, as I mentioned earlier, to bring all our customer groups into that .95 to 1.05 range. And at the end of this rate application, we will have brought everybody within that range with one minor exception, and that's the manufacturing rates customers who were the most heavily subsidized group of customers of all of our customer groups. And we are going to phase them into the range over a longer period of time, and as opposed to trying to do that within two years, we are going to do it over the next four years.

Mr. Yates: — Would that be due to competitive reasons?

Ms. Youzwa: — It's competitive reasons but also to smooth out the impact on these customers so that they don't feel the full effect of the rate increases, which would have been quite substantial to try to finish this in two years. So we spread it out over a longer period of time.

Mr. Yates: — Thank you very much, Mr. Chair. That concludes my questions.

Hon. Mr. Quennell: — Mr. Chair, I think it's fair to say that in the case of the longer phase-in for manufacturing customers, that that was a policy decision made by the Crown Management Board to rate rebalance over a longer period of time to allow for adjustment for that class of customers because of the extent of the change.

On your question, I don't have a number for any particular municipality other than two, on the municipal surcharge and the grants in lieu. The net benefit to all municipalities in Saskatchewan as a result of the increase in 2004 will be \$1 million and in 2005 will be \$3.1 million. That will be the total amount of the increased municipal surcharge and increased grants in lieu.

Mr. Yates: — Thank you.

Mr. Iwanchuk: — Yes, just to go back to debt ratio. And there's something that I needed some clarification in, and then maybe the question of the present rate of our dollar in exchange, where we reduced our debt ratio in terms of the US dollar and the Canadian dollar. And I was just wondering how that worked, if you could just go over that again?

Mr. Jones: — Chair, Mr. Iwanchuk, thank you for the question. Two issues here. In terms of our exposure to the US dollar exchange rate, what we have done over the last 18 months or so is we have hedged substantially all of our US dollar denominated debt into Canadian dollars. There's a small amount remaining, but we intend to hedge that at an appropriate time in the future here. So that as the exchange rate between the Canadian dollar and the US dollar fluctuates, that will not in the future, once we get this hedging program completed, impact our income statement certainly to the extent it did in 2003, which was a very unprecedented impact.

The second issue in terms of our debt ratio, our debt ratio as of today is about, closing in on about 60 per cent. At the end of 2003, I believe it was in the order of 56, 57 per cent and so it's crept up a little bit over the course of 2004 as we've done some borrowings in 2004. And the reason, it reflects that we took advantage of very favourable market opportunities to borrow long-term funds as recently as a few weeks ago, a month ago, at rates of about five and a half per cent.

And I'm not sure if I answered your question.

Mr. Iwanchuk: — I was just thinking now — and I'm not sure if the first part of the . . . because of the dollar rising now, the Canadian dollar — but that, I think you dealt with that in the initial statement in terms of that.

My second question, Mr. Chair, to the minister, was the impact of the recent increase on the city of Saskatoon.

Hon. Mr. Quennell: — I have numbers for both the city of Saskatoon and the city of Swift Current, which are in similar circumstances. And I appreciate the opportunity to respond to that question because I think there's a misperception about the effect of the rate increase on the revenues for those two cities, and that there's some confusion throughout the province. But I'm particularly concerned about the confusion of citizens of Saskatoon and Swift Current.

Both the city of Saskatoon and the city of Swift Current retained their own electricity utilities, and the effect of that is that they purchase electricity from SaskPower and then resell it to residences and businesses within the cities. The result in Saskatoon is that if you reside within the 1958 boundaries, as I do, you buy your electricity from the city of Saskatoon. And the city of Saskatoon receives a municipal surcharge and grants in lieu for that area of the city outside the 1958 boundaries, where people buy their electricity from SaskPower.

And the same situation existed in 1958, although I think more of Swift Current is within its '58 boundaries than the case in the city of Saskatoon, which has grown a fair amount since 1958 in size. The practice of the two utilities is to match the rate increase of SaskPower so that I pay approximately the same amount for electricity living within the 1958 boundaries as someone who lives outside the 1958 boundaries.

We expect therefore that the city of Saskatoon and the city of Swift Current will again raise their rates to residents and commercial operations within those boundaries to match what SaskPower rates would be so that there will be no substantive difference. We understand from the city of Saskatoon, I think

it's public now, that their average increase therefore would be 8.48 per cent because of the mix of residences and businesses within the 1958 boundaries.

They therefore will for the four months September 1, 2004 to December 31, 2004 be receiving \$2,774,260 more from their customers, including me. SaskPower is increasing the price to the city by 14 per cent and therefore their bill will go up by \$2,517,760. The city will therefore make \$256,500 more as a result of the two increases. The municipal surcharge increase, which we were discussing previously, for the city of Saskatoon for those four months of this year will be \$204,525. So the net gain to city of Saskatoon revenues for the four months of 2004, the latter four months, is \$461,025 more than they would've made, more than the city would've made, if there had been no increase.

Now the numbers for 2005 — and there will be a 2 per cent increase on both the wholesale bulk rate from SaskPower and a 2 per cent increase to match the SaskPower rates retail — the same numbers are an increase to the city in its metered revenue of \$9,032,573. The SaskPower bill the city has to pay for the year will be \$7,763,315 more. Therefore the net gain to the utility owned by city of Saskatoon will be in that year \$1,069,258. And again there's an increase in the municipal surcharge because it's a percentage of electricity sold by SaskPower outside the 1958 boundaries, and that will be in 2005, \$663,116. Now this is all dependent upon the increases being approved.

So the total gain for 2005 for the city of Saskatoon to its revenues from both sources — an increase on the margin between which it buys electricity and at which it sells electricity, and on the municipal surcharge — will be \$1,718,917. So the total impact to the city revenues of a SaskPower rate increase for the 16 months is \$2,179,942.

Now that is money that is paid by the citizens of Saskatoon. But I know and I hope other people will come to understand that I pay another \$6 a month for my electricity bill, some of that can go to property tax reduction or improve services within the city of Saskatoon because the city of Saskatoon's financial position is considerably changed to the better by the rate increase.

I'll give you the same numbers for Swift Current or do the same calculation for Swift Current. The number is, of course, smaller and we haven't factored in the municipal surcharge because the 1958 boundaries of Swift Current are more similar to their current boundaries of Swift Current.

But the Swift Current utility revenue will increase — now here we're making an educated guess that their average rate increase would be similar to what the city of Saskatoon would do — so we're making an educated guess at eight and a half per cent. By that eight and a half per cent, they would be taking in \$336,974 more. Their bill from SaskPower for the four months of this year would be \$316,383 for a smaller net gain in 2004 to the city of Swift Current utility of \$20,591.

For the entire year of 2005, and this is after the two 2 per cent increases, both wholesale and retail, their metered revenue increase at eight and a half per cent would be \$1,096,949. The increase in the SaskPower resale bulk rate would be

\$1,000,674, for a gain on the margin to the city of Swift Current utility of \$96,275. The total gain, the total amount of money that the city of Swift Current has as revenue that it would not have without the increase is \$116,866.

The Chair: — Mr. Elhard.

Mr. Elhard: — Thank you, Mr. Chairman. Mr. Minister, far be it from me to disagree with anything you would say. But I want to know if all that is true, why are both the city of Saskatoon and the city of Swift Current on the record as opposing the increase that has been expected of them or charged to them as a result of this change? Why did they make a presentation to the rate review panel opposing the position of SaskPower? Why are they not in fact saluting the changes that are being imposed on them?

Hon. Mr. Quennell: — There's nothing controversial about these numbers. The amounts that the city collects, both cities collect from their customers, is a public number. We're applying the eight and a half per cent to it. The amount that they've charged, that's a public number. It'll be in the cities' annual reports. The rest is arithmetic.

I can't speculate on motivations, but I can point out, as long as we're dealing with arithmetic, that if SaskPower received an increase of eight and a half per cent to that customer mix which the cities matched, okay, but the increase to the cities was less than 14 per cent, these numbers would be even higher and the cities would make even more money.

I don't think any government is against increased revenues, particularly when they can point to some other body as being responsible for the increase. But I don't know if that's the motivation. I just point out that that would be the effect of a smaller increase to the reseller rate, but the same increase to residential and commercial customers.

Mr. Elhard: — I guess the question becomes one of, again the availability of the methodology. You know, if . . . I can't for a minute expect or understand that a city that was given this wonderful opportunity to increase its revenues would look a gift horse in the mouth. And I don't hear the city of Saskatoon or the city of Swift Current saying this is going to be a good deal for us and our customers.

Hon. Mr. Quennell: — The methodology of calculating the costs of providing power to the cities of Saskatoon is one matter; that's before the rate review panel. The actual effect on city revenues is another. And I have been somewhat frustrated over the last few weeks, since the beginning of September, by the misperception that city revenues in Swift Current and Saskatoon are actually going to drop. The reverse is the case.

The methodology that may be before the rate review panel may be so complex that they require a consultant to go through all the technical information that was alluded to by the president. The numbers that I have provided today are as simple as they are.

Both cities will have an increase in their revenues over the 16 months as a result of the increase. If they could have the 14 per cent rolled back but still have an increase of 8.7 per cent to

residential customers, they would make even more money. But as the situation now exists, this is the increase to their revenues.

Mr. Elhard: — I see we're rapidly moving through the afternoon and the schedule is still full. I would like this opportunity to change the topic if I may. I'd like to talk briefly about wind power and SaskPower's arrangement with ATCO that has gone awry. And I'd like to ask the minister, you know, for his response to that situation, the changing reality in that particular instance.

It's about a year ago, a little more than a year ago, that the SaskPower and the minister, the government of the day, the NDP (New Democratic Party) government announced with some fanfare, coincidentally just prior to the election — but that having been said — that we were going to have a fairly major wind power project undertaken with a private sector partner. The preferred partner, the selected partner, was ATCO out of Alberta and that site selection would proceed.

Open houses were held throughout the southwest. I attended one in Shaunavon; there was one in Gull Lake. I think you had a number of them, maybe one in Swift Current and Rush Lake as well. But nevertheless it seemed like that was a project that had a lot of promise. And now, September 23 or so, somewhere in the third week of September that project has been derailed. ATCO claims to have withdrawn. Will the minister give us his explanation for that breakdown in that particular arrangement?

Hon. Mr. Quennell: — Mr. Chair, I don't understand the use of the term derailed. With whatever fanfare the commitment was made to increasing our capacity to produce electricity from wind in this province, the commitment is being fulfilled. The site preparation and road work is being done as we speak. The project is going ahead; 150 megawatts of electricity is slated to be produced from the Rushlake Creek project by the end of 2005.

Mr. Elhard: — Would the minister offer to us an understanding of what arrangement SaskPower had with ATCO at the time? Was there an agreement of some sort, a written agreement for instance?

Hon. Mr. Quennell: — I will let the president respond to that. My understanding is that there was an agreement to enter into a joint venture, that it was certainly open for ATCO for its other business priorities. And it's my understanding that it looked at its business priorities and decided that they wouldn't want to proceed with the joint venture. But I wouldn't say there was a joint venture, but there was an agreement to enter into a joint venture.

I would say to the member if he's inquiring as to our willingness to proceed on that basis, that that was — on SaskPower's part and on the government's part — a genuine agreement and a genuine understanding that we were proceeding on that basis. And I expressed, as I recall, surprise when ATCO decided to withdraw because that was the basis upon which we thought we would be proceeding with the project at that time.

Ms. Youzwa: — Yes, thank you. Let me just add to the minister's response. We have had considerable amount of work

done over the last many months working with ATCO on two types of commercial arrangements.

One was to look at the details of a joint venture agreement as the minister has referred to, and then for the joint venture to have discussions with SaskPower as to the terms and conditions under which SaskPower would buy the energy from the wind project. And as I mentioned there was being extensive discussions and development of those agreements, and they had been proceeding quite well as we had expected. The decision of ATCO to withdraw took place when those arrangements were pretty close to being concluded and the decision was made not to proceed on their part. But we had been advancing those discussions over the last many months.

The other thing that had been happening is in terms of the project development itself — negotiations with vendors for equipment, selection of the site, environmental approval for the site. SaskPower through SPI (SaskPower International Inc.) had the lead to be the project developer. And for that reason, even with the withdrawal of ATCO, we've been able to keep the project on schedule as we look at what our options are now with ATCO's decision. So that's why we're proceeding with the site development and we've recently announced the selection of an equipment supplier for the project.

Mr. Elhard: — I'm not particularly troubled by the fact that site selection or preparation is ongoing; that roads, you know, roads are being built and that that type of preliminary work is happening. But I am troubled a little bit by the fact that when ATCO said it was withdrawing from this, they said — if I remember and I'm paraphrasing here — that they looked at their priorities and their obligations and they realized that there was such rapid growth in the Alberta electrical sector that they really needed to concentrate their energies there.

And yet if I can take what you indicated just a moment ago, that doesn't sound like the attitude they had going into these negotiations. You indicated that considerable negotiations had been ongoing and that a lot of work having been done, you were confident that SaskPower and ATCO were pretty close to an agreement. That sort of flies in the face of what we were told, that ATCO just decided that they were preoccupied or had better places to place their energies and investment. So in your view, what's the real reason they pulled out?

Ms. Youzwa: — I don't have an insight as to what the business sort of challenges and opportunities that the ATCO group faces in its entirety, and so it's very difficult for me to speculate or to comment on what went into the ATCO decision. But we do know that we had been working closely with ATCO in advancing the project. They, for their own corporate reasons, made a decision that they wanted to focus somewhere differently and as a consequence, did not want to proceed with the project.

Mr. Elhard: — How was SaskPower's role in this whole potential joint venture delineated? If I understood it correctly, SaskPower International was actually the player in terms of developing this with ATCO, and that SaskPower was acting almost like a third party to this — that some agreement would have to be reached by the two players and then SaskPower would have to decide whether or not it was going to buy the

power. Wouldn't that decision have been made by SaskPower going into this?

Ms. Youzwa: — The structure, the arrangement was that — as I mentioned earlier — that there would be a joint venture arrangement between SaskPower International and with ATCO. And they would own and operate the project, and that SaskPower would buy the energy from the project. So that's the second piece of the commercial arrangement, and that's how the Cory joint venture and cogen project at the Cory potash mine is structured and operates. And we were going to replicate the same structure again for the wind project.

Mr. Elhard: — That isn't a chicken and egg problem though, is it? You would know one way or the other whether or not you were going to buy the power. What was the, sort of the prior conditions that had to be established before that joint venture could be arranged to everybody's satisfaction?

Ms. Youzwa: — I'm not exactly sure I understand what you mean by prior conditions. But let me respond and if I haven't captured it appropriately, then I'll be pleased to clarify my response. Obviously the business arrangements need to be structured in such a way that the project is an attractive project for the joint venture itself, which means that it's able to build and operate the project and have a reasonable expectation of recovering the capital that's invested, and a reasonable rate of return on that capital, and to be able to generate enough revenue to have the cash flow to pay for operating and maintenance over the life of the project, which is expected to be quite long.

For SaskPower, which is the other side of it, we purchase the energy that comes off the project. And we need to have a reasonable assurance that the energy that will be produced from the wind farm and the price we pay for that is a reasonable and fair price, in relation to our other sources of generation, sources of supply, so that we're bringing on and committing to energy sources which are . . . result at the end of day in cost effective electricity for our customers. So there's a balance in between the commercial interests of the joint venture with the power purchase arrangements of the utility.

Mr. Elhard: — But ultimately the whole project would have hinged on what SaskPower was prepared to pay for the power. I mean that would be the bottom line in that whole deal, wouldn't it? If an agreement, a suitable price couldn't be reached in terms of the cost of the power being purchased from the project, that would pretty much determine whether or not the joint venture was going to go ahead.

Ms. Youzwa: — We had extensive discussions on a power purchase agreement with the joint venture. And we believed there was a . . . that we had struck the balance that was necessary for the project to proceed. Now how that compares to business opportunities that ATCO may have been looking at, and challenges it has, I don't have that information to be able to have any opinion on that. But we believe that, you know, we had a reasonable kind of arrangement for both SaskPower and interests of SaskPower and its customers and the joint venture. But it is a balancing certainly that has to happen there.

Mr. Elhard: — Could it be that SaskPower just played hardball too aggressively in that arrangement and it discouraged the joint

venture and the partnership arrangement with ATCO?

Ms. Youzwa: — I don't think that's the case. We have a very good working relationship with ATCO in our other projects. And certainly I think that coming out of this particular project and where we are, we continue to have those business arrangements and that business relationship with ATCO. And that still carries us forward.

Mr. Elhard: — Has that relationship been happy or is it a difficult arrangement, a difficult . . . I don't even want to call it a marriage because it's not exactly that. But the reason I'm asking is, you know, I'm aware of the fact that the whole arrangement with your other project with ATCO, at the Cory mine I guess it is, hasn't been exactly happy. There's been some difficulties there, there's some ongoing difficulties. There's the difficulty of the TransGas transaction that SaskEnergy was involved with and as it related to ATCO.

And you know there are other, other reasons to ask this question, I suppose. And that is that ATCO didn't have any wind expertise when you entered this arrangement with them. I'm wondering whether that favoured player status wasn't nullified by some bad experiences they've had with Crown corporation business dealings?

Ms. Youzwa: — We, again, I think we have a solid working relationship with ATCO. We certainly, you know, in the Cory cogen project, the project went through some challenges in the construction and commissioning and operating phase; you know, getting the project operational, as happens whether these are joint venture projects or SaskPower-only projects or any projects which are capital intensive and very complex. But the plant is commissioned and it's fully commercial and operational.

And I'm not aware of any issues with ATCO that are problematic at all, there. And the same would be true of our other project we have with Muskeg River.

In terms of the wind project, I can also assure you that, you know, this did not result as . . . this did not come about as a result of some breakdown in that relationship through the negotiation process. It was made very clear to SaskPower by senior ATCO people that this was due to factors affecting other parts of their business and required them to focus differently than they had planned when they initially went into the project development for the joint venture.

Mr. Elhard: — The project as it is continuing now, is that what you would identify as a SaskPower International project or a SaskPower project?

Ms. Youzwa: — At this point in time, SaskPower International continues to be the project leader and we are doing that for a couple of reasons. One is that all of the preliminary work that has been done for the project in terms of negotiations with suppliers, negotiations with landowners, and so on and so forth, have all been done in the name of SaskPower International. So in the interests of being able to meet some critical deadlines, we've left SaskPower International as the project developer.

The second reason is that we have not closed the door on the

potential of bringing in a new partner into the project and we've had many expressions of interest since the ATCO announcement. And leaving it within SaskPower International facilitates our ability to be able to isolate that investment from the rest of our assets in SaskPower and to structure a new joint venture, if that's what we choose to do.

Mr. Elhard: — Would you be prepared to table a copy of your agreement or your memorandum of understanding as it related to the establishment of this joint venture with the committee?

Ms. Youzwa: — I believe that we have confidentiality clauses within those agreements which would limit our ability to respond, but I will take that under advisement.

Mr. Elhard: — Thank you. And in view of the other potential partners, I understand that the lineup for this particular role is rather extensive. You've had the people indicating their willingness in the media. It's almost as though they've been prepared to signal their interest publicly before they talk to you privately. I don't know if that's true or not but it certainly appears from all media reports that you wouldn't have a problem finding a partner. So from your perspective, what's the problem in finding another partner?

Ms. Youzwa: — We have had, as you mentioned, a lot of interest. Some of that's been publicly expressed. We've had a lot of contact directly to the corporation. I think that what that indicates is its potential attractiveness that people see in wind generation and their interest in getting involved in a new source of electricity generation and investment opportunities. And so we've been pleased by that response.

I think that it's prudent on our part to look at the range of potential partners that might be there to determine what we are looking for in terms of a partner for the project going forward, and to take some time to be able to make a decision, if we select a partner, to select the partner that brings value to the project overall. So we, by doing the work today and the commitments we've already announced, we keep the project on track in terms of timelines. We have a little bit of time now to receive these expressions of interest and do some evaluation before we need to make a decision.

The Chair: — Thank you, members. I noticed the hour of adjournment has arisen. Does the member have one final, brief question or . . . okay. But thank you, Minister, and your officials and members of the Provincial Auditor's office and Deloitte & Touche and thank you for coming. Did you want to make a brief statement as well?

Hon. Mr. Quennell: — I think the only statement that I would make is that it occurred to me early in the day that for anyone who is watching these proceedings either now or later or reviewing them, that a lot of information and a great deal of education about generation of electricity in Saskatchewan and future possibilities and future challenges across the range, environmental, capacity, mix of possibilities for generating power, I think a lot was learned today by the members of the committee. And certainly a great deal was learned by me, and I think by anybody who would want to review the record.

And I would like to thank my officials for attending, but I

would particularly like to thank them for the manner in which they answered questions and provided I think a lot of information so that the areas of debate and discussion that we have as members of the legislature I think will be far more informed after today's questions and answers. So thank you.

The Chair: — Mr. Elhard . . . thank the officials.

Mr. Elhard: — Thank you, Mr. Chairman. I too would like to thank the minister and his officials for attending today. You know, this new committee structure has allowed us an opportunity to go into some of those areas with a lot more clarity and depth, I think, than we might have gotten previously.

And I think that's important not just to the committee but to the people of the province. I commend this process to anybody who asks because I think it is valuable, and I just want to thank you for the part you played today. I appreciate that.

The Chair: — Thank you. This committee stands adjourned. Thank you, members.

The committee adjourned at 16:00.

