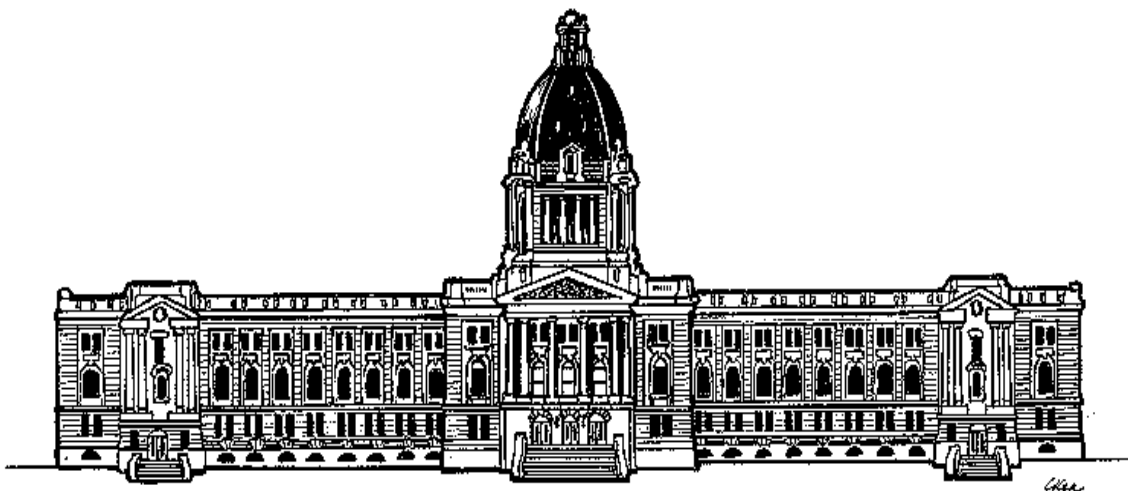




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

Hansard Verbatim Report

No. 17 – January 14, 2005



Legislative Assembly of Saskatchewan

Twenty-fifth Legislature

**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES
2005**

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. Mark Wartman
Regina Qu'Appelle Valley

Mr. Randy Weekes
Biggar

The committee met at 10:00.

The Chair: — I call the Standing Committee on Crown and Central Agencies to order. Some administrative issues before we begin. Just to remind members that the committee meeting is being Web cast and is available for in-house TV viewing, and that following today's meeting the full meeting video will be streaming up on the legislative committee Web site. This will also be rebroadcast when the House is sitting in March.

The business before the committee is the 2000 annual report and related documents for SaskEnergy Incorporated, and the agenda has been distributed.

Before we begin I would like to table a document — 86/25 SaskEnergy Incorporated — agreements between SaskEnergy Incorporated, SaskEnergy Nova Scotia Holdings, and Heritage Gas. And I understand these have been distributed to committee members, so that is so tabled.

The first issue is to have an overview by the Office of the Provincial Auditor, then the appointed auditor for SaskEnergy and then the minister has a brief statement. So I'll turn it over at this time to the Provincial Auditor's office.

Mr. Martens: — Thank you, Mr. Chair. My name is Andrew Martens and I'm the coordinator of our activities of this committee. With us from our office today are Mike Heffernan, deputy provincial auditor and behind us are Rosemary Volk. As well, Bob Watt from the firm of Deloitte & Touche who is the appointed auditor for SaskEnergy is with us. I'll ask Mike to give us an overview of our comments on the audit for the year 2003 followed by Mr. Watt. So Michael.

Mr. Heffernan: — Good morning, Mr. Chair, members. I just have some very brief comments to make. Our office worked with Deloitte & Touche to complete the audits of SaskEnergy and its subsidiaries for the year ended December 31, 2003. We concur with Deloitte's audit report on the financial statements for the corporation and each of its subsidiary corporations.

In carrying out our work we received excellent co-operation from both Deloitte & Touche and from SaskEnergy's management and board. We would like to commend the corporation on the quality of the information in its annual report. The annual report provides good information on the corporation's plans and results. That concludes my remarks.

Mr. Watt: — Thank you, Mike. I'm Bob Watt, as was indicated earlier, the engagement partner at Deloitte & Touche responsible for the audit of SaskEnergy. We conducted our 2003 audit of SaskEnergy, 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, 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 22 of the 2003 annual report.

We also worked with the Office of the Provincial Auditor to assist them in discharging their responsibility to report to the members of the Legislative Assembly on a number of other matters.

I wish to acknowledge the excellent working relationship we have with the board and management of SaskEnergy. A set of financial statements of the complexity and scope of SaskEnergy 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 that office in discharging its obligations under the provincial auditor's Act. Thank you again for the opportunity to provide these comments, Mr. Chairman.

The Chair: — Thank you very much. Just to introduce committee members, we have Mr. Wartman, Mr. Iwanchuk; and Mr. Yates is filling in for Mr. McCall. We have Mr. Toth filling in for Mr. Elhard, Mr. Weekes, Mr. D'Autremont, and myself. And with that I'll recognize the Minister Responsible for SaskEnergy, the Hon. Harry Van Mulligen. Take it away, Mr. Van Mulligen.

Hon. Mr. Van Mulligen: — Thank you very much, Mr. Chair. I'm pleased to be here today to meet with the Crown and Central Agencies Committee as the Minister Responsible for SaskEnergy. I should like to make a few brief opening comments and then I and my officials would certainly be happy to answer any questions that you may have.

Perhaps I should start by introducing those officials. And to my right is Doug Kelln, the president and chief executive officer. And I would like to publicly welcome Doug to his new role. On my left is Dean Reeve, the executive vice-president, SaskEnergy and TransGas. Seated behind me are Ken From, the senior vice-president, gas supply; Greg Mrazek, vice-president, finance and administration, and chief financial officer; Daryl Posehn, vice-president, TransGas; Mark Guillet, vice-president, general counsel, and corporate secretary; and Ron Podbielski, who is the executive director of corporate affairs. And I'd like to thank the executive team for being with us here today.

From an operational and customer services perspective, I think 2004 was another strong year for SaskEnergy. As customers we tend to think more of SaskEnergy at times like today. And I just might clarify for those that are watching this at some later date in the summer months on the legislative channel that today is January 14, and I think the wind chill this morning in Regina and probably most parts of Saskatchewan was in the area of minus 50. And so we do tend to think about our heating and where that supply comes from.

We provide natural gas services to approximately 327,000 customers. It is my sense that the employees of SaskEnergy provide this service safely, reliably, but also in a manner that is cost-effective and predictable. As minister it is one of the achievements I am most proud about.

In 2004 Saskatchewan's rates were the second lowest in the country — about \$40 for the year above those in Calgary. In

addition, SaskEnergy offered rate stability for its customers, as opposed to the monthly changes that occurred in Alberta.

The transmission side of the business, represented through TransGas, is going through one of the most exciting periods in its history. The oil and gas sector is currently a very dynamic part of the Saskatchewan economy in new gas well drilling, and volumes are being moved at historically high levels.

The gas play at Shackleton, perhaps the most significant find of natural gas in Saskatchewan for the last two decades, is emblematic of the excitement the industry is feeling. Shackleton now represents 16 per cent of all Saskatchewan production. And I hope we get the opportunity to pursue some of the issues related to this production later today.

This is a company that is solidly focused on investing in our province. During the past decade \$700 million in capital has been spent, both on extending service to new distribution and transmission customers, but also ensuring the system's safety and reliability. And that includes some \$140 million in infrastructure investments made in 2003 and 2004 alone.

SaskEnergy also has a strong tradition of working co-operatively with the private sector. An example is the Sask 1st Call service where SaskEnergy, SaskTel, and a number of private sector pipeline companies have joined forces to make the process of responding to line locate requests simpler and faster. More than 68,000 inquiries to Sask 1st Call were handled in 2004.

Mr. Chair, SaskEnergy is strong and is a well-positioned company with a future in its business — but its business is not the only thing that it's known for. SaskEnergy has established a reputation for being a good corporate citizen which makes our province a better place to live. From the United Way to Share the Warmth to the Red Cross to the upcoming Canada Games, SaskEnergy and its employees continue to play a very active role in community activities throughout Saskatchewan.

I know I join with all members of the committee in thanking the employees of SaskEnergy for their outstanding commitment in this regard. And with this I will make ourselves available for any questions that committee members may have. Thank you.

The Chair: — Thank you, Minister. Are there any questions for the minister today? Seeing none . . . Oh, Mr. D'Autremont.

Mr. D'Autremont: — It's surprising that we do have questions, but we have a couple. I'd like to welcome the minister and his officials here today, and like to congratulate Mr. Kelln on his presidency and look forward to working with him in the future.

I'd like to start off with the auditor's report as we did on Wednesday and dealing with the volume 3 of the 2004 reports. You've come to some conclusions in here in dealing with sponsorships, that SaskEnergy needs to strengthen its process. What problems have you seen in that area, and what discussions or recommendations have you provided SaskEnergy with to assist them in meeting the requirements of the Provincial Auditor's office?

Mr. Heffernan: — Mr. Chair, I can respond to that but we didn't really come prepared to deal with the chapters at this time. The Provincial Auditor wanted to be here for . . . to answer those questions and to deal with all the recommendations that we have. And in fact we haven't got all the staff that we need here either for those purposes.

The Chair: — Well as committee members may or may not know, we do have a plan to have a meeting in March to deal with the Provincial Auditor's outstanding recommendations. And so while these are in order, that was what the committee had planned in December . . . or November, pardon me. So if the Provincial Auditor is not prepared to answer those questions at this time, perhaps, Mr. D'Autremont, you could move on to another issue or . . .

Mr. D'Autremont: — Instead of asking the Provincial Auditor some questions, I would like to ask the corporation then some questions in relationship to the recommendations because the corporation will not be here when the Provincial Auditor is necessarily here to answer those questions.

From the Provincial Auditor's report, the third volume, page 329, the Provincial Auditor writes that, and I quote:

SaskEnergy told us that, while it did not have a documented authority grid, (this is for the sponsorships) in practice staff are aware of their . . . (approved) . . . authority levels.

How does SaskEnergy go about ensuring that the staff are aware and how are the staff informed as to what their authority levels are?

Hon. Mr. Van Mulligen: — Mr. Chairman, if I might just say, and I'll turn it over to staff to get into some of the details, but we're certainly aware of the comments made by the Provincial Auditor on our corporate sponsorship programs. We believe that they are good concepts and that the corporation should work towards implementing the recommendations made by the Provincial Auditor. Having said that, the Provincial Auditor's comments, my recollection is, seemed to focus more on the process of approval and that the corporation should be following as opposed to any evaluation as to the effectiveness or impact of those sponsorship programs.

And with respect to the latter in terms of impact, the Conference Board of Canada has also conducted its own review of our sponsorship program and they conclude that SaskEnergy is a leader of the pack in community investment. SaskEnergy's community investment and employee volunteerism programming represents two areas where SaskEnergy is clearly ahead of the curve in progressive practice. SaskEnergy, my understanding is working towards developing a clearer process for approval of sponsorship.

And with that maybe I'll turn it over either to Mr. Kelln or Mr. Podbielski to get into the details of that.

Mr. Kelln: — We have had a very proactive approach relative to certainly keeping our sponsorships organized. What we have done subsequent to the opportunity that's been identified by the Provincial Auditor, we have developed a approval grid. It's

been approved by the executive and will be shortly approved by our board.

Mr. D'Autremont: — Thank you. Further on the sponsorship, the next recommendations by the Provincial Auditor or comments by the Provincial Auditor also deal with the maintenance of records for the disposition of tickets for events and various functions. Is SaskEnergy dealing with that as well to maintain those kind of records?

Mr. Kelln: — Yes, we are.

Mr. D'Autremont: — Thank you. According to the Provincial Auditor's report, a number of the Crown corporations had already had these kind of processes in place to provide the authority levels, to provide for record keeping. Why was SaskEnergy lagging in that area and do the Crown corporations, possibly through CIC (Crown Investments Corporation of Saskatchewan), discuss this amongst themselves so that they have a common set of procedures in dealing with all of these types of things?

Mr. Podbielski: — Thank you very much for the question. First of all, by way of clarification, for several years now because there is a reporting obligation through to Crown Investments Corporation that was this specific, or to this committee that was this specific to sponsorships, we have had sort of extensive reporting. And for each sponsorship transaction, there is a database that we keep that has an individual record of who approved the sponsorship, the dollar value, the organization, plus also the original request that has come in.

In terms of . . . There's a very select number of people who make sponsorship decisions within the company. And so I think, while we had a process where everybody that was involved in cutting a cheque per se was aware of their approval levels and the guidelines, I think it was a helpful request by the Provincial Auditor that we document that procedure. And that is part of our new community investment guidelines that Doug referenced is going to . . . has been through our executive and is going to our board. So I think if you were to pick out virtually any individual sponsorship, you would find a lot of documentation around that.

And to my knowledge, I can't speak for all of my colleagues in the Crown because our giving criteria are somewhat a little bit different, but we do talk about it on occasion, but I don't think there's a, you know, exactly specific rule that all of us are following individually. But I would suspect we would all have a large amount of documentation around what we're doing.

Mr. D'Autremont: — While the individual cases may very well be different, the need for proper authorities and record keeping I would think would be fairly standard across all of the Crowns. And that's why I wonder why, as one Crown develops the process, you know, and perhaps at the request of the provincial auditors, that that information and expertise wouldn't be shared then across the Crowns so that at least a common process could be followed even though the individual cases may be different.

Mr. Podbielski: — I think certainly that's a helpful suggestion.

I know our plan is when we have these revised guidelines . . . our guidelines have always been public, but obviously now we're updating them. And we're certainly happy to make those available not only to our colleagues in the other Crowns but also to the public, so that they can see clearly how our process works, and how they are eligible to receive sponsorship dollars from SaskEnergy.

Mr. D'Autremont: — Okay, thank you. SaskEnergy has a number of dedicated seats at sporting arenas; I wonder if you could clarify what those are.

Mr. Podbielski: — Again, you ask the Crown a very broad-ranging question there because we do have a very extensive sponsorship program, and obviously sporting events are one of the things that we do sponsor. So certainly, for example, for the Saskatchewan Roughriders, we do have season tickets available, and we do have some seating that is in . . . available for customers, so it is in the club seating type of area. I understand that's fairly standard; there are other Crowns that have those types of arrangements.

You know, we . . . again it's a very broad program that we do have, so I certainly would endeavour if there's any specifics . . . but we do sponsor, you know, hockey through Saskatchewan Junior Hockey League, we're involved in that. And we do sponsor various organizations, amateur right up to obviously the Saskatchewan Roughriders which represents professional football. But if there's something specific, certainly I would be happy to answer that.

Mr. D'Autremont: — Well I didn't have any specific one in mind, but just you mentioned the Saskatchewan Roughriders. Are there any other sporting arenas in which the corporation would hold dedicated seats?

Mr. Podbielski: — When you say dedicated seats, do we have, for example, season tickets to the Regina Pats? Yes, we do have season tickets to the Regina Pats. But we don't have a box seating for any junior hockey league teams. We do have club seating at the Saskatchewan Roughriders games, but that's the only example that I'm aware of in the program that is like that.

Mr. D'Autremont: — SaskEnergy is developing and will be maintaining a record of whom those tickets seats are distributed to?

Mr. Podbielski: — Yes.

Mr. D'Autremont: — I guess this is a question for the future, but who will those lists of who might be utilizing those tickets or seats be made available to?

Mr. Podbielski: — Well as I understand it, we've been asked to maintain the records for now and that's what we're going to start doing. And my understanding is that if the Provincial Auditor would like to take a look at them, they would be eligible to take a look at them.

Mr. D'Autremont: — Would SaskEnergy be making those lists available to the public, to this committee, or is there . . . is SaskEnergy going to argue a need for commercial confidentiality?

Mr. Kelln: — There is a sensitive nature related to . . . Certainly customers are a majority of the intent of those tickets, and I think from our perspective there's some sensitivity around those customers.

Mr. D'Autremont: — I didn't . . . Either you're meeting the Provincial Auditor's requirements in this area or I didn't mark it in my books. I can't quickly find it.

Did SaskEnergy provide the information required for the disclosure of payees as outlined by the request from the Crown Corporations Committee? We have seen some of the Crown corporations that have been perhaps not quite as forthcoming as we had hoped they would be, using the argument of commercial confidentiality. Is SaskEnergy approving confidentiality clauses for some of its payees?

Hon. Mr. Van Mulligen: — Can I just say that there are essentially two issues for us here. One is with respect to the supply of natural gas. And my recollection, when I was a member of the committee when we talked about payee disclosure, there was a sense that we should clearly exclude natural gas suppliers from any payee disclosure list that might be made public for commercial reasons. Our sense is that some suppliers may not want to do business for us, and that would be to the detriment of the customers of SaskEnergy because it limits the available supply to us. That's an issue that the committee will have to, at some future point if there's any confusion about that, have to deal with.

But my recollection, and I think the review of the transcripts of the committee meetings at that time will clearly indicate that the natural supply contracts ought not to be listed for payee disclosure. I'm not sure what reasons there would be that we should make that disclosure, recognizing that it might do commercial harm to SaskEnergy and result in . . . well result in higher gas rates for our customers.

With respect to general payee or general suppliers, I think there were some instances where there were confidentiality clauses, that there is an opportunity to make exceptions. I don't remember all the details of that, but maybe Mr. Guillet can provide us with the details from that.

Mr. Guillet: — Yes, there were in . . . for the 2003 payee disclosure, SaskEnergy and TransGas did have confidentiality clauses that had caused us some concern with regard to disclosures.

What we have done as an organization is, in the very first quarter of '04 as we were going through this process for preparing the 2003 disclosure, what we did is to go, on a go-forward basis, is we've amended our confidentiality clause in all contracts going forward to deal with the situation, to clearly outline to parties that are contracting with us that there may be an obligation to disclose pursuant to a directive, which would be a directive, for example, from this committee for disclosure.

However, for the 2003 we were in situations where we had confidentiality clauses with respect to some of our payees which we could not disclose. Otherwise we felt that we would be in a breach of contract with our contracting parties.

The Chair: — Committee members, an administrative issue. Broadcast services does not know who witnesses are the first time they introduce themselves. So the first time you come to the mike if you could introduce who you are, that would make broadcast services very happy. And you can hear the screaming of approval from broadcast services through the doors. But anyway I'll turn it back to Mr. D'Autremont.

Mr. D'Autremont: — Thank you very much. For the 2003-2004 fiscal year, approximately how many confidentiality agreements or non-disclosure of payees would SaskEnergy have provided?

Mr. Guillet: — I'm Mr. Guillet. With respect to disclosures, we had non-disclosures in respect to confidentiality clauses and also with respect to a detailed process we went through in dealing with the exceptions that are outlined by the committee. In that process we had . . . went through a very detailed process on the due diligence. We did send out letters to our payees. These letters were generated from our accounting department which were sent out to our payees that met that threshold limit for the dollar amount that was set by the committee, in that we sent out 377 letters to our payees.

And our accounting has provided us with some of the percentages, I guess, of what we did not disclose. Now excluding the gas supplier issue that the minister had referred to which had been set out by the committee, through this process of sending letters we had, the total number of payees that were not disclosed on a percentage basis was 1.22 per cent of the payees that we did not disclose.

Mr. D'Autremont: — Thank you. And the 1.22 per cent of payees not disclosed, what percentage of dollar values of SaskEnergy contracts, excluding the gas purchases, would that represent?

Mr. Guillet: — That would represent — excluding the gas suppliers — it would be 3.85 per cent.

Mr. D'Autremont: — One of the issues that came up on Wednesday in regard to this from the Provincial Auditor's office, and I believe it's their recommendation — although I don't want to say positively that it is because I may be interpreting their comments — that payees that have more than one contract, would disclosing them not protect the confidentiality of any one contract? If you had a contractor who was supplying five contracts and you lumped his . . . the dollar value together to say payee number A had X amount of business with SaskEnergy and representing more than one contract, therefore wouldn't it protect the confidentiality of any one of those contracts?

Mr. Guillet: — I guess in the dealing with the 2003 payee disclosure process, we did not segregate whether it was one contract or a multiple of contracts. What we did also do though look is at the specific contracts that were involved on the confidentiality clauses. And those that were tendered were . . . a area that was a requirement for that procurement indicated that there was confidentiality clauses which did not allow us for the disclosure piece. And that's where we ran into that difficulty, realizing on a go-forward basis we've tried to address those issues. But no, we did not look specifically at whether it was

one contract. At least I'm not aware that we looked at that basis that there was one contract or multiple contracts.

Mr. D'Autremont: — Would SaskEnergy be prepared to discuss that with their board or amongst their executive to view that as a possible solution for greater accountability and yet protect the confidentiality needs of the contractors involved?

Hon. Mr. Van Mulligen: — The answer is, the answer is yes, that we would be prepared to enter into any further discussions with the committee and . . . so that greater clarity can be sought in these matters.

Mr. D'Autremont: — Okay, thank you. When you enter into a confidentiality agreement with one of your payees, do they give you specific reasons as to why they believe confidentiality is needed in this particular case? Or do they simply ask for a broad-brush desire to have confidentiality, that this contract, public knowledge of this contract would perhaps harm our business opportunities or provide our opponents, our competitors with critical information? Are they more specific than that?

Mr. Guillet: — A lot of the contracting that is done through the company is through a process which is developed over time, which would have been, I guess, prior to my being with the corporation. It's been an ongoing evolution of dealing with contractors.

When we're dealing with the specifics, like for instance on the gas supply contracts, our counter-parties that are contracting with us have specifically indicated in those instances that this is a very competitive market and confidentiality is first and foremost in those instances.

There is a multiple of instances for particular contracts where we may have tendered contracts. In those tendered contracts, there is a set of standard agreements that have been developed over time, where those confidentiality provisions were inserted as we sent out the tender and therefore it forms part of the standard tendering process. Confidentiality is included.

There are other instances that the Provincial Auditor had raised on with respect to SaskEnergy. Non-disclosure on a confidentiality basis is in the instance of negotiating a settlement with a severed employee. In those instances, confidentiality had been a very key issue with respect to the settlements that were done. They were done in accordance with the common law and with what is outstanding; however the specifics with respect to those were to be kept under confidentiality. In SaskEnergy's case for 2003 filing, we had four instances where there was those types of contracts in place.

So the types of contracts we have range from dealing with an individual employee to dealing with suppliers for parts, goods, etc., on a tendered or non-tendered basis all the way through to the gas supply contracts. So there's very many contracts that are entered into at the time, which throughout the year in . . . for SaskEnergy's purposes. So confidentiality may or may not have been discussed specifically in each one of those contracts.

Mr. D'Autremont: — Okay, thank you. SaskEnergy's partnerships or agreements with subsidiaries. Subsidiaries

obviously have to report, provide an annual report, to the committee. But partnership agreements in the past with private or other entities have not always done so. When SaskEnergy is entering into contracts since the beginning of 2003, have confidentiality agreements, therefore not providing reporting to this committee, have those been included in those kind of partnerships or excluded from those kind of partnerships?

Mr. Guillet: — I'm not certain I understand the question completely. If what you're asking is that if we've entered into an arrangement with another company, I'm not sure what kind of partnership you're referencing. But if we've entered into a contract for another company for provision of services or some type of other arrangement, confidentiality in most instances would be included in the contract. And that would be something that both parties would be looking at, depending upon the nature of the type of relationship we're talking about.

Mr. D'Autremont: — Well I'll use as an example, we had SaskTel here on Wednesday. SaskTel has partnerships with companies like Retx in Atlanta or Navigata in British Columbia. There were . . . Navigata, being a wholly owned subsidiary of SaskTel, provides an annual report to this committee. Retx, being a partnership at that time, did not provide any reporting to this committee even though SaskTel at the end of the day had the majority of equity in that company. SaskTel reported to us that they would no longer be entering into those kind of non-disclosure agreements, that any of their equity positions would be providing annual reports, or at least reporting within the SaskTel annual report on those partnerships.

Is SaskEnergy involved in any of those kind of partnerships, equity partnerships, where they are not providing reporting to this committee, and how are they dealing with that in the past year and into the future?

Mr. Mrazek: — It's Greg Mrazek. With regards to your question, Mr. D'Autremont, I believe that you have this particular booklet. In this booklet we have published the financial statements of all the entities, all the subsidiaries that we have, and all our investments, all our equity investments and loans with all our subsidiaries and other entities. So these have been audited by Deloitte & Touche, and they've been audited by the Provincial Auditor as well. So the amounts that we have paid, your specific questions with regards to the amounts that we have paid in investment, they are all disclosed by individual subsidiary in this report. And they're all audited.

Mr. D'Autremont: — And SaskEnergy will be continuing to provide that kind of disclosure to the committee in the future.

Mr. Mrazek: — That is correct.

Mr. D'Autremont: — That's what I hoped to hear because in the past with some of the other corporations that has not always been the case. And I think it's important that the legislature and therefore the public has an opportunity to review and understand what the Crown corporations are doing on their behalf. Okay. Thank you on that issue.

I'd like to go now to the one I'm sure that you've all been waiting for. And that is the executive compensation package

and the reports that came down in 2003 related to that executive compensation package and the lack of disclosure that was occurring at some point and the difficulties there. I wonder if the Provincial Auditor could indicate to us how this came to his knowledge and what the procedures were that he went through in dealing with this.

Mr. Heffernan: — I'm not really sure if it's the Provincial Auditor was first informed. It may have been a question from the media. I'm not sure. Or it may have been actually been informed by SaskEnergy or Deloitte & Touche. Sorry, I just don't remember that.

But what we did then was . . . But maybe just a little bit of history on this. In our own audits and for audits that are audited by appointed auditors, we have for probably for 15 to 20 years been looking at executive compensation. And this really came as a result of a Public Accounts Committee review that was done many years ago.

And so when we found that in one corporation, SaskEnergy, that these annual audits weren't discovering all the problems that existed, we decided, well we'd better take a direct approach. And so for 2003 and for 2004, we are going to do the examination of executive and board compensation ourselves. So that's really our approach. We're hoping that after that period of time that we'll be able to then hand that procedure back to the appointed auditors with more detailed instructions as to what we want done.

Mr. D'Autremont: — And you say that the audits were not finding all the problems. Why was that?

Mr. Heffernan: — I really can't answer that because we weren't directly involved in doing that work. It could be just not fully understanding what the auditors were looking at. They may not have really understood, for example, at what level some of these policies were approved. Some of these policies that weren't approved by the board go back quite a ways. It could be just the assumption that the board had approved them but I really . . . I really can't answer that because we didn't do the work.

Mr. D'Autremont: — Okay, thank you. Perhaps I'll direct those questions then to Mr. Watt with Deloitte & Touche.

Mr. Watt: — Thank you, Mr. Chairman and Mr. D'Autremont. Let me just clarify, if I could, the procedures between our office and the Office of the Provincial Auditor. I'd like to correct my colleague to some degree as it relates to the particular matter that's been raised.

A number of years ago, as my understanding is, the Public Accounts Committee asked for specific information as it relates to matters such as executive compensation so we'll stick to that particular aspect of it.

The Office of the Provincial Auditor asked us as appointed auditors to complete a checklist on their behalf in order to help them discharge their obligations to the Legislative Assembly and to come back to committees such as this and committees such as the Public Accounts Committee. And as I indicated in my opening comments, we're pleased to assist their office in

that reporting — the office, that is their office that provides the reporting to the legislature, not ours.

And as Mike indicated a moment ago, which I do concur with, obviously there has been some room for ambiguity as to what expectations were between the offices. And we have met with the Office of the Provincial Auditor on our own and with others to make sure that on a go-forward basis there is no ambiguity.

But just so that it's clear, the instructions come from the Office of the Provincial Auditor. They review the work that we anticipate doing in collaboration with our two offices. We conduct the work on their behalf, they review that work, and then form the opinions that come into this legislature or to the committee such as this.

Now maybe if I could just clarify, I mean, your comments, you know when you have events such as happened in 2004, one obviously goes back and asks questions, for example, were those procedures enough. And those were very limited sampling techniques to look for, you know, the executive compensation. So it was a limited sample of activities during the year. So I'll just provide those comments to clarify anything else that comes out of your question.

Mr. D'Autremont: — Thank you very much. When the executive compensation is reported and we have the reports of what the executives are compensated for, are things like bonuses and additional holidays included in those statements when the compensation packages are reported?

Mr. Watt: — If I could take that question first. My recollection — and again I did not come, you know . . . we were going to talk about the annual report but I'll do my best from recollection — but my recollection of the sample that was, for example, taken on executive compensation only looked at the base salary. It did not look at the benefits package, for example, that might have then led to potential discovery.

But if I could just add one additional comment there as well, if one were to have looked at the benefits, there was a piece of paper, as you know now through the reporting that was done in 2004, that very clearly said, here was the policy in respect of certain benefits. In other words there was documentation that was available — perhaps documentation that turned out not to have the bona fides that one would have liked to have had behind it, but from an evidentiary point of view one would have looked at that and said, looks like it's been approved.

Mr. D'Autremont: — Yes, I guess what you're saying then is that this piece of paper, while there was a written policy, it was not a policy that had come down from the board and set up. So it was not part of the board decision-making process, or a bylaw of the board. Is that correct?

Mr. Watt: — Correct. Certainly the findings when we went in to do subsequent work on behalf of the board, was there clearly had been no discussion of this additional compensation that was the matter of, you know, the concerns that had been raised.

Mr. D'Autremont: — I don't recollect right offhand — in looking back at this through your subsequent review of this, what time period, how long of a time period had this been

taking place?

Mr. Watt: — I'd have to go back to the report. As I recall it'd been the last several years. It'd been three or four years max. I could look it up, but I think it's around 2000 that it came in, 2001. I think it was early 2001.

Mr. D'Autremont: — So it wasn't just one reporting year. It was a number of subsequent reporting years where this procedure had been taking place.

Mr. Watt: — Yes, it was several years, yes.

Mr. D'Autremont: — I guess this brings into question then as to whose responsibility was it to be ensuring that this reporting was being done properly. We've seen all of the cases . . . I happen to own a few Nortel shares and lots of concerns going on about the reporting of their financial statements and the accuracy of this, in fact that this had carried on for a number of years and was not caught. What responsibility . . . where should the responsibility be laid for this kind of occurrence?

Mr. Heffernan: — Maybe I'll speak to that first. Mike Heffernan. I think many people are responsible for this. The Provincial Auditor is responsible to catch these problems. The appointed auditor is. Certainly the executive of the Crown corporations have a responsibility by law to disclose all the benefits and so on. It's the responsibility of the board of SaskEnergy to make sure these things are done right, as well as management. So there's many people who are responsible, I think, for these things occurring.

Mr. D'Autremont: — Thank you. At the present time I'd like to direct a question to the minister on this. In dealing with the board responsibility, what information was the board receiving on executive compensation? Were they receiving, as Mr. Watt said, they have been reporting the base but not necessarily any bonuses or additional holidays? What information was the board receiving as per the executive compensation packages?

Hon. Mr. Van Mulligen: — We could get into specifics. My sense is that at some point the board would have been provided with gross compensation costs as applied to individuals. And I might say that the issue here was the question of board approval for a certain aspect of compensation, and that approval had not been provided by the board but it was communicated to executive management that that approval had been received. That is my understanding. But at some point, within a couple of years, the board caught this, and the board then took steps to rectify this.

Mr. D'Autremont: — As the package changed, the executive compensation package changed, why would the board not have been aware that there was . . . And I'm just going to throw numbers out that are just as an examples; they're not related. If an executive was making \$100,000, let's say in 1995, and all of a sudden was receiving a compensation package of \$120,000 in 1997, why would the board not be asking where did this difference come from and who approved it?

Hon. Mr. Van Mulligen: — I think the board did catch it. The question is how quickly should the board have caught it? But the board did catch it. And so the board was . . .

Mr. D'Autremont: — Seemingly two or three years later though.

Hon. Mr. Van Mulligen: — I think probably in the area of a couple of years. By the time that the policy started to roll out, I think it took a couple of years for the matter to sink in with the board that there was an issue here. And subsequent to which, the board then took steps to deal with it.

Mr. D'Autremont: — I'm just wondering about a number of, I guess, things, I guess. How much attention has the board been paying to executive compensations to be aware of what those compensations are and how they may be changing? Are all the board members aware of that? If they're not, is there a problem there with continuity? As time progresses, you'll obviously have some changes on the board. Are all members aware of what was happening previously and so that they can be up to speed on recognizing changes as they occurred?

Was the reporting to the board appropriate? As the provincial, excuse me . . . Mr. Watt has pointed out that they report the base. But was the board also getting a breakdown on any additional compensations above the base so that they would recognize that there has been some change occurring here and the need to have an explanation and an understanding of what that change was and how that change occurred?

Hon. Mr. Van Mulligen: — I think with respect to reporting, the reporting is, in my view, acceptable. And it's the reporting that at the end of the day alerted the board to the fact that compensation was being provided that in fact had not been approved by the board. So the reporting was there.

I think the issue here was one of a fiduciary relationship between the board and the chief executive officer, the president. And there was a breakdown there. And it . . . the reporting though did provide the board with the opportunity to come to the conclusion that something was wrong.

Mr. D'Autremont: — Well I guess then if the reporting was good, why did the board not catch it when it started to happen rather than two or three years later?

Hon. Mr. Van Mulligen: — Well you know, you can take the position that this is something that should have immediately have been caught by the board. The fact is that it was caught by the board within a couple of years when they started to look at compensation levels and started to ask these questions. Again I think the issue here is a breakdown, the fiduciary relationship.

Mr. D'Autremont: — But does not the board have the fiduciary responsibility to ensure that its policies and approvals are being followed through on? The board surely receives an annual report as to all of the compensation packages paid to senior executives. I mean that is something that I'm sure that the board takes a look at seriously every year. Where was the failure then on their part in not recognizing that the difficulties were there from the time it started to change, that first year?

I can see someone coming onto the board at a later date and saying here's what the compensation package was in 2002 and there's not a significant change in 2003. But if this started to occur in 2001, then there surely should have been a significant

change from 2000 to 2001. And why was the board not querying what those changes were?

Hon. Mr. Van Mulligen: — It may have been the way in which information was reported that alerted the board; I don't know the details of that. But the fact of the matter is it's the board that caught this. It wasn't any auditor or anyone else that caught this. The board caught this and the board then took steps to correct this.

Mr. D'Autremont: — Well the board has the responsibility to catch that.

Hon. Mr. Van Mulligen: — And the board exercised that responsibility.

Mr. D'Autremont: — Yes, and they exercised it later though than they could have or perhaps even should have.

Hon. Mr. Van Mulligen: — Well I think we can get into a discussion about how quickly they should have caught it. I think they did catch it and they took steps to correct that. And I think the board exercised its responsibilities; the board did a good job. This is not the board of Enron or some other corporation that let things slide for many, many, many, many years.

Mr. D'Autremont: — Well they let it . . . You used the word slide. They let it slide for two or three years before they caught it. And we have two auditors that deal with this process and report to the board. We have the internal accounting of the corporation that is supposed to be reporting this, I assume, to their executives and therefore to the board as well.

And so you have three processes here — the internal accounting, the external auditor, and the Provincial Auditor's office — all charged with ensuring that the accounting is done properly, that the reporting is done properly, and this was missed by all of those for a period of time. And there needs, I think needs to be go back into there and find out why.

And I'll get on to the secondary report that Deloitte & Touche did and ask some questions of it. Surely in there the processes need to be tightened up and the president was held responsible for this, but the board also failed in its duty in my opinion in catching this earlier.

Hon. Mr. Van Mulligen: — I think on a go-forward basis, I think it's fair to say that this situation has resulted in greater sensitivities in clarity, and also better processes to ensure that whatever compensation packages are provided to employees — whether it's SaskEnergy or other corporations — that there's clear documentation as to board approval for that. I think that has been put into place, or it's certainly the case in the case of SaskEnergy. I can't speak for the other corporations but my sense is that is also clearly the case there.

I think we have to remember that this was a change in executive compensation that was I think entered into in 2001, but then was caught by the board I believe in about 2003.

Mr. D'Autremont: — I'd like to ask Mr. Watt, your company went in and did a second review later to deal with this particular issue. In your report — and we have a copy of it here, but for

the public that may be listening — the findings that you came up with, what was the reason why this had not received board approval and not been brought forward as a problem prior to 2003 by the board?

Mr. Watt: — I'll do my best to answer your question. I think the overriding issue as I see it, there was a subcommittee of the board called a HR (human resources) compensation committee, and you know this matter just had not been brought forward to that committee. There was just no evidence in anybody's files of any discussion about this particular aspect of the benefit plans.

So there was discussion about virtually every other piece of the compensation package to the point which they made earlier. But this particular aspect, the additional 20 days of vacation as it was construed, was not disclosed to that HR (human resources) compensation committee. And so I think it didn't get its surfacing to the board because this compensation committee was not aware of it.

Okay. And that of course gave rise, as the minister has indicated, to when the board took a look at the total, they were the people that did discover this; there's absolutely no issue there. And they went, this is . . . we've never heard of this before. And of course that gave rise to where did this come from? And that's when we were asked to assist in surfacing that information.

Mr. D'Autremont: — Okay, thank you. The additional 20 days, if the executives had taken an additional 20 days of vacation, would that have had showed up as a monetary difference in their total compensation package including base salaries, any bonuses or other benefits?

Mr. Watt: — I think Mr. Mrazek can answer that as well, but I think the answer is yes. I mean their total package would have been up by that much because it was, as indicated in the report, paid in cash. So the monetary portion of their compensation would have gone up by that amount of money, whatever that worked out to be.

Mr. D'Autremont: — If it was paid in cash. Had they taken the days as vacation days though, had they taken the days off — if you would answer that or perhaps somebody from SaskEnergy could answer — would it have showed up as a monetary value in their total compensation?

Mr. Watt: — I think not but I . . . just get some help there. I don't believe, I don't believe . . . if I could, I don't believe that this program allowed it to be taken in time; it was all to be taken in cash. So you know, I think the practical answer is that it would have shown up as a monetary cost. Just to make sure I've got that correct, Greg.

Mr. Mrazek: — He's correct. Yes, he described it correctly.

Mr. D'Autremont: — So it was designated by the executive as 20 days of vacation days with no intentions of ever taking 20 days of vacation day, but rather a bumping up . . . that those 20 days would simply be paid out, therefore would be additional salary? Is this what is . . . exactly what was happening?

Mr. Mrazek: — I believe the policy's described in this report as that, as what you described it.

Mr. D'Autremont: — So you have an additional 20 days of compensation paid to the executives. On average, so as not to identify any individual, approximately what would one day's salary in this context be worth?

Mr. Mrazek: — I will get that for you, sir. It would be approximately \$500 . . . (inaudible interjection) . . . on average. It would be approximately \$500 on average.

Mr. D'Autremont: — Okay, thank you. And for the \$500 per day, appropriate taxes, etc., etc., UIC (Unemployment Insurance Commission) and CPP (Canada Pension Plan), and all of those things would have applied on that and would have been paid?

Mr. Mrazek: — This particular payment was only subject to income tax.

Mr. D'Autremont: — It was subject to income tax?

Mr. Mrazek: — Yes, that's correct.

Mr. D'Autremont: — Yes, okay. So it was basically taxable money, the same as any other salary?

Mr. Mrazek: — That's correct, yes.

Mr. D'Autremont: — Okay, thank you. Now this is not under the year under review, 2003, but it's resultant from this finding that the board found and the report from Deloitte & Touche. The recovery of those, these monies that had been deemed to have been overpayments because there was no board approval of these compensations, there has been discussion with the employees affected. What has been the result of those discussions?

Hon. Mr. Van Mulligen: — The announcement that was made is that there has been an agreement between the SaskEnergy executives that are affected and the board of directors, an agreement to provide back the benefits received under the vacation accrual program. And under this, each executive member will forfeit approximately 30 holidays over a two-year period, starting this year, as a way of providing back the net benefit received. And that's an average of about 30 days.

Mr. D'Autremont: — So the executives were paid in 2001, 2002. What portion of 2003 would they have received this vacation package for?

Mr. Mrazek: — It would be all of 2003.

Mr. D'Autremont: — All of 2003.

Mr. Mrazek: — That's correct, yes.

Mr. D'Autremont: — So there would be three years worth of time involved in this? Three years?

Mr. Mrazek: — That's correct.

Mr. D'Autremont: — So they received compensation then for 60 days of salary?

Mr. Mrazek: — Yes.

Mr. D'Autremont: — And in turn are returning 30 days worth?

Mr. Mrazek: — It's approximately 30 days. That's correct.

Mr. D'Autremont: — So who suffers the loss then of the pay for the additional 30 days?

Mr. Kelln: — The difference is related to looking at the net benefit that the employee or executive member received. You end up with the taxation portion being the remainder.

Mr. D'Autremont: — Well the ratepayers of SaskEnergy paid 60 days worth of salaries. The ratepayers of SaskEnergy are getting a return of 30 days worth of salary. So it looks to me like the ratepayers of SaskEnergy are absorbing a loss of 30 days worth of salary in this particular case for the returns for something that the board, that the internal auditor and the external auditor, the Provincial Auditor, have deemed to have been inappropriate payments. Why should the ratepayers of SaskEnergy absorb this loss when they receive no benefit for it?

Hon. Mr. Van Mulligen: — I just want to make it clear that it wasn't inappropriate payment. It was a payment that was not authorized by the board. But that's not something that would have been known to the executive members that are with the company now and to whom this agreement has been, or with whom this agreement has been entered into. So I just want to make that very clear, that there's no misunderstanding here about who knew what, because this was a policy that, as far as executive members were aware of, was one that had been approved by the board.

We've reached an agreement — we're satisfied with that agreement — that they will provide, over the course of the next two years that they will forfeit 30 days holidays. And we feel that then begins to . . . that will have repaid the net benefit that each of them will have received.

As to the additional benefit, some will have gone to the Government of Saskatchewan by virtue of the fact that some income taxes go to the Government of Saskatchewan and some will have gone to the Government of Canada.

Mr. D'Autremont: — Certainly the executives themselves, as individuals, were not at fault for . . .

Hon. Mr. Van Mulligen: — Thank you.

Mr. D'Autremont: — . . . having received these payments. Nevertheless, others in society from time to time also receive additional payments to which they were not entitled. Someone on social services receives an overpayment on their social service cheque. They're not asked to repay a portion of that. They're asked to repay the entire amount and any future compensations are reduced until such time as that amount is paid back. There is no benefit given because some of the money was utilized in payments to government.

Clearly the executives, depending on their individual cases, their tax burden may or may not have been as great as would be outlined at those payments initially at the top marginal rate. They may have had some other means by which they reduced those rates and therefore the taxes that they actually paid on those may have been reduced.

So to simply say that they paid this much in taxes to either Canada or to the province of Saskatchewan who benefited from this, that they don't have to pay this back — others in society do not have that benefit. Why do the executives of SaskEnergy receive that?

Hon. Mr. Van Mulligen: — I'm just speculating here, as you are, Mr. D'Autremont, but I rather suspect that anyone who receives social assistance and has been provided an overpayment, I very much doubt whether they would have had any taxation deducted from that.

My sense is that here people were provided a net benefit; they weren't provided a gross benefit. These deductions are made at source and so these individuals would have received a net benefit. And that net benefit is being repaid.

Now it may entirely be possible that there are all kinds of people on social assistance who receive overpayments, were in fact also providing some of that payment to the income tax authorities; but I very much doubt whether that would be the case — that in fact the gross benefit received by people on social assistance, that you talk about, has likely been the net benefit as well.

Mr. D'Autremont: — Well some people who are on social assistance are not on it the whole time and therefore do over the period of a year may indeed be paying taxes on that money — on their total income, not just their social service benefits. But if there's a social service overpayment, they're still expected to repay it. The same on UI (Unemployment Insurance).

If one of SaskEnergy's contractors, your payees, if you overpaid them at some point in time you're not going to say to them, well we understand that you had to declare this as income, therefore you've paid taxes on it; you don't have to pay us back. I'm sure that SaskEnergy expects to receive full repayment in those cases.

Hon. Mr. Van Mulligen: — Well I'm sure that hypothetically anything is possible. But again, a benefit that is provided to someone on social assistance is a benefit. They are provided not with a net amount exclusive of deductions that are made by social services. They receive a cash payment of a certain amount.

In the case of the executives of SaskEnergy they are provided amount that is exclusive of funds that are also then set aside to satisfy the taxing authorities. So that the difference is that in one case a gross benefit is in fact a net benefit; but in this particular case the gross benefit is not the net benefit that is received by these individuals in SaskEnergy.

Mr. D'Autremont: — So in the future when the executives forgo their 30 days worth of vacation pay . . . vacation, how will they be compensated for those days? Are they going to be

working on those 30 days at no compensation?

Hon. Mr. Van Mulligen: — That's my understanding, yes.

Mr. Kelln: — The way the plan has been established, that half would be repaid or it would be repaid in 2004 and 2005 as there already have been some repayment made. And it's really the reduction of the vacation days available for the executive members. In other words they will be working in lieu of those days.

Mr. D'Autremont: — They will be working. Will they be receiving compensation for their work on those days?

Mr. Kelln: — Well again on a compensation basis annually, we are compensated for our work.

Mr. D'Autremont: — And when you take vacation days you are also being compensated, are you not?

Mr. Kelln: — Yes, but it's a reduction of the number vacation days that are available. Therefore if you can look at it in 2005, there will be more days that the executive will be available for being at work.

Mr. D'Autremont: — So the executives received a certain amount of pay which the board had not approved, through no fault of their own, in return for which they will not give up any salary. So their net change in their pockets is nil for 2004-2005.

Mr. Kelln: — That's correct. There will be a reduction in vacation days. That is the agreement that was struck with our board of directors. It was one that was concurred with the Crown Investments Corporation. I think of note too, when it became apparent within the Deloitte & Touche report that there was an issue, the executive members did make that offer that we would certainly be returning the benefit that we received related to that policy.

Mr. D'Autremont: — Have the executives traditionally utilized most of their vacations other than the additional 20 days for which there was no expectations that they would take those as vacation days?

Mr. Kelln: — Different executive members have different amounts of vacation they take. There is a requirement of, before paying out vacation days, that there is three weeks of holidays that have been utilized within the last year. And that has been done by executive members.

Mr. D'Autremont: — So they traditionally utilize a minimum of 15 days worth of vacation as actual holidays?

Mr. Kelln: — That's correct.

Mr. D'Autremont: — And so the rest of whatever they may be receiving would be paid out if they didn't take advantage of the vacation days?

Mr. Kelln: — May, or they may accrue. They can only accrue to a maximum of 18 months worth of vacation days.

Mr. D'Autremont: — And how long can they carry those

additional 18 months forward? Is it indefinite?

Mr. Kelln: — Well it would be a rolling 18 months.

Mr. D'Autremont: — Well it just seems to me that in other areas of society, had an overpayment been made, full restitution of that overpayment would have been expected, including payments from the provincial government or from the federal government or payments made by those entities or the Crown corporations to another payee. And I find it surprising that that kind of restitution was not forthcoming in this particular case.

Hon. Mr. Van Mulligen: — I just might say, Mr. Chair, again, the payment that was received is in fact the payment that is intended to be provided back through the agreement that has been reached whereby people will be forfeiting holidays. That represents the payment that was received.

The Chair: — I recognize Mr. Weekes.

Mr. Weekes: — Thank you, Mr. Chair. Just on the same topic — my colleague, Mr. D'Autremont, has covered it quite thoroughly — but I guess what we have been discussing is inappropriate payments and not . . . and payments not authorized by the board. I just want to highlight some of the examples that it's not so much approval by the board, but it's really stretching personal expense accounts.

And just as an example I'm reading from the Deloitte *SaskEnergy Incorporated Report on Investigation of Certain Executive Compensation Policies and Expense Reimbursement Matters*, July 7, 2004, and it's referring to kilometres reimbursed to Mr. Clark. And it says the corporate vehicle policy allows for both personal and business kilometres to be claimed for a designated vehicle. And in 2003 the average rate of reimbursement was approximately 20 cents per kilometre. It also provides an allowance to lease a vehicle. And it goes on to say that the policy follows CIC guidelines and although the per-kilometre rate is higher than CIC, which is interesting.

And then Mr. Clark claimed reimbursement for 56,481 kilometres in 2003. And also Mr. Clark claimed kilometres driven on his Chevy Blazer four-by-four and his Camry during 2003 even though the policy applies to a single designated vehicle. And Mr. Clark was away from Regina area 155 days in 2003. He would have had to drive an average of 271 kilometres per day that he was in the Regina area to claim 56,481 kilometres for the year.

And the report goes on to say the reimbursement amounts appear high although it is difficult to quantify the excess. To illustrate, an overstatement of 10,000 kilometres would cost SaskEnergy and the ratepayers of SaskEnergy \$2,000.

I guess my question is possibly to the auditor first. It's one thing to be talking about authorization and . . . to the board and those types of issues which were addressed. What was in place at the time and what is in place now? Or what was your guidelines to have a check on the CEO (chief executive officer) in this particular case stretching their expense accounts?

Mr. Watt: — Mr. Chair, let me do my best to answer that question. First of all, the whole matter of expense

reimbursement is something that, you know, one looks at through audit processes but generally tends to be at a fairly high level. But from time to time, you know, people do delve down into, you know, the detail more deeply. Certainly in our audit plan for 2004, you know, these kinds of occurrences prompt you to go, you know, it's time to take another look at the detail.

We would not typically get down to this level of detail when we're looking at a set of financial statements for SaskEnergy. But the risk of opening the concept of materiality, we'd be dealing with a materiality of about \$5 million. So, you know, we're looking at a major corporation with, you know, controls and processes so our audit would not normally get down to this level. But obviously in this case we were asked to go, you know, take a look.

And we did, and of course there were some anomalies that didn't meet the common sense test of, you know, does that seem reasonable. So again I think we use careful words here, because I don't know exactly how many words, or how many miles or kilometres were driven on any given day without mileage logs and without sort of seeing vehicles. So I think again it was just an observation that there seemed to be some excess in there, and I'm pretty sure the corporation would be looking at tightening its procedures around, you know, reporting these kilometres and other issues.

Now the other comment that I would make is that, you know, the opening comments in our report really centred this on one particular individual. When we went through the rest of the executive, while there were a couple of matters for follow-up, they would all fall into a sort of fairly normal pattern of reasonable kilometre usage. So there's one particular individual that was out of line.

Mr. Weekes: — What was the policy that was in place in SaskEnergy concerning in particular the CEO? Considering the position that that person holds, who signs . . . is there anybody signs off on their expense sheet basically? I mean, are they . . . they're the only one that signs off on that . . .

Mr. Watt: — Well you raise a good issue. The expense accounts for the CEO have traditionally been, over the last few years for sure, been approved by the Chair of the audit and finance committee, but I don't believe that this particular aspect of expense reimbursement was approved. But I could ask Mr. Mrazek to clarify on that score, but the actual expense accounts for travel and such items were always approved by a board representative, okay. But I don't believe this aspect was, but I would need some help from my colleague.

Mr. Mrazek: — You've described it correctly, yes.

Mr. Weekes: — So there would be someone on the board that would sign off on the expense sheets, that's what you're saying.

Mr. Watt: — On the expense sheets, but not on this aspect. This was an internal process, and as I say, for all of the executive except one that process was by and large followed and would not have been . . . otherwise we'd have had some reporting in here on that particular issue. So this is the only one that sort of stuck out as an anomaly or raised some questions, because as we pointed out in our report, 271 kilometres a day,

you know, that's a lot of kilometres so just didn't seem reasonable.

Mr. Weekes: — Okay.

Mr. Watt: — But I don't believe there's any board sign-off on that, nor would I think that that would be something that would necessarily go to a board because that would be fairly internal administrative. The policy of reimbursement, you can get into that question. That was, you know, following CIC guidelines. For better or for worse, those were the guidelines that were out there and they were being followed.

Mr. Weekes: — In your experience doing audits both in the public sector but also in private companies, what is the general practice? Would this be a common practice that the CEO and top executives would have their expenses signed off by one member and not have board approval, or what other types of approval is there out there in the business world?

Mr. Watt: — My recommendation at all times — and you raise a good issue here — is certainly the board must sign off on the CEO's travel and other out-of-pocket expenditures because that's just good practice. So, I mean, the answer to your question is good practice. And that's been followed for the most part, you know, rigorously by the SaskEnergy executive because the CEO's reports were in fact signed off by the Chair of the audit and finance committee.

Mr. Weekes: — Well just as another example — we've spoken about the vacation pay — but as an example in 2002, again Mr. Clark's calendar of vacations taken it also . . . besides the vacation taken, it was 19 days on sick leave. There's a stretch from 2000 . . . January 2 and 3, there were no business appointments. The calendar in 2001 indicates Ron away until Friday, so on and so forth. And it goes on also to say that Mr. Clark left Regina for Vancouver on the afternoon of December 18, 2002 with a business meeting scheduled for Friday, January 3, 2003; returned to Regina on Saturday, January 4, 2003. And in the intervening time he charged expenditures to the corporate Visa account marked as personal which would appear to indicate he was on personal time. But I believe, you know, I mean it's very uncertain whether he was on holiday during that time or he was . . . I mean it was over Christmas and New Year's . . .

Mr. Watt: — Correct.

Mr. Weekes: — . . . so that's just another example. I mean I think you explained it fully, but it certainly leaves it up in the air for some suspicion about what was going on there.

I guess the other topic I want to get to is, at the end of the day Mr. Clark said he received verbal approval for various things from the board Chair and then the board Chair did not agree with that and there's nothing written down. There's more than one occasion that that was stated. Again, I guess from your experience in, both in the public and private companies that you do audits, is that common to have that take place — that there wouldn't be written approval for those types of expenditures, or . . .

Mr. Watt: — I think in the public sector in particular it would

be normal course to have had appropriate board approvals, which was what was missing here. Certainly to have a compensation package changed by the 20 vacation days would have normally gone up through a HR compensation committee which, as I indicated earlier, was clearly . . . There was no record whatsoever, you know, of any deliberations on that. That would have been, in our view, the normal course that that would have taken, and it would have then gone to the board for presumably overall approval. But it certainly would have, you know, gone through the HR compensation committee. Without a doubt, in my view, that would be normal procedure, and I believe the company agrees with that, so . . .

Mr. Weekes: — I guess what I'm getting at is that different personalities, different CEOs in public and private companies here, there also is the different personalities on boards. But as we've seen in some private companies, there's real horror stories.

There seems to be a culture developed, and there's new board members coming in and they're kind of rookies on the board. Would you agree that possibly there's a culture that had grown in SaskEnergy that would allow, you know, the CEO to feel that it was acceptable just to get a verbal agreement and even though that the board Chair didn't agree with it or didn't . . . said that they didn't give the approval, but would that be a . . . would that something that you would agree that happened in SaskEnergy, that that culture had developed to a point where approval wasn't being given in a normal, formal way?

Mr. Watt: — That's a very difficult question only because, you know, I don't live the culture at SaskEnergy, but I obviously observe it in the context of doing an audit and conducting our professional obligations to you as legislators and to the broader public.

I think this was really counterculture to our experience at SaskEnergy. Our experience at SaskEnergy over the last decade has been that this has been a corporation that has had, you know, a high degree of integrity, has been careful in its deliberations and careful in the way in which it constructs its policies.

And so my observation to you would be that this was extraordinary and out of context. This was a major surprise to ourselves and that, you know — I can ask my colleague from the Provincial Auditor's office who's also been on this file for a long time — this would be very different than our normal experience at SaskEnergy. Our normal experience is that corporation with the highest integrity and a great respect for its board, and a very strong board, I might add, that works very hard at its obligations. And so the surprise that this brought was surprise to them, as has been indicated by the minister, and certainly a surprise from ourselves in the external role. So it was very, very different than our normal experience at SaskEnergy.

Mr. Weekes: — Just to go back just briefly to the expense accounts I referred to earlier. I was speaking to an official in a publicly traded company. Their experience is that that company that they work for, is that when they issue an expense statement it has to be . . . it's gone through item by item by someone. It's not just approving the balance at the bottom. They have to

justify every phone call, every travel expense, every meal. And they go to great lengths, quite time consuming, to justify that but it certainly keeps everything in order and everyone knows where they stand. And I assume that was not being done in this case or is not generally done in SaskEnergy, that detail of approval of expenses.

Mr. Watt: — A couple of comments to hopefully be helpful. As I'd indicated earlier, all of the expense accounts, in this case of CEO, certainly of all of the executive had approvals. We're certainly not aware of any.

Our general observation and I believe — and I could ask Mike to help me out here in a moment — but I believe the Provincial Auditor's subsequent work as well also found that while there was the odd sort of missing chit here or there, these were not unsupported expense accounts, okay. So these were, you know, expense accounts that had the level of detail that you would I think expect to see there.

Now one can then get into the issue of, you know, were the expenditures appropriate or were they excessive or, you know, were they of appropriate value. Those are judgments that are very difficult to make. CEOs have obligations that make, you know, have travel and entertainment and other obligations. So, you know, I try not to be the judge as the auditor of that particular aspect. I leave that to, in this case, the Chair of the audit and finance committee who would have approved them.

I'm sure on occasion, you know, going, you know, I'm not sure of where that is and then presumably approaching the CEO and going through exactly what you're describing which would be a, you know, justification for that particular expenditure. But I think that's the role of the board in that case to be satisfied as to the appropriateness of the expenditure.

But certainly I can tell you from a backup point of view, this was not a case of sort of totally missing documentation which is often, you know, what I think you're referring to, the case where there is just no support for it. That's not the case at all here. And again Mr. Mrazek, I think, you know, through his office, certainly checked the accuracy of the build-up.

The other comment I had made, which I think management can do a better job than I can. I mean the corporation is obviously overhauling any procedures to make sure that they are as tight as they can be. But I mean as a general rule the support for those expenditures was there.

Mr. Weekes: — Well if I could just put that to the minister or your officials. What are the changes being implemented to tighten up the approval of expenses in those types of areas that we've been talking about?

Mr. Kelln: — What has been done is very much taking learnings from the Deloitte & Touche report. All executive compensation policies have been reviewed. And in some cases, such as the vehicle policy, has been modified and been approved by the board by the December time frame.

So an example of the expenses of the president and CEO, monthly they are accumulated by trip. And I'm submitting them to both, first to finance for the again checking through the math

of it, and then to the audit and finance committee Chair, who then sits down with myself and approves them.

Mr. Weekes: — Thank you. That's all at this time.

Mr. Toth: — Yes, thank you, Mr. Chair. Just a quick follow-up in regards to these comments. And first of all to the auditor. In view of the observations that Mr. Weekes has been recently talking about, has your office been given any directions as to how you proceed down the road if there is an area of question that you may be seeing — say, regarding claim forms — that you think that may not be totally not . . . I'm using the word above-board, but that may not necessarily true, but that you would question that the claim may exceed what would be the normal practice?

In conducting audits now as you've moved forward, what directions, if any, have you been given as to how you would address this? Would you then if you've got some concerns, bring it to the board or bring it to management? What process do you follow?

Mr. Watt: — Thank you. And through the Chair, let me respond to that. First of all, events like this cause everybody to stand back and review their own work procedure. So certainly, as I'd indicated in a reply to an earlier question, we're working with the Office of the Provincial Auditor to make sure that there is no ambiguity between our offices and look forward to that aspect of it.

As it relates to the 2004 audit, we met with the audit and finance committee — which would be the normal course — in the fall of 2004 and as part of our audit planning process raised a couple of issues. First of all, we said as a result of the findings of our July report, clearly when we go in to do a 2004 audit, we will want to expand our procedures as it relates to the sensitivities that were found inside those reports and to certainly have a more detailed look at some areas where we might not have spent time before. So that was, you know, something we brought forward.

I think it's fair to say at the same time that the audit and finance committee said, you know, we want you to take a hard look at certain of these areas. And I believe, on a go-forward basis, for example, they're going to be asking us to look at the CEO expenditures on an annual basis so that we're all collectively on top of that particular topic.

So I think there's a very proactive forward-looking response to this area and one that hopefully will, you know, yield sort of positive go-forward auditing and interaction with the board. So the interaction with the board is very strong. The audit and finance committee was, you know, very strong with us to make sure that we had a go-forward plan that was satisfactory to them. Okay?

Mr. Toth: — Thank you. Question to the minister. When your government became aware of some of the concerns being raised, Mr. Minister; and in particular, comments like Mr. Clark made about verbal agreements and I think, as my colleague has already mentioned, there didn't seem to be any, if you will, paper trail or written agreements, what was the sense that you and your colleagues had as to how we address this?

And was there any clear direction given to the corporation, if you will, that we need to clarify how we monitor expense forms and ensure that we have clear guidelines in place, so that we don't have the disagreements as, well I said this and I understood that this is what I was allowed to do or the process that I would follow? And what process did your government then take to speak to the board and speak to management as to clarifying this issue?

Hon. Mr. Van Mulligen: — I don't think that either SaskEnergy management or SaskEnergy board needed any direction from the government to say that, look, issues have been identified, therefore you should do what you can to tighten up, you know, compensation policies including those for travel and make sure that not only are those, you know, policies clear and understandable but are also overtly authorized by the board and for all to understand and then to implement.

There may well have been discussions on the part of CIC to ensure that was taking place, but I don't believe that SaskEnergy management or the board really needed any direction from myself or from the government, but again, you know, I'm going from memory. But my guess is that CIC management would have had discussions with both SaskEnergy management and the SaskEnergy board to see that was taking place, but I'm just guessing at that.

Mr. Toth: — Well I guess it would be of concern to government, because positions of leadership over the years have been appointed positions. And certainly while your government appoints, you still have individuals in place, like your management team, your board of directors, to . . . because I don't necessarily believe that ministers and government per se can always be on top of situations.

You entrust people to, when you put them in places of leadership, to indeed ensure that, number one, you have set guidelines, because what takes places in a corporation whether it's SaskEnergy, SaskPower, whatever, still impacts government down the road. The buck stops with government and the process.

And so I guess that's the reason I ask the question, Mr. Minister. Is the process that you would ensure followed to ensure that when concerns are raised — because as those concerns come to the public they fall at your foot, at your doorstep — and then from there, how they're addressed and how they're corrected would be . . . It would seem to me government would want to ensure that management and the board are indeed following a due process that, if you will, government has laid out in regards to proper and adequate maintenance of forms and guidelines in order that they're followed appropriately.

Hon. Mr. Van Mulligen: — Well I'm satisfied, based on reports from, you know, SaskEnergy management that the proper policies are in place, have received the board approval, and that on a go-forward basis, that we have the right processes in place.

Having said that, you know, when you're talking about people who are making, you know, or have out-of-pocket expenses, there's always some element of trust when it comes to

reporting, whether it's at SaskEnergy or whether, for that matter, it's members of the Legislative Assembly. When Mr. Weekes, as an example, drives back to Biggar today and he claims mileage for that trip, we don't have people in the Legislative Assembly that stand over him to check his odometer going out and check his odometer when he arrives in Biggar and to ensure that the exact miles are in fact . . . or correspond to the miles that are being claimed for. There's some element of trust there.

We don't . . . We provide per diems, as an example, to members of the Legislative Assembly, and I'm talking more about members of the Legislative Assembly because I'm more familiar with how this works. But, you know, we provide per diems to compensate members of the Legislative Assembly, as an example, for meal expenses that they may have had out of pocket, you know. We don't ask for a claim for, or ask them to submit documentation for every meal to back up those per diem expenses.

But again, I think the procedures that are there at SaskEnergy has been reported to me are acceptable.

Mr. Toth: — Well and I guess, Mr. Minister, one of the issues when it comes to issues of this nature, while it may be in the Crown sector, this has been brought to the attention, the really . . . The public in general look at all public figures, which includes elected members. And so I think it's imperative, and that's why I ask the question about the direction that there is a process that is . . . duly move forward as Mr. Kelln I believe has indicated. SaskEnergy is certainly moving in that direction.

And you're right; you're not going to be questioning 10 kilometres here or 12 kilometres there. But something that, when the public comes asking, or the media, you can indicate here's a process and this is the process that was followed. And it's quite obvious that in the past there were some situations where they may not have been as clear or may not been followed as clearly as they were outlined. To use, this was my verbal understanding, I don't know if that can be sold. And that's . . . I'd have a hard time. I know people would question, well that would seem to me that we'd want a clear understanding that you understood what the rules were, and we've faced that in the past.

So I think it's just not, it's not a matter of just the Crowns. It's a matter of all public officials, and being sure that the process is in place so that when the auditors are doing their due diligence they know these are the guidelines, and it appears that the guidelines have indeed been followed. And where we indicated that there was some questions we had, that the corporation has responded and government itself has basically . . . that you can show that we are giving leadership in this area as well. And that's the point I think I'm trying to bring forward.

The Chair: — Members, I just had a question then before I recognize Mr. D'Autremont. In my experience, I've reported to CEOs, and I've had CEOs report to me as a board Chair. And even if a CEO obtains verbal approval from a board Chair, even if that were the case, that's not a defence in the sense that there's certain procedures and policies, procedures that you must follow as a CEO that, as a CEO, you ought to know before the board Chair should know.

So I'm not sure who I'm asking this question, or if I'm making an observation. And, you know, jump in and clarify if I'm incorrect. But even if the CEO did obtain board . . . or approval by a board Chair, that wouldn't be good enough. That wouldn't be the proper procedures. Is that your understanding, Mr. Minister, or the auditor?

Hon. Mr. Van Mulligen: — Our sense is that approval by a board is . . . or that policies need approval by a board rather than simply a verbal okay by any one individual on that board — if we're talking about policies. It may be a matter of interpretation of something that, you know, one might seek the advice of someone on the board such as the Chair, but when it comes to policies, that these are matters that ought to be put forward before a board, discussed by that board, and minuted as a decision of the board.

The Chair: — Okay, thank you. Mr. D'Autremont.

Mr. D'Autremont: — Thank you. I'd like to follow up what Mr. Addley was saying. It's my experience as well that in unusual circumstances where an executive would approach the board or the chairman of the board on a particular issue and the chairman might give approval for some item to happen, that approval was then later ratified at the next board meeting so that it did become part of the board policy. And clearly this was not the case here, and there was . . . and as has been pointed out in the report, the failures were there and hopefully will now be dealt with.

My question, though, on this topic is the choice of Deloitte & Touche as the auditor for the second report, for the review of this process, because Deloitte & Touche were the auditors of record for SaskEnergy and had the potential for a conflict of interest, that they may have been not doing their reporting properly, and that was not determined until after the report was done. Why did the board of SaskEnergy and you as the minister approve Deloitte & Touche rather than having another accounting firm come in to do that second report or have the Provincial Auditor do that report rather than Deloitte & Touche, who were intimately involved in preparing the previous years reports where this was not included?

Hon. Mr. Van Mulligen: — I might say that I don't approve the board's, you know, decisions. The board is independent and makes its own decisions, but . . . And I don't have privy to all of the discussions the board had about why they settled on Deloitte Touche but my sense would be that because Deloitte Touche has provided excellent accounting services to the board over the years and felt that given their knowledge of SaskEnergy, that they would be the appropriate organization to turn to when reviewing their policies.

Mr. D'Autremont: — Did the board give any consideration to the possibility that there was a conflict of interest there?

Hon. Mr. Van Mulligen: — I'm not sure that there would be any conflict of interest in this case. The board was asking Deloitte Touche to delve into areas that in the normal course of events, that I think as Mr. Watt was explaining, would not be delving into. But given their familiarity with SaskEnergy, the people involved, the processes, they felt that Deloitte Touche was the appropriate group to do this.

Mr. D'Autremont: — However, at the initial onset of the request, once the board made the determination that there was . . . something inappropriate could be happening here, they at that time would not have known whether Deloitte & Touche had knowledge of this and hadn't reported it or, you know, any possible conflict of interest that may have arisen from the circumstances under which this issue has arisen. In hindsight it's . . . the auditors were not there to . . . were not delving deep enough to have found that. However, that wasn't known when the board asked Deloitte & Touche to do the review. So I just wonder if the board had given any consideration to the potential that there was a conflict of interest there.

Hon. Mr. Van Mulligen: — I'm not entirely clear on that. I'm speculating here. But again, Deloitte Touche has provided valuable and excellent service to the board of SaskEnergy and to the government, I might say. And as a board they would turn to the auditor who they see as an independent third party when they have questions about detailed operations within SaskEnergy, to then turn to Deloitte Touche to assist them in that task.

The Chair: — Thank you, members. It's getting very close to our scheduled break time and I think before we begin a new line of questioning we'll take a lunch break at this point if that's agreed by the committee. Agreed?

Some Hon. Members: — Agreed.

The Chair: — Thank you. We'll reconvene at 1:00 pm. Thank you.

The committee recessed for a period of time.

The Chair: — Thank you, members. We will reconvene the Crown and Central Agencies Committee meeting. Just a couple of points. First is just to remind witnesses when they come forward, if it's the first time that they've been to the microphone, if they could restate their name. Secondly I think with the acoustics in here, there have been some expression that if we speak quietly the people across the table cannot hear. So usually I don't have to ask people to be a little louder, but today I am.

We'll throw the floor back open to question and answers. And are there any further questions for the . . . No further questions? Oh, I recognize Mr. D'Autremont.

Mr. D'Autremont: — Ah yes, a typical chairman — blind and deaf in one side.

Thank you, Mr. Chairman. Mr. Minister, officials, a few more questions dealing with the executive compensation package. The board had clearly, you're stating, had found the fact that there were some problems there and brought that forward. The representative from Deloitte & Touche, Mr. Watt, is saying that under normal circumstances financial transactions of this level would not normally be scrutinized by his audit. I'm just wondering from the board, what triggered them that this was a problem?

Hon. Mr. Van Mulligen: — I think when there are changes in compensation, as I understand it, Crown executives have to file

— with I'm not sure whom — details of compensation that they're provided, and I think it was one of those reports that triggered interest and then concern on the part of the board.

Mr. D'Autremont: — So would this possibly have been the request that came from, I believe, Public Accounts or perhaps this committee — I wasn't on it at the time — that was asking for executive compensation levels?

Hon. Mr. Van Mulligen: — It may have been that. But notwithstanding that, the chief or the presidents, or chief executive officers of Crowns are in any event asked to make a submission, I believe, of executive compensation that's to be filed with maybe the Legislative Assembly. I'm not entirely sure, so I'm not clear which one it was. But I think it was the level of compensation that triggered the concern on the part of one or two of the board members.

Mr. D'Autremont: — Perhaps Mr. Watt, in his investigation and report, would have more detail on that. Do you know what exactly it was that triggered the board to recognize that there was a problem here?

Mr. Watt: — My understanding, Mr. D'Autremont, was that the board Chair and Vice-Chair, to my recollection — I was just trying to look at my notes — were looking at, which would be normal good board practice, looking at the proposed pay disclosure as it related to executive compensation that would then be filed in 2004 with the Legislative Assembly and whatever body gets that information. So I believe it was a review of that information that triggered the . . . what is this aspect of the inquiry. Okay.

Mr. D'Autremont: — Either for the minister or Mr. Watt. When during the year was this discrepancy discovered?

Mr. Watt: — I think I could . . . Go ahead.

Hon. Mr. Van Mulligen: — I'm not entirely clear on that. My guess, it would have been . . . I think it would have been the 2003 compensation levels. Now at what point those were put together in 2004, I'm not really clear.

Mr. Watt: — I can help you there. It was, I go back to my notes, but it was late May of 2004 is my recollection because we were called shortly after that when, you know, it was found. So it was late May and then we moved into early June when we were then engaged to do this piece of work.

Mr. D'Autremont: — Okay. Thank you. Mr. Clark was removed from the board late December in 2003. Would this or would it not have had any relationship to the executive compensation packages or was there some other reason for that?

Hon. Mr. Van Mulligen: — How is this again? I'm not . . .

Mr. D'Autremont: — On December 19, 2003, Mr. Clark was removed as a member of the board of SaskEnergy.

Hon. Mr. Van Mulligen: — I think that was a different issue altogether. I think all the presidents were removed from Crown boards at that time as a matter of government policy.

Mr. D'Autremont: — Okay. Thank you.

Hon. Mr. Van Mulligen: — So it was unrelated.

Mr. D'Autremont: — Unrelated. Okay. The review of the 2003 compensation package which occurred in May of 2004, was that in relationship to what was actually paid in two thousand and . . . Was that a review of what was being paid or was it a review of what was paid for the purpose of looking at future increases or future changes?

Hon. Mr. Van Mulligen: — It would have been the compensation provided to employees for the year 2003, the calendar year, which is also the Crown fiscal year.

Mr. D'Autremont: — I'm wondering at the purpose of the review though. Was it being reviewed simply to look back in 2003 and say here is what we had paid our executives, so that the board had a knowledge of what was being paid? Or was it being reviewed saying this is what we paid our executives for 2003, and use that as a basis for any adjustments for the future?

Hon. Mr. Van Mulligen: — No, I think if Mr. Watt is correct, this would have been a review by the board of information that, with respect to pay disclosures, that was to be filed by SaskEnergy to meet the requirements of this particular committee, pursuant to a direction that I think I was involved in too, probably in 2002.

Mr. D'Autremont: — The decision being made in 2002 to ask for the executive compensation disclosures?

Hon. Mr. Van Mulligen: — I believe it was, yes. Yes, you'd have to search the *Hansard* but I believe it was in probably 2002 or . . . (inaudible interjection) . . . Yes, but I, you know you've got me on the exact date but it's somewhere in there, yes.

Mr. D'Autremont: — Yes, I wasn't on the committee at that point in time, so. But obviously you were the Chairman at the time and when that occurred, so that review would not have taken place in 2002. But if the decision was made by Crown Corporations Committee in 2002 to ask for this review, would that then have occurred . . . because that would have happened during the calendar year 2002, would that have necessitated a review for the year 2002 or only for the year 2003 after the commencement of the new fiscal year?

Hon. Mr. Van Mulligen: — Now again, like without having my calendar here, I think somewhere 2002 — it might have been early 2003; I don't believe it would have been later in 2003 but I stand to be corrected — the committee took the position that there should be payee disclosure for the employees of Crown corporations similar to the disclosure that we had for members of Executive Council. And the payee disclosure that was reviewed by the board would have been pursuant to that direction from this committee.

Mr. D'Autremont: — So this would have been discovered then during the first review that took place dealing with executive compensations?

Hon. Mr. Van Mulligen: — I would think so, yes.

Mr. D'Autremont: — Okay, thank you. Okay, I'd like to move on to a different subject unless somebody else has questions related to this.

The Chair: — Are there any other comments on this? Mr. Yates.

Mr. Yates: — Yes, I have one clarification. This policy was approved to move forward in June of 2003?

Hon. Mr. Van Mulligen: — June of?

Mr. Yates: — 2003?

A Member: — Okay.

Mr. Yates: — Okay, so then it would only apply from that point forward.

The Chair: — Any other comments on this matter, or should we prepare to move on? Mr. D'Autremont.

Mr. D'Autremont: — Thank you very much. I'd like to move on to the ATCO, the possible ATCO deal that was being discussed during 2003. And I'd just like to ask the corporation what was occurring in 2003 involving SaskEnergy's negotiations with ATCO for utilization of some of SaskEnergy's or SaskEnergy's subsidiaries' facilities.

Mr. Kelln: — Maybe I'd start off with an overall comment that . . . and then turn it over to Mr. Reeve to give you a little more TransGas detail related to. Very much we were working with a number of parties on moving additional gas through the pipeline system we have in Saskatchewan and with the vested interest of increasing the enterprise value or the revenues associated with that. And that was really the focus of the management of SaskEnergy, TransGas.

Mr. D'Autremont: — Okay, thank you. And what was happening with that discussion? What was the technical aspects of it and what did that involve?

Mr. Reeve: — Good afternoon, I'm Dean Reeve. Well as Doug had mentioned, we have a number of interconnections with pipelines into Alberta today. About 11 interconnections that we connect with various pipeline companies and administrative companies into Alberta. I don't think there's any doubt that there's been a lot of interest amongst some of those companies in how do we do some more business with TransGas in moving gas through the province of Saskatchewan.

TransGas has had the very good fortune to be very strategically located in terms of interconnection with other pipelines moving east and south. We've really developed a nice competitive rate structure and so there's always been a lot of interest in moving gas across those interconnections. So whether it's ATCO or TransCanada Pipelines or AltaGas or some of those other companies that we are connected with today, we have continued to try to pursue options where we might move more gas through our transmission system.

And the work that you're speaking about with ATCO is really an extension of some work that we've already done with ATCO

at an interconnection that's near Lloydminster, Saskatchewan. That interconnection . . . Prior to 2002 we really did not move any gas through into our system on that interconnection. And so with some business arrangements with ATCO we actually have increased the flow across that system by about nine petajoules. That doesn't mean a lot to most people I guess in the industry, but in revenue terms that equates to about \$1.2 million a year of revenue for TransGas. And that's the one interconnect that we have with ATCO.

And the work that you speak about was really to try to explore other options to move more gas from the ATCO system onto the TransGas system. And so there was a number of possible opportunities to do that and that was really the extent of the work that management was doing around trying to find some business relationship with ATCO to move more gas onto our system.

Mr. D'Autremont: — Okay, thank you. In what . . . You were talking of moving more gas through our system with ATCO. In what kind of an arrangement was SaskEnergy involved in . . . Normally TransGas is a transportation company?

Mr. Reeve: — And that is the . . . sorry, for clarification, that is the subsidiary that was dealing with ATCO; it was the TransGas transmission company. SaskEnergy really did not have any assets related to that kind of an endeavour; that is the transmission subsidiary company of TransGas.

So the business relationship went from the point of view of saying are there contractual ways that we can do it together with our customers? Are there potential joint investment opportunities that might exist to increase capacity? And that was kind of the nature of the discussions. It was looking at how do we increase the potential for gas to flow from the ATCO system to the TransGas system.

Mr. D'Autremont: — Okay, thank you. TransGas, being the transmission system, normally charges its customers a rate to transfer gas that they have purchased — let's say, in Alberta or British Columbia or wherever the gas may come from — through Saskatchewan. And that may be to gas owned by SaskEnergy in Alberta being sold to SaskEnergy in Saskatchewan for retail, and TransGas would charge a transportation fee in there.

So you were looking at ATCO or any of the other companies that you had mentioned to do that. But then . . . So that would be a normal transaction for TransGas to charge a transportation fee for the utilization of those facilities to transport that gas. But are you saying that you were looking at other avenues, as well as simply charging a contracted fee for the transportation of that gas?

Mr. Reeve: — Well there was a number of different possibilities there. It still involved some kind of fee to move gas, but it would be a relationship between ATCO and TransGas and the customers about how that would actually happen.

In the end, it was going to have to be customers that anchored any kind of the desire to flow gas across any kind of a new interconnect. And customer arrangements could vary from all

kinds of different contractual arrangements, but they all involved essentially some kind of transportation toll to move gas through ATCO and through the TransGas system.

Mr. D'Autremont: — So when you say through ATCO and through the TransGas system, both the seller and the customer of gas, who may or may not be the same entity, would make an arrangement with ATCO to move through ATCO's system in their jurisdiction and through TransGas in Saskatchewan or in through TransGas's facility or a combination of both at the same time?

Mr. Reeve: — That's correct. They could . . . Typically, what you'll see when buyers and sellers come together is that the buyer likes to hold the transportation to get it to a trading point. In our case, we call that the TransGas energy pool, where it's a notional trading pool where buyers and sellers exchange gas. Typically, the producer wants to take his gas to that point, and then the buyer of the gas takes and has the transportation from the point.

Mr. D'Autremont: — In your discussions with ATCO, though, you were looking at pooling those resources so that the customer, the seller and the customer would deal with one entity rather than dealing two separate entities, where they would move the gas from its actual production site to the notional trading point with one and then from the notional trading point to the retail end with another transportation company?

Mr. Reeve: — That was a possibility. It wasn't the only possibility.

Today the way the gas moves is essentially there's an exchange where a producer takes his gas on to the ATCO system. It gets exchanged over on to the TransGas system and then the actual buyer of the gas comes to the energy pool and takes that gas away. So the buyer may only deal with TransGas in terms of transportation, but they've made a deal with an Alberta-based producer to buy the gas.

Mr. D'Autremont: — And the Alberta-based producer would deal, if they were on the ATCO system, deal with ATCO to transport it to that notional trading point.

Mr. Reeve: — That's correct. That's correct.

Mr. D'Autremont: — And what you were dealing with, with the discussions with ATCO, was in combining those two so that the customer or the seller, the producer, would only deal with one entity rather than dealing with two entities. Was that part of the discussion?

Mr. Reeve: — That was one of the options that was a possibility from a commercial perspective that said, you know, could we do things contractually; that said if somebody only wanted to deal with one of the parties, we could make it all look like that from behind the scenes, still doing the paperwork. But they'd still only have to deal with one entity to get their business done. But it was really around the commercial paper and how it would work in behind the scenes.

Mr. D'Autremont: — Was there any discussions of it being

more than a paper contractual service where you would be utilizing each other's hard resources — the pipelines, the compressor stations, and those kind of facilities — jointly?

Mr. Reeve: — We've had lots of different kinds of conversations with ATCO and others about joint use of each other's system, potentially contracting on each other's system to have capacity. So yes, that was an option as well.

Mr. D'Autremont: — And how far along the line did those discussions go?

Mr. Reeve: — Well I mean, you know, we went far enough along the line to really start to potentially test this with some customers. And what became clear is that although some of the possibilities and projects looked good, there weren't enough customers particularly to stand up and anchor capacity or anchor new arrangements across some of those interconnects. And really, then what happened was without the necessary customers, it's pretty hard to go ahead and do a project.

Mr. D'Autremont: — Would a project have involved the need for further investment in hardware, in transmission, in compressors or were the facilities already in place to have provided that?

Mr. Reeve: — I mean, what we're doing today, the facilities were essentially already in place. Some of the things that we've talked about at the Lloydminster interconnect, a lot of those facilities were already in place. This was just utilization of those facilities.

If there was going to be further expansion of facilities, then clearly that could have involved some additional investment from them or us or some combination thereof.

Mr. D'Autremont: — In the discussions with ATCO as a possible arrangement to share facilities, how were the revenues for those kind of contracts going to break down? How was that going to work? Who was going to make the management decisions? Was there going to be another entity formed in the form of a corporation that would provide that or what were the mechanics going to be?

Mr. Reeve: — Well again, those were all kind of ranges of possibilities. You know, the range that exists today is that we both do our own business. We do things contractually with our customers. We offer essentially coordinated services.

If it was going to evolve potentially to joint investment, then that could very well have necessitated a new entity jointly owned. With those new facilities, that was a possibility. So it was a real range of what the potential might be. Or there was . . . I think even if you take the middle ground of that scenario, there certainly could have been a scenario where somebody like an ATCO could have invested in their own facilities, we invested in our own facilities to create the incremental capacity to flow additional gas.

Mr. D'Autremont: — And how about the revenue breakdown from such arrangements? How would that . . . What was being viewed there as a potential?

Mr. Reeve: — Well it's pretty traditional in terms of how pipeline companies and somebody like a TransGas earns their revenue. Essentially, the revenue splits get based on who invests what amount of capital. And so it would all be driven off of who invested the capital is really the entity that gets to get their return and revenue on those assets.

Mr. D'Autremont: — So had you come to some sort of an arrangement with ATCO and there was a need for new facilities, were you looking at . . . if a facility needed was in Alberta, ATCO would do that investment? If the facility was needed in Saskatchewan that SaskEnergy, TransGas would do that investment? Or if you needed investment in Saskatchewan, was there a possibility for ATCO to do that investment? Let's say you've got a TransGas line coming in, you need a new compressor station to boost the pressure to keep pushing things on, was there the possibility that ATCO would provide that compressor station and all the ancillary facilities that would go along with that and push the gas further on TransGas lines?. Was there those kinds of abilities as well?

Mr. Reeve: — I think with ATCO and with other companies that had similar kinds of interconnecting pipelines with ourselves, there's really a possibility of two things that can happen there. One is, as you've mentioned, each company with its own facilities invests in its own facilities. So let's take if it was an ATCO or an AltaGas on the Alberta side of the border, they would invest in their facilities on their transmission system; and TransGas would invest in their facilities on the Saskatchewan side of the border. Now if there were assets that were required incrementally to move more gas that linked the two systems together, I think that's where the possibility for co-investment really lies is if there are incremental facilities that are required to link the two systems together.

Mr. D'Autremont: — I'm not totally familiar with TransGas's system, but I know that often as you're moving gas — and we're obviously not talking about specifically moving gas into Saskatchewan for customers, we're talking larger consumers than that in the main, probably moving further east or south — quite often you get into a situation where you'll have a bottleneck in your system where you have a demand . . . you have a supply at one end, a demand at the other, and don't have the capacity to move it through and you end up doing looping on the systems. Was part of the discussion or part of the possibilities with ATCO that ATCO could, with TransGas, provide a looping system in Saskatchewan to aid in the flow of gas from the producer to the consumer?

Mr. Reeve: — Well I think when you look at the interconnecting facilities, I think you've got it bang on from a physical perspective of what has to happen in terms of incremental facilities. You know, the fact of who would own it I think was still up in the air around whether it was ATCO or anybody else about who to own those facilities. Traditionally when we have done those types of facilities in our company, it's owned by a federally regulated pipeline company called Many Islands Pipelines. So you know, I think it was completely up in the air as to if there was going to be incremental capacity provided, how it was actually going to be done. I mean there were a number of options, as I said, that were available.

Mr. D'Autremont: — Many Islands Pipelines, though, is a

wholly owned subsidiary of SaskEnergy.

Mr. Reeve: — Exactly. Yes, it is.

Mr. D'Autremont: — But a new entity that may have come into place, combining with ATCO to do that delivery, could have been a partnership both between SaskEnergy, TransGas, Many Islands Pipeline on one hand, and ATCO or TransAlta or whatever the other company was that you mentioned.

Mr. Reeve: — Certainly could, certainly could be a model that could be used. Absolutely.

Mr. D'Autremont: — So in other words, within the TransGas current system of transportation across . . . because obviously we have private companies that are delivering gas across Saskatchewan. And TransCanada Pipelines is the largest probably that goes across Saskatchewan; Alliance Pipeline has a large pipeline as well. I think there's one or two other ones as well. But in joint effort with TransGas, utilizing in part TransGas's facilities, in part possibly new facilities, ATCO would have had in some of this, the potential for an equity position? Is that . . . would that be correct?

Mr. Reeve: — In new investment?

Mr. D'Autremont: — Yes, on the TransGas . . .

Mr. Reeve: — Yes, I think that was a possibility. That was a possibility, sure.

Mr. D'Autremont: — How far down the road had all of this gone? You talked that there was the . . . You had looked at the customer base and the customer base wasn't comfortable yet with it. How extensively had you looked at a customer base for this kind of facility, you know, was there a need?

Obviously there continues to be a need to move gas east. We're looking at production on the north slope of Alaska, the Mackenzie Valley, those kind of facilities. Gas is coming. There's just a large find in Alberta here just in the last few weeks that were announced. So there's gas needed. The demand is certainly there towards the east.

So how extensively had you looked for a potential new customer base? Or perhaps, within ATCO and TransGas current customer base, there would have been some opportunities there as well. So how extensively had you pursued that?

Mr. Reeve: — Well I don't think it was so extensive that it was, you know, a broad-based type of activity. I mean, I think clearly we searched among our own customer bases to see what kind of potential was there because that was probably the most logical place to start.

Mr. D'Autremont: — And within your own customer base, there was only limited interest?

Mr. Reeve: — And I think to be fair, I think if you want to characterize the Alberta-Saskatchewan border and the current issues around pipelines, is that what you're seeing in that corridor is there is plenty of pipeline capacity.

So it's all about the competitiveness of the pipeline companies. And typically, what . . . This is probably driven more from a producer sector. Producers are very reluctant to sign up for long-term contracts in places where they've got potentially declining production. They're not sure what their capital investment looks like, going forward.

And when you start talking about building potentially new facilities, you can't do it with short-term contracts. And I think a lot of what has driven projects like some of the ones we've talked about this afternoon is the fact that producers are very reluctant to step forward and anchor any new facilities because of the kinds of pipeline capacity that exists in Western Canada.

Mr. D'Autremont: — And I'm sure that the producers are aware of the fact that there is quite likely going to be a cash crunch; not a cash, a gas crunch, unless new production comes on line within the next five to seven years; and that they don't want to forward price their production too low if there's going to be a shortage in the commodity five years down the road.

Mr. Reeve: — Yes. Well, and I think the producer sector has proven that they're investing a lot of capital in trying to bring production on. But I don't think there's any secret. If you look at the western Canadian sedimentary basin that makes up Alberta and BC (British Columbia) and parts of Saskatchewan, they're working very hard spending their capital just to try to stay where they're at today, to try to maintain the deliverability of gas that we've all come to know.

Mr. D'Autremont: — In your discussions with ATCO or any of the other companies involved, was there any discussion involving future gas movement from the large pools that do not yet have access to the main North American market?

Mr. Reeve: — Obviously because we are in the pipeline industry and because we are so interconnected throughout the West and into the North American market, you know, we're certainly well aware of some of the players that are involved and maybe some of those pools that you talk about. Whether it's Mackenzie Valley or Alaskan slope gas, those are very, very large projects — billion-dollar projects — and it's not one that we've really taken any direct interest in at all.

We see ourselves much more as a regional player and the potential to move maybe some of that gas as it gets down into the more traditional pipeline system. But as far as being involved in some of those types of projects, we have really not gone there.

Mr. D'Autremont: — When you say billion dollar, I am told that the north slope gas is looking like a \$25-billion project in today's money and won't get here for probably 20 years.

Mr. Reeve: — Well I think . . . I hate to go on record as speculation, but speculation has been that Alaskan slope's gas is coming every five years, and that's been happening for a couple of decades. So it's a very, very capital intensive, and it's serious players involved in that kind of a venture.

Mr. D'Autremont: — But the transportation of that gas is also going to be very critical because of all the environmental regulations, environmental concerns that it's . . . Once the

decision is made, it's not going to move ahead very quickly in meeting all of those new criteria and . . . the current criteria and the new criteria that will be put in place because of that. So I think it's important that the players, whomever they may be, are working hard on that if that gas is ever going to reach the marketplace. And I think there's potentials for Saskatchewan to be involved in that as well.

How long did the discussions go with, in particular with ATCO, but in general with the industry as well to look at partnering for TransGas, SaskEnergy, to partner for the movement of gas through Saskatchewan?

Mr. Reeve: — Well, you know, they've gone on for a long time, and they continue to go on. I mean, as I said, we've got 11 interconnections today that go across the Saskatchewan-Alberta border. A lot of those people are customers of ours. We have long-term business relationships. So the ability to continue to look at options of moving more gas across the border, I would say those discussions don't stop. They continue with a number of different possibilities.

Mr. D'Autremont: — Do those . . . Traditionally those discussions would have been on a contractual basis — we'll move your gas for X price. Is there any continuation? And there obviously was discussion of various other forms of partnering, such as the sharing of facilities and potential for a new entity to move gas with ATCO, Are the discussions today strictly on a contractual basis, X amount of gas for X amount of dollars through our facilities, or are there discussions going on in other forms of arrangements?

Mr. Reeve: — Well today the existing arrangements we have are all contractual, so that's really the base that we work from today. You know, I don't think there's a bunch of serious conversations going on around new capital investment. A lot of it's going to be driven by customers and their desires around what they'd like to see done. And today we don't have a big lineup for people wanting to move additional gas across the border at this point in time.

Mr. D'Autremont: — The discussions with ATCO about other forms of partnering — the sharing of equipment, the joint equity — when did those discussions cease?

Mr. Reeve: — Well I don't know if discussions ceased as much as I think customers kind of made us aware, that said it just doesn't look like there's a need for additional capacity. So I don't know if it was as much as discussions ceased or customers kind of told us that, you know, right now there's not a need for additional capacity.

We can certainly utilize the capacity that we've got and we're doing that. And of course that \$1.2 million in revenue has added nicely to TransGas in terms of helping us reduce rates over the last year or two. But as far as incremental capital investment goes, I think it's fair to say I don't think there's anything kind of sitting out on the books that holds a whole bunch of promise at this point.

Mr. D'Autremont: — So when did the customers inform you that they didn't feel any need for any further expansion of the facilities that were . . .

Mr. Reeve: — Well I think we've got that sense, certainly over the last six to twelve months, that customers right now are happy with some of the service providers that they have in their contractual relationships, and they're not willing to step forward and make other contractual commitments at this point in time.

Mr. D'Autremont: — So it's basically been then within the last 6 to 12 months that those discussions as to new facilities have ceased?

Mr. Reeve: — Yes I would say that, you know, right now we're looking at optimizing the facilities that we've got. And I don't think we have customers sitting there that say there's a real need for additional capacity.

Mr. D'Autremont: — So prior to the last 6 to 12 months in those discussions, negotiations were taking place for the possibility of having some sort of joint arrangements with ATCO or some other company to share facilities and provide equity into those?

Mr. Reeve: — As I said, I mean we've probably for I think . . . I've been around the TransGas piece for a few years, and we've probably each and every year had some discussions with people who have pipeline projects or natural gas reserves along that Alberta-Saskatchewan border that have the potential for additional flow under the TransGas system. So yes, I think that will be a continual thing as long as TransGas is in existence and we've got the ability to move additional gas within that corridor.

Mr. D'Autremont: — So those discussions were taking place in 2003 at the beginning of the year, the middle of the year, and the end of the year?

Mr. Reeve: — Discussions around the incremental gas across the border?

Mr. D'Autremont: — Discussions of sharing joint facilities, possible equity investments, partnerships.

Mr. Reeve: — I think when you characterize equity investments, I think it was all around the potential of new facilities across the border, yes. Yes those discussions were there.

Mr. D'Autremont: — And while they have . . . or are in abeyance now, there is the potential in the future for that to arise again?

Mr. Reeve: — As far as incremental investment of moving new gas across the border, that exists today. I think that if anybody from Alberta is sitting and watching us today and they've got nothing better to do on a cold day, and they've got some gas along the Alberta border that they'd like to bring to us, please give us a call.

Mr. D'Autremont: — Gas is more valuable on cold days than it is in on hot days.

Mr. Reeve: — Yes. Today it seems to be a pretty valuable commodity I think, yes.

Mr. D'Autremont: — So SaskEnergy, TransGas, would still be willing to sit down and talk about shared facilities, about new investments in facilities with private partners even at this date?

Mr. Reeve: — If it involves the moving additional gas to our system and it's something where we could co-invest in new facilities, I think we're always open to those discussions, absolutely.

Mr. D'Autremont: — Okay, thank you. Well that's interesting, given the statements that we had in 2003 I guess, that you know, where the minister came out and said yes, there was some discussion going on with ATCO to do negotiations for shared investment, for equity positions, and that that happened before the election and that it happened after the election. I think it's also interesting that after the election the Premier came out and said no, there was no discussion and there won't be any discussion.

So that kind of, to me, causes some difficulties into just what the position of the government is as the shareholder of SaskEnergy, of TransGas. The government has certainly made its view clear that there is no possibility of sharing equity of TransGas or SaskEnergy privately.

So I don't know how this fits into a partnership for SaskEnergy or TransGas with a private entity who obviously is going . . . if it's an equity position, is going to want to have a return on their investment, and that they're sharing that with a Crown corporation utilizing, in some cases, the Crown corporation's assets, and in some cases their own assets, and how that falls within the government's stated views that any transfer of equity privately — in partnership with a private company — is privatization, how that fits into negotiations with . . . between SaskEnergy, TransGas, and another entity. Perhaps the minister would care to answer that.

Hon. Mr. Van Mulligen: — Let me just say that we do have a system; we have capacity on that system. I think it's in our interest to have discussions with other players in the gas industry to maximize our system, and we will continue to do that. As Mr. Reeve has pointed out, we have interconnections with their systems and we always look for opportunities to maximize the capital investments that we have made in TransGas — have done so, will continue to do so.

Mr. D'Autremont: — Thank you. I would certainly hope that SaskEnergy and TransGas are trying to maximize utilization of their facilities, and there's certainly no reason they can't do that through a contractual basis. It's the discussion of the possibility of shared equity, of sharing facilities which are assets of the corporation, privately, that seems to be in contradiction between — for me — between the stated purposes by the government and the actions and the, I would view as beneficial, arrangements with other entities. That if we can maximize our utilities, our facilities, and get additional revenues through this province, that's a good thing.

But it does come down with the government's new legislation and with previous statements by the government in relationship to ownership of the facilities and how, with the potential arrangements that could be made, does that square with the

government's new legislation and how does that square with previous statements by the government?

Hon. Mr. Van Mulligen: — Well we have capacity, and I guess the same as SaskPower has capacity in its lines, and SaskTel, for all I know, may have capacity. And it may well be that there are other parties outside of Saskatchewan that from time to time want to make use of the capacity that we have, whether it's to move electricity through SaskTel's . . . or through SaskPower's transmissions lines, or I don't know to what extent they want to make use of to do data transfers through SaskTel's lines. But here we have pipeline capacity and we will look for ways to continue to maximize the use of that capacity.

Mr. D'Autremont: — Well I guess, Mr. Minister, then does that look for ways to maximize the utilization of SaskEnergy, TransGas's facilities, including private partners taking equity positions for some or all, but some facilities within that system?

Hon. Mr. Van Mulligen: — No, we're not interested in doing that.

Mr. D'Autremont: — So in the example I used earlier, where you may be looping a pipeline in partnership with someone else, on TransGas's system, would that loop then be wholly owned by TransGas, in which case TransGas or SaskEnergy would provide the financing for it and simply contract to move the gas through that system? Which the discussions seem to be beyond that point, in my view, from what the SaskEnergy officials have said, that you were looking at the potential for equity investments by private people in that system.

Hon. Mr. Van Mulligen: — No, I think what we're looking at is that if to promote the use of a pipeline and we need to invest in additional facilities that promote interconnectedness, then, yes, we have to invest in that. And, you know, you look for . . . I gather that listening to the discussion that that was part of the discussions that were held.

Now maybe I heard Mr. Reeve wrong, but I think that's the nature of the discussions that have been held. And my guess is that if we have a pipeline, we have capacity. And if someone — ATCO, TransCanada, Enbridge, whoever — comes to us and says, well you know, we think we could make use of that line and we have additional volumes that we'd like to move through that, and would you be interested in partnering with us to achieve that and get a return on that, but it might require some new interconnections and that requires investments? I think we would look at that, but it doesn't mean the sale of any of our assets or any substantial transformation of the nature of TransGas or SaskEnergy.

Mr. D'Autremont: — What you're saying then is that you would enter into a contractual arrangement for a fee to transport the gas.

Hon. Mr. Van Mulligen: — Well yes. It may be more than that. It may be not just the movement of gas. It may also be a contractual arrangement to improve capacity at some point, whether it's an interconnection that may require more than a contract to, you know, you pay us because you're going to move gas through our system, but perhaps we have to invest,

too, in that interconnection. And we may want to do that because it's going to go through our system. And they may also want to make that investment. But, you know, those are the kinds of discussions I think we're prepared to have. I think it's been made clear that, although we're not interested in the sale of assets, we're certainly interested in partnerships with other players in the gas industry.

Mr. D'Autremont: — So when you talk about joint investment in the facility, you're talking co-ownership, co-sharing of the asset, co-sharing of revenues, profits, and losses?

Hon. Mr. Van Mulligen: — Well I suppose that might always be a possibility for some arrangement that is entered into with other players in the business that that kind of contractual partnership arrangement might be arrived at. That arrangement might mean equity investments on our part. I don't know; I'm speculating. But it would not involve the sale of any assets of our corporation, SaskEnergy or TransGas.

Mr. D'Autremont: — But it could involve investment by SaskEnergy, TransGas into a facility that would be co-owned?

Hon. Mr. Van Mulligen: — Could do that, yes. I expect it might be a possibility that if there's a . . . If we have a line and someone in Alberta says, look, we have some volume that we need to move to get it from where we have the gas to your line; would you be interested in partnering in terms of additional investment to get it there through, you know, a subsidiary corporation that we have? And then we would be interested in looking at that. And I think that's the nature of the discussions that we've had in the past too.

Mr. D'Autremont: — So if you're looking at putting in, let's say, 20 miles of pipe some place and obviously a compressor station associated at one end, you would look at forming potentially a new subsidiary, a new entity in partnership with some other company to provide that and SaskEnergy, TransGas would make an investment into that and become co-owners?

Hon. Mr. Van Mulligen: — No. I think we're going, you know, down a hypothetical line here, but we do have a subsidiary, many hills . . . Many Islands that, you know, is federally regulated because it does cross a border. And that entity is there to assist us to move gas from Alberta side into our side if that's necessary. Now you know again, I think we're speculating, it's hypothetical, but you know Mr. Reeves has pointed out that the kinds of discussions we've had in the past and we're still interested in that.

Mr. D'Autremont: — The Many Islands Pipelines, do they own hard facilities, pipelines, compressor stations, or are they contracting with someone else?

Mr. Reeve: — Many Islands does own physical pipeline assets that do cross the provincial boundaries. So they own hard, physical assets.

Mr. D'Autremont: — Okay, thank you.

The Chair: — We have kept . . . Mr. Yates has been waiting quite patiently. Mr. Wartman did you have any questions or go to Mr. Yates?

Hon. Mr. Wartman: — No, I was just, I was looking for clarity. It seemed there was some confusion around discussions and partnership and whether or not there was a sale of assets involved in those discussions. I think the minister has clarified that. Thank you.

The Chair: — Okay. Mr. Yates, then.

Mr. Yates: — My question was going to be quite simple, that any form of partnership doesn't necessarily require or mean any sale of assets, does it, in these type of arrangements, Mr. Minister?

Hon. Mr. Van Mulligen: — No. I mean, it's not just in SaskEnergy but in many aspects of government that you look to work with others because there's a necessity to do that or there's a benefit in doing so, that each of you bring certain things to the table, that you pool those and in an attempt to create benefit for both sides. And that's, you know, that's the spirit of the discussions that we and TransGas have followed because we do have this capacity and we would like to promote the use of that asset more than has been the case.

Mr. Yates: — Thank you very much. That's my question.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Thank you. I guess I have a concern with the formation of new entities to . . . that aren't clearly visible in building facilities and sharing projects. And we've seen the partnership with SPUDCO (Saskatchewan Potato Utility Development Company) that was virtually 100 per cent government investment and yet stated to be a public-private partnership where the money was all virtually government money that was going into it, even though the claim initially was that it was a 51/49 per cent with 49 per cent being the government. And while I suppose in the sense that there was maybe 100 shares issued and SPUDCO, government owned 49 per cent and the other company owned 51 per cent, the money involved was entirely government.

I think when you're . . . you know, we need to be careful in understanding what kind of arrangement SaskEnergy might be looking at, might not be looking at, and what is acceptable within the legislation that's brought forward by the government on Crown corporations and what is not acceptable along this line.

And the use of SaskEnergy's facilities to share the return with a private partner — I guess my question to the minister would be, is that a fair use of the assets of the Crown corporation in light of the Crown legislation that was brought forward in the past session?

Hon. Mr. Van Mulligen: — I think the Crown legislation that was brought forward I think attempted to deal with a substantial transformation of publicly owned assets. I don't think that's the issue here. I think the issue here is that this publicly owned corporation and subsidiary — in this particular case, TransGas — has certain assets. We want to maximize the use of those assets for the benefit of the shareholders and for the customers of TransGas.

Mr. D'Autremont: — But if utilization of those assets includes the sharing of the returns of those assets, then while ownership may be 100 per cent still owned by the corporation, the returns on the value of those assets may not be 100 per cent owned by the corporation. So in determining what kind of an arrangement that you would have, if it's simply a utilization of those assets to maximize their utilization, then isn't a contractual basis — we'll ship your gas; here's the price — doesn't that fulfill that necessity?

If there is a need for expansion, then your contract price to move that gas reflects the need for more facilities. When you change that arrangement and start talking about sharing facilities, when you start talking about joint sharing of costs to construct new facilities, now you're starting to share the return of SaskEnergy's, TransGas's facilities and assets with another entity — which would seem to me to be the reason to have the assets and entities in the first place, is to enjoy the benefit of them.

Hon. Mr. Van Mulligen: — Well perhaps it's more appropriate at this point that Mr. Reeve addresses the question of specifically what it is that we're involved in, and what it is that we're doing, as opposed to my speculating on what-ifs and might-bes in the future.

Mr. D'Autremont: — Well certainly, if Mr. Reeve would like to describe the entire negotiations, potential contract, or potential arrangements with ATCO, I would be more than pleased to hear it.

Hon. Mr. Van Mulligen: — Again, the role of the committee is to provide oversight and to provide accountability for Crown corporations. If there is issues of policy, then that's not really the purview of the committee, but certainly is a role of the committee to look at what it is that a corporation is doing. And if Mr. Reeve wants to provide further details on that, then I think he'd be happy to do that.

Mr. Reeve: — Maybe the one thing I would, one thing I would clarify is that if there's any kind of sharing of revenues related to jointly owned assets, those assets that I think the minister has referred to as incremental assets that might be required to link two systems, the revenue sharing again, as I had expressed earlier, would have to be based on the capital investment of the parties that were involved. We certainly wouldn't be talking about sharing revenues related to existing assets and our existing services.

Mr. D'Autremont: — Okay, thank you. Well I guess, Mr. Minister, I view the role of this committee not only just to simply review the dollars and cents of the Crown corporations but also to review the policies of those Crown corporations, and that is why there is a minister that comes and sits here to answer those kind of policy questions. Otherwise we would simply ask the dollars and cents questions of the officials and there would be no need for a minister to be here. But because we need to understand the policies as to what's driving the corporation, what's driving the decision-making process, then that's why the minister is here to answer those. I don't expect the president or Mr. Reeve to answer those questions but I do . . . That's why the minister is here and I expect the minister to answer the policy questions.

Hon. Mr. Van Mulligen: — Well, Mr. Chairman, if the member has additional comments he wants to make, I would be certainly pleased to hear them.

Mr. D'Autremont: — Well perhaps Mr. Reeve or yourself, Mr. Minister, or Mr. Kelln, can answer how . . . I think I've asked the question already, you know: how far down the road had you got in the discussions with ATCO as to more fully utilize TransGas's and SaskEnergy's facilities?

Mr. Reeve: — Well as I said, I think I've answered the question. I think we went down the path of a number of different possibilities, went as far as to talk to potential customers. And you know I expect that in the future, whether it's an ATCO or others that are interconnected, we will continue to look at those possibilities. So I think we went, we went as far as looking at the possibilities to the point where we really had to test whether there were going to be customers that were willing to utilize the new facilities.

Mr. D'Autremont: — Which direction were those discussions taking in the main though? Was it a contractual basis where you would . . . ATCO would deliver to the start of TransCanada's or . . . TransGas's pipe, and then TransGas would transport the gas further, or were you mainly discussing some sort of other arrangements that you have described?

Mr. Reeve: — As I said, we looked at a number of options and a number of options were on the table. We have an existing option that has been employed today that is a pure contractual relationship between the two entities. I think, whether it's ATCO or other companies, we've employed options where we've invested in our own facilities on our side of the border and they've invested in their facilities on their side of the border.

So that's another option that I think has been discussed and is still out there. And then there is also the option where we talked about if there was joint facilities required to further interconnect the two systems, that that was a possibility that there would be joint investment in those new facilities. But again, joint investment in new facilities.

Mr. D'Autremont: — So in the fall of 1993 when the minister at the time, Pat Atkinson, said that there was ongoing discussions, which particular discussions was she referring to?

Mr. Reeve: — Well it's hard for . . . I can't speculate and answer for the minister. I know what discussions we were having as TransGas officials with ATCO, and those were the discussions we were having.

A Member: — I think you meant 2003, Dan.

Mr. D'Autremont: — What did I say? Oh yes, 2003, sorry. Well we're in Saskatchewan after all. I'd like to go on to another area of discussion. During the 19 — 19, I'm stuck on 19 — 2003 election the government promised the lowest utility rate package in Canada. What impact is that promise having on SaskEnergy?

Mr. Kelln: — Well from our perspective it very much aligns with the focus we've had for the last number of years on

delivering the lowest cost natural gas service for the province. And I think we're very proud that in those years, or the last number of years, we've either been lowest or second lowest. In 2003 we were \$40 behind Calgary, so second lowest in the country. We are seeing . . . With lower rates we are seeing some of the economic development activity coming to the province that if natural gas is part of their decision, having lower rates certainly helps that economic development happen.

There's been a number of rural Saskatchewan examples of that where we've had customers indicate to us that they were choosing a Western Canada, Canadian location and they were very interested in what our part of their plant operation would be.

Mr. D'Autremont: — The lowest utility rate package, how does that reflect though on SaskEnergy's rate structure, and how do you make corporate decisions? Do you make the corporate decisions based on what is the need and the best interest of SaskEnergy or do you make your rate structure decisions based on the Premier's promise?

Mr. Kelln: — We're very much focused on the fact that there's alignment there because from an economic . . . from a customer's point of view, the lower we can provide the rates, the better position they're in which ultimately means the better position our company's in. And from that perspective, the alignment of overall having that kind of advantage in Saskatchewan aligns very well.

Mr. D'Autremont: — Which comes first, though?

Mr. Kelln: — We're focused on providing the lowest possible rates while keeping a very safe and reliable system, providing the customer service we need to every day. And certainly on a day like today, we need to provide the whole package to Saskatchewan people.

Mr. D'Autremont: — Does that include, then, in making rate decisions, that you may make a rate decision that would provide lower costs to Saskatchewan than your cost of operation?

Mr. Kelln: — Certainly not. It involves the two components that we're dealing with. One is the commodity side, which has grown to be two-thirds of a consumer's bill in Saskatchewan, and that is purchasing natural gas and then passing that on to the customers. And the second side, the delivery side, which is about a third of the bill, which we've not seen a rate change on that delivery side for . . . only one rate change and that was in 1997 for 2.3 per cent. So very much focused on those two pieces, and within them there is a cost of service that certainly we manage.

Mr. D'Autremont: — The gas costs variance account, natural gas in and out goes through that account. What is the rate that SaskEnergy is currently charging its customers?

Mr. Kelln: — We presently charge our residential customers \$6.97 a gigajoule. And what we have seen related to the gas cost variance account that we're presently reducing the gas cost variance account at present because we're . . . in January we are purchasing gas at a slightly lower rate than that, and that allows us to reduce the variance account.

Mr. D'Autremont: — Yes, the price at dinner time today was six thirty-nine for gas.

Mr. Kelln: — Well at the price, I guess, today, or the price we're actually . . . I think Saskatchewan people are hoping we'll have gas for them tomorrow as well. And certainly when we plan to provide service to people, we have to plan for the entire winter because it's probably going to be cold tomorrow and Saturday whether we like it or not. I could certainly have Mr. From provide a little more detail.

Mr. From: — Thank you. My name is Ken From, vice-president of gas supply. The gas cost variance account, as Doug alluded to, is being eroded away. The gas cost variance account is reduced when our sales revenue exceeds that of our costs. And in order for that to go down, obviously our rate has to be slightly higher than the market price. We had a gas cost variance account that was last reviewed by the rate review panel in 2003 and in their recommendation to cabinet and with cabinet's concurrence, we were to recover that over a time frame approximating 30 months. So we are continuing to do that and hopefully we'll have everything recovered very close to that time frame.

Mr. D'Autremont: — Okay, thank you. Just as an aside to that, I think that SaskEnergy and your officials do a very good job in purchasing gas and certainly no complaints in that area. I think you're experts in that area and should be recognized as such.

But the six thirty-nine, I just happened to notice it on TV there while we were eating lunch and that was the gas price today. And obviously spot prices can move very quickly and we'd all like to buy at the bottom but generally not the case.

Mr. From: — We're quite hopeful that six thirty-nine will hang around so next month, when our new pricing comes in for February, we can participate in that and indeed have lower cost of gas and return our customers to a more market price even that much sooner.

Mr. D'Autremont: — You expect to have the gas variance account somewhere in the neighbourhood of zero then within that 30-month period?

Mr. From: — There's a lot of factors that will play on how quickly we can recover that. One of the factors on the positive side is what you're seeing outside here today in January. So far January has been very, very cold and the more gas we can sell, the faster that we can actually recover that.

The worst thing for us right now would be a warming trend that would last the rest of the winter. That's obviously not what a gas company looks at. So there are a few factors that are way outside our control that will dictate exactly when that account does get down to zero.

Mr. D'Autremont: — There's only a few of us who can find silver linings in 40 below.

Mr. From: — Yes. My neighbours wonder why I'm smiling out there when it's freezing out.

Mr. D'Autremont: — Okay. Go ahead while I try to read my

writing.

Mr. Weekes: — Thank you. Just a question on your customer base and the question is: how many basically Crown identities — that can be health districts or Crown corporations or other government owned identities or publicly owned identities — that do not buy gas from SaskEnergy and TransGas?

Mr. From: — Anyone who does not buy gas from us is buying from a third party and I really do not know their customer base.

Mr. Weekes: — Would the minister know that? I think that would be information that the government would have or should have. I know Heartland Health Region is buying from another company, CEG, and would you have an idea of how many other identities like that would not be buying from . . .

Hon. Mr. Van Mulligen: — It's entirely possible that they may have communicated with me at some point and referenced their customer base, but I don't recall that. That's not to say that they haven't done that — maybe they didn't, maybe they did — I just don't know. Sorry, I really can't answer your question.

Mr. Weekes: — I guess it begs the question, of course, is why are there any that are not buying from TransGas and why these departments or identities would be having to purchase their gas from CEG or other companies. And I'd just like a comment on, basically, are you approaching all the potential customers on an ongoing basis to regain their business?

Hon. Mr. Van Mulligen: — It mostly deals with the nature of the contracts that they're able to provide. We purchase gas and try to provide gas and not provide any rate adjustments for more than, you know, a year at a time. Sometimes it's biannual. But you can have customers, institutional business customers, who want more certainty than one year at a time. It may meet their needs to have two-, three-year contractual arrangements for the supply of gas. So even if that supply may in their view be higher than what they expect from SaskEnergy in the short run, nevertheless it meets their needs to do that.

Not unlike many of us who make decisions about purchasing a mortgage for a home: do you take out a one-year term or do you take out a five-year term? What best meets our needs? And some people will take out a five-year term, even knowing that that cost might be somewhat higher than if you were to buy a one-year term.

But we only provide the gas in the way that we have done it. We don't provide two-, three-year contractual terms. You know, it's possible that we could always do that at some future point, but that's not our strength and that's not where we're going. But if Mr. From wants to add to that, then . . .

Mr. From: — Certainly. Thank you. Natural gas is fully competitive in Saskatchewan. Any purchaser of gas can buy from an alternate supplier if they so choose. And what we have found with the industrial and commercial market is that the people who want to buy it themselves want to have more control over their price, and what our utility, being a regulated utility with a panel to go to and have process, they want to be able to react much more quickly with price and that's why they choose to buy it themselves.

With respect to some of the more institutional type customers who are probably the mainstay of CEG's customer base, they tend to go for contracts of three to five years in duration for price. And as the minister said, they do that for price certainty, for budget certainty. And at the present time SaskEnergy simply offers a regulated rate and it changes as the panel and cabinet decide. Basically our rate is the utility rate set by the marketplace and we just go to the panel and seek approval for our prudence in our purchasing.

Mr. Weekes: — Thank you. That's all I have for now.

The Chair: — Members, there's been some discussion, given that it's minus 50 degrees with the wind chill, that we would adjourn at 3 o'clock as opposed to 4 o'clock so that people can travel in safety. To that end I'm proposing that we take a short 10-minute recess now with the idea of adjourning at 3 p.m. Is that acceptable to committee members? Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Okay, we'll take a brief recess. We'll reconvene at about 2:30 then. Thank you.

The committee recessed for a period of time.

The Chair: — All right. The committee will come to order and we were opening the floor to additional questions if required. Mr. Weekes.

Mr. Weekes: — Thank you very much. I'd like to ask a few questions concerning the Vanscoy natural gas storage which I'm sure the minister was expecting something. Just an initial question is, it's in the three-month shutdown period. Where does that stand now? Has there been any test done as far as do we have a handle on the regeneration that's taking place and those types of . . . Could you just update us on the status of the project?

Hon. Mr. Van Mulligen: — My understanding is that the shutdown has commenced. Prior to the shutdown, at the suggestion of the Watershed Authority, and we would've done this without their suggestion, we've added a number of new monitoring stations and have taken tests of those monitoring stations so that at the conclusion of the three months we will have further tests from those monitoring stations to see what impact this shutdown will have had on the wells and . . . well at least on these monitoring stations.

I might, for people who are watching this, the matter that you are referring to is part of a program that SaskEnergy has to store natural gas. SaskEnergy at this point has 21 storage caverns throughout Saskatchewan at six different locations.

In Saskatchewan we have the ability at some locations, because of geological formation, where we have great salt caverns underground where we flush the salt out and to create huge caverns in which we can then store natural gas, and then use that natural gas on days like today when it's wind chill of minus 50 to get it to nearby markets.

In this particular case the caverns are proposed to be developed in the vicinity of Saskatoon where we've had an expansion of

capacity over time because of the way that Saskatoon is expanding, and we feel the need to have storage capacity in that area. We've identified geological formation at or near by Asquith where we think we can develop a storage cavern.

Typically, we will either use surface water to provide the water with which to flush out the salt or we can also tap into underground aquifers, underground water formations to draw the water from to flush out the salt.

In this particular case, we knew that there would be an impact because we were drawing water from a certain aquifer and worked with property owners in the area to mitigate any impact that we thought we would have on those property owners. Have done that. And I think, in some cases, we've developed new wells; in others, we've deepened wells so as to ensure that they would have continued access to water.

But once work got underway, we then started to receive concerns from people who were in a completely different aquifer, who said that, we're also, in their view, being affected by the work that SaskEnergy has been doing; and we continued to receive these concerns. And we had a three-month shutdown planned so that we could allow the aquifer an opportunity to recharge, and we've now advanced this, subject to putting in additional monitoring stations, so that we can see exactly what impact this project is having and how widespread that impact is.

Mr. Weekes: — Thank you. Getting back to the three-month shutdown and the tests and the monitoring that's being done, I assume there was some tests done initially when the shutdown first happened. Has the second set — I'm assuming there was going to be a second and third set of testing. Has the second set been done and has it showed any change in the recharging? Or could you give me a handle on what's happening in the preliminary stage?

Hon. Mr. Van Mulligen: — I'm going to let Mr. Posehn deal with that.

Mr. Posehn: — Yes. My name is Daryl Posehn, in charge of TransGas in the operational and the storage.

Yes. The shutdown has only been one month so we are just gathering the preliminary data. And it is very complex because it is . . . we're trying to monitor all the aquifers in the area, in addition to determining the impact from our source wells.

But the data that we have recently gathered has shown a pretty significant rebound of the aquifer, definitely where our source well, where we were drawing the water out. And we are also seeing rebound farther out in the other well.

So I think . . . Like I say, it's very early. We've still got two months of the shutdown. But it's looking pretty positive, looking pretty close to what the modelling was that we had anticipated. But you know, we will take the time to look at that.

Mr. Weekes: — Well as you know, the citizens in that area were very concerned about what was happening to their water supply. And yes, TransGas has mitigated many of their concerns. But I'd have to go back to when I first got involved going to some of the initial meetings, that quite frankly the

people thought they were duped by TransGas and the government at the time. Right or wrong, they felt that initially there just wasn't enough communication between TransGas and the Saskatchewan Watershed Authority and the citizens as far as what the potential problems were, and they were problems that were brought to your attention very early on.

And the people have told me that they had the impression that this project was going ahead regardless. Well the project was going ahead but as far as mitigating their water problems, they felt they were being ignored and possibly the project was just going to get done and these people kind of would go away and not complain.

But it got so serious, I mean people were losing wells. And the big concern was, there was I believe there was a 3- or 5-kilometre area right around the source well, that TransGas was mitigating the water problems. But the area soon became much greater and it was a tremendous amount of public pressure on your company to get you to look after those areas, take those areas into account. And it is true — after the public complained fairly loudly after the initial meeting that I was at, there was an 800 number set up. And I believe you have done a much better job after that initial stage where people were quite upset.

I would just like to know about the wells in the area. The concern that . . . and I believe the officials at the time said they were surprised by the area that was potentially . . . that they had potential concerns about, as far as lack of water. Could you give me an idea of, have you got a better idea of why people have been losing water supply quite so far away from the initial source well? And quite frankly as you mentioned, the minister mentioned in another aquifer. Could you give us an idea of what's going on there or do you know what is going on there? There's talk about a kind of a blockage and where certain areas were affected differently than your model would represent.

Mr. Posehn: — Yes, that is correct. I think in the June meeting that we had with the local residents we talked about a blockage that when we did the original monitoring, it was not included in the modelling. And it's just north of our source wells. We thought the aquifer that we were drawing from was a little less constrained. We knew that there was an identified blockage of this aquifer from the south, so when we did the modelling, we thought the impact area would be relatively small and we did immediately remediate any of those issues with those local residents. But then as we found that this blockage . . . the actual drawdown or pressure drop was a little bit more than what we anticipated — and as you said, we got a number of calls — we put this into the modelling and we do believe that we have a fairly accurate assessment of the hydrogeology of that area now.

We do have some concerns, and that's why we followed up with the three-month shutdown and advanced it earlier with still some of the claims that are farther north from the other aquifers, because of all of the information that we're getting right now does not necessarily support that the TransGas source well project is really creating that. But that's what the additional monitoring will help us and the Saskatchewan Watershed Authority actually determine, to see how big the extent is, and also, you know, as your earlier question, show the rebound in the aquifer is that much. But that was one of the curves that we

did not know when we went into this project originally.

Mr. Weekes: — Well that's right and the effect goes all the way to basically Asquith, the Dunfermline community and area. And people north of Highway 14 have artesian, had artesian wells on their property, and this area was supposed to be outside the area that was to be affected, and they have dried up. And well, we'll see if they come back. So it certainly has affected a much greater area than was anticipated or expected. I guess you've admitted to that as well.

Just a question or two on what's the initial plan. You're producing these two caverns presently. What's the future plans for production of caverns in that particular area?

Mr. Posehn: — Well obviously we'll go through the three-month shutdown first and then if all results are good and Sask Watershed says we can go back to the licence, we would finish off washing the first two caverns and then they would be ready for a de-brining process, or actually putting natural gas in mid to late summer. And those two caverns would then be ready for production into the 2005 and '06 winter. So that would be a significant event for us to help out in the Saskatchewan, or Saskatoon area loads.

After we've finished washing those first two caverns — and like I say that should be in a July time frame if everything goes as we would hope — we would then start washing the process for the next two caverns which were part of the original project. And those would take about 12 months to 16 months before they're ready for a de-brining process, putting us into the summer of 2006 for injection and '06-07 winter service for us. So that's the extent of the project that we have at this point in time and it is a very important part of delivery of natural gas into the Saskatoon area.

Mr. Weekes: — The additional two caverns, were they going to be developed right close to the present caverns?

Mr. Posehn: — Those were all part of the plan. They were part of the original project. The \$35 million that we had approval for were four caverns, approximately 4 bcf (billion cubic feet), and all going to be done in the two-year time frame.

Mr. Weekes: — Now again I don't know where I heard this. This is something that was floated around at the meeting, but are there plans further along to develop more caverns? I have heard that there's going to be up to about eight caverns in total developed.

Mr. Posehn: — That question was asked at the town hall meeting. There are no plans at this point in time but if Saskatoon area loads continue to grow, it is a prime location, but we would have to go through all the approvals and all the recommendations firstly. But having storage that near load centres is very important, and if it is a good salt formation, something that is very integral to keeping the natural gas in there, we would probably go ahead with that, again given all the approvals. But that's a ways away. The four caverns should situate us pretty good for quite a while now.

Mr. Weekes: — The citizens of that area were very emphatic. They expected or basically demanded an environmental impact

study being done before this project went ahead, and I have the written questions for the minister and I know what you've said at the meetings. Given that the problems that have developed and unexpected problems that have developed with this project, will there be an environmental impact study be done on future projects before they're started beyond what . . . the studies that have been done with Beckie and so on and so forth?

Mr. Posehn: — We would definitely have to look at what is needed from all the authorities. You know we did fall within what was required to carry forward with this project. We met all the regulations, we got all the necessary approvals. If there was something that was deemed in increment to that or more time spent on it, we would surely do whatever is needed. And you know I think even the shut in is going to give us much more information which could form what an environmental study would be, or I think what the residents are looking for.

Mr. Kelln: — The other item that I think pretty much we have learned and we want to continue to be very focused on is the communication aspect as you've indicated with the residents. Very, very important. We're very committed to being much more proactive on that and we'll continue doing that, and maybe that's a very key element to completing this project.

Mr. Weekes: — Well, that's a good point. When I spoke at those meetings, I mean we understand the need for these caverns — particularly on a day like today that we don't want to run out of natural gas. And so there's no question about the need and the project.

But certainly, people felt betrayed over the lack of communication and, quite frankly, the lack of timeliness in looking after their well problems. Possibly it was done in that small area, but the area became so great and so many problems that developed that no doubt people became very suspicious. And they're very suspicious of the, you know . . . I mean, basically there's one arm of government regulating the other.

And so you know, I mean, all these things were brought up at public meetings and they felt that maybe Sask Watershed Authority was not doing their job as properly as they should be considering they're working with a Crown corporation. But there's certainly no concern that the project was needed.

I guess my next question is concerning the quality of water. And again there seems to be some uncertainty about the . . . is there a link between this project and the quality of water that people have in their wells, in their shell wells? And I don't . . . Again, people aren't real satisfied with the answers they've been getting.

The tests have been done and TransGas has been paying for these tests, testing for nitrates, and they found arsenic and uranium and all sorts of things in their water supply. Do we know yet, at this time, is there a connection between the project and the quality of these shell wells?

Mr. Posehn: — I think at this point in time we're still saying there is no link. You know that we did do water quality tests before we started the project on a number of wells. We did water quality tests on the source water that we were drawing and that has not changed from before we were pumping.

So the water tests that are being done on some of those private wells might indicate that that water quality was at that level before we were even there.

Although I've heard the thought process that if we are causing some water quantity issues, maybe that increased recharge or drain of water through, through the different ground might be causing that. But I think it's more linked to, are we impacting the water quantity issue.

Mr. Weekes: — I guess the concern is even if there is not a link, at the end of the day there's a lot of people had their eyes open about the health of the water supply in rural areas in this province. And they were very surprised to find out what was in their water — both nitrates and uranium, arsenic, and these types of things. So that's possibly a secondary issue from what we're talking about here today. But it certainly highlighted a big concern out there about the quality of water.

There's been a number of questions about the potable water standards and the water that's being used from the Tyner Valley aquifer. I got the answers that have been given the committee, and I guess it's not potable water. It could be treated and made into potable water. The condition of the water presently, is it . . . can it be used for irrigating crops and watering livestock as it is now in its condition?

Mr. Posehn: — I think that's something that you should be asking Sask Watershed Authority or somebody like that.

Mr. Weekes: — Yes. You know, and again it's the . . . well it's the 1.8 million gallons of potable water that's being used. And there was a concern from the local people from a conservation point of view that this is a tremendous amount of water that's, well, basically being lost — lost to the province forever. And they brought up other alternatives using the water . . . well not so much the loss of water, but using . . . from the point of view of their wells going dry, using the water from the Saskatchewan River. And I understand that that was part of your study. Is there a particular reason why the water couldn't be used from the Saskatchewan River to develop these caverns?

Mr. Posehn: — There is really two components to that. First of all, the water quality of the water that we're using from the Tyner Valley authority . . . or Tyner Valley aquifer does not meet specifications for water standards right now, and it is actually worse quality than the river water. So I think if you look at it from an environmental perspective, you wouldn't want us to be using river water.

And the other component is that there would be a significantly higher cost building a pipeline to the river to our project — millions of dollars on top of this. And of course we're trying to keep our rates for storage service as low as possible as well. So I think mainly the quality of the water isn't, as you had indicated earlier, not that good anyway.

Mr. Weekes: — Yes, except it could be made to be potable water without too much trouble, the way I understand it.

Well just in wrap-up comments, I think we covered the whole issue. I mean, I believe that you really dropped the ball initially on the communications front when you first did the project and

which created a lot of problems with the local people and created some suspicion. And I have to agree that you've certainly improved that.

There's a meeting this week in Vanscoy with the community again, and they're going to be discussing all the issues that people bring forward. So I certainly will be in contact with them. I think I'll be attending that meeting as well. And hopefully the recharge takes effect like you and we all hope it does and that people's water supply will be adequate in the future and get these projects done and the water supply back to adequate levels for the community. Thank you.

The Chair: — Mr. Toth, you've got a question?

Mr. Toth: — Thank you, Mr. Chairman. Actually I've got a couple . . . just to deal with caverns if you don't mind for these . . . How many caverns have we got in the province and what's the capacity?

Mr. Posehn: — It's actually 22 caverns that we have, 33 petajoules of volume and 510 terajoules a day of deliverability.

Mr. Toth: — So with that and if these caverns are all filled, basically how many days supply would that be? I'm not familiar with all the petajoules and that . . .

Mr. Posehn: — Let me term it another way. Today we're producing almost 500, almost to our full capacity, and it is providing about 45 per cent of the Saskatchewan consumption of today. The rest is coming from natural gas wells directly from the source. So it shows how significant storage is to our overall supply.

Mr. Toth: — So it wouldn't take too many days of this type cold to start drawing into that reserve?

Mr. Posehn: — Yes, you know I think if you look at caverns near Regina here, if we were to run them at peak conditions like this we'd have 30 to 40 days at this level. But they will . . . I mean we know that we don't have 45 below for 35 days either. We're designed for the winter and winter cycle.

Mr. Toth: — The reason I asked the question because I have . . . Back when the first caverns were built in the Moosomin area, the purpose at that time was to at least ensure that there was that supply and so that the pipeline system, if it wasn't . . . you could kind of maintain that supply.

The other argument as well is trying to regulate the cost to the consumer by . . . with the caverns being able to go on stream when there's a lower price on natural gas, filling up the reservoirs and then kind of softening the higher costs there. And in view of today's six thirty-nine per gigajoule price and six ninety-seven, I was just trying to anticipate just exactly how much of an effect, and if we only have 30 days supply I guess it really wouldn't affect it that significantly. It may maintain and hold it but it's not going to have as big an impact as to reducing the cost to the customer.

Mr. Kelln: — And certainly we fill those caverns during the summer which tends to be a lower price environment and you very much . . . that's one component. The big one is that that

gas is moving at 40 kilometres an hour from the producing wells out by Maple Creek, and the systems come in at 100 kilometres an hour, while the storage is how you don't have to build a big pipeline to be used for five days a year. You can keep that pipeline, a smaller pipeline running full out in the winter. It's helping meet the loads in the city of Regina. In the summer it's injecting gas into caverns.

Mr. Toth: — Okay. Just one final question, Mr. Chairman. In these caverns, are they . . . I guess the question is, is there any leakage from the caverns, or are they fairly well when they're built, fairly seal proofed and that any gas storage is very . . . very little leakage disappears?

Mr. Posehn: — The salt formation is very hard and very impermeable, so it should be able to hold the natural gas in. And our experience has been that it's been a very good cavern for us.

Mr. Kelln: — We also monitor on an annual basis. Based on how much gas goes out and in, that volumetrically we're not . . . no gas is disappearing.

Mr. Toth: — Thank you.

The Chair: — Thank you, members. It is close to the time of our revised adjournment time, so I'll entertain a motion to adjourn. Moved by Mr. Yates.

Before we vote on that, I would just like to thank Mr. Kelln for being here on his first appearance and look forward to working with you into the future. And thank you to all the officials and to Minister Van Mulligen and all the best in the future.

All those in favour of adjourning? All those opposed? That is carried. Thank you very much, members.

The committee adjourned at 14:58.

