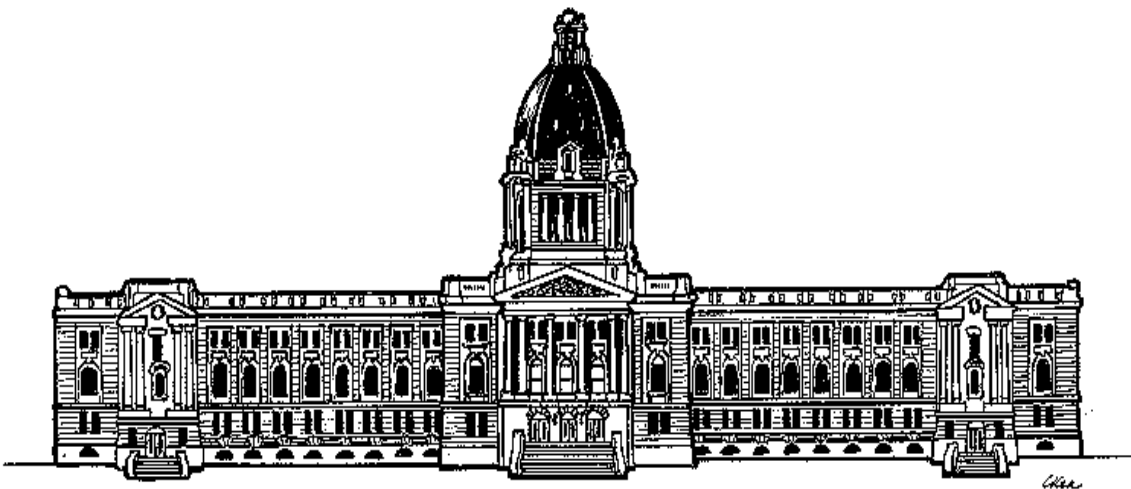




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES
2007**

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Regina Walsh Acres

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Cannington

Hon. Graham Addley
Saskatoon Sutherland

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Weyburn-Big Muddy

Ms. Donna Harpauer
Humboldt

Hon. Warren McCall
Regina Elphinstone-Centre

Hon. Mark Wartman
Regina Qu'Appelle Valley

[The committee met at 10:00.]

Saskatchewan Transportation Company

The Chair: — Good morning everyone, and welcome to this session of Crown and Central Agencies Committee. With us this morning on the government side we have Ms. Crofford, Minister Addley, Minister McCall, and on the opposition side we have Mr. Duncan, Ms. Harpauer, Ms. Eagles, and Mr. D'Autremont. And before the committee this morning we have the Saskatchewan Transportation Company Minister Eldon Lautermilch and his officials. Perhaps you'd like to introduce your officials at this time.

Hon. Mr. Lautermilch: — Thank you very much, Madam Chair, and good morning to members of the committee and I guess Happy New Year. This is a new beginning, a new year, and we look forward to the deliberations this morning.

I would like to introduce my officials, and if it would please the committee I'd like to make some opening remarks with respect to the Saskatchewan Transportation Company. To my right, Ray Clayton, who is the president and CEO [chief executive officer]; to my left is Shawn Grice, the senior director of finance and administration and the CFO [chief financial officer]. Behind us on the right side is John Millar, director of strategic planning and communications as well as Dean Madsen, manager of business development and operations for the southern part of the province.

As I understand it, we will be reviewing operations for the years '04-05, I think two years which we consider to have been quite successful for the company. I know that there are those in this province who will say that STC [Saskatchewan Transportation Company] may not be having a successful year as long as it requires a subsidy to operate. I will not deny that STC requires a subsidy. But there are other measures, I think, that we need to use in gauging the success of this company.

First off, I think it's important to understand that STC does not come to the end of its fiscal year, look at books, and say, well we need money from government. In fact, the company goes into the year knowing approximately what it will cost to provide a level of service to the people of Saskatchewan — who expect it — and the revenues that it will receive. It requests an operating grant from Crown Investments Corporation to make up the shortfall between its operational costs and the revenue. And I think it's fair to say this isn't unlike any municipal transit authority, which basically does the same thing each year when it makes a budget submission to cover a shortfall.

Operating any form of mass transit is an expensive proposition and it gets more so every day. The revenues are not growing as fast as expenditures. But that doesn't lessen the need to provide service for seniors and students and in areas that otherwise wouldn't be covered.

In any given year, only 15 to 20 per cent of Saskatchewan residents will use STC services. The other 75 to 80 per cent, I guess, don't feel the need to use the service. But those who do — mostly seniors and students, rural residents, and the economically disadvantaged — really do need it. It is to ensure

that these people have access to adequate transportation that STC exists. That social policy need, however, doesn't lessen the necessity of STC to be responsible and prudent with respect to the public purse.

I think it should be noted that in 10 years, from '97 to 2006, when STC has been receiving operating grants from CIC [Crown Investments Corporation of Saskatchewan], it has actually taken less money than it was approved for in five of those years. It left money on the table five out of 10 years, that total being more than \$3 million, because it was able to keep its expenditures below budget or raise additional revenues or a combination of both. It would be easy for the bus company to say, as others have, give us all the money you have budgeted for us, and we'll find a way to spend it. That's not how this company has worked. And I think that's a laudable approach, Madam Chair.

In that light I'd like to address myself to a couple of specifics regarding the years under review. For more than a decade, STC has seen its ridership decline by a rate of about 4 per cent a year. There are many factors in that such as changing demographics, urbanization, increased personal wealth. But whatever causes, the STC board of directors and management realizes that it is not sustainable and starting in 2004 has made addressing that trend a top priority — and I must say with success.

In 2004, the decline in passenger numbers fell to less than 1 per cent. And in the following year, for the first time in 15 years the number of people riding the bus went up by 3.6 per cent. And I'm very pleased to report, Madam Chair, that in 2006 figures will show that numbers have increased from the 2005 level — two straight years of consumer growth after 15 years of decline. Now I'm not claiming that the company has turned the corner, but I think we can all be very pleased that that trend has changed.

Forward-thinking programs such as the youth summer excursion pass which allows young people to have unlimited bus travel for three months for a low one-time cost has helped to encourage young people to see STC as a viable transportation alternative. The program was launched very successfully in 2005 as a centennial project and was continued in '06.

As well, STC has been involved in socially responsible programs such as the use of biofuel, a test program which was begun in 2005 and was then expanded into 2006.

It was in '05 when STC started work on its most demanding project in years — the development of a new passenger and freight depot and head office structured in Regina. This new facility was approved in 2006 and is now under construction. It will be a major boon to the company and to the city of Regina and to the province.

Madam Chair, these are just some of the highlights that I want to touch on. And with the aid of my officials we would be pleased to answer any questions that the committee may have. Thank you.

The Chair: — Thank you, Minister Lautermilch. We also have

with us this morning some members from the Provincial Auditor's office. And perhaps I'll just get you to introduce yourself and your officials as well.

Mr. Martens: — Thank you, Madam Chair. I'm Andrew Martens, principal with the Provincial Auditor's office. And with me today is Brian Drayton, partner with Meyers Norris Penny, the appointed auditor for STC.

The Chair: — Thank you very much. Did you have any opening comments to make?

Mr. Martens: — Yes, I did.

The Chair: — Okay.

Mr. Martens: — We found the financial statements included in STC's 2004 and 2005 annual reports to be reliable. Also for both 2004 and 2005, we found that STC had adequate rules and procedures to safeguard public resources, and it complied with the legislation governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

I would like to acknowledge the excellent co-operation we received from management and from Meyers Norris Penny in carrying out our work. That concludes my remarks. I'll now ask Brian Drayton to provide his comments on the audits.

Mr. Drayton: — Thank you, Mr. Martens. Our audits for 2004 and 2005 were conducted in coordination with the Provincial Auditor's office. And our reports are presented in the annual reports of the company and are addressed to the members of the Legislative Assembly. I believe our 2004 report is included on page 37 of the annual report, and for 2005 the report is included on page 33. Both reports, as Mr. Martens had mentioned, are unqualified; that in our opinion the financial statements are presented fairly in each of those years. Thank you.

The Chair: — Thank you very much. So that leads us to consideration of the 2004, 2005 Saskatchewan Transportation Company annual reports and related documents. Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair. Before I begin, I'd just like to welcome the minister and his officials here today. And I have a compliment for all of you. The reports are very well done. They're easy to follow from year to year and probably the easiest reports that I've had to go through. So my compliments on that.

I have one quick question on what the minister has said in his opening remarks about when STC leaves money on the table. Is that then carried forward to the following year and added to the allocation of the following year or is it just not used?

Hon. Mr. Lautermilch: — No, the unspent allocation is returned to Crown Investments Corporation for the next fiscal year. The officials will develop their budget, their business plan. That'll be presented to Crown Investments Corporation. And as I've said, it generally includes a shortfall and a recommendation to Crown Investments Corporation for covering the shortfall. Any money that isn't expended is returned.

And I mean obviously Mr. Clayton and his officials have done a very good job. You know there are variables in every given year. Fuel costs are a big part of running of a bus company and, as you will know, the prices have been somewhat volatile. And so I think that the officials have done a very good job, but the bottom line is that any unspent money is returned to Crown Investments Corporation.

Ms. Harpauer: — Thank you for that. The first two questions I have are bookkeeping in nature. In the 2004 annual report, it states that the operating grant that STC received from CIC that year was 3.7 million. And it states the total grant amount, or relates it, as 27 per cent of the company's revenues for the year.

Then in the 2005 annual report it states that the operating grant for 2004 was again 3.7 million. But it measures it against the company's expenses instead of the revenues which is rather a change in how it's reported, saying that it's approximately 20 per cent of the company's expenses. It also . . . for the 2005 grant of 3.5 million it also compares that to the expenses. Now in my mind it would be more logical, since a grant is an income, to continue as you had in 2004 of reporting it as a percentage of revenue. So why did you feel you needed to change the way it was reported?

Mr. Clayton: — Actually both measures are useful, and I don't think it really is a question of choosing one to the absolute exclusion of the other. I think they both tell you something. I guess our feeling was on balance that when you're looking at the total operations of a company and determining, you know, how those are funded, that the subsidy as a percentage of those total operations is on balance more meaningful than just on the revenue. But of course both of those figures can be calculated from the information that's available and, depending on just what you're looking at, both measures can be useful.

Ms. Harpauer: — So there was no particular reason. You just chose to do it a little bit differently. There wasn't any reason behind it or . . .

Mr. Clayton: — Well I guess the reason was that we felt on balance expressing the grant as a percentage of our total operations was a more meaningful number. But that is a matter of judgment — it's not a black and white question — and either measure could be used. We chose that one but not for some reason that's huge in importance.

Ms. Harpauer: — Okay. Okay. Because actually you went from comparing it to revenues to comparing it to expenses, not whole operations.

All right. The other clarification between the two reports was, in the 2004 report, it lists the year's revenues as 13.664 million and the expenditures as 18.378 million. In 2005, again comparing one year to the next, it states the 2004 revenues as 14.031 million and that is a \$385,000 increase from what was reported in 2004. And again in 2005, the expenses were listed as \$385,000 more than what was reported in 2004. So which numbers are more accurate?

Mr. Grice: — Thank you, Madam Chair. The restatement from '04 to '05 occurred because of, I'll say an audit issue with respect to netting of revenue in our foreign coach. We service

coaches for third parties; Greyhound, people that have motorhomes as well will come into our maintenance facilities. And we looked at the way revenues were presented in past years when they were less material.

And as the service work that we did in those maintenance garages became more material, we had to look at the revenue and the expenses and say that they shouldn't be net and disclosed in other revenues, but break the revenues out from the expenses and include the total revenue in the revenue column and line item and take the expenses and put those down in the operating expenses.

So they're exactly the same. They've just been restated for prior periods. So the numbers haven't changed. We've only changed the allocation so they weren't netting.

Ms. Harpauer: — Thank you. As we mentioned, the grant for last year or for 2005 was 3.5 million operating grant. And what was the need in 2006? What was the anticipated operating grant?

Mr. Clayton: — The operating grant that was taken in 2006 was 4 million.

Ms. Harpauer: — So what contributed for the need of an increase?

Mr. Clayton: — I beg your pardon?

Ms. Harpauer: — Why was there a need for an increase? Ridership was up. What expenses did you have this year that created the need for an additional half a million?

Mr. Clayton: — Those expenses were up pretty well right across the board. I can get Shawn to go into that in more detail if you wish.

On the revenue side we do rely a fair bit on our express operations to help contribute to the overall financial health of the organization. We found it a bit of a struggle there to bring about increases in that area of the business. We tend to find it rather flat. Of course there's lots of competition, there's lots of alternatives out there, and so I guess it's not surprising that that would be the case. But that's one of the several reasons why, overall, the grant will still go up from year to year.

Ms. Harpauer: — Currently you are running 28 routes in the province and I know you're looking at a number of ways of streamlining the company. How many of those routes are currently profitable and which ones would they be?

Mr. Clayton: — Of all of those routes, if you define profitability as full recovery of cost plus contributing overall to the bottom line, two out of the 28. That's the Saskatoon-Regina and the Saskatoon-Prince Albert. The others all require subsidization to varying extents.

Ms. Harpauer: — So is there any anticipation of discontinuing any routes at this point in time?

Mr. Clayton: — There's nothing on the horizon that would suggest that fundamental circumstance is going to change.

Those two routes that I mentioned, that is where we have the largest growth in our passenger numbers and it also accounts for a pretty significant part of our overall express business.

With regard to the rest of the province, the impacts of the rural-urban shift are affecting us. The general reduction of our rural populations is a continuing factor. Ironically as the relative wealth or affluence or as incomes of people in the province grow, that tends to have a negative effect on the business. That seems kind of ironic in a way but that's the way it works. Because people generally, if they can afford to do so, would prefer to use their own vehicles, you know, just for the convenience, for convenience's sake. And so, you know, as efforts are made to try to bring more prosperity, then that tends then to give people alternatives to riding the bus. And so that's also a continuing challenge to us. We don't anticipate that that fundamental factor will change either.

Ms. Harpauer: — I have a couple of questions on the assets that are listed. From 2000 to 2005 just tracking . . . I tracked back a number of years. The total value in assets have increased by 3 million. I couldn't find where anything had been added to the properties or the assets that STC had. And I know that STC has been very proactive through that time period in rightsizing their fleet, which would mean that you wouldn't have as many of what would be deemed more expensive coaches. You've gone to vans and other alternatives that would be less expensive. So you've also eliminated the truck miles from Saskatoon to Regina, I believe, or all of the truck miles. Did you not eliminate them?

Mr. Clayton: — I'm not sure about the question. Like, we have a truck operation between Saskatoon and Regina. It used to be a much more extensive thing a number of years ago, but that was all eliminated and so what we have left now is just the Regina-Saskatoon. We've recently extended that to Prince Albert, but that's really all of the truck business that we now have.

Ms. Harpauer: — Right. So you have eliminated . . . You're right; I was mistaken. It's the other truck routes that you have eliminated. So you wouldn't have the need for as many trucks. So what accounts for the increase in asset value?

Mr. Clayton: — Shawn, do you want to . . .

Mr. Grice: — Sure, thank you. The question on asset additions, while I don't have all the years here there's certainly on the statement of cash flow, which is the third statement after the statement of operations, shows investing activities and it'll show you the additions to property, plant, and equipment as well as disposals. And you will note, I think if you look at those years, that we do add equipment in various areas. It may be facility, it may be coaches, it may be computer equipment. Various things have been added.

And there's also a note, note 5 to the financial statements, called property, plant, and equipment. You can actually reconcile between the costs and accumulated amortization of the net book value from year to year along with the investing activities on the statement of cash flows which shows the additions and the disposals, and it will show that we add each year.

We ask for each year an operating grant and a capital grant. The capital grant would be for things that will be added in to the property, plant, and equipment — the fixed assets — and typically about 75 per cent of each year's capital grant is spent on fleet assets. So that would be trailers that are replacing other trailers that are worn out or large coaches that would be replacing another large coach. So while we may be doing some fleet rightsizing, there are still some large coaches on certain routes that are up for renewal or are ready to be sold off and new ones replaced on that route. So there still is a need for ongoing capital.

Ms. Harpauer: — Okay. In the 2004 annual report there was a mention of a storage facility at Meadow Lake and there's no mention of that facility in the 2005 annual report. What happened to the Meadow Lake storage facility?

Mr. Grice: — The storage facility in Meadow Lake was I guess somewhat of a Quonset and it was on, I think it was city or Department of Highways property and somewhat . . . SPMC [Saskatchewan Property Management Corporation] had somewhat of a responsibility for the building at one point in time. STC inherited the building and, from my recollection, we took over the maintenance of the facility. And at one point in time, in '05 I believe it was, we were notified by the city or the Department of Highways that they needed our shed off their property because they were expanding their operations on their land.

We looked for a method to dispose of the facility for fair market value. No one would move our building and take the building for us. I believe an arrangement was made with a northern band that if they would move the facility and take it off the Department of Highways' lot that that would be considered compensation for the facility itself. Because it was not worth much to STC any more, but we had the problem of getting it moved off of the land. And so there was an agreement for sale that was structured as long as they would move the facility off of the property for us.

Ms. Harpauer: — What was the value of the building in the . . .

Mr. Grice: — I think if I'm not mistaken the original cost was about \$18,000 and the net book value was zero.

Ms. Harpauer: — Okay. The next question I have are on the change in employee numbers and placement. And again I recognize that STC has been very proactive in streamlining their operations over the last number of years, and again from 2000 to 2004 the staff numbers actually decreased by one person. But from the 2004 to 2005, the numbers of staff increased by 19, which is fairly significant increase in only one year.

I noticed that six of those employees were added to the express division and 11 were added to the maintenance service area. So what changes occurred or what events happened that you felt the need to significantly increase your staff in those particular departments?

Mr. Clayton: — Madam Chair, part of the . . . I'm sorry we don't have all of that information right at our fingertips to offer

a full answer here right at the moment.

Our recollection is that we did have some changes in the method of reporting numbers. Like for example, how seasonal employees were recorded in one year, I believe, underwent some change. So it has the appearance of perhaps a rather sharp increase but in fact it wasn't. What I will do is undertake to get back to the committee with a full explanation of all of this, if that would be acceptable.

Ms. Harpauer: — It would be great to get the information, but it's actually quite specific in your annual reports where you sort of have a small report from each of the different divisions. And each year it lists the number of employees in each one. So that's how I was able to isolate where the new placement had gone.

So maintenance might be as easily as the changing over the buses to the biodiesel. I'm not sure if that's where you need an increase in maintenance or not. But the freight was the other area. So if you could supply the information that would be great.

Mr. Clayton: — Yes, we'll certainly try to lay this out in a way that we make sure that we're consistent from year to year. Because as I did indicate, from time to time one of the . . . I guess, I've been around government for a long time and the Public Service Commission — and Ms. Crofford here will well remember that — Public Service Commission was tagged with the responsibility, for example, of keeping track of the number of employees across government. And for whatever reasons, that was always an extremely difficult thing to do. You might think on the surface it's very easy, but it had proved not to be.

And I guess what I just want to make sure is that we're not misleading anybody here, and what I'd like to do is come back and have as fulsome a reporting of what was there and what actually changed and what did not change. I'm not confident that the methodology was in fact the same for both years, but if it was, so be it. We'll simply report whatever the facts show us and get back to you as soon as we can.

Ms. Harpauer: — That would be good, and thank you for that. I'm moving on to passenger usage, the fares, and freight. In June 2004 the passenger fares increased by 3.2 per cent, and then in March 2006 you needed an additional increase of 4.5 per cent. The reasons given in the annual report for the latter increase was the significant unbudgeted increase in fuel costs. Do you anticipate any further increases in the upcoming year for either the passenger fares or the freight?

Mr. Clayton: — Yes, actually at the beginning of this month the fares were increased by approximately 4 per cent, and we anticipate in early May that we will have a further increase on the express side as well.

Ms. Harpauer: — Are you finding . . . because I know your express is, as you pointed out, market competitive. I would think most carriers have had to increase their freight due to fuel cost increases, so you've found that as well, like there is some room now for you to put an increase in.

Mr. Clayton: — Yes. What we endeavour to do with regard to our rates partly is to respond to changes in our costs, but also

we're constrained by — in the case of the express business — by what others charge. And so we try to stick fairly closely to the general rates that are charged by others so that we're not undercutting, but we're not overcharging either.

And similarly on the passenger side, we cannot increase the fares there to fully recover costs or the fares would be prohibitive. And so you might ask, well what then do we base those increases on? They are based on a combination of looking at our costs but also where are the other carriers in Western Canada at in terms of their fares? And we try to stay fairly close to that.

Ms. Harpauer: — That answer kind of follows through to my next question actually, because in the 2004 annual report you state that STC fares are about 3 per cent below the Western Canadian average for intercity bus fares. And my question was, do you regularly track that and how are we placing on the passenger fares compared to other intercity bus lines? But you are mentioning that yes, you do regularly track.

Mr. Clayton: — Yes we do. And with the increase earlier this month, we expect that that will put us right at the average for Western Canada. It won't be below or above. If we've calculated it and tracked it as we think we have, then we'll be pretty well right at the average.

Ms. Harpauer: — In 2005 — and the minister mentioned that in his opening remarks — you had an increase which is rather unique in intercity bus lines to my understanding, of usage by 3.6 per cent. That increase is largely contributed to the centennial youth excursion pass program that you put into place. And the report states that over 500 passes were sold. Now you carried that program through to the following year, if I'm not mistaken. How many passes were sold in 2006?

Mr. Clayton: — I believe there's approximately 600. Now, John, was that correct? Just under 700 in '05, and this past year it was about 450. Those were the passes. And of course they could be used multiple times.

Ms. Harpauer: — Now in the first year was the pass \$75, and then in the second year \$100?

Mr. Clayton: — Yes, that's correct.

Ms. Harpauer: — Do you see that as the reason for the decline? Or have you done any, you know, examination as to why the decline in the usage or the take-up of that pass?

Mr. Clayton: — We've asked ourselves that. I think there's probably two reasons. One reason is that part of the take-up in '05 did relate to all of the activity going on with regard to the centennial, and of course that was not repeated in '06. So that kind of impetus to business wasn't there. And we expect probably the increase in the cost had some impact as well.

Ms. Harpauer: — Do you see a benefit to continue now into another year?

Mr. Clayton: — We'll have to evaluate that. We think that there's merit in encouraging young people to use the bus.

For broader policy reasons, we see — you know, as there's more and more consciousness about CO₂ emissions, global warming, and what our response, what the appropriate response is in various parts of the country and so on — the transportation sector would have to do its part if there's going to be a meaningful response to those circumstances. And bus travel is one of the most efficient forms of transportation — in fact, the most efficient form of transportation there is — for passengers.

And so we look to the youth as a group that we would like to encourage to use the bus more even if they do have alternatives. And so from that standpoint, there's merit in continuing with the pass. Whether that is the most appropriate form of encouraging youth utilization is another matter, and we'll have to consider that.

Ms. Harpauer: — When you said in 2005 — and there was a number of events because it being the centennial year — and you found, you know, a greater usage, have you ever incorporated a special rate then for a fairly large event that the province would have? Just off the top of my head, the only thing that comes to mind recently was the Rolling Stones. Is there ever a discount bus rate to encourage more people travelling, say, from Saskatoon to Regina for a special event? Have you ever looked at that type of marketing tool?

Mr. Clayton: — Not in my recent history with the company have we looked at that. I think some of this enters into the charter side of the business, of course, when you're thinking of special events and so on. It's a worthwhile area of looking into.

One of the things that we come up against constantly is what may be desirable or worth looking at on the one hand versus the costs of looking into it, the administrative costs of setting it up and managing it and so on. And we're not as mechanized as we would like to be in that regard. And so we do find it a bit challenging to examine as thoroughly as we would like all of these kinds of ideas and options. They're certainly worthwhile looking into, however.

Hon. Mr. Lautermilch: — If I can, Madam Chair, just a brief comment. When we're looking at excursion passes for students, a special rate for seniors, one of the concerns I think that we always have is being competitive in the marketplace. Obviously the environmental reasons that people would want to use mass transit I think are important to all of us. And I think the board always tries to balance their decisions based on public perception.

Now there are those who would suggest that there should be no publicly subsidized transit system in this province and that this kind of service should be left to the private sector and that the private sector would determine which routes, if any . . . would determine their routes and their operations based on a rate of return that a private sector company would require.

As a matter of public policy, this administration does not take that position. We do want to see more young people using for environmental reasons our buses. We would like to see more business people use the buses as opposed to individual vehicle traffic. And of course our seniors do find this to be a very good service.

So from a public policy perspective, we try to balance attracting more riders as a matter of good public policy with those who will criticize the operations because they are publicly subsidized. So it's always a challenge in terms of how far you go creating an opportunity for young people and business people and seniors but at the same time not, I guess, miscorrecting the marketplace in a way that would be damaging to the industry.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Thank you. I have a technical question on the financial report. I find an oddity in the way some of the numbers are reported, such as seventeen hundred thousand. Why was the word thousand used in there rather than simply putting the numbers in which would have been shorter? Is it to make the report longer?

Hon. Mr. Lautermilch: — Sometimes the bureaucrats, Mr. D'Autremont, are just out of control and they have their own way of doing things.

Mr. Grice: — Sure. We've been directed by Crown Investments Corporation to keep consistent formats in our annual reports. And one of the things they were worried about is expressing some of the numbers in our annual reports, that are very small, in millions. And they felt that for the average reader it may be more clear to put it the way that it is. I can tell you that we've had enough comments on this that for the '06 annual report you likely won't see that again.

Mr. D'Autremont: — Thank you. Actually yours is the only report I've seen that used, that method of reporting so . . .

Mr. Clayton: — We're very obedient.

Mr. D'Autremont: — That's why I found it to be kind of odd.

I was listening to the minister's justification for the reason of the subsidy and I wonder if he could expand it a little more and explain what the subsidy is for. Is it for passengers? Is it for freight? Is it for STC in general? What . . . You know, you've talked about the need to supply the service to youth, to seniors, to be environmentally correct, but where is that as far as the formal policy is concerned? Where is that subsidy directed? For what purpose?

Hon. Mr. Lautermilch: — Well obviously we attempt to use the freight as a revenue source, keeping our rates competitive with other carriers. The subsidy would come to the routes that require subsidy, obviously. We don't have enough passengers on some of these, even with the downsized buses that are used, to break even. So they require subsidy if we're going to operate them.

The purchase of capital equipment obviously could play a part of it, maintenance, facilities. I think, other than the revenue side, it would be a matter of packaging a business plan. And it will change from year to year. The requirements will change from year to year. But I mean the fact that we've got two of the routes that are making money could tell you that, if we're going to continue the other routes, we're going to put money to them.

Mr. D'Autremont: — Other than the two routes that are making money, is the subsidy there though for passengers or is it there for freight?

Hon. Mr. Lautermilch: — It's there for passengers.

Mr. D'Autremont: — So the subsidy itself is strictly limited to passenger service.

Hon. Mr. Lautermilch: — I might be corrected by the president, but I believe that we tend to maintain a business climate on the freight side but that our subsidy is mainly to keep passengers moving and keep the service there for them.

Mr. D'Autremont: — Since Mr. Clayton isn't responding, I'm assuming that's the correct answer then.

Mr. Clayton: — I can elaborate a bit on that. On the express side of things, our revenues are greater than the expenditures that we attribute to the express side. And so we really feel that no, there's no subsidization taking place with regard to the express side.

But when you look at the actual grant subsidy, certainly the passenger operations account for a major part of the economic challenge, or the financial challenge. But it's the total corporation, at the end of the day, it's the total corporation that the subsidy is required for. And I don't think it's quite accurate just to single out and say, well it's specifically the passenger operations. It is passenger as opposed to freight, but I don't think that's as fulsome an answer to the question.

Mr. D'Autremont: — To the minister again. Mr. Minister, your reasoning and your government's reasoning and previous governments to this is to provide transportation opportunities for seniors and youth is what you have said, to provide environmentally friendly transportation. Is this to provide those services to the people of Saskatchewan? Is that what the argument is here?

Hon. Mr. Lautermilch: — Well you know, I think the public policy initiative is very clear from government's perspective, and that is to provide service to communities in our province that under a private sector scenario, total private sector scenario, wouldn't have service.

Obviously you wouldn't find a private sector carrier to deliver either freight or passenger service to some of these lines because it would require a net loss, and I don't know many business people who put a business plan together to lose money — which is why we have government, which is why we have government agencies to provide a service that otherwise wouldn't be there.

And I guess there are those who for philosophical reasons would believe that if it's not making money, we should unload it and that you should dismantle the company and allow the marketplace to determine who gets service and where. We don't take that position. Other governments haven't varied from that position in that the bus company has required a subsidy, and I think there's a belief by most elected officials that we need to provide service in rural Saskatchewan that otherwise wouldn't be there.

Mr. D'Autremont: — How does the government decide which seniors and youth in the province will have this subsidy available to them and which ones won't have?

Hon. Mr. Lautermilch: — Well I think all riders have a subsidy available to them as evidenced by the fact that we put money into the whole program now. Whether it's a business person, a senior, or whether it's a student, the subsidy is there. Having said that, we make and we do target some special cases, i.e., seniors and students, to be able to allow them access to educational opportunities.

I think the other thing is that we target to all students because we . . . You know, I mean, it may not be the coolest thing in the world to get on public transit for many young people. I think that's probably fair to say that's the case. But I think what we're trying to do is create awareness and balance, and all of us want to be good stewards of our environment. It is a fact that public transit and mass transit can create an emission reduction. And I think, you know, over a period of time we as a society will begin to understand that the way we have been doing things, chasing a single vehicle with one person for an extended trip, may not be the best way of treating our environment. And it may just be that young people will take leadership in this area.

I know from my perspective and the community I represent, the place I live in, many of the young people who attend university aren't attending to the SIAST [Saskatchewan Institute of Applied Science and Technology] campus for the courses that are available there, but many of them are commuting to Saskatoon, which is their only option.

And if we could, and we've been looking at ways where we may be able to match a commuter kind of service to the universities. We haven't been successful in putting that together. But if we can allow students to spend that hour and 20 minutes on the bus, reading, doing the things that they need to do as students, and still be able to attend their classes and come home the same evening, save on a pile of rent keeping an apartment in Saskatoon, I think that would be a good thing to do. And it may be that the public over some period of time will ask us to do just that. And, you know, I think the bus company is a good vehicle that could allow that to happen.

Mr. D'Autremont: — Well, Mr. Minister, if it's important that students and seniors all have availability to public transport, if it's important that we be environmentally sensitive in the use of our fuels and transportation, why is this subsidy not offered to all bus riders?

Hon. Mr. Lautermilch: — Well I think we do because . . . but we do single out seniors and students because they're the largest percentage people who have been using our buses.

I mean I guess we could put more of a subsidy into the company by reducing the rates for everyone, but I at some time . . . and I do recall on occasion when there have been public criticisms of the bus company because of the subsidy at whatever particular level. And you're not unfamiliar with that because much of the criticism has come from members of the opposition, members of your party.

And so I think what we're trying to do is balance the delivery of

public service. We make no apologies for the fact that to deliver service in those areas, there needs to be a subsidy, and we make no apology for that because we think it's a good public service. But what we're trying to do is balance our rates — our passenger rates — with what is a reasonable level of subsidy, and we try and keep our subsidy down. We try and keep our rates similar to what other carriers are. And so that's how we base them.

Now because we're singling out students and because we've singled out seniors, you might mount criticism because of that, and you might be able to make an argument that we should be increasing the subsidy. I think we've got a fair balance, and I think we've got probably as good as we can get, given our desire to have service in areas that it otherwise wouldn't be delivered.

Mr. D'Autremont: — Well, Mr. Minister, I disagree with you that the subsidy is available to all seniors and youth and business people who wish to travel. It's only available to those who wish to travel on STC.

There are other bus lines in this province that are running strictly provincial, not interprovincial, and they're not eligible for this subsidy. I believe there is about five private bus companies that are operating in this province, including one from my constituency that runs up 13 and 33 highway, and they're not eligible. The seniors and the students and the business people who use that service are not eligible for the public policy subsidy that you've been talking about.

The fact that they're using an environmentally friendly transportation system is ignored by your government. Your subsidy is only for STC. It's not for seniors and students who utilize other companies of transportation. This is a subsidy for STC. It's not a subsidy for seniors and youth in this province. It's not a subsidy to promote environmentally friendly transportation. It's strictly a subsidy for STC.

If it was for seniors and youth and to be environmentally friendly, that subsidy would be made available to any bus company operating in Saskatchewan. But it's not. So how can you call it a subsidy that benefits all seniors, youth, business, and is environmentally friendly in this province when clearly it is not? It's simply a subsidy for STC.

Hon. Mr. Lautermilch: — Well, Madam Chair, it's not a subsidy for STC. The subsidy is for the passengers.

If the member's making an argument that the provincial government should be subsidizing private sector bus companies who run in other routes and if that's his position, fair enough. If he's suggesting that we, as a matter of public policy, should be looking at subsidy for passenger service for the private sector in other areas, let him say so. Obviously, if that's his suggestion, I would be more than willing to entertain looking at that to determine what process we might put in place to allow this to be expanded.

I didn't know that was Saskatchewan Party public policy. But if in fact you're making policy this morning, say so and obviously we can have that debate.

Mr. D'Autremont: — Well I'm not making public policy this morning. But I am inquiring as to your public policy that's already in place. And when you make general statements that this is available to all the people of Saskatchewan, it's clearly not the case.

But let's talk a little bit more about the subsidy. You have an operating grant of \$3.5 million and I believe you have about 260,000 riders. Would that be correct in the province?

Hon. Mr. Lautermilch: — That would be in the ballpark, yes.

Mr. D'Autremont: — So at a \$3.5 million subsidy, that works out to about \$14.20 a passenger subsidy? Out of a revenue . . . You have revenue of \$27 per passenger. Would that be correct?

Mr. Grice: — We don't calculate the subsidy on a per passenger basis. We do it on a per passenger mile basis. So typically you'll see in the annual report, in the balanced scorecard, we typically track the subsidy that's required per mile. So I don't have these calculations in my head to confirm them but they do look approximately correct that you're saying it's about \$14 per rider. But in the annual report we typically track them as about \$1.06 per mile, I think. In 2005 I think the target was \$1.23 per mile which is taken as passenger revenues divided by the number of miles that we operate in the fleet.

Mr. D'Autremont: — Since you say my numbers are close, because I'm using approximations from your annual report as well . . . As I found out yesterday, numbers in annual reports include estimates within those numbers, so they're not necessarily 100 per cent gospel but they're within the accepted general accounting practices as was explained to me yesterday.

At \$27 revenue per passenger and a \$14 subsidy, you're recovering about two-thirds of the costs through your subsidies — approximately 50 per cent, a little better than 50 per cent of the actual cost. I'm sure though that the private operators in this province that have to . . . And you yourself said you judge your rates and your subsidy according to what the private passenger services across the country are supplying, that they must face similar costs to what STC does in operations. Therefore that would certainly be of benefit for them providing the service as well.

Hon. Mr. Lautermilch: — Well let me answer. And I think that was a question, or maybe it was a statement . . .

Mr. D'Autremont: — Both.

Hon. Mr. Lautermilch: — Well, either or. Let me answer it this way. The bus company is not in the business of subsidizing any other private sector carrier. It's a corporation. It runs as a stand-alone corporation with a board of directors who look at the operations, the runs that they operate under. They make a request to the Crown Investments Corporation board for a subsidy to run the routes that they run.

It is not part of the mandate of this corporation to develop public policies that relates to private sector carriers — Greyhound or individual private sector carriers. That would be done as matter of government public policy, and obviously that is not something that the Saskatchewan Transportation

Company would be mandated to do or is mandated to do. And so I would, you know, I would have to say your question is valid. It's a fair question and it could be addressed to government as a whole, but obviously the bus company is not the vehicle to do that.

Mr. D'Autremont: — The subsidy though, to the individual passenger, is delivered through STC, through the bus company. But the actual subsidy dollars does not come from STC. It comes from CIC, which is a wholly owned arm of the government. Is that not the case?

Hon. Mr. Lautermilch: — I believe that estimates, Crown Investments Corporation, that would be the appropriate place to ask a question as to whether or not the minister and the board, the management, would recommend an expansion to Greyhound, to subsidizing Greyhound runs or to other private sector runs more appropriate than to the bus company under this committee.

Mr. D'Autremont: — But it's important to get the clarification as to why the subsidy is occurring in STC from the Minister Responsible for STC.

Hon. Mr. Lautermilch: — Well let me answer in this way. All of the small communities who are served by the bus company in your constituency are under a subsidy that is a matter of public policy and, in our belief, service that wouldn't be there if we hadn't made that public policy decisions as it relates to the bus company.

As it relates to further subsidies outside of the bus company itself and whether or not we would entertain subsidizing Greyhound or others, that's a fair question. And if your position is that we should, I would be more than willing to have that discussion with you when we do Transportation estimates in the Chamber or any other place.

Mr. D'Autremont: — Now only half of the communities in my constituency that have bus service get subsidized bus service. The other half pay their own way.

Hon. Mr. Lautermilch: — If your request is that we expand that subsidy to others, I'd be more than willing as Transportation minister to entertain that. What I can say as Transportation minister is that I firmly believe that this province, unlike others, needs, requires, should have, and deserves a publicly supported transit system into communities that otherwise wouldn't have it. And that is part of the difference between this government and others who are elected officials as well.

Mr. D'Autremont: — Well, Mr. Minister, if I look back in the past, there have been various governments in place over the number of years that STC has been in operation, and every one of those governments has maintained STC and subsidized the service. And I don't see that changing any time in the near future. And the fact is, Mr. Minister, I think there is a role for STC to play in our communities, and other bus companies as well, Mr. Minister. And I find it very unfortunate that this government has excluded some communities from the benefits of public policy.

Hon. Mr. Lautermilch: — Well, Madam Chair, I would wish to respond in this way. I have listened in the Legislative Assembly to comments during estimates from members of the opposition who have called for the service to be discontinued, that the company should be sold, dismantled, and that it should be put in the hands of the private sector. Now if there's a change in the position by the official opposition, let them state that clearly. We would welcome their support because we believe the bus company is delivering good public policy. Now if the position is that the subsidy should be expanded to Greyhound and other private sector carriers through Crown Investments Corporation or another vehicle of government, let them say that clearly as well.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair. Just to follow up on that, I would like the minister to back that up. I would like a copy of *Hansard* where anyone in the legislature has said that STC should be sold, dismantled, got rid of. Because I've been elected since 1999. I've extensively gone through past *Hansard* in preparation for today. And I would dearly love for him to back up those statements because it is very tiresome that a number of NDP [New Democratic Party] members keep on publicly stating the Sask Party policy which is not true. And that is getting somewhat tiresome.

So if the minister can produce the *Hansard* where that has been said by any political party, and in particular the Saskatchewan Party, I would dearly love to see where that's been said a number of times, as he mentioned, in the Chamber. So will he be producing that information?

Hon. Mr. Lautermilch: — Madam Chair, I can commit this to that member: I can and I will produce statements made by members of the Saskatchewan Party calling for the bus company's privatization. And I will forward those to her.

Ms. Harpauer: — I'm looking forward to that.

Hon. Mr. Lautermilch: — And, Madam, you shall receive those comments and you shall receive copies of those statements. And I will articulate as well by which members they have been made. I will forward them to the Chair of the committee to be dispersed amongst members of this committee and the general public because I think it frankly does require some clarification.

Now would the member commit to me that if I do produce such comments — which I can and which I will — would you ask your leader to provide some clarification with respect to their position as a party so the people of Saskatchewan can clearly understand what your position actually is?

Ms. Harpauer: — If this is from the Chamber, you won't have to clarify which member said it because *Hansard* records who's saying what at all times in the Chamber, so keep that in mind.

I have a number of questions on the new Regina depot. In July 2005 when that was first announced that there would be a new depot built, the estimated cost at that time was 14.5 million. And then in September when the construction was awarded to I believe Westridge Construction Ltd. that estimated cost had

increased to 25.5 million. And I understand all of the reasons behind the increase in cost, in particular when we ran into the same problem in the Humboldt constituency and the Humboldt hospital and the escalating construction costs. Now is the project still expected to be completed within that \$25.5 million budget?

Mr. Clayton: — We have no reason to believe at this point in time that we cannot stick within that budget. Everything seems to be tracking quite well.

Ms. Harpauer: — If there's another increase or an overrun of some sort, who absorbs the cost? Does CIC have to absorb that cost or is the contractor then responsible?

Mr. Clayton: — It's a fixed-price contract and so the contractor . . . well the contractors in bidding the project were bidding on the basis of taking that risk. They said, this is what we'll build it for, and so if their costs change, they absorb it.

Ms. Harpauer: — Okay. There is some controversy as well in the announcement as well as to the anticipated date of when this project will be complete. So now that it's under way, when do you anticipate that it will be a complete project?

Mr. Clayton: — It will probably be in the February, March of '08 time frame when it's completed.

Ms. Harpauer: — Did it actually get started in October?

Mr. Clayton: — Yes.

Ms. Harpauer: — Now initially CIC, if I'm understanding it correctly, gave STC a grant of 2.2 million to assemble the land that would be required. Was that money sufficient? Was it more than that, less than that, or was the 2.2 million exactly what was needed?

Mr. Clayton: — We were somewhat under the 2.2 million for the actual land assembly itself.

Ms. Harpauer: — Now is the entire cost of the new depot going to be paid for by CIC?

Mr. Clayton: — Yes.

Ms. Harpauer: — In the new Regina depot, how much or what percentage of the space is going to be allocated to office space and what percentage in the existing depot is office space?

Mr. Clayton: — If you bear with me for a moment, I know we had a question on that some time ago and . . . [inaudible interjection] . . . In the current depot about 43 per cent of the space is allocated to what generally you might refer to as administration. In the new depot that will be about 28 per cent.

Ms. Harpauer: — So what's the increased space then? I'm assuming if you're going from 43 to 28 per cent, the depot itself is going to be considerably larger.

Mr. Clayton: — It's substantially larger, yes, yes.

Ms. Harpauer: — Is there any — what should I say — is there

things that are being added to warrant the extra space? A gift shop, whatever, I'm not sure. It's been a while since I've been in the existing depot, although my daughter uses it. I haven't had to go and pick her up there, though. Is there things being added to the new space that wasn't there in the old space?

Mr. Clayton: — Certainly on the administrative side of things, the current offices are extremely crowded and, you know, have got people in basement areas that don't have any lights. We have the lunch area 6 feet away from the men's washroom and, you know, things like that. So there has been a fairly substantial increase in the administrative space side of things as well.

In approaching how the facility was designed on the administrative side of things, rather than develop our own approach or guidelines in that respect, we made a decision early on that we would use the Saskatchewan Property Management guidelines that they use for executive government in determining the amount of administrative space and so on. So that was the guideline that we used as opposed to any other standard on the administrative side.

Ms. Harpauer: — I had a question; now it went by me. In a news article — and that's the only place where I've seen it — there was mentioned that SaskPower was interested in the existing property. And of course it makes sense because it is right next to SaskPower. So has there been any development of SaskPower acquiring the land of the existing STC depot?

Mr. Clayton: — We're in discussion with SaskPower concerning the possibility of their acquiring that site. Those discussions have not been concluded as yet.

Ms. Harpauer: — Okay. So they're still ongoing.

Mr. Clayton: — Yes.

Ms. Harpauer: — STC actually owns the . . . it's not leasing the lot or anything like that. It actually owns the . . .

Mr. Clayton: — Yes.

Ms. Harpauer: — Yes. The next questions I have are on the biodiesel project that is under way. And the biodiesel project was announced April 21, 2006, and my understanding is that the coaches that are going to be used for this project need some changes in order that they are compatible with biodiesel fuel. So when was that work completed and the project actually initiated and data being tracked?

Mr. Clayton: — I stand to be corrected by my colleagues, but I don't believe there were changes that were required. The biodiesel we're using is being used as an additive as opposed to being used as a much larger component of the fuel, and I don't believe that that required any retrofits to our motors. Now I think I'm correct on that.

Ms. Harpauer: — But just off the . . . I might have been assuming that because there was mentioned that the cost would be \$28,000. So I think I made the assumption then therefore that the coaches would need some retrofit in order to accommodate the fuel. And I am familiar with the fuel and the facility at Foam Lake where it's being supplied. So then what then entails

. . . why the cost of \$28,000?

Mr. Clayton: — Well that was simply the cost of buying the biodiesel itself, and that's the gross cost. In other words that's the cost of acquiring the biodiesel additive, and factored into that is not any savings in mileage or engine wear that we may achieve out of it. So that's the gross cost.

Ms. Harpauer: — So \$28,000 would be the cost, what you're estimating the cost of buying the product for one year because the pilot project is to run for one year.

Mr. Clayton: — Yes.

Ms. Harpauer: — Yes. Going forward now that you're into this project, is the \$28,000 going to be an accurate estimate?

Mr. Clayton: — No, I don't think so. Actually my recollection was that that cost now that we're running the buses . . . it's all the buses running out of Saskatoon that are currently using the biodiesel. And my recollection was that that figure was a bit higher than the one you've quoted. Now you probably got it from us in the first place but . . .

Ms. Harpauer: — Yes, I did. Yes, I did.

Mr. Clayton: — But I think it is somewhat larger than that, based on the volumes that we're using, because there was I think a bit of an adjustment in the mix that we were proposing. Not much, but some. I can certainly undertake to confirm what that annual cost of the product is for you.

Ms. Harpauer: — But you're anticipating it's going to be more than the \$28,000.

Mr. Clayton: — I think it is more than 28. And that's for . . . Whatever that figure is, and I was under the recollection that it was more in the \$40,000 area, but that covers half of the, roughly half of the provincial bus fleet. And of course if we, after our evaluations, if we, if we were to apply that to the entire fleet, then it would approximately double. Whatever it is, it would double if we applied it to the entire fleet.

Ms. Harpauer: — I can help you out a little bit here. I have a news article on April 22 of 2006, and I'm quoting: "Eldon Lautermilch, minister responsible for STC, said [that] the switch will cost STC an extra \$28,000 over the next year." So the minister's responsible for that misconception of the amount of the program.

Hon. Mr. Lautermilch: — That would've been a draft of a press release that would have been prepared by the bus company officials. So obviously we're going to have to check back to determine what the amount of that is, and Mr. Clayton has undertaken his desire to do that for you.

Maybe at this time I could clarify some of the comments I made as it related to uncertainty about the Saskatchewan Party's position on the bus company. So maybe if I could, Madam Chair, I'll share some quotes with you. There's a pretty broad array, and I will table them with the members of the committee, quotes from *The StarPhoenix*, quotes from the *Leader-Post*, quotes from probably a half a dozen different members, and I

think, irrelevant whether the comments were made in the Chamber or outside of the Chamber, the intent and the direction is clear.

Mr. Huyghebaert: “The first [to be sold] would likely be STC because the public sees little need for it.” Mr. Gantefer: “He would privatize the . . . STC and SaskTel.” Mr. Elhard: “If we could find [a] private-sector bus . . . [operator] that would undertake the passenger and freight service that is provided . . . we would recommend that would happen.” Mr. Elhard: “We don’t believe STC should have a subsidy to begin with so an increase in the subsidy is probably something we . . . wouldn’t support.”

Mr. Krawetz has some comments and Mr. Wall has some comments: “We [would] want to do it in a . . . [timely manner] that we would only remove those routes when there is a private sector or community-based group that’s prepared to . . . [do it].” “Our position is that we want to move out of STC. We want to move out of the cost that . . . is . . . the taxpayers.”

So that’s why maybe the uncertainty. There’s some quotes from Mr. Hermanson as well that I will share with members of the committee, Madam Chair, if I could pass these on.

Ms. Harpauer: — Thank you to the minister for interrupting the discussion that we were having. Could you tell us what . . . it’s being blended in Saskatoon, is my understanding. What is the percentage of the biodiesel blend?

Mr. Clayton: — I believe it’s a 2 per cent solution that we’re using, and my colleagues just provided me with some clarification on the topic of what the cost is. The cost for the biodiesel itself was estimated at 44,000 and that, when you consider the amount of diesel that that would displace, or the regular diesel that that would displace, that net cost then comes down to the 28,000. That’s just in terms of volumes — volumes of fuel that go into the tank. This still does not address the question of, with that biodiesel in the tank, will those engines end up using less fuel overall. So that is not factored into the cost.

Ms. Harpauer: — Nor do those numbers make sense to me because if the cost is 44,000 and the lessened cost of the diesel being displaced is 28,000. You’re only displacing 2 per cent.

Hon. Mr. Lautermilch: — Two per cent. Maybe I can clarify: \$44,000 is the cost to buy the biodiesel. You’re displacing \$16,000 worth of regular diesel fuel, conventional diesel fuel. So if you subtract 16,000 from 44,400 you would get 28,400 in incremental costs for the fuel, meaning biodiesel is more expensive than conventional diesel. You take 2 per cent of conventional diesel out of the tank, and you replace it with 2 per cent of biodiesel. Over the course of the year you’re going to spend an extra \$28,400.

Ms. Harpauer: — Is this the subsidized cost? When you are giving those numbers, is that the subsidized cost? Because my understanding is that the company is subsidizing the product for this pilot project.

Mr. Clayton: — Madam Chair, I’m not absolutely certain of this, but I do believe that is the cost to STC so that the supplier,

whatever price reduction that they would have, that would already be built in to the 44,000 that was estimated.

Ms. Harpauer: — If that is the case — because my understanding is that the company that is subsidizing the product for the pilot project is subsidizing almost half — then the biodiesel product, the cost to STC should be less than the cost of diesel. It’s been a while since I have studied biofuels and done a lot of work on that front. And I have met with this company in Foam Lake and seen their operation, etc. Biodiesel product is more than diesel — the cost — but not over double.

Hon. Mr. Lautermilch: — Here’s what I will do, Madam Chair, is ask my officials to confirm the market cost of biodiesel. I think it’s fair to say that the cost of production of biodiesel may vary from different sources. As you will know, I mean, it’s fairly new. It’s not done on a hugely large scale, so the economics of scale would probably mean that biodiesel would be more costly to produce than conventional diesel fuel. The officials tell me that their contract is \$44,400. That’s what they will expend for biodiesel to put a 2 per cent solution into the buses that run out of Saskatoon, and that it would cost \$16,000 for that 2 per cent solution if they were not using diesel fuel. So their obvious incremental costs over and above conventional diesel would be \$28,400.

Now whether or not the \$44,000 is a fair amount, I will ask the officials to determine that for you. I would say there’s no intention obviously to hide the fact that we are using biodiesel as an experiment. We know this, that it will reduce engine wear and . . . which will cost us less in terms of the lifespan of the engine. I’m told that it could save 40 to \$50,000 per bus by expanding the lifeline of the engine by reducing engine wear. But in terms of the cost, the \$44,000, I will ask officials to look into that.

Obviously our intent is to be transparent. And we have indicated that we are going to be subsidizing biodiesel in the press release that you’ve quoted from. We’ve indicated what the cost on an annual basis is, how much we believe the diesel fuel to be, and the net result would be an incremental cost of \$28,400.

Ms. Harpauer: — I didn’t suggest that you would be subsidizing the price. I suggested that the company that’s supplying it is, that they are basically the . . . Just give me one moment here. Milligan Bio-Tech Inc., the spokesperson for this particular article was Zenneth Faye who I’ve met a number of times. And as I said, I’ve gone to the facility that they have at Foam Lake. “Faye said his company will subsidize the test project by about \$2 a litre — half of the estimated \$4-a-litre-cost of bio-diesel.” So that is what is in the article.

And so no, I didn’t suggest that the government was subsidizing it. I’m suggesting that the company itself is subsidizing it to be a part of this project.

Hon. Mr. Lautermilch: — Fair enough.

Ms. Harpauer: — So if you could get me a breakdown of the cost of that and . . .

Hon. Mr. Lautermilch: — We certainly can.

Ms. Harpauer: — That would be great. Are there any preliminary results to date on the effectiveness of the biodiesel, be it fuel economy, be it engine wear?

Hon. Mr. Lautermilch: — We haven't had the reports. We haven't had the analysis completed at this time.

Ms. Harpauer: — When is the end date of the project?

Hon. Mr. Lautermilch: — I'm told it's in March that we should be able to have that information.

Ms. Harpauer: — The annual report states that you've been sort of upgrading and updating your fleet now over the last six years. Other than the biodiesel project, what steps has the company taken to reduce emissions as you update your fleet?

Mr. Clayton: — With regard to buying brand new vehicles, there's a bit of a two-edged sword phenomenon going on. The new engines apparently do have fewer noxious emissions but the overall efficiency of the engine in terms of litres used tends to be less, and so there's greater CO₂ emissions. So how one figures all of this out in terms of net benefit to our society is a good question.

And I think the answers to those kinds of questions depend a lot on where you live. Like if you're in an area where smog is a problem, well you'd be interested in these new engines with the lower noxious emissions. But that hasn't been a problem out here of course, and so the overall CO₂ emissions would be up and sort of offsetting.

Now having said that, the bulk of the purchases that we've made of full-size coaches in the last couple of years have actually been used coaches. And we have found that we can buy . . . so far we've been able to buy used coaches at a fraction of the cost of a new one and they still have an awful lot of useful life left in them. Now we think this is a very good business decision to do it that way. However they are used and so we're not . . . If you look at the figures of how old the fleet is and so on, it's not being reduced in terms of age. But we think we've made good economic decisions.

Ms. Harpauer: — Okay. Most of your larger coaches, I would think, would be now within this biodiesel project since the project's being run on all buses feeding Saskatoon, right? Or would it be about a 50/50 split?

Mr. Clayton: — It would be about 50/50, yes.

Ms. Harpauer: — It would, okay. A different line of questioning. My understanding is that in the year 2003 a decision was made strategically to increase the awareness of STC through advertising. And subsequently, beginning in the year 2004, the advertising budget was increased to \$300,000 per year. And the decision was to spend that amount of money for three years going forward, which would be 2004, 2005, 2006. So have you spent that entire \$300,000 budget during those three years, each of those three years?

Mr. Clayton: — Yes, we have. It's very, very close to that, in any event.

Ms. Harpauer: — Have you gone over budget in any particular year?

Mr. Clayton: — Not . . . For the general awareness advertising, I don't believe we have. John?

Mr. Millar: — No.

Mr. Clayton: — No, we have not.

Ms. Harpauer: — When you made this decision — and I believe it was to try to get better awareness — you targeted seniors and youth, I believe the report said, were targeted in the advertising initiative. Did you have a mechanism in place or is there a way to measure the effectiveness? Do you have some way of knowing if this particular initiative is paying off?

Mr. Clayton: — Well we think the passenger numbers themselves that have been going up by around 9,000 passengers a year the last two years, which is quite a turnaround from the decreases of about 4 per cent a year that had gone for about 16 straight years, we think probably that the awareness advertising had something to do with that.

I guess part of what we're trying to do with the advertising is to say to people, first of all, here's the service, but also to kind of improve the image of bus travel. I think with, you know, the very poor Regina depot that we've had, that certainly is not very conducive to a good positive image for bus travel. And regardless of where the comments have come from and so on in the past — you know, when you hear, you know, comments like the money-losing STC and things like that in the paper — it tends to give kind of a negative spin on the company and what it's there for and so on and so forth. And so what we were trying to do with the advertising is just to put a positive spin on the use of bus travel.

Now that advertising, combined with the limited amount of charter business that we do — we don't do a lot of, we just do some of; we're quite selective in that respect — particularly for the sports teams at the two universities, I think, you know, to use a bit of slang, I think doing that has made travelling on the bus a little more cool in the eyes of the youth particularly. It's really difficult to pin down cause and effect, and I don't know that we really can definitively say that. But our indications are that, or I think our feeling is that this advertising plus the efforts made to upgrade our buses a bit and certainly the news on the new facility and so on has improved the image, and that that is in part what's behind the increase in the passenger numbers.

Ms. Harpauer: — Thank you. I have one question on the payee disclosure. And there was a \$71,000 transaction listed in the payee disclosure that wasn't disclosed in essence because it might provide harm if it was disclosed. Is there any light that could be shed on the nature of that expenditure without giving specifics that could harm a specific company?

Mr. Clayton: — I don't know quite what to say, Madam Chair, about that. It was a matter that was very specific to the area of the province we were talking about and some very specific circumstances. I'm reluctant to say much more without causing the very harm we were trying to avoid. But what I can assure members here about is we have discussed this matter

thoroughly with our auditors and that they are in agreement with not disclosing the payment. It certainly is a very odd circumstance, and we acknowledge that. But it is entirely out of recognition of the circumstances of the recipient.

Ms. Harpauer: — Okay, thank you. I have one question that sort of deals with policy. And in both the 2004 and 2005 annual reports, there's mention of a concern that the intercity bus industry may be deregulated nationally. And my question would be, what indicators have you had from the now present federal government that this is going to take place or not, and if so what kind of timeline are we looking at that they may deregulate the intercity bus services? Because I understand a number of the concerns you would have with that happening. So what indication have you had that it will happen, and if so, when?

Mr. Clayton: — I'm not aware of any recent developments along that line. I'm not personally aware of it. If any of my officials are aware of anything recent, they can correct me on that. But I don't believe that there have been any initiatives taken along this line.

Ms. Harpauer: — But there must have been at some point in time to continue to raise the concern. Somewhere there must have been what, rumours or indication from the federal government, which would have been a different government at that time . . .

Mr. Clayton: — Yes.

Ms. Harpauer: — That they were looking at deregulating.

Mr. Clayton: — Perhaps we're being a bit . . . I try to avoid using that word paranoid, but I don't know of another word at the moment. Perhaps we're digging a little too deep in looking at the risks. But I guess it was just a fact that the matter had been discussed. It had been a subject of a lot of discussion around a Senate committee. And our concern was that that discussion might get resurrected at some point and away we go.

There has been nothing that I am aware of that would cause us to elevate our concern recently. It's sort of been just a lingering concern, if I can describe it that way, about what potentially might happen if those discussions were resurrected.

Ms. Harpauer: — So you've obviously had the discussion of what if, like you're speculating with the risk of that. Do you have a contingency plan somewhat in place that in the event that that happens, what direction or what changes STC would have to make?

Mr. Clayton: — Well I think for the most part it's not too likely that the bulk of the bus routes in the province would be at risk if this were to take place, simply because of the very challenging economics of trying to operate a bus service in our rural areas. There are particular areas where it's possible to get by. For the most part though I think those are operations that are small enough that they don't have some of the extra services involved that the company like STC has to provide, like for example the entire freight shed, for example, where you have to sort incoming and outgoing volumes and so on. I mean those are costs that we incur that a small individual operator wouldn't incur.

But setting all that aside, we doubt that there's that much threat to the bulk of the system. Where the threat would be, would be that Saskatoon, Regina, Prince Albert corridor. And, you know, potentially another carrier could come in and start operating there. My guess, however, is if that were to happen that would simply mean neither one would make money, you know, each split the business and the overheads would still be there. And so whether it's a . . . You know, how much of a risk it really is, is very hard to determine. But it might be very convenient for Greyhound, for example, to just carry on to Saskatoon from Regina, connect up with their Yellowhead route, and so on. That would be our biggest risk.

Ms. Harpauer: — Thank you.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Okay. Thank you. In the annual report you provide a couple of pages dealing with corporate governance guidelines. And one of the comments in their indications is independent directors. I wonder if you could define for me what an independent director is. Independent of what?

Mr. Clayton: — My understanding of that is that there are no financial connections whatsoever between the members of the board and the company. There's no business interest there that would provide a conflict, or relationship of any kind.

Mr. D'Autremont: — Okay. Thank you. I'm assuming that all of the things that you have listed down here as corporate governance guidelines are the things that the corporation is doing or would like to be doing. Is that the case?

Mr. Clayton: — Yes.

Mr. D'Autremont: — There's a significant number of them though here — you know, might even be heading towards 50 per cent — that the corporation has not yet met. I'm wondering why that is. You have three categories: already in compliance; change required for compliance; or no change in practice, additional disclosure required. So there is, you know, probably 40 per cent or so that are in that no change in practice, additional disclosure required. And there's one item in change required for compliance.

Mr. Millar: — Mr. D'Autremont, if I could answer that. In that year we changed from using . . . Previously CIC Crowns had used TSE [Toronto Stock Exchange] best practices governance guidelines. That year we changed to . . . with the investment bankers. Can you remember the title?

A Member: — Canadian Securities Administrators.

Mr. Millar: — Canadian Securities Administrators best practices guidelines. So for that one year there were a couple of areas where we were off-line because different guidelines were being used.

Mr. D'Autremont: — You are now for 2006 will be in compliance with those?

Mr. Millar: — Yes. We hope to report full compliance in '06.

Mr. D'Autremont: — Okay. Thank you very much. The only other thing that I have is the presentation that Mr. Lautermilch made or his submission on quotes. And Mr. Lautermilch had mentioned initially that quotes from *Hansard* . . . that these were statements in the Chamber, and none of the evidence that Mr. Lautermilch has presented is from the Chamber.

There are quotes from various newspapers quoting columnists, and most of them are from pre-1999. There is one set of statements from 2004 and quotes from the newspaper about Mr. Elhard's statements. And the context in which those questions were asked is, with the declining population in rural Saskatchewan, is there a need for STC, was the reporter's questions, and his responses relate to that.

And the minister in his statement said if there has been a policy change, he would be very pleased to be informed of that. And in fact is, Mr. Minister, there has been a policy change, and the Saskatchewan Party in fact supported wholeheartedly the legislation that the NDP government brought forward in support of the Crown corporation sector. And so yes, Mr. Minister, there has been a change of policy.

Hon. Mr. Lautermilch: — Madam Chair, to bring members of the opposition side up to speed I will quote from *Hansard* directly, from 2003. This is from your leader, and I quote: "The debt of the province has grown under this government and we have said that the proceeds from those sales [of certain Crown corporations] should be applied to the debt."

Now if there's some uncertainty, Mr. Member, it is because of the quotes directly from members of the Saskatchewan Party. And so I will today table quotes from the retiring Mr. Wakefield of March 22, '02; the leader of your party, Mr. Wall, of March 26, '03; a member of your caucus, Mr. Toth, from June 11, '96 — so there's some history here obviously — a quote from Mr. Hermanson of July 10, '02; and another quote from Mr. Wakefield of March '02.

So what I am saying here is you have a history, both inside and outside of the Legislative Chamber, supporting privatization. If your public policy has changed, then that you are absolutely, totally, and diametrically opposed to unloading the Crown corporations, I would hope that the Saskatchewan Party will clarify it. But what I had said I would do was table quotes both from within *Hansard* and outside of *Hansard* for this committee. And that's why the uncertainty, Ms. Harpauer.

I think it's very clear that the government supports the utilization of Crown corporations to provide public service and to provide the lowest utility bundle cost in the country. And we are doing that. We're using the Crowns as the vehicle to make that happen. The uncertainty doesn't come from our side of the House, it comes from the position on privatization that the Saskatchewan Party has had since its inception. So allow me, Madam Chair, to table these quotes and the dates from within *Hansard*.

Mr. D'Autremont: — Thank you, Mr. Minister. You have gone back into some ancient history and different parties even there. As I said earlier, perhaps you were not there for that vote that day when the vote was done on the Crown corporations Bill that was presented by your government, but the Saskatchewan

Party wholeheartedly supported that Bill which deals with retention and usage of the Crown corporations. And we supported that.

The fact is though your government has sold a number of Crown corporations, and some of that money has indeed gone — as one of your quotes in here is — to providing for debt reduction. So the only confusion, Mr. Minister, rests in your mind, not in the Sask Party.

Hon. Mr. Lautermilch: — Madam Chair, if I could, I think it's not a matter of confusion from within my mind. It's the perception of the people of Saskatchewan in terms of their Crowns and what a Saskatchewan Party government may do if they were in power. I think it's clear where the New Democrats stand. And obviously we have made some changes in terms of Crown ownership in some instances, and obviously we do support SaskPower, SaskTel, the bus company, and others, because they do provide a good service for the people of Saskatchewan. They maintain jobs here in our province, and we continue to support them.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair, and in light of the last debate, I think the way to resolve it is for your government to call an election. So with that, I move:

That the committee conclude its review of the 2004 and 2005 annual reports, financial statements, and related documents for the Saskatchewan Transportation Company.

The Chair: — Ms. Harpauer has moved a motion:

That the committee conclude its review of the 2004 and 2005 annual reports, financial statements, and related documents for the Saskatchewan Transportation Company.

Ms. Harpauer has made the motion. All agreed?

Some Hon. Members: — Agreed.

The Chair: — Any opposed? Carried. Thank you.

That brings the Crown and Central Agencies Committee to a recess until 1:30 this afternoon. I'd like to thank Minister Lautermilch and his officials for appearing before the committee today. I'd also like to thank the Provincial Auditor's office and Mr. Drayton for appearing before the committee today as well. And, Minister Lautermilch, do you have a few things you want to say?

Hon. Mr. Lautermilch: — Madam Chair, I want to thank members of the committee for the interaction this morning. I think it's always helpful when we can clarify some of the concerns of members in terms of the operations. And I want to thank my officials for their work, not only today but during the course of the year in providing a very essential service to the people of Saskatchewan. So I thank them all for that.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — And I too would like to thank the officials

for coming today. And I think we covered a lot of ground and clarified a lot of information for myself, so thank you so much for your time.

The Chair: — Thank you. So we stand recessed until 1:30 this afternoon. Thank you very much.

[The committee recessed for a period of time.]

Saskatchewan Power Corporation

The Chair: — Good afternoon, everyone, and welcome to this session of Crown and Central Agencies Committee meeting. And today with us on the government side, we have Ms. Crofford sitting in for Minister Wartman, Minister Addley, and Minister McCall.

On the opposition, we have Mr. Duncan, Ms. Eagles, Ms. Harpauer, and Mr. D'Autremont.

Appearing before the committee today we have Saskatchewan Power Corporation, and the minister responsible is Minister John Nilson. Perhaps you'd like to introduce your officials at this time.

Hon. Mr. Nilson: — Yes, thank you. I have with me Pat Youzwa, who's the president, Rick Patrick, who's on my far right who's the vice-president, and Bill Jones, who's the chief financial officer.

The Chair: — Thank you very much, Mr. Nilson. With us as well today, we have the Provincial Auditor's office and Mr. Fred Wendel. Perhaps you'd like to introduce your officials at this time as well.

Mr. Wendel: — Well thank you, Madam Chair. Next to me is Judy Ferguson. Next to her is Bob Watt from Deloitte. And on, over on the side is Andrew Martens, who attends all committee meetings, and Ed Montgomery.

The Chair: — Thank you very much, Mr. Wendel. Minister Nilson, did you have any opening remarks that you'd like to make at this time?

Hon. Mr. Nilson: — Yes, I'd like to make a few, so thank you very much. I appreciate the opportunity to make a few remarks along with the officials, and I'll be happy to answer questions when I'm done.

Much of the information that will be referenced today is available in the 2004 and the 2005 SaskPower annual reports, which include the financial statements of SaskPower subsidiaries as well as the Power Corporation Superannuation Plan annual report.

I'm pleased to say that SaskPower has a proud history of serving the people of this province and continues to fulfill its mission to deliver power in a safe, reliable, and sustainable manner.

With the requirement for two-thirds of SaskPower's generation fleet to undergo refurbishment or replacement in the next two decades, SaskPower is in for a period of renewal. New sources

of supply must meet stringent environmental requirements while remaining cost-effective.

I'm pleased to report that the recently commissioned centennial wind power facility embodies the type of solution SaskPower will strive to produce as it moves forward. With 83 wind turbines, the centennial wind power facility will provide enough zero emission energy to meet the needs of approximately 64,000 homes, accounting for approximately 5 per cent of the province's total generation capacity which is one of the highest percentages in Canada.

Having successfully harnessed the wind, SaskPower has now turned its attention to finding a way to use Saskatchewan's abundant lignite coal reserves in a more environmentally responsible way. If the clean coal project is proven feasible, SaskPower will join with their partners in sharing this technology with others around the globe.

In recent years, SaskPower has recorded a number of notable achievements. There have been extensive rebuild and life extension projects at Shand power station, our Poplar River power station, Boundary dam power station, and the Nipawin hydroelectric station. SaskPower strengthened northern services by completing major transmission line construction. SaskPower's safety management system was registered to the international OHSAS [occupational health and safety assessment series] 18001 standard.

Environmentally preferred power contracts were signed with NRGreen Power Ltd. for generation using heat recovery. Millions were spent on new customer connects and to upgrade existing services, and a service delivery renewal project was launched to examine and strengthen key processes used to meet customer needs.

In addition to supplying power and a high level of customer service, the corporation also experienced strong financial results in the past few years. SaskPower has and continues to focus on strengthening its core business and providing good service at reasonable rates to Saskatchewan people and businesses.

I acknowledge that the Provincial Auditor is here today, and I thank him for his comments in his report. SaskPower takes the issue of financial irregularities very seriously. SaskPower has a strong track record in managing and protecting corporate funds and assets and has established an extensive system of financial and management controls. SaskPower will continue to build upon and improve procedures to detect and deal with individuals involved in fraudulent activities or misappropriation of funds.

I want to extend my thanks to President Youzwa and to all of the Saskatchewan Power employees for their commitment and dedication to our province and to its people. And thank you very much for that opportunity to make a few remarks, and we look forward to questions.

The Chair: — Thank you, Minister Nilson. I would now like to invite the Provincial Auditor's office to make some opening remarks as well.

Mr. Wendel: — Well thank you, Madam Chair. I'm going to

have Judy Ferguson give a brief presentation on the two chapters that you are considering today in our annual reports. And then she'll turn it over to Bob Watt for comments that he may have.

Ms. Ferguson: — Thank you, Fred. Madam Chair, members, and officials. As Fred indicated, I'm actually pleased to present the results of the 2004 and 2005 audits, which are in the annual reports and in our reports, in addition to chapter 4 of our 2001 report volume 1 and chapter 9 of our 2006 report volume 1.

So we found the financial statements included in SaskPower's 2004 and 2005 annual reports to be reliable. Also the 2004 and 2005 financial statements of SaskPower's wholly owned subsidiaries and its superannuation plan were also reliable.

SaskPower, its subsidiaries, and its pension plan had adequate rules and procedures to safeguard public resources. And they complied with legislation governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, investing, and borrowing.

In carrying out our work, we worked with the appointed auditor, Deloitte Touche, and we received excellent co-operation from both Deloitte and from SaskPower management, which we'd like to thank them and acknowledge them for.

So moving on to chapter 4 of our 2004 volume 1 report. In addition to the results of the annual audit of SaskPower subs and pension plan, this chapter includes the status of recommendations we initially made in our 2002 spring report.

In 1998 SaskPower had estimated it would achieve benefits of 120 million through improvements it made in its processes done in conjunction with implementing its then new computer system. Most of the changes and processes affected the power production unit of SaskPower. In 2002 we reported on the adequacy of processes SaskPower used to realize, measure, and report on the results on these benefits and we made three recommendations as set out on page 68 of chapter 4 in 2002.

We recommended, "SaskPower should set out the benefit targets and measures for the System in its business plan and report the results achieved in its annual report."

We recommended it "establish policies to support a long-term continuous process improvement program that includes training and System support plans for its employees."

And thirdly, we recommended it "provide its Board of Directors with independent advice on benefit targets and measures, the effectiveness of these new work processes and on the reliability of key reports."

In the 2004 report we reported that SaskPower had implemented the first recommendation and had made some progress in implementing the other two. I'm pleased to report that, since our 2004 report, SaskPower's implemented the remaining two recommendations.

Moving on to chapter 9 of our 2006 report volume 1. This report reports on the results of our December 31 audits of

Power and its three subs and superannuation. In addition it provides results of our other work. Businesses and the general public rely on SaskPower for electricity. It is SaskPower's job to meet their need for power. SaskPower has invested over \$1 billion from 2000 to 2005 into its electricity generating infrastructure.

Typically power plants operate for up to 50 years. Refurbishment or replacement of these plants is expensive. In this chapter we report on the adequacy of the processes SaskPower uses to plan for its infrastructure needs related to generating electricity.

We conclude that processes were adequate except for two areas. The first area of concern centres on SaskPower's need to better document the procedures it uses to identify infrastructure needs and set strategies to manage its infrastructure. Solid documentation of key processes and activities is always vital. Documentation not only helps staff carry out their duties as expected, but is used to communicate decisions reached and set out the basis for those decisions. The importance of documentation has increased in today's world due to turnover of staff resulting from retirements.

We make two recommendations relating to improving documentation of key processes for planning infrastructure needs. The first is on page 110, recommendation no. 2: "We recommend SaskPower document its ... [processes] for preparing its analysis of electricity needs and its ability to meet those needs."

The second recommendation is on page 113, recommendation no. 4: "We recommend SaskPower document the nature and extent of specific infrastructure risks that it accepts when it approves projects."

The second area of concern centres on the need for SaskPower to improve its processes to ensure consistent analysis of risks and alternative strategies. The identification and analysis of risks is a key part of good planning. Use of risk management frameworks helps staff have a common language about risk, that is, it helps staff look at and understand risks in a common way. In our audit we noted that while SaskPower did have a risk management framework, the framework did not extend to include risks related to its electricity generation.

We also expected that SaskPower's plans for infrastructure would align with its longer-term corporate plans, that is, its strategic plan. During the audit we noted that SaskPower did not have a current strategic plan and was in the process of developing one.

We made two related recommendations. The first is on page 110, recommendation no. 1: "We recommend SaskPower expand its risk management framework to include risks related to ... [infrastructure] generation."

The second recommendation is on page 112, recommendation no. 3: "We recommend SaskPower use its new strategic plan to assess alternative strategies that address identified infrastructure needs."

In summary, we've made four recommendations for this

committee's consideration for today.

I would like to acknowledge the co-operation we received from management and Deloitte in carrying out our work. And this concludes my presentation, and we'd be pleased to respond to your questions. But first I'd like to turn it over to Bob Watt to provide his comments.

Mr. Watt: — Thank you, Judy. Madam Chair, members and officials, my name is Bob Watt and I am the audit partner at Deloitte & Touche responsible for our audits at SaskPower.

Our reports on the consolidated financial statements can be found on page 26 of the 2004 annual report and page 42 of the 2005 annual report. Both are unqualified reports and state that the financial statements in our opinion are in all material respects in accordance with generally accepted accounting principles.

Our audits also encompass NorthPoint Energy Solutions, SaskPower International, and SaskPower Superannuation Plan.

In conducting our audits, we worked closely with the Office of the Provincial Auditor. I would recognize the excellent working relationship we enjoyed with that office and with the management of the corporation in conducting our audits.

I look forward to being part of the proceedings this afternoon and would be pleased to respond to any questions you may have. Thank you.

The Chair: — Thank you, Mr. Watt . . . [inaudible] . . . Ms. Crofford.

Ms. Crofford: — Thank you, Madam Chair. I wasn't anticipating asking many questions but one of your comments prompted one and it was the comment about the average lifespan of the infrastructure. Is there situations in the private sector or in other government-owned utilities where people are choosing to convert to other infrastructure for environmental reasons that may not necessarily have anything to do with the lifespan of the utility? And I don't know who's . . . best position to answer that question.

Mr. Patrick: — Thank you for the question. There's really two components to that. There's, if you like, the original design expectation around assets that already exist or could be life extended because, as it's turned out in our industry, it is possible to keep machinery alive a lot longer than the original designers would have thought.

And it's generally a truism in the business that, all other things being equal, it's cheaper to run what you've got than to build something new. So up until recently at least, the economic decisions around refurbishment as opposed to replacement have been quite clear and there's a very good payback in so doing.

That said, the investment, if you like, in existing infrastructure which may have been life standed means that there's probably a depreciation model in place and those assets have some remaining life, value in them until the end of their apparent life. And it's quite predictable, it's well documented, it's thoroughly covered by accounting principle.

So at a point where you may choose to say there is a reason why we may want to shut something down and replace it with something else, you may incur a writeoff, if you like, of that asset value which essentially is just an economic decision. And so you compare the economics of that versus whatever you might do alternatively.

With respect to new assets, the renewables industry — which I might characterize as an emerging body of technologies — are generally shorter-lived assets. The nature of them is such that they seem to have design lives that are more measured in perhaps 20, 25, 30 years. It's not to say that over time they may not have a longer lifespan, but that's the current experience. If that's the case, it's not unlike, if you like, dot-com technologies where the thing rolls over very frequently. So if an asset doesn't have a long life, you have a chance to replace it more frequently and you may choose to do so.

So really, you know, sort of a circuitous answer to your question is, when you're looking at replacing the existing plants, we look at any remaining life value they have and that goes into the equation, if you like, when you're comparing it to a cost alternative, something else. For things that have yet to be built, I think it will be a mixture of both long-lived assets and shorter-lived ones. And the advantage, quite frankly, of the longer-lived assets when you choose to employ them is that they are so terribly expensive you really just need an awfully long time to, if you like, to amortize them.

The Chair: — We're going to entertain questions now. I'm sorry I jumped the gun there but it is for consideration of the 2004 and 2005 Saskatchewan Power Corporation annual reports and related documents. Any questions? Ms. Harpauer.

Ms. Harpauer: — I'm going to direct my questions on the Provincial Auditor's reports first, if we can.

The Chair: — Sure, absolutely.

Ms. Harpauer: — Starting with the 2004 annual report, chapter 4, and just to sort of do a little summary of the investment. And it's my understanding of the new information system was in 1998, and it was in 2002, which was four years later, that it was found that — through an audit — that SaskPower had a culture that avoided change and as a result a number of initiatives were undertaken to address the problem. And they are outlined in your report. There's five or six initiatives that were mentioned.

The report also states that there were no mechanisms put into place to monitor if these strategies and initiatives were indeed working and it's now four years later after that audit was conducted. So is there progress now on . . . which is recommendation no. 2?

Ms. Ferguson: — As my presentation indicated, all the recommendations that we've made in this chapter here, they've all been fully implemented. So yes, there is progress on that particular recommendation and on the rest of them. They actually have met the recommendations that we've set forward here. So they've adapted and changed the processes to our satisfaction.

Ms. Harpauer: — Okay, thank you. Then I have some

questions for SaskPower and that is also on the Provincial Auditor's report on page 70. There's mention that SaskPower filled the support system staffing needs with long-term contract help. And was there a need for . . . to resort to contract help due to a lack of specific professional skills within the SaskPower staff? Or was it a cost factor — you just found it was more economical to get contract help with the system? Or was it a matter of what the Provincial Auditor identified as resistance to change?

Ms. Youzwa: — We have used contract staff for support for the new information system. It's been a combination of both being able to access people with the skills and knowledge to be able to provide the kind of support we required, also considerations of the costs and expenses to the corporation in maintaining the system. We're always looking at ways in which to manage those costs. It was not, I would say, because of resistance to change within the corporation. It was really the best way we could see to access the services that we needed for the support that was necessary.

Ms. Harpauer: — Okay. The new system in 1998 cost \$58 million. And the Provincial Auditor pointed out that there was, more rapidly there was improvement realized in the power production area, but there was a longer time period before the benefits were realized in transmission and distribution. Now initially SaskPower estimated that the benefits from the improvements in the processes enabled by the system would total 120 million. To date how close is SaskPower from realizing that \$120 million benefit?

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. Chair, with your permission, I have a handout in respect to this particular item. I don't know if you want to hand it out now or do it later, what the protocol here is. This responds to the question directly, as well as responds to a question I believe by Mr. Elhard at the last meeting where he asked about the reduction in the benefits. So with your permission . . .

The Chair: — I'm just going to ask the minister to table the document right now, and then we can take a quick glance at it.

Hon. Mr. Nilson: — I'll table the document called Delta benefits realization and reduction of benefits.

The Chair: — Thank you.

Ms. Harpauer: — Does that report, just while it's being distributed, does it also include the costs to date?

Mr. Jones: — Yes.

Ms. Harpauer: — Because that was my next question, was that there was a forecast of what the cost would be and I was wondering how accurate that forecast was.

The other questions I have then are on the 2006 Provincial Auditor's report. And I'll begin with recommendation no. 1, and the Provincial Auditor report states that "Although SaskPower has identified and evaluated significant risks, it has not documented an overall risk management strategy for electricity generation." And if I could get a little bit of clarification there on that statement. Are you suggesting that

although SaskPower has extensively identified the potential risks that could result in power generation interruption, they don't have an adequate contingency plan in place to address those risks if they occur? Is that what is meant by that? That's on page 109, I believe.

Ms. Ferguson: — Thank you. Just let me have a quick peek. What we're referring to on that one there is that in the course of our audit here we noted that there was evidence that they were making assessments of risks and decisions about risks but their documentation in terms of how they got there, they had some gaps in that documentation.

We also noted that in terms of when you're doing risk analysis it's always — and particularly when you're dealing with larger organizations — it's really important that all parties involved have a common understanding as to what you mean by risks; that your board understands that, your minister understands it, and all the different areas of your organization. And that's where, from our perspective, a risk management framework is very important and useful to have. It facilitates that common understanding so that people are speaking the same language.

So you'll find that if we go on to the next page, we talk in terms of having a risk management framework. We note that they have one but we didn't find, we didn't see evidence that they were actually using that in their work when it dealt with assessment of risk for the power generation.

And so what we're saying is use that, extend that framework to that so that when you're looking at risks from a corporate point of view and for your power generations, you're looking at them in a similar way, so that you're assessing them in a similar way and so that you can . . . They feed into each other and build into each other in a more robust manner.

Ms. Harpauer: — So if I'm understanding that response it means that they were . . . It was not well documented how they got from A to B. They identified the risk, but you weren't sure what . . .

Ms. Ferguson: — That's right.

Ms. Harpauer: — Okay, thank you for that. Okay, recommendation no. 3 on page 111 and 112. And again I'm sort of searching a little bit for clarification again. The report — if I'm understanding — it means that SaskPower has adequately identified and forecast what the power generation needs will be for the long term but they haven't coordinated the plan of what infrastructure will have to be in place and in what order in order to meet those needs. Is that correct?

Ms. Ferguson: — Somewhat. Basically what we're saying is that, as an organization, your electricity generation needs has to be integral and a part of your overall corporate organizational plan and your organizational strategy for a long term. As was discussed earlier, the power generation facilities and power plants — you know, even the newer ones that are 20 years — but they're 20 to 50 years, very long-term horizons.

And so what we expected from an audit point of view is that your planning would be aligned or feed into your overall strategic plan. So from a power generation point of view the

decisions that you're making, you know, as from an organizational point of view, if you're going to keep on with coal or move to a clean coal or some other environmental or other different way to generate power, that's important to know in when you're making your power generation decisions today. So they have to feed into each other.

So what we found when we did this audit is that the strategic plan of the corporation wasn't current. And so we could not see where the two aligned with each other because there wasn't a current strategic plan. So hence our recommendation. So what we're saying is it's critical that your planning for electricity generation fit in to your longer-term corporate plan, you know, because they're a key part.

Ms. Harpauer: — So this particular section and recommendation solely deals with the generation of power, the infrastructure, whatever. It's not the financial . . . how the finances is going to go into place to support that change. It's just the structure itself, the infrastructure itself.

Ms. Ferguson: — It's primarily the structure itself. We did look at how they were projecting and costing out what they were planning to do and we did not raise concerns in that matter. So the plans they had, they did budget for them, they did plan for them, etc. It's just the alignment aspect that we had gaps in this case.

Ms. Harpauer: — Okay. Thank you. The question I have for recommendation no. 4 probably will be best answered by SaskPower officials.

I know we've met in the past and we've had discussions on what direction the federal government's going to take in reference to environmental issues and standards and how that will impact SaskPower. And in every discussion, I've heard the frustration amongst the SaskPower officials that we know that it's coming, we don't know when, we don't know what the timeline is, and we don't know what the standards will be, etc., etc.

Could we get an update on what is happening with the environmental issues federally, what you're hearing? Are they going to set standards and are they going to give timelines that those standards need to be met? Where are the negotiations at?

Mr. Patrick: — I can give you an update on that. As a utility we work very closely with our utility partners in Canada, the members of the Canadian Electricity Association. And we have, I would suggest, a very ongoing and active dialogue with the federal departments of Environment and Natural Resources Canada who basically carry the files on the Clean Air Act. SaskPower models, if you like, out to the year 2050 a whole wide range of remediation strategies that we can employ as a utility so we can tell you the effect of employing different technologies, how it affects the emissions that will result, how much that costs, and the whole thing.

The issue of the federal government is, and based on the most recent understanding of their position which was as of this morning in fact, is that probably within the next two or three weeks federal ministers will essentially make a decision about what they expect the targets to be for the energy sector — and

when I say energy sector that's electrical generation and probably oil and gas as well — what the expectation is of a rate of emission reduction.

My understanding is that they will cause there to be put into place regulations which will come into effect in 2010 but with a more specific near-term target of about 2015 where there's going to be an expected reduction of all air emissions including carbon dioxide and what are known as CACs, the critical air contaminants like nitrous oxide, sulphur dioxide, particulates of mercury. And that they will for the critical air contaminants from what I understand . . . And this is based on a discussion we had with a very senior Environment Canada official just before Christmas. They will probably try, and I have to be careful how I say this, but I think essentially usurp provincial jurisdiction.

And I say with respect to our minister, the federal government believes that there is a Canadian public health issue to be managed here which somehow they feel that they are best position to do, in spite I believe of the evidence that provinces are actually managing local air emissions very well. But nonetheless what they've been telling us is that they would like to implement in Canada regulations on a national basis and then cause the provinces to enact them.

With respect to carbon dioxide it appears that what they will do is they will set short-, medium- and long-term objectives for carbon dioxide emissions in the energy sector, reduction targets over time. Currently they have forecast an expectation of somewhere between 45 and 65 per cent reduction by the year 2050. But they'll be wanting to establish short-term and mid-term targets to demonstrate to the public that they're serious about this.

Ms. Harpauer: — So how proactive has SaskPower been? Have you set your own standards? And I know that that sort of touches on recommendation no. 4 of the Provincial Auditor's reports. Have you set standards that you then are going to have to lay out a plan, a strategy, you know, a step-by-step of here's the standard we want to meet as a province and this is how we're going to get there and recognizing that it may have to be adjusted if the federal government actually does set standards that we must comply with? But where's SaskPower at being proactive in our own level of tolerance?

Mr. Patrick: — Yes. The short answer is yes; we have a plan.

Ms. Harpauer: — Okay.

Mr. Patrick: — And actually it's very aggressive because the nature of the electricity industry . . . And the electricity industry — I just want to make the point — is very different than oil and gas in that the electricity industry really can only implement significant emission reductions whenever it shuts an old plant down and puts something new in its place. There is not an awful lot that you can actually do to existing plant, either for space limitations or technology limitations. Generally you're kind of stuck with what you've got until you can shut it off and put something else in its place, unlike oil and gas where actually you have a lot of short-term process changes that they can make with their existing infrastructure. So the two industries are very different in how they can respond.

With that, however, we have modelled a fairly aggressive strategy that causes us to expect to shut down our plants at the earliest available opportunity based on the remaining life as indicated by either their technical plan or their current depreciation model. Because the way this thing is done, when you build a plant or modify a plant, you amortize the remaining cost, the remaining life to coincide so that the plant is essentially technically dead, if you like. It's reached the end of its workable life at the same time as you've paid for it. You synchronize these two economic and physical models, and you know what those are for all of our generating units.

And so what we've said is, when those dates occur — and they happen on a very regular basis — rather than refurbish the plant and essentially run it in its current environmental capacity, the intention is to shut the plants down and replace them with something much cleaner. And if by following that model, what happens is, starting in about 2012 you start to see reductions of emissions in Saskatchewan. By 2015 it becomes quite noticeable. By 2020 it's quite dramatic. And by 2025 or '30 it significantly exceeds anything the federal government's been contemplating. And that's just following our normal business trajectory.

So Saskatchewan and SaskPower is going to look good over the long haul. But all utilities essentially between now and about 2015 are going to have a tough time because it's really only about then that the capital stock really starts to roll over, and you shut the old stuff down and put new stuff online. And because it takes a long time to build power plants, these are not quick builds. You're talking, you know, five or six years to build a plant for the bigger stuff. You know, even starting today — and the corporation is going to be coming forth with a recommendation on new supply later this year — but those plants really come online around 2012 or thereabouts so there's no quick fix in our business. But the point is that you can predict very well the trajectory of change and we have very good technical and economic models about what that looks like, and actually they look pretty good.

Ms. Harpauer: — Thank you. My next question is again for the Provincial Auditor's office and I'll probably pursue this same line with SaskPower later, time permitting. But on page 113, and I'm quoting:

Plan for financial implications of infrastructure strategies.

We expect SaskPower to have processes to: . . . identify the sources of money to carry out its infrastructure strategies.

And that has been a concern and I have expressed that concern for some time, because we all know that infrastructure within SaskPower is extremely costly. So did you examine, did your office examine whether or not SaskPower had an adequate plan in place to address the ongoing, what will be huge costs, to the infrastructure changes?

Ms. Ferguson: — What we looked at was in the context of the scope of the project. So what we're looking at is for when they're making the decision to actually move forward on a particular project, are they costing that out on a reasonable basis, and then how is that fitting in to their overall plan? So

from that perspective within the context of the project . . . [inaudible] . . . yes, we did look at that aspect and we didn't have any concerns. And they're following acceptable practices in that particular area.

The Chair: — Mr. Duncan.

Mr. Duncan: — Thank you. Thank you, Madam Chair. Good afternoon, Mr. Minister, and to your officials. I have a series of questions on various topics and I'll try to do my best to make it as organized as possible. And I'll probably come back to some other questions after my colleagues have had a chance to ask some more questions.

My first line of questions has to do with the clean coal project that's been announced. And I'm not going to go through the decision to go ahead with the Estevan project ahead of Poplar River. I think that whole decision will speak for itself in terms of what . . . the calls that I've been fielding from my, at my office. But my understanding is that a decision on whether it's clean coal or any number of other projects that SaskPower is considering will have to be made by this summer. Is that correct?

Hon. Mr. Nilson: — Yes, that's right.

Mr. Duncan: — Other than clean coal — and maybe clean coal gets more attention because it's, you know, this new technology, and it's quite exciting that Saskatchewan is looking to be the first — what other options . . . Let me just back up for a second. Clean coal is not, a final decision has not been made; there are other options. Clean coal is only one that is being researched at this time. Is that correct?

Mr. Patrick: — Yes. I just want to perhaps put this into context. The business of the corporation is to understand the needs of the future, to have options available, and ultimately to manage an analysis and recommendation process. And so we have to have lots of alternatives.

And the reason why we're pursuing clean coal particularly is that, given the environmental direction of this country and the world, if you can't find a way to use coal very cleanly, then it no longer is an option. So in order for that to be truly available to the people of this province, given our very large natural coal reserves, we've been working hard to make such a thing technically possible.

The items that are on the deck, if you like, for consideration in spring — and there's a lot of them — clean coal is one. What we call compliance coal is another. Compliance coal would be a more conventional plant perhaps designed with the prospect of a future collection of carbon dioxide, but not necessarily installed from day one, and to some degree that might depend on where the feds come down with regulations.

The polygen project which is being promoted by TransCanada Energy at the Belle Plaine site. The tri-nations group from the James Smith Band are promoting a hydroelectric project near the confluence of the North and South Saskatchewan River. SaskPower is looking at a couple of natural gas alternatives. One is a repowering project at the existing Queen Elizabeth power station, and another could be a stand-alone, modern,

combined-cycle, gas turbine plant.

We are looking at what's called a wind gas hybrid, which would be a combination of wind turbines backed up with dedicated natural gas units. On top of that, we're also looking at potential for import contract from Manitoba Hydro. And we're also looking at a range of what I would call items that we've had under consideration for some time, but they were more recently addressed in Mr. Prebble's report to the Premier on renewables. And they consist of demand-side management initiatives, renewable portfolio standards initiatives, forestry biomass, net metering, and a number of small power producer changes.

So if you add them all up, there's probably 15 things on the docket. Now they're not all of equal size, and they're not all of equal implementation time. We have a corporate need to have about 300 net megawatts online by about 2012. So whether it's a single project or a bunch of them, my belief is that what we'll be recommending this spring is a portfolio. It will be a number of items.

Mr. Duncan: — Okay. Could you give a little more detail on the polygen proposal. What all does that entail? I'm just not really familiar with it. That would be . . .

Mr. Patrick: — The polygen project is, it's an industrial process that's actually fairly widely used in the world, normally aligned with petrochemical or oil refinery applications but it basically consists of the gasification of some kind of a feedstock. In this case the feedstock proposed by the proponent is imported coke, petroleum coke from Alberta.

The process produces essentially a synthetic gas which you can then reconstruct the molecules of to make into a number of products. But essentially what would happen is you use some of this gas to power gas turbines and make electricity which can then be sold to SaskPower. You can take some of this synthetic gas, upgrade it, and have the local fertilizer plant, Saskferco which is next door, they can use it in their processes, as could the potash mine. You can also make hydrogen out of it which are used by industrial processes. You have a slipstream of carbon dioxide generated which you can then pipeline over for enhanced oil recovery in the Weyburn area. So it's a multi-output project.

The technology is generally fairly widely used in the world — like I say in petrochemical and oil refinery applications — generally not quite the way that it's being promoted here, but it's certainly thinkable technology. And at the end of the day it really boils down to the economic proposition about whether the, if you like, the synthetic products that are produced are sort of equal to or better than the normal source of those products that come from the normal places for these people.

Mr. Duncan: — Okay. Just a question on clean coal. When we say clean coal, it's not going to be 100 per cent emission free, is that correct? It's moving much further past what coal is now, what is produced from a coal plant. But it's not a . . . it won't be . . .

Mr. Patrick: — It is 95 per cent capture of carbon dioxide, virtually 100 per cent capture of mercury and particulates, zero

emissions of sulphur dioxide, and nitrous oxide emissions that are — I couldn't get . . . X number; I can't remember what it is — probably a tenth of what they are today.

So it's, we call it near zero emissions.

Mr. Duncan: — Right.

Mr. Patrick: — You know, it's a little pompous to say it's truly zero. There's very few technologies of any sort in this world that really are zero emitting. But it's, you know, for argument's sake when you add them all together, probably on a weighted basis, 98 or 99 per cent reduction of what you would normally see coming out of a smokestack.

Mr. Duncan: — Okay. I appreciate those answers. I'm going to switch gears just a little bit. I was wondering if you could, Mr. Minister, or maybe Ms. Youzwa, if you could comment on . . . It's my understanding that there is an ongoing dispute between SaskPower and the surface rights holders in the Poplar River area. Am I correct in saying that?

Ms. Youzwa: — We have had ongoing issues and discussions with surface owners in the Coronach area. I think it dates back to when the plant was initially built and commissioned. We have worked, I think, hard with landowners in that area to try to find workable solutions both for them and for us, but it is an ongoing discussion and an ongoing challenge.

Mr. Duncan: — My understanding of this situation is that in the past there has been a fairly well working relationship. There's always been . . . correct me if I'm wrong, but this is to do with essentially purchasing land for the expansion of the mine operation. But my understanding is that this is the first year where there's kind of been a problem with what will be paid for the use of the land. Is that . . .

Ms. Youzwa: — I'm not aware of any current dispute we have with landowners. Now whether this is land that we are trying to acquire, or whether it's land being acquired by the mining company, but I'm not aware of any current dispute. It hasn't been brought to my attention.

Mr. Duncan: — Okay. I'm done for now. Thank you.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair. I have four issues — two to do with policy and practices and two are just simple housekeeping because this concern came to my office and it saves me writing you a letter. So one of them is that someone contacted my office with this question: why is it that John Wright and Anna Willey are still listed as secondments in SaskPower's staff directory? Both of these individuals have been on secondment well beyond the one-year limitation per SaskPower's policy.

Ms. Youzwa: — I can comment on that. When John Wright and Anna Willey accepted their current positions, we entered into arrangement with the executive arm of government for a three-year secondment period, and we are still in . . . That three-year term does not expire until later in 2003. But that was the arrangement that was put in place initially and that's the

arrangement that's in place today. The secondments that may be referred to here in terms of policy for SaskPower, I believe those may refer to internal secondments within the company, but I can confirm that.

Ms. Harpauer: — Okay. Thank you very much. The second one is that apparently someone looked up a name, did a search for a name on the Internet and a list popped up from SaskPower which gives a number of names and behind each it will say either plus or minus \$100, and there's 58 pages of it. And they're questioning why this information is on with the name, what city they live in, and it's plus or minus \$100 behind each and every name and there's 58 pages. And the concern is privacy, etc., etc., and why this is popping up when you do a name search from the SaskPower website.

Ms. Youzwa: — I will certainly be pleased to receive a copy of that and to take it back and determine why this would appear on a web search because we take very seriously our responsibilities to protect personal information and privacy and we will certainly take a look at that and see why this has occurred.

Ms. Harpauer: — Absolutely. Thank you. The third issue that has come to my office — by more than one person, actually — is the issue of identity theft. I've had a few cases that have come to my office where someone has phoned in, had power hooked up at a site, and they haven't used their own identity. And then the person whose identity is stolen either gets a threatening letter or whatever saying their power is going to be cut off. Or in one case, they were going to get power hooked up somewhere else and they said they couldn't until their outstanding bill was settled and they weren't aware of an outstanding bill because they weren't aware that their identity had been stolen. Is that a difficulty that's frequent within SaskPower? Because I was surprised that I think I've had now three or four situations where someone's contacted my office.

Ms. Youzwa: — That's not something . . . We take steps to try to prevent identity theft and to ensure that when we are connecting new customers, new service for customers, that we collect enough information to be able to confirm the identity of the person requesting the service. I expect that despite having those policies, from time to time we do find circumstances where someone else is using someone else's name to connect service. I don't believe that it's a widespread practice. But certainly when it occurs we will move to do what we can to limit that happening again. But the three that you've had brought to your attention, we take steps to try to minimize that as much as possible.

Ms. Harpauer: — How difficult is it . . . And maybe you wouldn't know this because it's probably done, you know, in a different sector within the corporation. But how difficult is it for the victims of the crime, quite frankly, to have their bills then . . . like, they're finding it . . . Obviously that's why they're contacting my office is because it's very, very difficult then for them to persuade SaskPower that they're not responsible for that bill.

Ms. Youzwa: — I think that if there's a circumstance where a customer is a victim of this sort of thing that we would move to make the appropriate changes so that they would not be penalized. We would need to be assured that they in fact have

had their identify stolen and that they were victims in this case. But I think we would endeavour to do what we could to ensure that the accounts were put right.

Ms. Harpauer: — And it's just a comment; it's not a question at all. But of the various Crown corporations that I'm responsible for, for the official opposition, SaskPower's is the only one that's reporting to me on identify theft. So I'm not sure if there's something that's done differently or whatever, but that is the only corporation where that's coming to my office and being brought to my attention.

Hon. Mr. Nilson: — Just before you proceed, let me tell you the good news about this 58 pages.

Ms. Harpauer: — Okay.

Hon. Mr. Nilson: — If your name is on this list, that means that SaskPower owes you money. And these are the outstanding interest cheques for the SaskPower bonds that were there for many years ago.

Ms. Harpauer: — Okay.

Hon. Mr. Nilson: — And so I was just checking to see if your name was on there, but it's not.

Ms. Harpauer: — It's not.

Hon. Mr. Nilson: — But there are other people that I recognize. And what I would say is that for those in the public who are watching, they should go to the SaskPower website and look for the outstanding interest cheque, public service, which is to encourage people who have money that's owing to them to write to SaskPower because they've lost your address, and they're looking for you. So there's 58 pages of people who have either less than \$100 or more than \$100, which is the plus or minus \$100 owing because you can't say exactly how much it is.

So thank you for raising that today and this is a public service for all of us. Thanks.

Ms. Harpauer: — Thank you for that answer. And I will let that person know that was doing a name search and maybe . . . They're obviously looking for their address as well.

The last just office . . . something that's been brought to my office and to my attention is to do with the tendering process, and someone that was disgruntled with the tendering process. When SaskPower is purchasing equipment, is it an open tender?

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. We have very specific board-approved policies, rules if you like, with respect to tendering. Any tender in excess of \$25,000 must go to a formal tendering approach done through the purchasing department. If it's less than 25,000, we have what is referred to as an informal process where we have three bids, two or three bids solicited. So there are specific rules and practices that are followed.

Ms. Harpauer: — Okay. Let's go to where it's a larger tender, larger than the I believe you said 25,000. Once it's closed and

the decision is made by SaskPower, what is made public of how they made their decision? Do they have to . . . do you make it public — for example what piece of equipment you did choose to purchase and the price that you paid — or no?

Mr. Jones: — Chair, Ms. Harpauer, thank you again. We release the winning individual or company and so forth. We don't release the individual amounts.

But if I may, Chair, just add to that, the process with respect to tenders, they are opened in a very formal way. Usually internal audit staff are at the opening of the tenders and so forth. There are reports that are prepared, which are reviewed by external audit or the provincial audit at their pleasure and so forth. So we try to document and be very formal about that.

Ms. Harpauer: — So if I wanted to check, if I was in the business of either selling equipment or even in project service of some sort that SaskPower might need and I was interested in seeing if SaskPower was looking for someone with that service or with that equipment or whatever, is it on your website where I can access what that process is, what I'd need to do, what the rules are and the policies are in regards to the tendering processes both for equipment and service?

Mr. Jones: — Madam Chair, Ms. Harpauer, thank you again. That's a very good question. We have currently what I consider a very good supplier development program where we actively go out and work with suppliers and vendors and try to make sure that especially Saskatchewan suppliers are aware of what SaskPower's needs are.

In terms of larger corporate types of procurement opportunities, they pretty much keep in tune because of the larger nature of the company. But again I would encourage anyone that has an interest in providing or supplying products or services to SaskPower to contact our purchasing area. You can do that in our supplier development area through the website and so forth. If there's any questions, you can contact myself directly or the president as well. So we very much want to make sure that suppliers are aware of what the opportunities are.

Ms. Harpauer: — Okay. Thank you. I have . . . And it isn't coming from my office but a number of other offices have been contacted. Has your company reduced any of the rural services, be it the payment tellers, the office workers, or linemen in the last two years, so 2004 to 2006?

Ms. Youzwa: — We eliminated cashiering services in five locations in that period. What transpired was we had full-time employees who had come to retirement. At that point in time we took the opportunity to evaluate the workload and the traffic that had been supported by those offices to evaluate whether we would continue to have full-time staff in those offices doing cashiering or whether it was appropriate for us to look at reallocating those resources. The net result of that is that we did eliminate cashiering in those locations.

Servicemen who work out of those locations, they will continue to be there so they can provide service to customers if there's outages or if need for line locates or new service requests. So the servicemen are there. It's the cashiering part of service offering.

In each of those communities there are . . . we understand there are individuals who prefer to pay their bills in person. There are financial institutions, or in banks and credit unions, where people can pay, continue to pay their SaskPower bill in person.

Ms. Harpauer: — Okay. Three communities in specific that have raised concerns with their offices have been Carrot River, Wakaw — oh, four communities — Outlook, and Rosthern. And apparently, there's been rumours. Either they have closed them or there's been rumours of closures in those four communities. So it's Carrot River, Wakaw, Outlook, and Rosthern.

Ms. Youzwa: — Okay. Yes.

Ms. Harpauer: — So if we could get some information on the status of those particular offices, that would be appreciated.

Ms. Youzwa: — Sure. These are not offices that, where we phased out cashiering or under consideration for that.

Ms. Harpauer: — Okay.

Ms. Youzwa: — I think what this may be in response to is we have been looking internally at reviewing the resources we have in the various districts across the province. And as part of that process I think we may have been evaluating, you know, how many servicemen we need on crews in the districts, and we've not come to any conclusions there. But I expect that internal process that we're in the midst of now is what's generated the questions on these locations.

Ms. Harpauer: — I know in the past — and I've never followed up on it to see; you know to track the numbers — but I have had expressed to me a concern that when servicemen retire, they're just simply not replaced. It's rather than getting rid of . . . When you're downsizing, rather than getting rid of an employee, you just wait until one retired and not replace him.

I would question considering the vast rural area that we have — and the reality of the rural areas is where the lines are — that you would find that you could downsize a lot of the servicemen themselves in the rural areas, simply because one windstorm, one snowstorm and there is a discontinuance of power in many cases. So although I can understand more and more people aren't going and paying their bills in person and you may not necessarily need as many tellers, I would wonder why you would look at servicemen as perhaps an area where you could down . . . or reduce the numbers of employees.

Ms. Youzwa: — Whenever we would have, you know, a serious event like an ice storm or a major outage, we would pull crews from across the province to come in to restore power. So we would be able to bring the resources we needed to bring power back as quickly as possible. So that would continue into the future.

I think what we're looking at here is we've seen some growth in parts of the province where there's a greater demand for service and for resources. The oil field is growing very strongly these days as you know, and they're looking for new services to be added and as quickly as possible. We've seen tremendous growth around the urban areas — Regina, Saskatoon, and so

forth. So part of looking at how we're going to, you know, provide adequate resources to provide good service levels, we're looking at whether or not we need to look at whether we've got the right resources in the districts that we have today. So we've not come to any conclusion. It's a part of an ongoing review process.

The Chair: — Ms. Eagles.

Ms. Eagles: — Thank you, Madam Chair. And, Mr. Minister, thank you and your officials as well. My concern is also regarding tendering and it's at the service end of it. And I would just like to know what firm does SaskPower use for custom brokerage?

Mr. Jones: — Chair, Ms. Eagles, thank you. I don't recall the name of it, but I believe we changed customs brokers a year and a half ago, fairly recently. But I just don't . . . I'll get that for you. I just don't have that here. I apologize.

Ms. Eagles: — Okay. Do you recall if this firm is based in Saskatchewan?

Mr. Jones: — Chair, Ms. Eagles, I understand that they do have an office in Saskatchewan. There was a change in the broker I believe a year, year and a half ago. Again I just don't recall that file right now. But I believe they do have an office here.

Ms. Eagles: — But could you tell me if it's a head office or you don't . . .

Mr. Jones: — Chair, Ms. Eagles, again thank you. I will get back to you on that.

Ms. Eagles: — Okay.

Mr. Jones: — And I apologize. I just don't have that file here.

Ms. Eagles: — Okay. There are a number of questions that I'd like to ask regarding that. So I don't know if you'll know the answers to the rest of them either, but I will ask them. And if you can't give me the answer right now, I'd certainly appreciate if you would get back to me.

I would like to know when tenders are issued are there certain criteria that gives Saskatchewan-based companies a preference?

Mr. Jones: — Chair, Ms. Eagles, thank you. Yes, we do try and provide — I'm trying to choose my words carefully here — as much opportunity for Saskatchewan-based firms as we can, yes.

Ms. Eagles: — Okay. Now you said that the company that's doing brokerage work now has been doing the work for about a year and a half. What is the length of the contract? Do you have any idea of that?

Mr. Jones: — Chair, Ms. Eagles, again I apologize. I believe it was a three or possibly a five-year contract. Again I just, I apologize. But I can get you all of that information; it's not a problem.

Ms. Eagles: — Okay. And again you may not know the answer

to this one but I will ask it. And again if you don't know it, I would appreciate you getting back to me. I would like to know who did their brokerage work prior to the awarding of this tender, why you went with a different company, if they were satisfactory or not? And once a firm has supplied brokerage services for SaskPower, is their past performance taken into account? And . . . I'm sorry go ahead.

Mr. Jones: — Chair, Ms. Eagles, thank you. Those are all excellent questions and I will get back to you on that one.

Ms. Eagles: — I would appreciate that, sir. Thank you very much.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Thank you very much. Mr. Minister, and officials, welcome you today. This question is for SaskPower but if the auditors want to get involved in this they may as well. In the report of management both for SaskPower and SaskPower subsidiaries, one of the sentences in that paper . . . that page is:

The preparation of financial statements necessarily involves the use of estimates based on management's best judgement . . .

Which numbers in here are based on estimates?

Mr. Jones: — Chair, Mr. D'Autremont, thank you. I will refer to the notes to the financial . . . Is that where you were looking sir?

Mr. D'Autremont: — I was looking at the page 41 of the 2005 annual report which is entitled report of management.

Mr. Jones: — Report of management, yes. If you'll bear with me we have in the notes on page 46 which reiterates the point that financial statements are based on estimates. I'm not sure I have a listing here but some of the estimates, I can give you a couple of . . . For example unbilled revenue, revenue that you . . . or energy that you consume toward the end of the year but I haven't billed you for it, so we need to do an estimate of that to put into the financial statements as at December 31 if you like. So that's one sort of area.

The other area is an estimate of pension liabilities and so forth, again which we have to do an estimate and we have an actuary in that case helps us out on that one. That's another one. There are other estimates that are used. This is a common practice for any financial statement. I can certainly provide a list of those if you'd like. Perhaps Mr. Watt or Ms. Ferguson can add to that. But they will review them with us and they certainly pass judgment on them. And I believe if management has not provided an appropriate estimate that they comment on that.

The Chair: — Mr. Watt.

Mr. Watt: — Let me add a couple of comments if I could. In terms of future accounting principles you'll get some help in due course because the reference in note 2(a) that Mr. Jones referred to will, in fact, start to now give some more explicit reference to what the key estimates are. And the management

discussion analysis is also building on that in public company reports so that you'll see more disclosure of where accounting estimates in the future are, in fact, embedded in the financial statements.

And one future change as well that you might look for — and then I'll provide a couple comments on the statements — is if there are significant changes in estimates right now there is not a disclosure of those changes. And beginning in I believe 2007, those changes will start to be more transparent. So you'll get better information coming through the financial statement process to answer those questions. They're good questions.

And as Mr. Jones referred to there really are . . . You know, obviously estimates are tricky to measure on occasion and require people to make a judgment. So a couple more that he might add to the list would be the asset retirement obligations which again have a long-term focus on them and are difficult to judge exactly what that cost might be 20, 30 years hence in terms of things like retirements. And Mr. Patrick referred to that in his own comments. And the other one is the environmental remediation liabilities which really are along the same line.

So when we sit down with the audit and finance committee, management actually prepares a list quarterly of the key estimates that are ones that they're monitoring and we review those with the audit and finance committee. So hopefully those comments are helpful.

Mr. D'Autremont: — Okay. Thank you very much. I can certainly understand something like pension which will reflect how long the employee is employed for and what the salaries are, and environmental assessments. If something you're doing today turns out to be an environmental liability and 20 years from now you are still responsible for it, there's certainly going to be a significant impact. But something like unbilled electrical sales, wouldn't something like that go into accounts receivable?

Mr. Jones: — Chair, Mr. D'Autremont, thank you. Yes, it would. But I think the point is, it's an estimate as opposed to an actual. And now that I've just looked at the 2005 annual report, there is an overview of the main ones listed there for you on page 29, 30, and 31. So I think the point is, yes, but it's an estimate. It's what we think it will be because we actually don't know because we haven't gone out and read the meters.

Mr. D'Autremont: — Oh, okay. I thought this was already . . . you were ready to bill but you hadn't received the money yet. So this is electricity, in that particular case, that has been utilized but not been recorded yet on the meter because, in my case, the meter reader shows up once a year. And he does.

Mr. Jones: — And actually we make an estimate. It could vary because, Chair and Mr. D'Autremont, because of the weather and so forth at year-end and so forth. There could be a variety of factors that cause it to be different from year to year.

Mr. D'Autremont: — No, it's just I found it interesting yesterday that the annual reports were in some cases — and this one was wages — was based on estimates. And sometimes that makes it difficult to take what's in here. You have to question what the numbers are and how . . . That was my concern is to find out what areas were being estimated and which ones

weren't and how does a person tell the difference.

Mr. Jones: — Chair, Mr. D'Autremont, again a very, very good question; a very timely one. As Mr. Watt indicated, the accounting practices are changing. It will be incumbent upon management to explain more of that to make sure that the reader of financial statements understands that particular point. And secondly it also . . . As I indicated earlier, these estimates are carefully scrutinized, if I may, by external audit and the Provincial Auditor to make sure that management is not getting too far or too aggressive in some of the estimates.

Mr. D'Autremont: — Okay, thank you very much. I would like to ask some questions related to the centennial wind project. What was the total cost for that project?

Mr. Jones: — Chair, Mr. D'Autremont, as I recall the cost I'll break it down into two parts sort of. The direct generating facility was 244, \$245 million. Some of that I understand has not quite been expended yet. There is some road work and so forth, but the total budget for that project is roughly in the \$245 million for the direct cost.

In addition — and Mr. Patrick can help me with this — there are some transmission costs and so forth, hookup costs, roughly in the \$25 million . . . I'm rounding the numbers and so forth. So you get a total project which is hooked up to our system roughly in that \$275 million range.

Mr. D'Autremont: — Okay. Thank you. The hookup costs of roughly \$25 million, would they be different because it's a wind project versus a hydro or coal or some other kind of connection?

Mr. Patrick: — No.

Mr. D'Autremont: — So those costs are not related to wind, just simply generation capacity?

Mr. Patrick: — Yes.

Mr. D'Autremont: — Without doing a quick calculation — and perhaps you've already done this; hopefully you've already done this — what's the megawatt cost to develop that kind of wind power generation?

Mr. Patrick: — For the construction? Or for the power as received by the grid? I'm not quite sure I understand what you're asking me.

Mr. D'Autremont: — Well it's a 150 megawatt generation capacity for this project. So for the 150 megawatt capacity, what's the megawatt cost? How much per megawatt is the cost for the project? I mean I could do my calculations but . . .

Mr. Patrick: — Yes. Well with respect, sir, again I'm not quite sure because is it the . . . Are you talking about again the capital cost? Because that's per megawatt. Or are you asking about the cost of electricity which we measure in cost per megawatt hour?

Mr. D'Autremont: — No, the capital cost. The capital cost.

Mr. Patrick: — Well just divide the two hundred and . . .

Mr. D'Autremont: — I was hoping you'd already done that.

Mr. Patrick: — Well it'll be approaching \$3,000 a kilowatt.

Mr. D'Autremont: — Okay.

Mr. Patrick: — Or \$3 million a megawatt, somewhere . . . Not quite. Probably two and a half, something in that order.

Mr. D'Autremont: — Okay. How does that compare to other generation? To propose the possible clean coal or natural gas or hydro or . . .

Mr. Patrick: — The comparison, although you can do the numeric calculation, the comparison between generation types is actually a comparison that has no merit. And the reason why I say that — and I'm not trying to be disrespectful — it's that at the end of the day what electricity projects deliver is a combination of capacity and energy. So the megawatts are the instantaneous output and the sort of volume electricity is the energy part.

And so to say, you know, one project gets, for argument's sake, 2 or \$3,000 a kilowatt and one might be \$4,000 or \$1,000, by itself doesn't mean anything because you actually have to understand the two components of the delivered product.

Mr. D'Autremont: — That's good because I wanted to go that direction. Because that's my concern with wind projects is that it's 150 megawatts capacity, but what's the end result? How much actual energy have you got out of that project? In this project with 150 megawatts of capacity, what's the real generation out of it? I think from my information that you run 35, 40 per cent efficiency on these units, or that's what they are producing roughly is 35, 40 per cent of their capacity.

Mr. Patrick: — That's quite correct. And that's what they're designed for. I mean when these things are built and the economic analysis is done, an energy extraction model for a wind farm is the key to that development. And so it turns out that the centennial project runs at about a 40 per cent capacity factor, which is what it was designed for, so the economics of the project are not a surprise to us.

It turns out that for that particular project, the delivered cost of electricity into the grid — which is really what the ratepayer sees and all the other things really are probably not of interest to them; they just want to know how much their bill is going to be — the delivered cost of electricity on a project like centennial turned out to be about the same as the cost of a natural gas project on a per megawatt hour basis.

Now that's not always the case. Wind projects are extremely sensitive to the energy extraction model, and very small changes in what we call the capacity effect will make enormous differences to how economically effective the projects are.

But in the case of centennial, we were lucky. We hit a sweet spot where it was a good site, had a good capacity factor, and we were able to buy the equipment at very reasonable prices just before the prices and the delivery went south on us. I mean the industry went crazy just subsequently because of the Americans launching a new incentive program which basically

sucked up every wind turbine in the universe.

Mr. D'Autremont: — So basically the delivered energy costs are the same as, roughly the same as natural gas.

Mr. Patrick: — Roughly the same as natural gas for that project.

Mr. D'Autremont: — And isn't natural gas one of the high-end energy deliverers?

Mr. Patrick: — Yes. The way wind works in our system, it's what we call a fuel displacement project. When the wind blows, we actually ramp back our natural gas units. And so what we are able to do is not pay for the price of natural gas, basically get clean electricity at essentially an equivalent price without the environmental penalty.

Mr. D'Autremont: — So wind-generated electricity would not be a baseload; that's more of a replacement for your high-cost natural gas.

Mr. Patrick: — That's essentially correct. Because wind is by its very nature variable, we can't count on it as a baseload component.

Mr. D'Autremont: — So as part of the system, SaskEnergy's system, what percentage is natural gas supplied?

Mr. Patrick: — SaskPower's grid? And I think it's probably in the annual reports. I'm just going off the top of my head. In terms of installed capacity . . . And again you have to understand the difference between installed capacity and how much energy you pull out of it. The amount of gas that's installed in our system is probably approaching 25 per cent of the total fleet on a megawatt basis. But the amount of energy that's actually produced in those facilities is a much smaller thing. I think on an annual basis it's probably something in the order of about 15 per cent.

The way we use natural gas, if I can just digress a moment, there's really a couple of things natural gas does for it. We don't use it for baseload much any more. We used to in the old days when gas was cheap, and it's not cheap any more so you don't burn it that way. What it does though is — it's a fuel — because of its technology, allows us to stop and start gas turbines very quickly. So we use them to stop and start for having to backstop maybe baseload equipment that's unexpectedly shut down, to take advantage of perhaps an export contract opportunity where somebody needs power and they're willing to pay the price of gas-fired generation. And we have a number of units that perform what we call at peaking capacity. They basically start up quickly, help us through the noon hour peak, shut down again quickly. And they're intentionally designed to run not very much of the time.

Mr. D'Autremont: — So from your experience currently with the wind generation, how much of that peak load — that gas need that's emergency need, you might say, or immediate need — can the wind supply?

Mr. Patrick: — Well in terms of the peaking megawatts, none, because we can't count on the wind blowing at any particular

time when it's required. But when it does run, we use it to ramp back on the energy that's being otherwise being produced by gas turbines.

Gas turbines, although they start and stop quickly, once you've started them they have to run for a while just because of the heat cycle on the thing. So if they're running, what we will do is ramp them back so they're not burning very expensive gas. We still may have to have them on line but at a reduced load so they're not so expensive to run. And if the wind is blowing at that time, that allows us to do that sort of thing.

Mr. D'Autremont: — If there were wind generation farms scattered around the province rather than generally in one location in the Southwest, would that improve the availability of wind to carry a larger percentage of the electrical load in the province?

Mr. Patrick: — Generally that's a yes, in a very broadly stated way. But this notion of what you're referring to is called wind diversity. The idea that wind resources are deployed in different meteorological regions so that if the wind stops blowing here it might still be blowing somewhere else, that helps the overall performance of wind. But wind farms have to be generally quite far apart to actually see that effect. It may not even be all that practical within Saskatchewan. We've done those studies and continue to do that work to have a better sense of how to get the diversity element to work for us. In reality it might actually make more sense to share the diversity across provincial boundaries just because of the way the climate conditions operate.

Mr. D'Autremont: — Or across continental so that you . . . Because our winds are more of . . . coming from the west. And if we don't have wind in all likelihood Alberta doesn't have wind either, but they may have wind in Texas.

Mr. Patrick: — Well the answer is still yes again, theoretically, but when you're as far away as Texas the transmission costs will kill any economics.

Mr. D'Autremont: — Yes, yes. Okay, thank you. Do you have some wind questions?

A Member: — Oh, we have . . . [inaudible] . . . questions.

Mr. D'Autremont: — Okay, you can do some more wind.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair. How many companies do we buy wind from, wind power from?

Mr. Patrick: — We buy it from?

Ms. Harpauer: — Yes.

Mr. Patrick: — Just one. We have a power purchase agreement with the so-called SunBridge project which is down near Gull Lake.

Ms. Harpauer: — So it's the only private company that's producing wind in Saskatchewan.

Mr. Patrick: — In Saskatchewan, yes. Oh pardon me, that's not quite right. That's the only major one. We have, through our environmentally preferable power solicitation program, done deals with a couple of very small wind producers, recently finalized agreement with a small wind farm near Riverhurst. And also there's a pending project near Moosomin, but it's currently on hold by the proponent because the federal government has temporarily withdrawn the federal wind energy incentive. And the economics of wind is a very fragile thing and it needed that federal subsidy to really get it close. Feds have temporarily withdrawn that — temporarily or permanently, we don't know — and the proponent has chosen to withdraw their proposal to us until that's reinstated.

Ms. Harpauer: — How many . . . You said Suncor was the company we buy from, or SunBridge, sorry.

Mr. Patrick: — SunBridge, yes.

Ms. Harpauer: — SunBridge. How many turbines do they have? Or what is their capacity is probably more accurate because turbines can vary . . .

Mr. Patrick: — Yes, they're 11 megawatts or something — 11 or 12 megawatts.

Ms. Harpauer: — And that's it?

Mr. Patrick: — Yes.

Ms. Harpauer: — Have they ever indicated that they'd like to expand here?

Mr. Patrick: — Yes.

Ms. Harpauer: — And are we receptive to that?

Mr. Patrick: — Only if the price is right.

Ms. Harpauer: — Meaning that only if they'll sell it to us cheap.

Mr. Patrick: — Whenever we do business with anybody, including ourselves, we always pick the project which represents the lowest next thing we're able to do. And it doesn't matter whether it's us or somebody else because our job is to get electricity to our consumers as cheaply as possible while meeting a whole set of environmental and blah blah blah — all kinds of alternatives or requirements. But given that everybody is capable of meeting those attendant other requirements, you go for low price.

And you know, sometimes it's an IPP [independent power producers] project and sometimes it's not. As a utility we are technology neutral, so we don't have any predisposition to, you know, it having to be wind or nuclear or coal or anything. It's just whatever makes sense.

And we're also what we call ownership indifferent because increasingly we've been doing IPP work, people who are independent power producers and buying power from on long-term power purchase agreements. And when that makes sense, that's what we do; and when it doesn't make sense, we

don't do it.

Ms. Harpauer: — Fair enough, but the capital cost . . . for example, it says SaskPower's \$272 million investment in the centennial wind power facility. I mean, it's a fair capital investment that you put into wind for the capacity that you get out of it. So I would think that you would have to . . . You know, someone else putting out those capital dollars would be kind of nice.

Mr. Patrick: — At the end of the day there's essentially no free lunch though because whether we paid for it or somebody else did, it still shows up in the cost of electricity. If there were a . . . and I'll let Mr. Jones speak to it because he's far more expert in the financing than I am. But if you're not specifically capital constrained, at the end of the day on our books whether we've built it or somebody else did it and we've contracted for it, it looks the same to our customers.

Ms. Harpauer: — It looks the same to your customers, but I would think capital dollars are going to be kind of a precious commodity to SaskPower considering that we are looking at a 20-year projection of renewing our entire infrastructure, in the next 20, 25 years. So SaskPower has got a fair responsibility to generate capital dollars in the next two decades. So if there was an alternative, I would think they would look at it unless the other company wants to sell it at some exorbitant price.

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. In general we will look at pretty well all options to finance projects, as Mr. Patrick has said. And in fact you may recall that the centennial project initially was proposed to be a joint venture with ATCO Power, and they decided to withdraw from that project for their own reasons. But in general we have utilized the private sector.

The Lloydminster Upgrader, there's a cogeneration facility there. And ATCO Power, we've partnered with them in a plant attached to the Cory cogeneration plant. So yes, we do look at those. But as Mr. Patrick indicated, the bottom line is what's the cost of energy coming out of that project, and it depends upon the technology as well as how you finance it. So we're open to all different options.

I think wind right now is in a doldrums — if I can use that right now — because of the federal government and changing sort of what's happening there. So it's very difficult. That incentive grant was very much a key factor that tipped the balance for making wind projects economic.

Ms. Harpauer: — Okay, yes. And I do want to pursue cogeneration, but I know my colleague has questions on wind first so we'll pursue that later.

The Chair: — Mr. Duncan.

Mr. Duncan: — Thank you, Madam Chair. Just to finish up on wind. Mr. Minister, you may be aware that the Alberta government has put a temporary cap on wind power production. Is the Saskatchewan government considering such a move?

Mr. Patrick: — The reason why the electric system operator in Alberta put a cap on that is because the variable output of wind

creates significant grid operational problems. And as more and more wind penetration is getting into the utility business, electrical grids are starting to encounter rather difficult operating conditions.

I mean, you have to somehow take the variability out of the wind by doing other things. And there's a point at which the existing facilities in a grid are able to manage that. And then beyond that, you either have to add equipment or look to the interconnections with other neighbours to help smooth that out. And you'll find that that problem has been widely reported in the press recently. And it's really becoming a visible worldwide phenomenon because there's just so much more wind than there used to be. SaskPower has essentially self-imposed a temporary moratorium on wind pending our analysis of what further we can do.

Right now at 172 megawatts, we're starting to experience grid operating problems because of it. It's not that those problems can't be fixed. It's just that we're not quite sure how to fix them and we're not sure how much money it's going to take to fix them. So the issue really becomes not so much, is the wind to date a problem? It's the wind to date we can manage. The question is, how much more could you add? And the answer is, right now we think it prudent to not add any more significant wind until we sort of figure out how to accommodate it in our system. And we've got people, as we speak, working on that.

So we really believe that, based on the accumulation of operating experience from our centennial project — which has been online since March 2006 — we need about two years of operating data to understand what's really going on and then figure out how to fix it. So we don't have any intention of accepting any new wind proposals for at least a couple of years until we figure out what to do with it. And most utilities are in the same pickle.

Mr. Duncan: — Is SaskPower a member of the Canadian Wind Energy Association?

Mr. Patrick: — No.

Mr. Duncan: — Actually I just came across an article from a *Globe and Mail* just a couple of days ago that talks about the future of wind and some of the problems that have been coming up.

In SaskPower's experience, two of the main — just to back up to that — two of the main problems identified in wind production is either local opposition, not in my backyard kind of mentality or just a reliability, that sort of thing around the technology. What has been SaskPower . . . In your experience, what has been the major . . . of those two, what is more the major problem?

Mr. Patrick: — We haven't really experienced opposition. I mean, sitings have been done. The local people seem okay with it. They derive an economic benefit from having a wind turbine, if you like, on their property. So generally, the landowners seem okay with it.

I want to, I want to . . . I'm just going to play with semantics here. Wind is not in itself unreliable. What wind is is somewhat

unpredictable and it's variable. The machines themselves are reliable. When the wind blows, they work. Right.

The thing is you don't always know when the wind's going to blow, although there is a growing body of statistical evidence which allows people to do the forecasting of what is likely to occur on sort of a probabilistic basis. And that sort of body of knowledge improves as we have more of these facilities and people sort of get more sophisticated models to do this. So the ability to predict is sort of getting better. Although, at the end of the day, mother nature is still mother nature and you can't absolutely predict it and you certainly can't control it.

The bigger problem with wind is the variability. The fact that a wind farm may have a fundamental capacity factor, which is sort of on an annual base of what's the average output of something like 35 or 40 per cent, is no mystery to the industry. That's fully understood when these decisions are taken.

So there aren't any surprises in any of this. So really the big problem, if you like, with wind is how to manage the variability and the electrical grids which inherently have to be stable. That's what the big problem is.

Mr. Duncan: — I know it's still pretty early with the province's or SaskPower's experience in wind. But has the capacity factor of the projects remained consistent with what was thought in the initial proposal stages? Are you still fairly . . .

Mr. Patrick: — Yes. Yes. The answer is yes.

Mr. Duncan: — Okay. That's good for me on wind. Thank you.

The Chair: — Considering that Crown and Central Agencies Committee has been sitting for an hour and a half, I think we'll take about a 10-minute break and proceed with our questions then.

[The committee recessed for a period of time.]

The Chair: — All right. Well I guess we're ready to resume the meeting of Crown and Central Agencies with SaskPower in front of us this afternoon. Ms. Harpauer.

Ms. Harpauer: — Before I return to a number of other sort of policy more than actuals, I would like to ask a few questions on the financial reports and the numbers that are involved. SaskPower International, for example, shows an increase of assets. In 2003 the assets were 167 million and in 2005 they were 425 million which is . . . That's a fairly significant increase in assets. What accounts for that increase?

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. That predominantly or directly is a result of the centennial wind power project. So as the construction of that project took place over the last year and a half, two years, then their asset base would rise accordingly.

Ms. Harpauer: — So they are the holder of the centennial wind project.

Mr. Jones: — That's correct.

Ms. Harpauer: — Okay. I have some questions on the commercial power rates, and in particular how they related to the Meadow Lake situation. Has the company ever done a comparison of commercial power rates with the private sector power companies in Canada? And if so, how did you find the . . . what did the results show?

Ms. Youzwa: — Every year we receive a report which compares electricity rates for each of our major customer groups of our SaskPower against other Canadian utilities, so we would do that for residential, commercial customers, large industrial customers, and so on.

Ms. Harpauer: — Okay. In this Meadow Lake pulp mill situation that we have, the commercial power rate — my understanding — is set to expire on December 31, 2007, and will the new buyer receive the same rate?

Ms. Youzwa: — The Millar Western operation in Meadow Lake, is that what you're referring to?

Ms. Harpauer: — That would be the old owner but . . .

Ms. Youzwa: — The old owner.

Ms. Harpauer: — Yes.

Ms. Youzwa: — They had paid power rates to SaskPower under contract that had been negotiated with Millar Western. That contract hadn't expired, but there's still, I believe, another year or two remaining on that contract. What the new buyer will pay for electricity would depend upon what kind of arrangements we would make with that new owner and whether or not the existing contract would be assignable. If it's not assignable, then we would sit down and discuss electricity rates with that new owner.

We have published rates under a power rate class. It wouldn't be commercial customer class; it would be the power rate class. The power rate class is for the large industrial customers today.

Ms. Harpauer: — Well a complaint that had come out was that Meadow Lake mill was charged a substantially higher electricity rate than many of its competitors. And it's also documented that if SaskPower's rates were equal to power companies in Alberta, the mill would have saved \$4 million annually. Will you be looking at revising your commercial power rates, because this isn't the only situation where we've heard complaints about it being higher than other companies?

Ms. Youzwa: — We often hear from customers what SaskPower's rates are as compared to electricity costs elsewhere. It's very difficult to compare what a customer pays us versus what their net energy costs would be in Alberta, because the Alberta market is a very different market for electricity. Many of those customers wouldn't just buy power. They have an opportunity to participate in what is called ancillary services markets and elsewhere. So then their electricity costs is a reflection of the marketplace in Alberta.

If you're buying electricity from Saskatchewan, what you're

getting is a fully integrated service. So you pay a rate to us and we generate or supply the power and we deliver it to their door. So it's very difficult to get apples-to-apples comparisons. Many, many jurisdictions the rates that large industrial customers would pay is not published or publicly available. They are determined in contracts and those are commercially sensitive and therefore not on the public record. So it's difficult to make a, you know, a hard comparison between what people pay for our rates. We can compare published rates, but that's the extent that we can. Comparisons to Alberta is really not a . . . is really an apples-to-orange type of comparison.

When we set our rates for industrial customers, what we do is we set our rates so that they cover the cost to SaskPower for the energy that they use and for their share of the overall system that we need to have in place to supply energy to them. So our rates are cost based and it's for fully integrated service.

Ms. Harpauer: — Obviously the concern that we would have is that although you're suggesting it's hard to compare, I'm sure these corporations are finding some mechanism where they're saying, okay their energy cost — be it a different type of market or not — is X number of dollars, and Saskatchewan's is Y. And they are going to be comparing. And unfortunately we are competing for development against Alberta and it's difficult in a number of areas because the two climates are different. So that it is a concern whether or not SaskPower is competitive and that we find a mechanism to compare so that we know what kind of . . . what we're up against to be competitive.

I realize that as a corporation, that's more of a public policy decision than a corporation decision. A public policy decision of course is we want to do what we need to do to attract economic development in Saskatchewan. As a corporation, what you need to do is make your corporation viable and economic. But we need to find a mechanism to do those comparisons.

Ms. Youzwa: — Well any company that's operating in Saskatchewan and other provinces will have of course information on what their energy costs are across different jurisdictions. And we don't necessarily have access to that same information, and in many cases we don't.

But if we compare published rates across Canada, we would find that for residential customers we are about average in Canada. We compare reasonably well with other thermal utilities. We're not as good as hydro-based utilities, and so you'll find lower rates in BC [British Columbia] and Manitoba predominantly, in Quebec as well. For commercial and industrial rates, we are more competitive, and we compare reasonably well across the country. Again we fall short of the hydro-based jurisdictions, but elsewhere in Canada, we rank reasonably well.

Ms. Harpauer: — Just returning to the Meadow Lake pulp mill situation, does SaskPower anticipate being paid out the 7 million that is owed by the Meadow Lake pulp mill now that that's changing hands, or have they already been paid out?

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. At the end of 2005, SaskPower took a provision for \$7.4 million in respect of the amount of money that was owed by the

Meadow Lake Pulp Ltd. partnership. That was a large customer, as the president indicated, that was granted protection under the Companies' Creditors Arrangement Act. It is our position that we will pursue collection of that \$7.4 million. As I understand it, the company is still under the protection of the courts at this point. There has been no formal realization of this issue and so forth, so at this point it is SaskPower's position that we are owed \$7.4 million and expect to receive payment for that.

Having said that, we have taken that provision at the end of 2005. And whether we will ultimately receive that \$7.4 million, we'll have to wait and see. I don't want to say anything other than we're going to try and get what's owed to us. That's our job.

Ms. Harpauer: — Going to the financial outlook of SaskPower now, SaskPower is projecting a decline in earnings of \$95 million. Do you have an expectancy that you will have to apply for a rate increase?

Ms. Youzwa: — We have made an application for a rate increase effective January 1, 2007, and that is currently under consideration by the Saskatchewan rate review panel. And I would anticipate that we should hear something from the panel in the near future. That would allow us . . . And depending on what the recommendation is and what the decision of the cabinet is, we would make adjustments to those rates. So we are hopefully going to be implementing some upward rate adjustments for 2007.

If we need further rate increases, we will determine that as the year unfolds and as we update our financial forecasts and outlook. Typically in recent years we've waited until we've got fairly good outlook for hydro availability, which we typically wait until after the spring runoff from the mountains for that. So later in the spring, around the end of the second quarter, gives us a pretty good idea of what the outlook is. And at that point we would make a determination of whether we needed any further rate increases in 2007 and what the outlook for 2008 is. At this point in time we haven't made any decisions.

Ms. Harpauer: — Okay. On page 20 of the report there's a note for bad debt expense of \$19 million. What is that expense for?

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. The largest component of that roughly 7, \$7.4 million, was for the Meadow Lake pulp mill provision. So that was part of that. And then in addition to that we have a provision for doubtful accounts from residential customers, commercial customers, and so forth. But really the difference from previous years was largely due to the special circumstance around the Meadow Lake pulp mill situation.

Ms. Harpauer: — In the area of your capital expenditures, what is your projected total cost for refurbishment of the Poplar River generation station — including like 2005, 2006 — what is the projected total cost of that?

Ms. Youzwa: — We completed the rebuild of Poplar River unit no. 2, which was the first one to be rebuilt, in the summer, in 2006. I believe the total capital cost of that project was in the order of \$140 million.

Ms. Harpauer: — Okay. The projected capital expenditure for 2006 was 278 million. That would include the Poplar River generation station refurbishment.

Ms. Youzwa: — A significant amount of that would be for Poplar River, but the spending for the Poplar River rebuild was spread over two to three years. But most of the capital would have been spent, I believe, in 2006 for P.R. [Poplar River] no. 2.

Ms. Harpauer: — So what's the breakdown of the remaining money? Of the 278 million capital expenditures for 2006, what would the breakdown of that be?

Mr. Jones: — Madam Chair, Ms. Harpauer, thank you. Could you just refer me to which numbers you are looking at? Are you looking at the 2005 annual report on page . . .

Ms. Harpauer: — Maybe the 2005, yes. I didn't write down the page.

Mr. Jones: — Well our capital program in 2005 was a near record, if not a record of 473 million. The large part of that was the centennial project. And for the Poplar River refurbishment, as the president had indicated, we just began that project sort of late in the year and spent 38 million on that. And we completed that this year, and then we'll commence the work on the other unit as well.

If there are some other numbers that you don't have and you want to get back to me, that's fine.

Ms. Harpauer: — I will, yes. So often I do these notes, and then . . . There are so many committee meetings that I have been doing notes for, so I apologize for that one because usually I give myself notes as to where I discovered the material, and this time I didn't, so I apologize.

To discuss the debt and the debt ratio, on page 24 the long-term debt increased by 256 million, and there's a forecast of an additional increase of 100 million in 2006. Can we explain the increase in that debt?

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. I want to provide just one statement of background. We don't necessarily borrow for this purpose or that purpose. All of our cash requirements we pull together and we look at and say, how are we going to finance them all and so forth. And if at the end of things when we're looking at our needs, if we require to go to the debt markets and borrow money, that's what we will do. So we don't borrow for this particular project or that particular project.

But having said that, if you look at . . . The compelling reason for the increase in our debt over the last two or three years has been the dramatic and huge expenditures, capital expenditures, such as those associated with the centennial wind power project or those associated with the refurbishment of the thermal fleet, generating fleet, and so forth. So we have been borrowing if you like — not specifically, but in general; that's the pressure — to finance those projects.

Ms. Harpauer: — So what's your optimal debt/equity ratio

that you don't want to rise above?

Mr. Jones: — Chair, Ms. Harpauer, thank you. Our target at this point as indicated in the 2005 annual report, and continues to be our target at this point, is for a debt/equity ratio or more precisely a per cent debt in capital structure of 60 per cent. And so I can report to you that in 2005 we were slightly below that. At the end of 2006 we'll just be slightly above that. We're just working on the annual report and the final numbers right now. So we're very close or we're essentially at our financial target in terms of per cent debt in capital structure.

Ms. Harpauer: — For forecasts going forward — and this returns to a discussion that was much earlier — you know that you're going to have some fairly large capital expenditures. Do you have a contingency plan in place that's going to address that particular issue without inflating our debt beyond being manageable — other than increasing rates, which then creates another problem because we also discussed how corporations are complaining that the commercial rates are too high already and not competitive? So what's the long-term plan on how we're going to handle the capital costs?

Mr. Jones: — Chair, Ms. Harpauer, thank you. This is, I suggest, one of the two key challenges we have confronting SaskPower right now. As Mr. Patrick talked about the technology solution, if you like, to our generating needs, and then there is the affordability or the how we're going to finance them. This is an issue we're working on very carefully and, as you've indicated, there are implications for rates. There are implications as to whether we partner with others, whether we go to the debt markets through the province.

When we borrow funds we do that primarily through the Department of Finance. That then has implications for the province's credit rating. And so that we want to make sure that at this — certainly in the past and at this point and going forward — we are a positive or an enhancement to the province's credit rating, not a detriment. So that's an issue that we are working through and we are looking at all options, as Mr. Patrick has indicated.

From the technology solution point of view we have not made a decision as to the next supply option but it's something that we have to prepare for and work at diligently, and it's an important issue.

The other point I will make is that if you look at our debt/equity position at this point, we are in a fortunate position that currently our debt position is very strong. We have relatively . . . Compared to other Crown-owned utilities across Canada, we're probably the lowest in terms of per cent debt in capital structure. So from that point of view the starting position is very good. That suggests then that we are in a position that we may be able to take on more debt. And if we go into a capital investment phase, a significant capital investment phase not unlike any company that would do that, then maybe we would take on more debt.

I would be concerned if our debt/equity ratio rises above the 70 to 75 per cent range, then that could sort of have negative implications for the province's credit rating. So I guess two things. We're going to look at all financing options. Secondly,

our starting point is we're in good shape with a strong balance sheet at this point. But it's one of the main challenges that will confront SaskPower here, and the province, given the relative size of the debt of SaskPower relative to the government.

Hon. Mr. Nilson: — Can I just add something to that because it's . . . This is this area of policy and government policy as we're moving along.

A Member: — Right. Yes.

Hon. Mr. Nilson: — I think that the point that Mr. Jones was trying to make is that SaskPower had approximately 60 per cent — if you use that number — is in a very good position compared to Manitoba, British Columbia, even Quebec. Because their numbers are often up in the 80s and up to 90 per cent that they've financed and so that . . . But because it's part of an overall government borrowing, it then is part of a whole government package. And that's how you get the rates that are involved.

And so the discussions that have to take place as we move forward is, what do we do to provide secure supply of power for the long-term benefit of the economy? And, at various points of history in the province, decisions have been made to make it go for some fairly big projects that you then pay for over 50 years. And so we're at that point now for the next decade or the next 15 years where we're having to make some of those kinds of decisions.

But it's much like buying a house. You make that decision because you're going to need the power or you're going to need a place to live — in this case a house — and so you spread that cost over the longer term. And so the real question is, how do we manage all of that in our total financial picture? Right now we're starting at a good spot and that our debt/equity ratio, or the ratio of the amount of debt to our capital structure, is very good. Other than Ontario, where they've moved a lot of that debt right out of their power company, we're the best in Canada.

Ms. Harpauer: — Thank you. I guess just to point out though that the problem with it, yes it is like buying a house. Except that when you're buying a house you have to generate the money to pay for that house, whereas this is a unique situation because we have customers. You know, like we just can't pass the buck on all of the expenditures and still remain competitive in the big picture. So that's a concern.

But for the poor soul that is sitting up at midnight reading *Hansard* because they have nothing better to do, just for . . . to get it on record and put it in perspective, what is the projected cost of, say, the clean coal plant?

Mr. Patrick: — Probably somewhat in excess of one and a half billion dollars.

Ms. Harpauer: — Exactly. So SaskPower's challenge is extremely significant. I think my colleague has a number of questions on the finances as well.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Thank you very much. Just a comment on the debt/equity ratios. One of the problems that I see for Saskatchewan on this issue is, while we're in a strong position to maybe take on more debt as SaskPower to develop some new generation capacity, the problem for Saskatchewan is that our generation capacity — in relative to across Canada — is a high cost generation. Coal, gas, nuclear perhaps are all high cost in relative to hydro in other jurisdictions.

So while we are in a strong position maybe to be able to make that investment, the other areas may be able to make an equivalent investment and get the electrical power at a better rate out of it at the end of the day. So I think that's going to be a concern for us that we need to be aware of. And to take into account that we might have to look at —and I think Mr. Patrick may have mentioned this or Mr. Jones; one of the two — that look at other jurisdictions as to purchase electricity rather than generating it ourselves, depending again on the costs at that particular point in time. So I think as Mr. Nilson said, there are a number of challenges facing the province when it comes to generation in the future.

I guess the question that I would have on this as well, what is SaskPower forecasting as a need in the future? What are we looking at for growth in the province to utilize growth in our generation capacity?

Ms. Youzwa: — Historically, demand for electricity has increased at a fairly predictable and constant rate. And that's in the order of just under 2 per cent per year. And that's what we're basing our longer-term forecasts on.

Mr. D'Autremont: — What kind of impact would a development on the Saskatchewan side of Fort McMurray or even at being able to access and supply energy to the Alberta side of the Fort McMurray tar sands development there . . . Just in the news here yesterday or the day before, Husky is talking of potential nuclear. What role could Saskatchewan play in that? And if the tar sand development happens on the Saskatchewan side, what kind of a growth impact would that have on the demand for electricity from SaskPower?

Ms. Youzwa: — For us, demand for electricity has been supported in Saskatchewan. It's not growth and demand from residential or customers or small commercials; it really is from larger industrial customers and the oil and gas sector. If you had a large development like an oil sands project in Saskatchewan, that would bring new load to our system, and that would increase the demand for electricity. And that's probably where there is the upside potential for load growth in the province, is expansion in that sector and other expansions in the resource sector continuing into the future.

The ability to build in Saskatchewan for export — historically SaskPower has not built generation for export. We've planned our generation to meet the needs of customers within the province. And because of that, the wire connections that we have to move electricity outside of Saskatchewan are skinny. They're fairly limited in what we can do. If there are opportunities beyond the province, certainly we would need to look at that, not only with the generation but what it would take to put the transmission infrastructure in place to deliver that to market.

Mr. D'Autremont: — I'm not familiar with what kind of energy needs currently are in place for the oil sands developments. Do you have any indication what's their consumption rate at the present time?

Mr. Patrick: — I don't have the numbers at my fingertips. But I just would like to make a comment about the oil sands. Much of the electrical generation that's being installed up there is for the production of the heat that goes with it because they need heat more than they need electricity.

So they tend to be oversupplied with electricity, which over time creates a bit of a glut for them, and they have a transmission problem into the South that makes it hard for them to get rid of it. So their bigger problem in many ways is around heat. And so even when people are talking about nuclear, one of the deliberations around nuclear is actually a nuclear unit, and that's actually providing mostly heat into the processing rather than electrical production.

Mr. D'Autremont: — So they're not using the electricity to create the heat. They're using the plant to create heat and the by-product is electricity.

Mr. Patrick: — Essentially that's correct. And it's not as if they don't need any electricity, but they need heat more than they need electricity, yes.

Mr. D'Autremont: — Okay. I was making the assumption they were using the electricity to create heat.

Mr. Patrick: — No.

Mr. D'Autremont: — Okay. Thank you for that clarification at least. So yes, I think that's an area that as a province we need to watch though and to take advantage of any opportunities that are there.

On the debt/equity ratio, with it going over the 60 per cent to 60.9 in 2005 — and I don't know what kind of an impact that's going to have in 2006 — is that going to increase, decrease, remain stable?

Mr. Jones: — Chair, Mr. D'Autremont, thank you. As I indicated, we're just finalizing the numbers for 2006. It's likely that our — and please don't hold me to the precise number — but our debt equity ratio will likely be in the 60 to 61 per cent range.

Mr. D'Autremont: — Is that going to have any impact on the dividend policy for CIC in relationship to SaskPower paying a dividend to CIC? There is some different cut-offs there and I'm just not sure . . .

Mr. Jones: — Chair, Mr. D'Autremont, thank you. No, it won't affect the policy and it won't affect the trigger because we will be at or a little bit above our target. So if you're below your target, then they might want to take more from you. So if you're at or a little bit above . . . Here, I have to be careful here because they may be listening. So . . .

Mr. D'Autremont: — The target level is 60 per cent, is it? I wasn't sure if it was 60 or 65.

Mr. Jones: — Chair, Mr. D'Autremont, thank you. It's 60 per cent at present.

Mr. D'Autremont: — Okay. Okay. So when that comes into play, where does the dividend drop from? I think it's roughly, what, 85 per cent of net profit? And what does it drop down to then for a dividend payment? Does it go to 60?

Mr. Jones: — Chair, Mr. D'Autremont, thank you. For 2006, we will be paying 65 per cent of net income.

Mr. D'Autremont: — Okay.

Mr. Jones: — And for 2007, likely a similar amount. But we'll see how the year progresses.

But if I may, looking out over the next five to ten years, one option will be for SaskPower to recommend to our owner CIC that we are going through a massive capital reinvestment phase. Therefore we — as I stress, this is one option — we may recommend to them that we pay lower dividends, retain the funds internally to meet this reinvestment. But that's just one option looking forward.

Mr. D'Autremont: — Thank you very much. Talking about the refurbishing and new generation. I note that you've done a turbine regeneration at the Shand power plant and that at Boundary you have been doing a refurbishing of the electrical and control systems, as well as improved dust control.

When you do the refurbishing, do you look beyond the turbines themselves in the case of Shand? Or I believe there was . . . at Boundary, you did turbines or boilers over the last 10 years or so. Do you look also at all the piping that takes . . . in the plants to determine whether or not that needs to be replaced as well?

Mr. Patrick: — Yes. A thermal power plant for our purposes is divided up into approximately 120 different systems. And for every one of those 120 systems there's a 25-year maintenance strategy that exists and is documented. So depending on the circumstance and whatever else going on, every one of those systems is under review for what it needs. So at the point where you may be working on a turbine, because of the opportunity given because the unit is off-line, you may do some other attendant work. So the answer is you're always looking beyond just the immediate, because there is a plan for every piece in the power plant including the building structures and the concrete and the steel and everything.

Mr. D'Autremont: — Some concern was expressed to me that some of the piping at Boundary was approaching its lifespan and that they were concerned that the replacement wasn't happening yet.

Mr. Patrick: — There are systems in place to monitor the, if you like, the remaining life in all those systems. And at some suitable point then you refurbish what you have to refurbish.

Mr. D'Autremont: — So that's on an ongoing basis and it's built into the system. Okay. Thank you very much.

On NorthPoint Energy — we have the estimates here as well for that, the annual reports. And NorthPoint acts as a wholesaler for

electricity. Where does that electricity generation come from?

Ms. Youzwa: — NorthPoint, it . . . When SaskPower has surplus generation from its own units and there is a market opportunity to export that power, NorthPoint will identify that opportunity and make that transaction. So that's the source of generation for export. NorthPoint will also look at opportunities to buy and sell in the wholesale market. If it can purchase a supply of electricity and sell it and earn a profit, they'll also do that. And the source of that may not be SaskPower generation.

Mr. D'Autremont: — So when they're buying electricity — in the last example, being able to wholesale it from someplace else — that could be continent wide; that wouldn't necessarily be within a particular jurisdiction.

Ms. Youzwa: — That's right. There are certain areas where they are authorized to operate, and in those market areas they would be looking for those opportunities.

Mr. D'Autremont: — When they're buying power for wholesale from SaskPower's surplus, how is the determination made as to at what price that is sold to NorthPoint?

Ms. Youzwa: — SaskPower provides services. We don't sell it to NorthPoint. SaskPower just provides the services for arranging the transaction. So we will know what the cost of that generation is because we will know from what units it's coming from. They will go into the market, for example Alberta, and they will know what the pool prices are. And they'll know then what the differential is, and they'll determine that there's transmission to actually move the energy into that market, and they will make those arrangements as well.

So we pay them, but they do us a service for SaskPower. They don't purchase the power from SaskPower. SaskPower retains the ownership of that power, and then we receive the revenues from the sale.

Mr. D'Autremont: — Okay. So they're just simply receiving a commission for brokering the sale.

Ms. Youzwa: — That's right.

Mr. D'Autremont: — Okay thank you. So when it comes to looking at where those sales are located, you have in the annual report under item no. 3 that you have Canada listed and you have the US [United States]. That could be anywhere in those jurisdictions? Or is there more prevalence where those sales would be made?

Ms. Youzwa: — They would typically, for sales south of the border, would be in the Midwest part of the continent. It used to be . . . So that would be predominantly where those opportunities would be looked for.

Mr. D'Autremont: — So is there . . . Does it create an impact that there are — and my technology words may be wrong here — but three phases in North America for electricity? So actually a sale from Saskatchewan to Alberta of physical electricity is a difficult thing to do because you have to go through a transformer system to correct the phase on it.

Ms. Youzwa: — That's correct. There are converter stations on the border that . . . So if you're going to move energy across from Saskatchewan into Alberta, it would have to be converted to be able to be delivered across that boundary.

Mr. D'Autremont: — So that would be an impediment for sales going into the Pacific Northwest region versus going into the Midwest.

Ms. Youzwa: — It puts limitations on how much electricity you can move and also the cost associated with the transmission of that electricity.

Mr. D'Autremont: — Since NorthPoint is always, I'm assuming, on the look for these opportunities, are there good opportunities available for SaskPower through NorthPoint to provide electricity on this kind of a spot market basis across the continent or particularly towards the Pacific Northwest since they're our neighbour?

Ms. Youzwa: — NorthPoint is always looking for opportunities. We have limited the kind of transactions that NorthPoint undertakes to be very short-term transactions, and so they have been active across the continent. The Pacific Northwest and the other side of the interconnection has offered us some opportunities, and we've taken advantage of that. They've been active in the Ontario market as well when there are opportunities to be had. And so it depends. Because they're in the short-term market, they will take advantage of the opportunities they find when they find them. But those move around through the year and are sometimes difficult to know when they'll occur and where they'll occur, but we have people working on the desks 24-7 looking for exactly those opportunities.

Mr. D'Autremont: — When we talk about a short-term market or a spot market, what kind of time frame are we relatively talking? Are we talking a one-day electric sale? A month? Six months?

Ms. Youzwa: — I think on the outside it's one month. It's very short-term at this point.

Mr. D'Autremont: — So one month would be a long sale.

Ms. Youzwa: — Yes.

Mr. D'Autremont: — Okay. With the difference in phases between us and the Pacific Northwest, would there be more opportunities for us if we had a better connect?

Ms. Youzwa: — Certainly if you had transmission available, it could present more opportunities, but you'd have to have the transmission facilities there. And then because NorthPoint competes with other wholesale marketers, it would have to buy the transmission rights to be able to then move energy on that infrastructure.

Mr. D'Autremont: — What would be involved in providing that interconnect? Would you be looking at simply a substation at some location that would be able to do that where you'd have your transformer system, or would you need to build a significant amount of transmission line?

Ms. Youzwa: — It depends on where you're looking for transmission service. Utilities across North America, including SaskPower, have tariffs in place and under that, rules and procedures for how you . . . If you want more transmission service, what you need to do to request that service. And so you would go to the transmission service provider. And if you were looking Pacific Northwest, it may be BC Transmission Corporation or the utilities on the American side of the border. You would make a request for transmission service to them under that tariff.

They would do all of the studies to determine — engineering studies — what kind of facilities would need to be put in place, what the cost of that would be. And then you'd have the option of taking the service and paying the costs, the charges they would have identified for that. So it can vary depending on what kind of transmission service you're looking for and how much you're looking for as well.

Mr. D'Autremont: — So that kind of an arrangement, would that mean that you would have to provide the capital and build the facilities, or they may already be in place and you're simply gaining access to them?

Ms. Youzwa: — What you're looking for is to gain access to the service, so the transmission service provider would put the facilities in place. They would build the equipment that's necessary, and then they would charge you a tariff for the service.

Mr. D'Autremont: — So in the case of going to Alberta or Montana — let's say SaskPower would run the line up to our jurisdictional boundary — their electrical transmission system would come to that point between you. You would make an interconnect, and then you would pay them a tariff fee to supply Los Angeles with power.

Ms. Youzwa: — That's right. You would need to go, and you would need to make a request for service to . . . SaskPower would need to determine . . . You'd make a request to SaskPower; we'd determine what was necessary. You would need to make a request to the utility on the other side of the border and all the way through. And then all of those studies would need to be coordinated, and then if a decision was made to proceed, you know, the construction of facilities would need to take place. But it tends to be, as you can see, a long process and a complicated process.

Mr. D'Autremont: — Minimum seven years, I'm told. Revenues from SaskPower International, you have basically two larger types of revenue — electrical sales and fly ash sales. The electrical sales, what does that comprise of? Is that the MRM [Muskeg River mine] cogen at Fort McMurray or what is that?

Ms. Youzwa: — There would be electrical sales from two investments. One would be from SPI's [SaskPower International] share of the Cory cogeneration project just outside of Saskatoon, and it would also be from its share from the Muskeg River project which is at Fort McMurray. So the number there would be the combination of both. You would find now in 2006, start to see some centennial revenues as well.

Mr. D'Autremont: — So SaskPower International is involved in the centennial project. And what is their involvement in that project?

Ms. Youzwa: — SaskPower International built the project. You will recall that we initially planned the project to be a joint venture and because of that, SaskPower International is our joint venture sort of arm. And we continued with SaskPower International to build and complete the project so that we could do that without any disruption to what we had scheduled to take place.

Mr. D'Autremont: — Okay. Thank you. And the fly ash sales, I'm assuming that comes from Boundary and from Poplar River.

Ms. Youzwa: — I believe it comes only from Boundary.

Mr. D'Autremont: — Just from Boundary. What is that used for?

Ms. Youzwa: — I believe it's used by the cement industry and also for highway construction.

Mr. D'Autremont: — I think they might have used that down in my area and the road blew away. It was a new thing they tried that didn't work. I do have two more questions left on wind. How many customers . . . SaskPower has a green plan that, you have customers who have the ability to purchase green power. How many customers do you have that are doing that, that are purchasing the green power?

Ms. Youzwa: — I don't have that specific information with me today, but I can certainly get that to you.

Mr. D'Autremont: — Okay and another number related to that, I'm wondering if you could break that down between government, NGO [non-governmental organization] — which you can lump together if you want — and individuals who are making the conscious decision personally to buy green power.

Ms. Youzwa: — Okay, we can do that.

Mr. D'Autremont: — Okay. Thank you very much.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair. I just want to return for a minute to . . . and again this kind of crosses the line of what's in place and policy going forward. But looking in the report, you have two cogeneration stations — one at Cory and one Meridian cogeneration which is at Lloydminster. Does SaskPower have and/or the government, probably both, industries that are approaching you requesting that they cogenerate power, that they be allowed to, that they be allowed to set up their facility that they then could put power into the SaskPower's grid?

Mr. Patrick: — Yes. We get unsolicited proposals that number probably 300 a year from various kinds of projects. Needless to say most of them never happen because you don't see a proliferation in the province, and they usually don't go anywhere because the fundamental economics just don't work.

But people have an interest in something, so we sit down with them, kind of go through it. Some of them would be cogeneration-type projects where there's some kind of an industry that sort of lends itself to a cogeneration application. But usually the business case behind the core business itself, the core industry, doesn't seem to work out, and hence the power piece never comes along.

I mean we certainly have nothing against it. Cogeneration is one of the most efficient ways you can make electricity, and you can get some very good power out of it, but it usually relies on . . . The driving business is not the electric piece. It's whatever it is that's causing the cogeneration facility to otherwise exist.

Ms. Harpauer: — But who makes that determining factor then? What you're suggesting is the economics for the existing industry facility.

Mr. Patrick: — The proponent usually backs away.

Ms. Harpauer: — Because it definitely was something that was mentioned in the Weyerhaeuser situation, was that they, in a letter that they had written, that they wanted to be able to cogenerate power and didn't feel that they were allowed to. Like, did Weyerhaeuser ever approach SaskPower asking if they could cogenerate?

Mr. Patrick: — Actually I don't think they ever have.

Ms. Harpauer: — Okay.

Mr. Patrick: — The reality though in any case like that is, what's the cost of electricity? I mean we're prepared to pay a certain amount for electricity. We're prepared to pay as much as the next cheapest alternative would've been. And we've already got . . . We have sort of have a standing offer to anybody if you can come in at that price, we can do business with you. But almost invariably what happens is people want more than that. And so from our point of view, it's a no go from a business perspective. It's not that it's physically impossible; it's just economically it doesn't make any sense.

Hon. Mr. Nilson: — Just to say a little more on the Weyerhaeuser question. I think that plant, you know, and P.A. [Prince Albert] pulp, the pulp and paper processing plant there had a generating plant that provided I think somewhere around 55 megawatts, and it was all used internally as power. And so the question then comes is, well can you double that to something else — some bigger amount — and then sell into the grid? And the question always becomes, do the customers of SaskPower generally subsidize the price to help them build one of those plants? And so that's looking at it from the other side of the way Mr. Patrick's describing it.

It's if you in fact pay one and half or two times the price, the regular price of electricity for one of these projects, that means that somebody's paying that other half. And that other half limits the other customers in the system. And so you always have to be careful that you don't end up with some of these proposals that are out there that effectively are some subsidy from the other customers. And so that's where the whole discussion comes.

And so in Saskatchewan we have been fairly clear over the longer term that we try to keep the cost of the electrical system in the electrical system. If people need some kind of subsidy or some assistance in their business, well then tell us what that part is and we'll look at it. But we also are, you know, not that eager to have to prop up businesses that way. So that's where the question comes. That's what's happened in the forest industry is that there has been from provinces that have a lot of cheaper power, they've been able to provide power to some of the mills across the country.

Ms. Harpauer: — On a smaller scale, and I'm sure the minister is quite aware of the program that Ontario has put into place that — and I'm trying to see and March 21, 2006 was about the time period where they announced it — where they offer 11 cents per kilowatt hour to producers of wind, biomass, and other hydro energy. They have another incentive for solar energy but it's capped so that therefore they're just looking at smaller projects. I know in Alberta we're looking at harnessing gases from the feedlot sector. And so again it's public policy more than anything as to whether or not we want to start looking at these forms of energy and how we can make that work within our corporation. Is the government and the corporation having those discussions?

Hon. Mr. Nilson: — I think the answer is yes. But let's take a look at the Ontario situation. They were caught in that sort of tripping of all of the breakers, if we can put it that way, right around the Great Lakes. And then they realized that in the summer times they didn't have the capacity to provide all the power they needed for their customers. And so one of the things that they did was go out and pay a little extra on the solar, a little extra on some of these other things, just to get more capacity into the system even if it was intermitted capacity.

Now the other side of what you're asking is how do we look at the biogas ones, all these other projects. From a SaskPower perspective you have to analyze them and compare them to all the other sources of electricity. But there may be some other reasons around developing technology, doing some of those things, being greener in your whole perspective, that would allow us to look at those and those are exactly the kinds of things that we do look at. But ultimately from a SaskPower perspective they have to provide a cost of electricity that's within the appropriate range, and if there's going to be some other assistance, well it will come from some other place.

Ms. Harpauer: — Thank you. I'm sure Ontario didn't want to hear you say they did it out of necessity because they're definitely saying it was for environmental reasons.

I have a couple of questions very quickly, because I see the clock is getting close to our completion, that has to do with the announcement of the partnership for SaskPower's clean coal project. And I actually went to the announcement and have the material from the press release and so on. What is the nature of this partnership? Is it a sharing of costs? Are both partners contributing money to this project? Are both partners contributing technology to the partnership? Is it both or . . . Because it's kind of vague as to what are the terms of this particular partnership.

Mr. Patrick: — You have to appreciate because it is an

emerging technology, you can't go down to the normal vendor store and just sort of buy one of these things with a normal specification. So we are working collaboratively with long-standing vendor partners to basically mature this technology to the point where they can build it and we can use it.

So part of the partnership is simply acknowledging the fact that when you're dealing with new stuff, you don't have the traditional arm's-length relationship where we write a specification, they give us a proposal, and it goes back and forth and you settle on something, because it's hard for us to write the spec and impossible for them to respond to it because there is so many unknowns.

So the first thing is you have to get both parties on the same side of the table. So that's the first part. So really it's an acknowledgement that you have to collaborate on understanding the nature of the problem and figuring out how to do things technically.

The second part of the partnership is that these large international vendor partners very much see this as part of their strategic path forward to the future, that they have to be able to produce products that are like this for their own marketplaces. Because of that and because quite frankly we are the only utility in the world to date who has really gone so far with the detail design — there's lots of people poking around with what-ifs, but this is a real power plant — they are providing us with a lot of the engineering at no cost. Stuff that you would normally have to pay for, they're throwing on the table for free or for very low cost because it's really a way for them to invest in their own future.

So they're taking advantage of the opportunity to push this agenda in their own. So we've got a very good deal from these people. In some cases, paying nothing for the work they're putting in. Other cases, we're still paying something but at a fraction of what it normally would be worth.

At the end of the day if the plant in fact is built, we will have prior to that negotiated the actual price of the hardware from these various vendors. So we will know in advance what this thing is going to cost, and so we can basically work to a fast-track schedule. At the end of the day they will sell us their equipment at some kind of a price, but we've got mechanisms in place to make sure that those prices are reasonable in the marketplace because at the end of the day it's just iron and steel.

And they will own the intellectual property around their particular components. SaskPower will own the intellectual property around the integration of the total process of clean coal. So the vendors own pieces of it, and we own the whole integration of the process.

Ms. Harpauer: — You answered my other question. Thank you. Oh sorry.

Hon. Mr. Nilson: — Just before we conclude, I can get Mr. Jones to provide more detail about the brokerage issue so we can get that one cleared up now.

Mr. Jones: — Chair, thank you. This is, as the minister indicated, follow-up. I've got some information and if more is required, Ms. Eagles or others could let me know.

SaskPower tenders for custom brokerage services periodically. The last time we did this was in early 2005. We issued a request for proposals to six firms. There was four firms who responded. All had offices in Saskatchewan. The four bids that we looked at, we went through an evaluation, a formal tender process and evaluation. We selected Livingston International Inc. They have an office I believe in North Portal. Their head office is located in Toronto. The contract I believe started on May 31, 2005. It's a two-year contract with an option for an extension of an additional year. The previous broker was Percy H. Davis Limited.

And I'm not sure, Minister, if there was other sort of information or so forth. But if there is, then I apologize. I just got this information so that . . . Please get back to me if you require more. Thank you.

The Chair: — Mr. D'Autremont. No? Okay. All right. We'll be receiving the Provincial Auditor's report 2004 volume 1 for information purposes. And the Provincial Auditor's report 2006 volume 1 we have recommendation no. 1, and we want to show compliance. All agreed?

Some Hon. Members: — Agreed.

The Chair: — Opposed? Carried. And recommendation no. 2, which is on page 112 of the Provincial Auditor's report 2006 volume 1. Sorry, I'm going to have to backtrack. No. 2 is on page 110 of the Provincial Auditor's report 2006 volume 1. All those agreed with concurrence for compliance?

Some Hon. Members: — Agreed.

The Chair: — Opposed? Carried. Page 112, Provincial Auditor's report 2006 volume 1, recommendation no. 3. All those agreed with compliance?

Some Hon. Members: — Agreed.

The Chair: — Opposed? Carried. And recommendation no. 4 which is on page 113, Provincial Auditor's report 2006 volume 1. All those agreed with compliance?

Some Hon. Members: — Agreed.

The Chair: — Opposed? Carried. Thank you. Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair. And to save us time I will thank the . . . I have no further questions. I want to thank the minister and his officials now for coming and sitting here for three hours now. And I move:

That this committee conclude its review of the 2004 annual reports, financial statements, and related documents for the Saskatchewan Power Corporation.

The Chair: — Ms. Harpauer has moved a motion:

That the committee conclude its review of the 2004 annual

reports, financial statements, and related documents for Saskatchewan Power Corporation.

All those agreed?

Some Hon. Members: — Agreed.

The Chair: — Opposed? Carried. I just want to thank the minister and his officials for appearing before the committee today, as well as the Provincial Auditor's office. Thank you for appearing before the committee today and answering all the questions that were asked of you. And, Minister Nilson, you wanted to say a few words.

Hon. Mr. Nilson: — Okay. I'd just like to thank the committee. And this means that we've completed with '04, is that correct? But not '05? Okay. So we'll be happy to come back and answer any further questions on 2005. And we thank everybody for their questions and for advice and we appreciate the good work that the committee does. Thank you.

The Chair: — Thank you very much. Okay, I'll entertain a motion to adjourn. Thank you, Mr. Duncan. This committee stands adjourned.

[The committee adjourned at 16:30.]