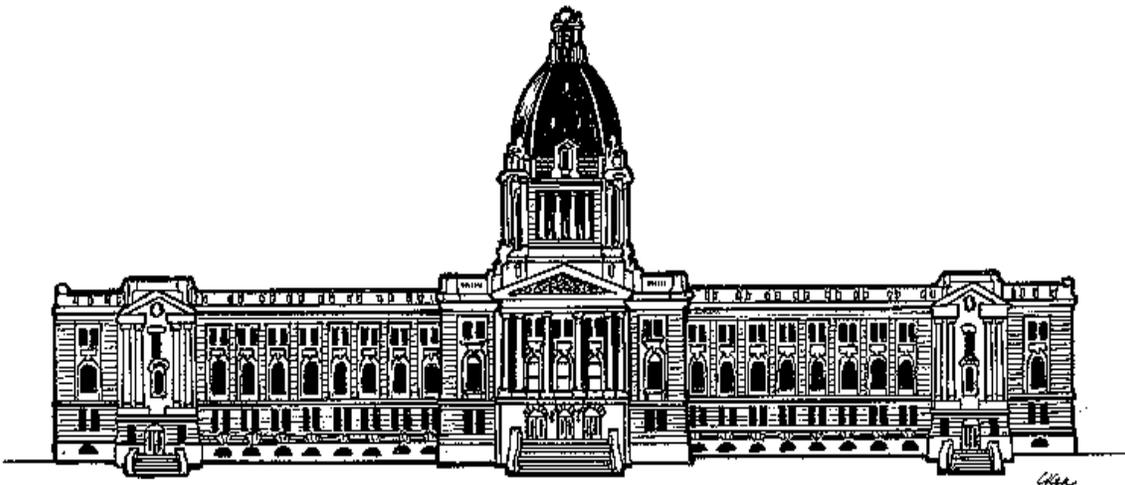




# **STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES**

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

Mr. Glenn Hagel, Chair  
Moose Jaw North

Mr. Dan D'Autremont, Deputy Chair  
Cannington

Hon. Graham Addley  
Saskatoon Sutherland

Mr. Dustin Duncan  
Weyburn-Big Muddy

Ms. Donna Harpauer  
Humboldt

Hon. Sandra Morin  
Regina Walsh Acres

Hon. Mark Wartman  
Regina Qu'Appelle Valley

[The committee met at 09:09.]

### SaskEnergy Incorporated

**The Chair:** — Okay. Let me call the meeting to order and acknowledge first of all a couple of substitutions that we have today, that Mr. Forbes is substituting for Ms. Morin and that Mr. Krawetz is substituting for Mr. Duncan.

Our item today for this morning is consideration of SaskEnergy 2004 annual report and related documents, which will be followed by the consideration of the Provincial Auditor's report, chapter 3 of 2004 volume 1.

Before proceeding to that item I want to table some documents that have been provided to the committee. I believe members have previously received these and had a chance to peruse them, but this is the first opportunity to formally table them, and so that is done.

Let me now proceed to the Minister Responsible for SaskEnergy, the Hon. Ms. Atkinson. And, Ms. Atkinson, if you would like to introduce your officials and if there's an opening statement that you would like to make, then to proceed to that.

**Hon. Ms. Atkinson:** — Well thank you, Mr. Chair. This morning I'm joined by Doug Kelln, the president and CEO [chief executive officer] of SaskEnergy, as well as Dean Reeve, executive vice-president of SaskEnergy; Greg Mrazek, vice-president of finance and the chief financial officer; Mark Guillet, who is the vice-president and general counsel and corporate secretary to SaskEnergy; and then Ron Podbielski, who is executive director of corporate affairs.

First of all I want to apologize to the committee. My understanding was that the minister could choose to attend or not attend and I had a number of meetings this morning. But I'm here. So I will make some brief opening remarks to discuss SaskEnergy's 2004 results.

Looking back on 2004, it was a strong year in terms of our operations and our financial position. As Saskatchewan's natural gas utility we again capitalized on some core strengths, including our expertise and initiative of our employees to deliver the products, services, and results that together culminated in a successful year.

Just to provide some context around our efforts, we have the example of the natural gas commodity market in 2004. In the midst of strong natural gas prices on the open market, SaskEnergy used our gas price management strategy to successfully manage price volatility. As a result, our commodity rate in 2004 remained at the 2003 levels. As well, our commodity and delivery rates were maintained at the second lowest level in the country.

In addition, customers continued to become more energy-efficient, an activity we support and we encourage all of our customers across the province. To help us promote natural gas conservation and the benefits of natural gas as a clean-burning fuel, we launched our first Energy Star loan event in 2004. Thousands of customers have benefited from

purchasing high-efficient natural gas heating equipment at a prime interest rate. Those are just some of the highlights of '04, but what's important to note is that our focus on these core activities continues today.

Although natural gas prices remain volatile in the North American market, SaskEnergy continues using our time-tested and highly successful price management program to provide customers with among the lowest rates in the country.

We're also maximizing our core expertise in natural gas delivery to provide service to residents in the La Ronge area. This is a historical event for northerners and for SaskEnergy, as we work together to create economic growth and benefits that will impact thousands of people in that part of the province.

While we continue to promote natural gas as an energy source, we balance this with our environmental focus. And we're supporting the EnerGuide for Houses program as well as the energy-efficient rebate for new homes which contributes to the province's green focus.

On the TransGas side of our business, we're supporting the continued development of the natural gas industry in the province as well as growing our storage business. The storage growth has allowed us to efficiently meet new load demand in the province, particularly in the Saskatoon area, as well as to help customers manage the natural gas commodity market with storage capacity.

As in 2004, today we want to capitalize on the strengths of our employees and their expertise to meet the needs of our customers and to support economic growth in the province. And I want to thank you very much for allowing me these brief opening remarks and we look forward to any questions that the committee members might have.

**The Chair:** — Thank you very much, Minister. Now I'll proceed to the Provincial Auditor's office and ask the principal representative, Andrew Martens, to introduce your officials and then provide your comments by way of report.

**Mr. Martens:** — Thank you, Mr. Chair. With me today is Mike Heffernan, deputy provincial auditor, as responsible for the audit of SaskEnergy. And behind us we have Glen Nyhus and Rosemarie Volk, principals, and John Aitken, the partner with Deloitte & Touche who does the external audit. I'll ask Mike now to give the summary report.

**Mr. Heffernan:** — Thank you, Mr. Chair, members. We worked with Deloitte & Touche, SaskEnergy's appointed auditor, to form our opinions on SaskEnergy and its subsidiary corporations' financial statements, internal controls, and legislative compliance. We received excellent co-operation from Deloitte and from SaskEnergy's management and staff. In our opinion, for the year ended December 31, 2004, SaskEnergy and its subsidiary corporations' financial statements are reliable. SaskEnergy and its subsidiaries had adequate rules and procedures to safeguard public resources and complied with laws governing their financial activities.

We also have a report in chapter 3 of our 2004 report volume 1.

In this report we give our assessment of whether SaskEnergy had adequate processes to implement its new computer system. We concluded that SaskEnergy had adequate processes to implement its new system except it needed to improve its processes for realizing the benefits from the system, including: (1) clearly establishing the baseline data needed to measure the benefits; (2) clearly defining its benefits realization reporting strategy, including its processes to clarify the benefits achieved; and (3) reporting to its board on the benefits realized, including written explanations of the differences between planned and actual results.

I am pleased to report to the committee that SaskEnergy has implemented all of our recommendations. Thank you, Mr. Chair.

**The Chair:** — Thank you very much. And do we have comments from the private auditor? Mr. Aitken.

**Mr. Aitken:** — I wasn't sure if I was going to be asked to do that so yes, just a couple of items.

The auditor's report that was submitted by Deloitte is in the annual report on page 22 under the MD&A [management's discussion and analysis] section, and that was signed effective February 8, basically complying with what Mr. Heffernan just told you that the financial statements are presented fairly. We worked in our audit with the audit committee of SaskEnergy, met with the audit committee to outline the results which are consistent with what Mike just read with the audit committee on February 25.

I should say that my role in this audit was to assist my partner, Bob Watt, who was the signing partner on this audit and during the audit asked me to provide some assistance on it. And so that was my role and I have continued to be the auditor of SaskEnergy. And I'm available for questions throughout the day but I take my lead from Mr. Heffernan.

**The Chair:** — Thank you very much, Mr. Aitken. The floor is now open for consideration of the 2004 annual report and the related documents.

**Ms. Harpauer:** — Mr. Chair, could we deal with the auditor's report first?

**The Chair:** — If the committee wishes to change the order of consideration, that can be done by motion. Otherwise we will deal with the items as they're presented in the agenda that is before the committee.

**Ms. Harpauer:** — Okay. Can I make a motion that we deal with the auditor's report first?

**The Chair:** — Okay. We have a motion by Ms. Harpauer that the consideration of the Provincial Auditor's report be proceeded with first on the agenda. Is there discussion on that motion? If not, then those in favour? Opposed? That's carried. And then we will deal first of all with the consideration of the Provincial Auditor's report, chapter 3 of 2004 volume 1. And following consideration of that, we will then proceed to the consideration of the 2004 annual report and related documents.

Are there any comments that you wanted to make from the Provincial Auditor's office specifically related to that agenda item then?

**Mr. Heffernan:** — No, we have no comments at this time.

**The Chair:** — Okay. Does the minister have any comments related to that before we proceed? Okay. Then let's proceed then to consideration of the Provincial Auditor's report of 2004, chapter 3, volume 1, and the floor is open for consideration. The Chair recognizes Ms. Harpauer.

**Ms. Harpauer:** — Thank you, Mr. Chair. And welcome to the minister and her officials as well as the officials from the Provincial Auditor's office.

The first question that I have on the Provincial Auditor's report is, what process was in place for choosing the particular system that SaskEnergy chose to purchase and implement?

**Mr. Kelln:** — We did go through a request for proposal process within our organization to select the OneWorld vendor that we chose.

**Ms. Harpauer:** — And what was the original budget that was allotted for purchase and implementation of the system?

**Mr. Kelln:** — The original budget which was established in June 2002 was \$5.3 million.

**Ms. Harpauer:** — Did SaskEnergy stay within that budget?

**Mr. Kelln:** — We went through one revision which occurred in September 2003 to six and a half million dollars with re-evaluation of the benefits. So there was still a bit of scoping going on of exactly what the system was going to do within the organization. One thing of note is this system is robust, that it includes handling the financials of the organization, the human resource side of the organization, and also the maintenance activities that occur throughout the province in the organization. So an analysis was done on that and in September 2003 the budget was adjusted to \$6.3 million.

**Ms. Harpauer:** — So at the end of the day did the project come within the confine of the 6.5 million or was it over that amount as well?

**Mr. Kelln:** — The final project cost was \$7.1 million.

**Ms. Harpauer:** — Did we define the reason behind the cost overruns?

**Mr. Kelln:** — We had spent certainly active management of the project through its duration. The predominant change was an increased amount of internal resources that were used on the project, which are capitalized as part of those project costs. And the analysis that was done, it was a good thing to do because it's allowed us to ensure that we're getting the benefit side of the project.

**Ms. Harpauer:** — Okay. When you say internal resources, is this human resources that you're speaking of?

**Mr. Kelln:** — No. It would be individuals from the maintenance area, from human resources, and from finance — the users, the representatives of the users who are going to use the system.

**Ms. Harpauer:** — There was a concern raised by the Provincial Auditor that there was a high turnover of project team members. Did we find out or do a little bit of digging as to why people were quitting on this project at a fairly high level?

**Mr. Kelln:** — They weren't quitting. We were having some natural turnover of people that are in the working side of the project moving on to different opportunities in the company. We had the same project manager and leads on the project throughout, right from the very start to the end.

**Ms. Harpauer:** — Did the high turnover of the project team members — and it also mentions that many didn't provide notice or adequate notice to the project manager — I'm still going to say, did we define why that was happening? I mean, it seems odd that this particular project you'd have a high turnover of staff unless there was some discontent.

**Mr. Kelln:** — The project had turnover. In our opinion it was very similar to any project that has duration to it. I mean, this is a project that we're still going through realizing the benefits of today. We do have a task group that's continuing to monitor the benefits that are being accrued from this project. They report to a standing committee of the executive relative to the project as it moves forward, which then reports to the board on an annual basis, and that overview is also sent to the Office of the Provincial Auditor.

**Ms. Harpauer:** — So the staff members that were leaving would be hired specifically for this project. These were not personnel that SaskEnergy already had in their employ?

**Mr. Kelln:** — They would be seconded from other parts of the organization. What we really do is take individuals that ultimately will be users and think of them as team leads in the different areas, and they will move over to that project and provide a bit of a representative role from the different areas that they've worked in. And ultimately they'll be key users as the system is used every day.

**Ms. Harpauer:** — Another concern that the Provincial Auditor had was that you didn't have targets or ways of measuring the benefits of implementing this particular system. Now I'm assuming at this stage the system is fully implemented and fully utilized by SaskEnergy.

What changes have you made then to set targets? How do you go about doing that? And in what areas of the systems, that the system covers are you able to do that?

**Mr. Kelln:** — Yes, we certainly took the recommendations of the Provincial Auditor very seriously and moved to adopting additional processes that fit the recommendations. The first thing that we did was we did have a benefit analysis that occurred prior to the project approval, which is asked by our board of directors whenever we have an IS [information systems] project come forward. What we did is added a process of moving and going through those benefits once again and

getting individual sign-off by each of the executive officers that were responsible. As I indicated before, this is a robust system so it affects a number of different areas in our company to do that.

The second layer that we added was keeping some of those people we've talked about that had a lead role in the project, keeping them as a task group. Because certainly a system, there's work in getting it live but there's, the other key is making sure that the benefits are realized. So we maintained a leadership group related to that and their role is to annually go through and say, are each of those individual benefits being realized? And they interact with each of the divisions to do that.

That then rolls up to an executive steering committee that was established, and they review what the work group has done. Ultimately it ends up the review is provided to the board of directors. The first review occurred in February 2005 and will occur for the next five years.

**Ms. Harpauer:** — Thank you. So then my question goes to the officials from the Provincial Auditor's office. Do you feel that SaskEnergy has put adequate measures in place to set targets of the benefits of this new system?

**Mr. Nyhus:** — Yes, we do feel that . . .

**Ms. Harpauer:** — So you feel they've met that obligation.

**Mr. Nyhus:** — Yes, they did.

**Ms. Harpauer:** — How many additional staff has been needed to now carry this new system or to operate the new system? You're talking about maintaining some of the staff from the original implementation team. So how many additional staff have you felt are necessary to sustain the system, keep it running?

**Mr. Kelln:** — The implementation team, that's not a full-time role. They provide that lead role. And again when you look at that team, they're the ones that are really using that system every day. So we've added a functional lead role that annually they spend time reviewing the benefits.

Overall we've actually had a reduction in the number of people that have had to work on the system. I guess if you can visualize — and that's certainly part of the benefit analysis — is that formerly we had two systems being run in the organization, and we had a manual maintenance system. So we actually had three different systems that this new system is running. We had a PeopleSoft system that was running the HR [human resources] side of things. We had a separate system for finance, and we had manual processes both on the TransGas and the SaskEnergy side.

So as we move to the new system, we actually have overall less people working related to the system. And that's allowed us to have the benefits. And right now we're about, we're over two-thirds the way to realizing all the benefits related to the systems. We are well on our way to getting the results that we are looking for.

**Ms. Harpauer:** — So what's your projection of when this

system will in essence have paid for itself?

**Mr. Kelln:** — Well it has a return of approximately 9 per cent. So over the next five to seven years, we'll have full recovery. And we're seeing some of those immediate results right now because of for example the maintenance processes. It churns out about 12,000 different work orders a year, and those work orders end up in the 55 offices around the province. And it's allowing our people out in rural Saskatchewan to really keep track of all the maintenance activities that they need to get done. And it doesn't need to be a central process, that those work orders can get to where we need the technicians and the mechanic operators out in the field.

**Ms. Harpauer:** — So you're suggesting that it makes the maintenance around the entire SaskEnergy corporation far more efficient?

**Mr. Kelln:** — It certainly does.

**Ms. Harpauer:** — That would be one cost savings or efficiency of this new system. You mentioned that you need less staff for one system than you had for three. Is there any other areas where you feel that there is significant cost efficiencies from going to this new system?

**Mr. Kelln:** — Another area which fits the finance and human resources, you're going to one system. And as you know though, one of the largest operating costs that we have is payroll. So this is really bringing payroll into one place rather than having two systems trying to communicate together. And that's another example of where there's some real synergies.

**Ms. Harpauer:** — Thank you. And thank you too for the answers. My colleague has some questions on this report.

**The Chair:** — I'll recognize Mr. D'Autremont. And if I can remind officials that if you are responding to a question for the first time, if you would identify yourselves for purposes of Hansard recording. Mr. Kelln, we'll just assume everybody knows you and you'll be absented from this requirement. But as we're proceeding in the deliberations, I would ask that the officials do that for the convenience of recording. Mr. D'Autremont.

**Mr. D'Autremont:** — Okay. Thank you. I'd like to welcome the minister and officials here today. We've been talking about benefits. I wonder if you could outline what the benefits you expected to receive from this project before you went into it.

**Mr. Kelln:** — Well we've outlined, certainly at a high level, the benefits. Benefits — we're integrating the human resource activities that have interfaced with finance. And payroll is a great example of one that having the two systems, having two separate systems with different legacy, different times that they were implemented . . . Having one system that really you view it as one apartment block with just some different doors on it, it's allowed us to have synergies there. So that's certain ones.

You had the upgrades of the functionality in both the human resources system. We had a PeopleSoft system that was no longer being supported by the vendor and that was creating some issues relative to the IS side. We were also having a

situation that as time has gone by, the functionality demands in our human resources area have changed as well. And there's certainly opportunities in the efficiency side of things. The better you can use data related to employees, certainly the better off you are. So that's on the HR side.

On the finance side, we were also dealing with a system that was due for an upgrade. And again there's some functionality — think of the changing accounting practices and procedures that were involved in that.

On the maintenance side, we were due to move to an automated system, and I could have Mr. Reeve make a comment on some of those. That was significant because it deals with a lot of people. If you really think of our field maintenance activities, we do have a challenge that we're spread out over 400,000 square kilometres. So we just can't say, well let's specialize and have Doug work on one thing and have Dean work on the next. We need people being able to do a number of things in the field.

That becomes an organizing challenge, that to do that as effectively as possible you want to make sure that all the different 300 people throughout the province know exactly what tasks they need to get done. And we certainly see the side of that when it's 40 below. That maintenance activity is about running a natural gas system in extremely cold conditions and ensuring that supply is there. So maybe, Dean, if you could comment on the maintenance side.

**Mr. Reeve:** — I'm Dean Reeve. I'm the executive vice-president of SaskEnergy and maybe lesser known than Mr. Kelln. So just . . . [inaudible interjection] . . . Yes. Just want to speak to the maintenance side. And Doug has referred to the fact that, you know, we cover nearly 75,000 kilometres of pipeline. And in a manual system you think about the demands of paper and people's memories around what maintenance is being done and the record of that maintenance activity. With all the issues of making sure our system is safe, that it has the proper integrity, we were really challenged by the old manual system.

And so the new OneWorld system allows us to keep track of all of those work orders electronically. We know when they're cleared. It helps us manage our resources in a place where in the past maybe with the paper system, we might not have understood how far along everybody was in their annual maintenance program. The current system, on a daily basis we can say in any given district in the province, how have they done in terms of their overall maintenance and how they're making out — do they need incremental resources to get the work done prior to the cold season that arrives in the fall — and allows us to manage our resources in that way.

And you know, I think if you told us we had to go back to the manual system to try to figure out how we were doing maintenance in the province, I think we'd be in some pretty difficult situations in terms of just making sure we know what's being done in terms of managing the safety of our system.

**Mr. D'Autremont:** — Okay, thank you. On the financial side of the company, you were talking about synergies by going with the new project. What kind of benefits were you accruing there? Were there cost savings? Was there more security in the

system? Were you able then to ensure that people were paid on the appropriate day by direct deposits through this system, or what were the specific benefits on the financial side?

**Mr. Kelln:** — In terms of the human resources side, examples would be reduction in processing time for part-time employees. In part-time employees there's a lot of processing involved because they have varying hours and varying roles that need to be tracked. Our old legacy system was challenged to do that. It required manuals. So there's ultimately there's a savings of people's time. The opportunity here was we have other things we could have those employees doing. And this allowed us to really transition them from some of these manual processes on to an automated one.

Information update, we continue . . . In HR we have a fair amount of time that's spent on providing workups, for example, on potential retirement dates, so employees . . . And again it's a formula-based set-up that employees are interested to say, well if I retire in June what would that mean in terms of a pension? And we have for again 1,100 employees or 1,030 employees, you have a fair amount of that activity.

Reduction in payroll and HR duplicate data entry. And that was one I referred to previously that we had two systems and ultimately we were having some duplicate entry. That causes two sides: (1) it takes time; and (2) you have potential errors that occur.

Cost reductions to process annual employee benefit statements. Employees very much are looking for what are the benefits I'm receiving. And you always want to be checking that you're square with them. So those are some examples of some specific benefits.

**Mr. D'Autremont:** — One of the areas that Mr. Reeve mentioned was that you would better be able to send people out on a job and to complete more tasks. Were you now asking say a mechanic to do something additional or are these managers that you're talking about or who is doing the extra tasks?

**Mr. Reeve:** — Well I wouldn't call them extra tasks because presumably under the manual system this was work that we were doing previously. It's a matter of the organization of the work and making sure that all of the work gets done by the heating season. So you're not, you know, you're talking about a range of people here. You're talking about people that supervise the operation, but also the day-to-day technicians that are out doing the work at any town border station, regulator station, compressor station. So you're talking about a number of different types of job functions at the full range of our facilities across the province.

**Mr. D'Autremont:** — The name of the system we're talking about is the OneWorld information system, is it?

**Mr. Kelln:** — That's correct.

**Mr. D'Autremont:** — Just wanted to clarify that for sure. Who picked the name? It seems like an odd name.

**Mr. Kelln:** — OneWorld is the vendor name. So we didn't name this project. We chose to use the vendor.

**Mr. D'Autremont:** — Just seemed like an odd name, that was all. You're saying that the project is about two-thirds to accumulating all of the benefits that will accrue to this change. What happens when you have accrued the entire, all the benefits of this system? Are you then looking at maintaining this system on an ongoing basis or do you start a new project?

**Mr. Kelln:** — That's a very good question. I mean it's a challenge of IS systems of today for many organizations. We continue to keep our OneWorld system up to date and certainly the vendor . . . And, you know, while in terms of that we've seen that OneWorld, through the amalgamation of different vendors in North America and the world, I mean there will continually be a little potential of those vendors being different tomorrow because they're being amalgamated with somebody else.

But our view is that we are keeping the system up to date. That gives us the opportunity to choose, like any procurement that we have, is the system meeting our needs cost-effectively and functionality-wise? Right now we're very happy with it and see that we plan to use it for the foreseeable future. If that changes, we'll certainly look at what alternate options are out there.

I think the things that we've done with this system of moving to an automated process on the maintenance side, for example, really has given us that step forward — that regardless of what system we're using, that functionality gain has been captured inside of our organization. And that's the critical part. We have about 500 trucks out and about today around the province and we want them being able to get at the work in the most effective way, because winter is coming.

**Mr. D'Autremont:** — Mentioning 500 trucks out on the road, I know a number of companies, generally long-haul more so perhaps, are going to GPS [global positioning system] tracking of all their vehicles. Is SaskEnergy doing that or moving in that direction?

**Mr. Kelln:** — Yes, we are. It's something that's in our business plan and really under development right now. We call it the truck office project. That's our name. We are moving to . . . We have a situation where these individuals we've been talking about receive their stack of work, if you want to put it based on this system, in the morning at their office — in the district offices around the province.

What we do have happen though that during the day things change. We may have a customer that's on one side of their district say, I smell natural gas, and we immediately need to stop the maintenance activities we're doing and go and respond to that.

With the truck office project we'll, simply put, have computers in their trucks and with GPS capability and that will allow us to always be adjusting the work as the day goes on. And it's possible that where traditionally the work, the order call is in my district and I'm on the west side and I need to go all the way to the east side which may be an hour, an hour and a half drive, but Dean just happens to be on the other side of his district, so again with the truck technology, Dean will pick up that call and I'll be able to keep working on it.

So it's something we're excited about. We've had again what we think is absolutely critical, is getting employees bought into making this happen because I think it's the next step forward. It will build off of this structure that we have in place but it's allowed us to move to that next step.

**Mr. D'Autremont:** — Approximately the same time that you were starting on this project, ITO [Information Technology Office] was coming into place and developing basically across-government computer systems. Did you look at working with ITO in the development of your new system?

**Mr. Kelln:** — I think I can say that we looked at all the options. That's what we do right now as a practice. I mean the next big challenge for us is we have a customer service system that again is mature; it's been around for a long, long time. And we're looking at saying, what are the different options that possibly can provide that service to us?

The one thing we very much realize on a broader point of view is a company with 325,000 customers in an IS perspective is a very, very small organization and with that have to look for economies, potentially working with others, to get the system needs that you need.

**Mr. D'Autremont:** — So if you looked at all the options — which at that time would have been the initial start-up of ITO, in that time frame, neighbourhood time frame — why did you decide to go on your own internally with OneWorld rather than working with ITO?

**Mr. Kelln:** — Well I think the conclusion we got to, that this was the best approach. It gave us very specific things we needed for the natural gas industry and natural gas applications that we had.

**Mr. D'Autremont:** — So did SaskEnergy, in looking at ITO, make any written reports or recommendations to the board as to this is what ITO can offer, this is what they can't in our specific needs, and why we would go to an in-house, stand-alone system rather than going to ITO?

**Mr. Kelln:** — I can tell you that every time we bring a project of this size forward we are asked by our board to go through all of the options. In terms of that specific item, certainly I can provide an undertaking to give you any information we have.

**Mr. D'Autremont:** — If you would, please. Obviously every department or Crown corporation believes that they have specific needs that their individual entity provides. And yet ITO as an umbrella organization is I think now providing IT [information technology] services to 16 or 17 of the departments, Health being the one notable exception. So I'm just wondering what SaskEnergy saw that their needs were that ITO could not provide.

**Mr. Kelln:** — Well we'll certainly provide an undertaking for that.

**Mr. D'Autremont:** — Okay. Thank you.

You talked about the task force that you have in place. You know, in talking about a task force it almost seems like they

meet on a regular basis — daily, weekly — to review the situation. Is that the case? Or is this a committee that meets once a year to review the overall performance of the project and then reports to the board so that while you actually have a task force in place, they wouldn't be a very active task force?

**Mr. Kelln:** — I think that's a good characterization. We view it as a task force because the individuals on that group are using the system every day. So in some ways they're very actively involved in this system because they're using it. But really the process that formally brings them together is that annual review process because we're really three years in or two and a half years into the project.

**Mr. D'Autremont:** — So other than their individual duties that they would carry out on a day-to-day basis — the members of the task force — they would only get together then annually to discuss with the other members of the task force in a formal way. I mean they may meet them at the coffee pot in the morning or something and talk about the system, but formally they would only get together then once a year to have a discussion as to the benefits or the pros and cons of the project and where it needs to go in the future?

**Mr. Kelln:** — I don't know, Dean, if you want to embellish, but that's my understanding. I think the other element that's critical, so it doesn't seem like the benefits aren't being given the attention they need, those benefits are part of our annual business plan preparation. So each of the executive members who've signed off on those benefits are incorporating that into their portion of the business plan because certainly those benefits are a key part of how we are — to simply put it — adjusting how we do work into the future.

**Mr. Reeve:** — I guess the one thing I would add is that I know in this last year they've certainly met more than once. They probably have met three or four times as a user team, talking about certain functions in the system. And so although it may be annual in terms of looking at the benefits and compiling the benefits as a user team that are responsible for their different functions, I know they've probably met three or four times this year.

**Mr. D'Autremont:** — Okay. Thank you. At the end of the day when you're talking about benefits it comes down to dollars and cents. What benefits, now that you've been in operation for three years, can you define the annual dollars-and-cents benefits that you've accrued with the project?

**Mr. Kelln:** — As I indicated before, we're approximately two-thirds of the way through realizing the benefits. There were some upfront benefits that occurred. For example we did not have to proceed with upgrading our PeopleSoft or our individual software systems that we had. We were able to reduce some hardware. Two systems required some specific computer hardware that no longer needed to . . . It was due to be upgraded as well so it didn't need to be upgraded. So those are some one-time savings.

The million to million and a half or approximately a million and a half dollars of savings on the operations side — I'm giving you what the five-, seven-year horizon is for those savings — they're occurring on an annual basis, certainly in chunks. And

that's the part that when we talk about we're two-thirds of the way there, we're tracking those annual savings that are occurring on the maintenance side.

**Mr. D'Autremont:** — So you would be looking then at about probably 600, maybe \$700,000 worth of savings up to this point, or are most of your savings more towards the tail end of the system?

**Mr. Kelln:** — I'll give you an example. In 2005 the annual savings was about \$600,000. So we had some upfront savings and then we had annual, an example of 2005 at 600,000.

**Mr. D'Autremont:** — That was for the year 2005 or accumulated to 2005?

**Mr. Kelln:** — For the year 2005.

**Mr. D'Autremont:** — Okay. What is happening with the savings? Are they being identified and targeted in some direction or are they simply being reabsorbed by the corporation?

**Mr. Kelln:** — They've become part of our business plan. Within our business plan, as any organization that's effectively operating needs to do, we need to look for how can we improve what we're doing. You know the other side of the business plan is the fact that you have some cost increases.

So, you know, our business plan is really, what do we need to get done? And an example of that is we have an aging pipeline infrastructure. Some of those pipes are 50, 60 years old and need a little more care and attention than they did 50 or 60 years ago. So we establish what things we need to do. We then look at what are the cost pressures related to that. And we then look at the efficiencies that we can gather to try to manage the cost side of things. And all of those get put together into our annual business plan.

It ends up translating into rates. When you look at the rates, we were able to hold the delivery rates on the distribution side at the same level for 10 years. And certainly that efficiency focus was a key element because if you think over those 10 years, cost of gasoline would be a simple example, labour costs. Those are the cost side. We had to look for the efficiency side.

And on the TransGas side we've also had I think a real good record of managing our costs and we were able to actually go through decreases from 2002 to 2006.

**Mr. D'Autremont:** — With the changes that you've made to the system, what opportunities or how difficult would interoperability be with ITO or any of the other Crown corporations?

**Mr. Kelln:** — Well I think when you talk about systems you have to be very careful to say, it's simple. And I don't think it ever is simple because of the fact that you have to look at how is that system interfaced with the different functions inside the organization, because there's many users. I mean, I think like any system, if you're considering changing it over you have to really talk about those interfaces and the costs to do that.

**Mr. D'Autremont:** — Does SaskEnergy operate their own server and server farm or is that contracted out to a corporation that specializes in that?

**Mr. Kelln:** — I'll give you a general answer and if you want a very specific one we can certainly provide that to you. We run our IS system in a . . . We really have a combination. We have a set amount of internal resources and internal computer capabilities. But we also contract out a portion of our resourcing and capabilities and that's something certainly I'd be pleased to give you an undertaking on.

**Mr. D'Autremont:** — Well just because I am also the critic for ITO, I'm conscious of the security measures that are needed to ensure the safety and the integrity of the system. What does SaskEnergy do to ensure that your system is safe, that someone can't access it either financially for inappropriate reasons or — I'm not sure how your system operates as far as the operation of your compressor stations and automated controls and off-site operations, but if you have that and I'm assuming you likely do — that those systems are secure, that someone can't tinker with the systems through the IT system and do something inappropriate?

**Mr. Kelln:** — Well that's a very good point — I mean, security of our systems. We do have a separate supervisory control and data acquisition system that we operate our facilities. And we really have two individuals really operating the majority of our pipeline facilities throughout the day and through the night from our Regina head office location.

There are security layers that are around that system. There's also security layers around our IS, broader IS system including our intranet. We go through a process of periodically auditing those systems to ensure that we have that security we need to effectively operate without anybody intruding on those operations.

**Mr. D'Autremont:** — In your system do you track the number of outside attempts that try to access your system inappropriately?

**Mr. Kelln:** — Yes, I believe we do.

**Mr. D'Autremont:** — Thank you. To the Provincial Auditor. The system of security for the IT system of SaskEnergy, have you evaluated their security to ensure that there is no opportunity for access for outside for financial reasons or for control of operations?

**Mr. Heffernan:** — We don't audit SaskEnergy directly. Deloitte & Touche does. Deloitte & Touche does do that review and we review what they've done. And we believe that the IT security is adequate or strong in SaskEnergy.

**Mr. D'Autremont:** — Does Deloitte & Touche, John, if you want to, does Deloitte & Touche actually look at what SaskEnergy may have done for, to hire someone to attempt to access the system or look at those attempts from the outside to improperly access the system? Do you monitor those at all or review them other than looking at what their process and procedures are?

**Mr. Aitken:** — It's a good question, Mr. D'Autremont, and yes, we do. In fact it is a skill set which is a little bit beyond my capabilities, so we have a team of people based in Regina led by Karen O'Brien, who's part of the audit team to SaskEnergy, and she has a number of people.

Now you've referred to, you know, interventions into the system and attempts to breach the system. We do have software that does look at that. I cannot tell you which years. It's not something that we necessarily do every, each and every year. We assess security as an umbrella, as part of what we call general computer controls. And so when the Provincial Auditor is referring to the documentation of that in our files, that's the work that Karen and her group do.

These kinds of tests, that kind of testing is done within the umbrella of specifically on an annual basis we'll review the controls, which may be reviewing the process that the company has gone through and also testing from time to time.

So I think the general answer would be yes, there is testing done and a review being done on an annual basis. Because as you say, there's a high degree of integration between the financial systems which we're examining in the audit and the capabilities within the IT systems around security.

You bring up another good question however, around what is the amount of work that's done with the less financial system which is the, you know, gas distribution system, monitoring, and metering. And I'm away with a little note to say, now is that something, how critical is that to the financial statements and the audit and controls? So it's a good point made.

So it's a long-winded answer but you've . . . I think it's critical to know that something like OneWorld, from an auditor's perspective, is a very pervasive change. Because it's not just like buying, you know, going into the computer store and buying an application. This is very pervasive in that it involves people. People are going to do things differently than they did because they've now to interface with the system.

So there's people, system, and processes, because . . . But one of the big objectives that our clients typically — SaskEnergy is one of other large organizations doing this — they could get left stranded with an old system that's no longer supported because the technology evolves so quickly that you don't want to be left stranded like I think Air Canada got stranded with Boadicea, their booking system. And then you've got business, you know, collapsed or you run that risk.

So as we're talking about, you know, the company making changes to its system, I think we have to keep in mind that this is a very pervasive activity throughout the company because there's people, processes, and systems all involved.

Sorry — a long-winded answer, but all of your questions go down these points and a simple yes, no answer probably doesn't fit the bill.

**Hon. Ms. Atkinson:** — Mr. Chair, if I might, we have someone at SaskEnergy that's in charge of this file. If I could ask the opposition if you plan on continuing this line of questioning, we can get that person over to answer your questions.

**Mr. D'Autremont:** — Well I do have a couple of more questions on it dealing with your internal security operations because I know one of the areas that's a problem is always passwords and password changes.

The other is, it's amazing how easy it is to crack into a system just by simply walking into a person's office and observing what they're doing on their computer screen. And a lot of organizations haven't come to the realization that there are people out there that will do these in an attempt to access the system. When your personnel are sitting there and they're working at their desk, there's information on the screen and if the screen is not properly situated, it's accessible to everybody.

**Hon. Ms. Atkinson:** — You haven't answered my question. Would you like us to call the person who knows this file very well over to the legislature to answer your specific questions or can you wait to the next annual report?

**Mr. D'Autremont:** — I can probably wait to the next time because I've probably only got three or four more questions, although it seems to lead to others.

**Hon. Ms. Atkinson:** — Okay. Okay.

**Mr. D'Autremont:** — I will pass it on now, Mr. Chairman.

**The Chair:** — Is the committee then ready for the question? Ms. Harpauer.

**Ms. Harpauer:** — Excuse me, Mr. Chair. I just have one more, more on policy side. The new technology system obviously is, in the maintenance area in particular, is allowing for a lot of efficiencies. But a concern, especially in rural Saskatchewan, is a reduction of service workers in all of the Crowns. And they seem to be the ones that are put on waiting.

Now you mentioned that this will allow for the closest service truck to be able to address a call-in rather than sticking to the barriers of a region and that isn't necessarily the most efficient way to deal with it. Do you foresee a reduction in service workers within your corporation as an efficiency measure?

**Mr. Kelln:** — Well I think it's one of the realities of whenever you're operating a system as robust . . . [inaudible] . . . is it the same 20 years ago as it is today? Are the customers all located in the same place 20 years ago as they are today? We know there's some changes there. And it's very important for us to, as efficiently as possible, have the right people in the right places.

So have we had some reductions in some locations historically? Yes. Have we also taken a proactive approach the other way, to use technology to keep rural locations? I can probably say yes as well.

We have 11 customer service offices around the province that we've brought technology to them to allow us to really capitalize on some real features of rural Saskatchewan. I give you an example of Weyburn. Weyburn is our customer service office that handles all the emails that we receive, which are thousands every week. They manage that for the entire province out of Weyburn. We're using technology to do that.

We have all of the customer service centres connected with technology so that when you phone SaskEnergy, you may have somebody from Tisdale answering your call, just as much as you have somebody from Saskatoon. So we've really taken a proactive approach.

There's some real value, and I'll use Tisdale as an example. I know Dean and I were there last week. You have a quality of life there. You have long, very stable employees that enjoy working for our organization, have a cost of living that they're very happy with. And you know, we don't have turnover in the Tisdale office. We're giving them technology to ensure they have lots of things to do, because there are some areas of the province that we've had a decline in the population around those centres. But if you make them part of the bigger provincial scene, there's lots of work for them to do.

On the technician side, I think the thing to keep focused on is we've had some reduction in the number of customers in rural Saskatchewan. In terms of the number of farms we're serving, it hasn't changed very much. In terms of the number of pipelines that we need to operate, stayed the same. What we're really doing, and one simple example is, we're freeing up some time which is allowing us to do additional things.

A simple example would be, is the work that we're doing around the maintenance of older pipeline systems has had to be dramatically increased from where it was 20 years ago because of the fact that we've got older pipeline systems. So it's not necessarily . . . When you talk about technology, absolutely we need to be as efficient as possible in rural Saskatchewan because at the end of the day it turns into rates and rates determine whether you have economic development, in our view, in this province or not. If you have competitive rates, it helps. We help that cause. If we say, well we're always going to do what we've always done, well then all of a sudden we're in cost pressure sides of things. But at the same time when we look at that we've now become more efficient, we look at, well what other things can that individual do?

We do go through a process that if there's a vacancy in an area, we always do a check on, do we have the right number of people for the right job? So I think we are focused on really capturing some of the real opportunities of rural Saskatchewan. There's a quality of life there. There's individuals who, like, if you get them in the right spot, they'll stay there and they'll do a great job for you every day. They'll represent you in the community in a proud way, and we recognize that. And at the same time we're balancing that we have to be efficient as an organization.

**Ms. Harpauer:** — Thank you. Now I just want to point out my office isn't particularly receiving complaints of . . . from SaskEnergy. There are Crowns where I'm receiving a number of complaints of lack of service, and therefore then in rural Saskatchewan your wait time if you phone in needing service is increased dramatically. However it is a concern. There are geographical, obvious geographical challenges to rural Saskatchewan, and they don't want to be put on waiting for, at times, weeks and weeks for service. So it's just a caution that I would like to . . . You know, I understand that there has to be efficiencies, but there also has to be service. And you know, it's a challenge to balance that. So that's all the questions that I

have on the Provincial Auditor's report.

**The Chair:** — Mr. Krawetz.

**Mr. Krawetz:** — Thank you, Mr. Chair. Just a couple of questions. You've mentioned throughout this morning's comments that the age of the pipeline and the number of miles or kilometres of pipeline, I guess, is extensive. Has the new system allowed you to better track the need for where development has to occur much more, much more quickly than it would have under a different system? And then a lead-up to that is, if that is true — and I acknowledge that you're indicating by the nodding of your head that that is true — what, what will SaskEnergy be able to do to better meet the needs of those areas that you've identified?

**Mr. Kelln:** — Okay. Well I'll turn it over to Dean to discuss it. The short answer is, yes it really has. And it's allowed us, every time we end up going in the middle of the night to some issue that's occurring on our pipeline system — and it might be as simple as we've had a snowstorm with 100-kilometre winds and it's blown out some of the . . . or caused some issues at our town border stations where we have to preheat the gas before we send it into town — we create corrective work orders or we put it back into the system. So there's a learning component to the system. And I'll let Dean maybe talk about it.

**Mr. Reeve:** — Well I think that's a great example of one of the benefits that come from this system, is that rigorous recording of data so that we can continue to kind of monitor the integrity of this system, etc. And a great example is, you know, at every community where we bring gas to that community we have a town border station, and it has requirements to heat the gas prior to it going into the distribution system.

Well we've had numerous calls in the middle of the night that we've got a line heater that's gone out or whatever. That system will track each one of those calls and start to say, issue that corrective work order. It says maybe the smartest thing to do is not get up in the middle of the night and go and relight the line heater; maybe it's better to do something about the line heater and make sure that, you know, we're saving, our dollars then are saved by not getting somebody up in the middle of the night on call, going out to relight a line heater. And it improves the safety and integrity of our system such that if for some reason a line heater has been out a little longer than necessary we don't have an interruption of service.

So all of those are really critical parts in terms of how we manage our system with the manpower that we have and make sure we've still got that very high reliability of our service.

**Mr. Krawetz:** — Subsequent to that then, has the system allowed you to identify a district or an area of the province that due to age or due to, you know, the composition of soil and the like, that has now indicated to you that there's going to be a greater need for capital investment much quicker than what you had anticipated?

**Mr. Reeve:** — Well I think it's systems combined with activities. And I would say the level of activities we've had around examining our pipelines that, as Doug mentioned, are 50 and 60 years old, it's not only the data that you track, it's the

activities that you generate to capture that data. And I can tell you that there has been a significant activity in the last, certainly in the last decade around just looking at pipelines that are 40 and 50 years old and examining that integrity and then capturing that data so that we can do the proper preventative maintenance and detective things as we go on.

And so yes, I'd say it's a combination of not only how we capture the data but also all the activities that go into looking at that pipeline and examining the pipeline and where we've got issues, and that comes to soil conditions, temperature of the gas. We have learned so much in the last decade, as everybody has in our industry, about pipeline integrity and how you manage the aging of pipelines.

**The Chair:** — Thank you. Are there any other questions related to the auditor's report item before us? If not, then it would be appropriate for the committee to state its conclusion related to concurrence and compliance of the recommendation.

I'll remind the committee before asking for a motion that the item before us is found on page 56 of the auditor's report, and the one recommendation related to the processes of the implementation of the new system is this:

To improve its processes for realizing the benefits from the System . . . [the Provincial Auditor recommends] that SaskEnergy:

[one] clearly establish the baseline data needed to measure the benefits;

[two] clearly define its benefits realization reporting strategy including its processes to verify the benefits achieved; and [then thirdly]

report to its Board on the benefits realized including a written explanation of the differences between the planned and actual results.

That's the item before us. Does the committee have a motion related to concurrence and compliance? Recognize Mr. Addley.

**Hon. Mr. Addley:** — Thank you, Mr. Chair. I'm Graham Addley, and I move . . .

**The Chair:** — Yes, you are.

**Hon. Mr. Addley:** — I'm just trying to follow the rules here. Strict taskmaster, Mr. Chair. Didn't want to get in any trouble with you.

I would move concurrence and compliance with the auditor's recommendation.

**The Chair:** — Okay, we have the motion to concur and comply. Is it the pleasure of the committee to adopt that motion?

**Some Hon. Members:** — Agreed.

**The Chair:** — That's agreed without objection. And that's carried.

Now as you know, we don't have a prescheduled break for the committee's deliberations, but given that we've completed the one item and it's now appropriate to proceed to the consideration of the 2004 annual report, it would be the Chair's recommendation that we take a 15-minute break and then come back and move to the other item. Is that acceptable to the committee? Then the committee will stand recessed for 15 minutes.

[The committee recessed for a period of time.]

**The Chair:** — Okay. The break having occurred, let me reconvene the committee and direct us to our other unconsidered item on the agenda for this morning. I remind the committee we have available to us up until 12 noon to deal with the SaskEnergy consideration of the 2004 annual report and related documents, and the floor is open for questions or comments. I recognize Ms. Harpauer.

**Ms. Harpauer:** — Thank you, Mr. Chair. There's a number of areas; I'm going to be jumping around quite a bit this morning into different areas and not a lot of questions on any one area.

Could we get an update on the debt of SaskEnergy and where that sits with the industry, other players in the industry?

**Mr. Kelln:** — I'll certainly call on Greg Mrazek to come and talk specifics. I think from our point of view we view that our debt/equity ratio is in good stead on both sides of our organization. But I'll let Greg expand on that.

**The Chair:** — Pardon me for interrupting for just a moment. Is the question related to the 2004 annual report or is it related outside of the 2004 annual report?

**Ms. Harpauer:** — It would be outside of the annual report.

**The Chair:** — Okay. I simply then remind the committee that the item before us is the 2004 annual report. We can proceed outside of that if that is the wish of the minister, and if there is not an objection to proceeding outside of that, then we'll proceed. Does that meet with approval?

**Hon. Ms. Atkinson:** — It does.

**The Chair:** — Okay. Then proceed with the question.

**Mr. Mrazek:** — Thank you. Greg Mrazek, the vice-president of finance and chief financial officer of SaskEnergy.

We have two large utilities that we operate. We operate a distribution utility and transmission utility, and we are similar to the other regulated natural gas utilities in Canada, being both distribution and transmission.

The regulators in Canada and the other provinces and federally have over a great deal of time gone through with their utilities and established what they feel is a proper, what they refer to as a capital structure, which is debt and equity. And what has happened is that over the years they've established that for these type of utilities you commonly find about 65 per cent debt and 35 per cent of equity. So when you're financing your assets you're doing a combination of those.

We were not quite there in 2004, but we did achieve our debt/equity ratio subsequent to that and we've been maintaining that since then. So our debt/equity ratio that we have right now, our debt is in line with what you'd commonly find in regulated natural gas utilities across Canada.

**Ms. Harpauer:** — A follow-up to that then is, and it was referred to a number of times this morning already, of the aging infrastructure. And that is an enormous challenge for all of the Crown corporations and municipal levels of government as well because we have an infrastructure that went into place very rapidly a number of years ago.

So what would be the projection going forward of the . . . Is the capital cost for renewal and maintenance of the infrastructure going to increase and therefore be a major concern for SaskEnergy's debt/equity ratio? Or is it going to come in such a timely fashion that we'll be able to maintain the present ratio going forward?

**Mr. Kelln:** — Maybe I can start out with an overall. We took a very proactive approach in 2000-2001 of saying if we proactively start to assess these pipelines, we'll spend a nickel rather than the dollar related to it. And we are seeing that it certainly is a component of our capital expenditures every year but at a manageable level. And we've proceeded to a point . . . The transmission pipeline infrastructure is the, if you view it, the pressure inside the line is much higher so that that pipeline is having to stretch a little bit to hold the gas in place. So it's the pipeline infrastructure that is first up for keeping track of.

We have used the system integrity program that we developed in 2000-2001 to have a continual checking of the different pipeline systems and develop trends. Is it a certain type of coating? Is it a certain place, a certain type of land? Those kind of things. And the model's been very effective on us being able to ensure that we're spending maintenance dollars but at a manageable level.

So it's above certainly, you know, what we were doing 20 years ago. But it's been within our capital expenditure forecast for the last five years. And we don't really see . . . We see it staying at about that level.

**Ms. Harpauer:** — So it's manageable in a staged manner. You won't all of a sudden meet year number whatever and have a major expense. You're able to manage it over the years a little bit each year?

**Mr. Kelln:** — Yes. We certainly look at it as a population, I guess if you want. We break it down into segments, into half-a-kilometre segments. So you take that 14,000 kilometres and you break it into those little chunks. And if you have a section that needs attention, you proactively get at that ahead of time rather than waiting for it to end up to be a big issue. So that is part of our business plan development every year as it is. We're presently going through for 2008.

The one place we're in right now is by 2004 we had done some of the exploratory work in the first four years so we were then knowing, okay, these are the pipelines that we're going to pay attention to every year and these are the ones we're going to give a checkup once in a while. So we have that model working

for us and we've been very happy with it.

**Hon. Ms. Atkinson:** — If I might. One of the things that each of the Crown corporations has to do is present their plans for the following year to the CIC [Crown Investments Corporation of Saskatchewan] board of directors, and included in their plan for the following year is their capital construction plan. And one of the things that we're always cognizant of as ministers responsible or the CIC board is what is the debt/equity ratio for each of the companies. And as Greg said earlier, there was a concern about SaskEnergy's debt/equity ratio certainly a few years ago, and in our view they're now meeting industry standards as are all of the Crowns. Well the four utility Crowns.

**Ms. Harpauer:** — I thank the minister for that. I guess the concern that we have in the opposition is that SaskEnergy isn't going to run into the same situation as SaskPower is going to run into, in that their debt/equity ratio admittedly is going to have to go up due to the enormous capital costs of infrastructure renewal in a very short period of time. Obviously there's been indication that SaskEnergy has managed that over a period of time and been more proactive, but even . . .

**Hon. Ms. Atkinson:** — They are two different companies. When you think about SaskPower, one of the problems that SaskPower has is that it is a major emitter of what we call those bad gases that contribute to global warming — greenhouse gases. And we burn coal. And so the challenge has been, what do we replace coal with? SaskEnergy I think is in a different position. They are a natural gas distribution company and transmission company. So my sense is if you look at the annual reports for the last several years, you will see that SaskEnergy has been investing in its infrastructure but they don't have nearly the problem that SaskPower has.

**Ms. Harpauer:** — Understandably. I was just, you know, seeing if all of a sudden there was going to be a number, like a major renewal that was going to have to take place in any given year, because I understand of course the pipelines went in over a longer period of time than our power stations. However there was some years where a major amount of pipeline went in the ground and therefore it's all of the same age and will need to be addressed at around the same time.

There hasn't been to my knowledge a major pipeline project for some years until now, the La Ronge gas line project. Can we get a status on where that project is — how it's coming, where we're at?

**Mr. Kelln:** — Certainly can. Dean has been very much immersed in that project so I'll turn it over to him. I think, short, we're proceeding. We're really excited about extending up to a northern community.

It's something that . . . I'll give the context of the utilities across Canada. We're extending natural gas to some, some lengths that we can proudly say is not being done in other jurisdictions across this country. And I think we're bringing some benefits to that community. I'll let Dean expand on the project.

**Mr. Reeve:** — Sure. Well first of all, the good news is that we have a project because we've sat here a number of times and not had a project to La Ronge. And that's really a credit to a whole

bunch of people involved — the community, the funding that was made available to make it happen, and really a desire by the communities in the La Ronge area to have that energy source available to them.

So we went in with a target of 500 customers to make the project proceed and ended up with a sign-up that now is close to I think 850 or 875 customers. So the great news is that we've got tremendous commitment from the community to proceed with the project.

We're in the process of all of our environmental and permitting approvals. As much as it might seem very simple to some of us to build a pipeline up the Highway No. 2 up to La Ronge, there were a lot of issues in terms of managing that project process. And so we are going through all those steps.

I can tell you today that the steel pipeline has been ordered, so the pipe is due to arrive in the next two to three weeks. The plastic pipe has been ordered and is being manufactured in Saskatoon today as we speak. And we expect construction to begin the last two weeks of September, first week of October is when we'll see the initial construction. And in fact you'll probably see that, if you have relatives or anybody up in Weyakwin or Ramsey Bay, we've actually been in there the last week staking services, hanging meter brackets, getting ready for natural gas next spring.

So we'd all like things to happen faster. I'd love to have all those permits and things much quicker than we do but we're working through the process. There doesn't appear to be any stumbling blocks. We don't appear to have any significant new right-of-way in terms of going up from where we ended at Montreal Lake up to La Ronge. So we will be for the most part in the upslope of the ditch on the west side of Highway No. 2 building pipeline.

**Ms. Harpauer:** — Thank you. And it's that red tape and all those government departments.

**Mr. Reeve:** — I don't know if it's red tape but we are working through the process. We've always done that as a company and I think by the track record we had on building the first phase as far as Montreal Lake, we will leave the ditch in very good condition.

**Ms. Harpauer:** — It sounds great. Now you had a deadline of January 31 of having 500 customers. You now say you have over 800, which is exciting.

There was concerns that you wouldn't meet that deadline so did you, what strategy did you use to increase the customer sign-up? Was it a major marketing strategy? Did you offer them concessions in price? What brought in all of a sudden the interest in signing up?

**Mr. Reeve:** — Well first of all, any time you go into a new community I'd like to think it's a significant marketing effort. We had people door to door with each commercial business. We did sign-up meetings in the community. And of course one of the very significant pieces was to get the commitment of the Lac La Ronge Indian Band and the federal department, Indian and Northern Affairs. And we were successful in doing that and

that really was an important element in terms of making the project go.

So there's no one single thing you point to and say that was it; that was what put the project over the top. It was hard work by a number of people and a number of those people in the community, whether it's the mayor of La Ronge, the chief of the Lac La Ronge Indian Band. It took a number of people to make that project a reality.

**Mr. Kelln:** — We may just want to add that the mayor went door to door. So we had a mayor who was very proactive. He had a town council that was proactive. And I think it fits back to the gas committee structure that we do. We form a committee of representatives and we spend time to get the understanding around, this is how a project needs to be put together. And they're usually strong leaders from the community. And if you have those leaders saying, you know what, we want to do this — it really is helpful. And we're thankful for the mayor being one, Chief Tammy for another, who really made this work.

**Ms. Harpauer:** — So what's the end-of-the-day price tag on this project that's projected, and when do you anticipate the project being completed?

**Mr. Reeve:** — Well we've spoken about the project in the past. It's about a \$20 million project with the completion of the project. Fifteen million of that will be the transmission line roughly up the ditch of Highway No. 2, and the remainder is building the plastic systems in the communities. So the transmission pipeline, as we've indicated before, that will be spring, early summer of 2008 where the transmission line will be completed. We have some winter construction along that section where we don't want to lose any equipment in the muskeg, so we'll wait till we get some freezing and do some of that.

And then the plastic system will be built over three and four years. It's like any community, you know. We'll build the main arteries, start to connect customers. But in terms of the full development of the community, that's going to take three to five years to build all of the plastic in those communities, depending on different streets and what customers are on which streets. But we'll approach this now like we've approached basically every other community in the province in terms of building out the infrastructure.

**Ms. Harpauer:** — Because I know when you originally announced this project, I believe \$20 million was the price tag that was announced at that time. However we're hearing from a number of areas, both governmental and industry, of the cost increases due to labour and labour shortage. Do you anticipate that challenge with this project considering that you're planning this over the next three years? Is that being built into the budgeting of this project?

**Mr. Reeve:** — When we've made the estimates for this project, we obviously considered the kind of environment that we're going to build it in. It's why we've considered the mix of both internal and external resources required to build the project. The other pieces that, you know, not everything . . . A lot of those costs are going to be upfront costs that we know.

And I can tell you that the steel pipe that we've bought is within budget; the plastic pipe that we've bought is within budget. So we're ticking off a number of the elements now that say those costs are known and they're within budget. So things are proceeding as we've anticipated so far and, you know, as well, you know, from our own internal resources we know the costs of those resources to build infrastructure because we've been doing it for a long time.

So there are some variables that are unknown, but those variables are getting smaller all the time in terms of the total project impact.

**Ms. Harpauer:** — Does the project have a target of the percentage of First Nations people that they want on the workforce of the project?

**Mr. Reeve:** — Well we've been very clear from day one that we were, we wanted to build this project with significant levels of Aboriginal and northern content. Our tendering procedures for any external resources that we require will include those criteria as part of the evaluation. And we feel, we feel very comfortable that we should get a very high level of participation from northerners and, of course, First Nations folks. And we've been working very closely with folks like the Lac la Ronge Indian Band to make sure that that can happen. So whether it's trucking, those kinds of things, that criteria is built into our tendering process.

**Ms. Harpauer:** — Thank you. And I think my colleague has some pipeline questions as well.

**The Chair:** — I recognize Mr. D'Autremont.

**Mr. D'Autremont:** — Okay. Thank you very much. My colleague has been talking about the pipeline system and its state of repair. I wonder if you'd give us some indication how many kilometres of high-pressure pipe you have, how many kilometres of low-pressure, and the differences between steel and plastic.

**Mr. Kelln:** — Approximately 13,000 kilometres of high-pressure transmission line, predominantly made out of steel. And in addition to that, about 62,000 kilometres, I believe, of polyethylene pipeline around the province.

**Mr. D'Autremont:** — Yes, the polyethylene, the plastic pipe is the low-pressure system.

**Mr. Kelln:** — Correct.

**Mr. D'Autremont:** — Running what? 40 pounds?

**Mr. Kelln:** — It'll run, in rural systems it'll run at 100 pounds. But in cities you'd see it running at 25 pounds.

**Mr. D'Autremont:** — And the high-pressure, what? 900?

**Mr. Kelln:** — It certainly can go up to . . . We have some pipelines that are just shy of 1,200 pounds and some that go down, that operate, you know, near the major centres in the 500-pound level. One thing of note: at our storage facilities the pipelines in those facilities will have capabilities of going up to

3,000 pounds.

**Mr. D'Autremont:** — I note in the 2004 annual report that your inspections, you've completed about 18 per cent of the internal pipe inspections. So we're in 2007, so let's use 2006 projected at 25 per cent. Have you achieved that 25 per cent?

**Mr. Kelln:** — Yes. We report to our board of directors annually on the process, and we're right on target for where we want to be in the program.

**Mr. D'Autremont:** — So what is the state of the high-pressure steel from your inspections? Is there relatively few problems or are you noting some significant problems?

**Mr. Kelln:** — Maybe it builds off our earlier discussion. I think what we are, we are like any pipeline company, are finding some specific areas that, depending on the coating, depending on the alkaline slough that you're crossing, that you're finding some issues. But I would characterize it as manageable. It's become part of our annual capital expenditure plan. We are always — and we think it absolute key — that we're always going out. We're always looking 10 years out of saying, okay, with this kind of population what things are we going to need to do?

So I think relative to . . . We do participate on the Canadian Energy Pipeline Association, which is the association of transmission pipeline companies across Canada. We are a little different than some of those pipeline companies because we have smaller pipes. We've got lots of it; we just have a little smaller pipe. And to be simplistic, the smaller the pipe the more thickness you have, on the good side of things. So we have a little different scenario than some of the large pipeline companies with 36- and 42-inch pipeline systems. Our status says, you know what? We have a solid pipeline system.

We've got some work to do in places, and an example was this past winter we did some work up in the Meadow Lake area on a 12-inch pipeline that's a 1975 legacy. And, you know, we used technology of today of sending a device down to take a look at the inside of the pipe. And that's something that we started in the '03-04 area. And we're very selective where we do that because it costs money to do that. But the results we found, which have been followed up with some digging this year . . . So we let the analysis say, okay, these are the places you should dig up that metre of overbearing soil and take a look. We found results that I think were within what we expected.

**Mr. D'Autremont:** — When you're doing your analysis, what are you basing that on? Are you basing it on the history of problems on a particular stretch of pipe or a particular kind of pipe? Are you basing that on, say, cathodic protection readings or is it mainly your telemetry from your internal pigging systems that would record the problems inside the pipe?

**Mr. Kelln:** — Simply all of the above. And as you say, probably the first phase is to use all of those initial indicators that don't require digging up or inspecting to say, by this criterion — a very firm criterion that we've worked on — these different 15 criteria produce a rating for a pipeline. Every half-kilometre section gets a rating and as soon as that rating is above a threshold that says, you know what, we need to do

some more thinking about it, it gets put on the queue of doing some kind of physical inspection. The first step in that is putting a device in the pipeline so that you don't have to uncover 200 kilometres of pipe. You can let that device go through the pipe and from the inside out take a look at how the wall thickness, has there been any corrosion, is there any stress corrosion cracking — which is a phenomenon where you can get little cracks starting to form together that cause issues.

**Mr. D'Autremont:** — Are there any particular stretches of pipeline that seem to be more of a problem, and have you identified why that problem exists?

**Mr. Kelln:** — We've seen some trends and certainly they show up in that analysis. Some of the coating that was used . . . I think we're fortunate in some ways and that's a little different than other pipeline companies. We built our pipeline system over a number of years, which we've already discussed. That's good in some ways because we used different type of pipeline coating technology through that time.

So we found that the tape coating which is, simply put, it's like taping a hockey stick, that has caused some issues in some places if the water can get underneath the tape. So depending on the ground conditions, we've been able to, we're putting some focus on those areas.

**Mr. D'Autremont:** — Do you use cathodic protection on most of your steel pipe?

**Mr. Kelln:** — Yes. We use it on all our steel pipe.

**Mr. D'Autremont:** — Do you find a problem more with some of the older pipe going back into the '50s and '60s or you'd find the problems related to some of the newer pipe that was maybe in the ground in the '70s and '80s?

**Mr. Kelln:** — It varies, again very much dependent on the land that it crosses and those type of things. We have some very, very mature pipelines down in the Maple Creek area that are in, you would call it, as good as the day they were put in the ground; very dry soil conditions. And we picked some high ground where we put that pipeline in and we've cathodically protected it ever since. And that pipeline looks like it's got 60 years under its belt and it's ready for the next 60. So you know, it's very dependent on the kind of conditions that it's in.

But that's part of our criteria, depending on the . . . Again, we break that pipeline system down into those individual sections so that we can actively take into account the criteria.

**Mr. D'Autremont:** — Okay. Thank you. I have some more questions dealing with pipelines, but this is more dealing with policy and how SaskEnergy deals with compensation and access to land.

You're running a new pipeline up to La Ronge. I'm not sure where it starts — somewhere in the Prince Albert area probably or north of that. When you cross private property, what kind of arrangements have you made with those landowners for access across that land and for compensation, and what kind of compensation do you have in place in dealing with the various municipalities that you will be transitioning through and

operating in?

**Mr. Kelln:** — I'll have Mark Guillet, who heads up our land area, speak to that.

**Mr. Guillet:** — Hi. I'm Mark Guillet, vice-president, general counsel, and corporate secretary, also responsible for the land area.

We use a land policy system for crossing a landowner's property. If we are crossing with a transmission pipeline then we will pay compensation to the landowners. The compensation is based upon using a market value approach. We use a formulized system where we will pay compensation for the land rights. We also pay compensation for any damages, and those are assessed after the project has been completed. So if there's crop loss, those types of damages will be paid.

We also look on a two- to three-year basis and say we will pay . . . We anticipate that there may be some reduced returns for the property owner on the agricultural land so we will also pay upfront on that basis too, is in the calculation that we utilize to pay compensation for the land rights.

**Mr. D'Autremont:** — You say you have a formula. Does that vary for the compensation for damages based on crops grown, soil type, history of that particular piece of property or is it a formula for across the province, one size fits all?

**Mr. Guillet:** — It is a formula that is based, it is a provincial-wide basis that we use but it also takes into consideration what type of crop. So there will be crop losses that we will utilize and it's based upon information that we do receive from provincial departments with respect to that. So it's a consistent basis that we do utilize.

**Mr. D'Autremont:** — Okay. If someone has let's say E-type land, crop insurance rated land, versus L or M, so there's a yield difference there but they're both growing wheat, would you pay the same compensation for the E land as you would the L or M land, or do you take into account the various differences in production?

**Mr. Guillet:** — I'm unsure on that exactly, if that is taken into consideration. Our land manager actually and our land officers have a basis that they utilize and they do utilize the crop yields that are provided for on that basis, but I can undertake to look into that specific question regarding the different land codes that you're utilizing.

**Mr. D'Autremont:** — When it comes to access compensation and the development and the construction of your pipeline across private property, what kind of a formula do you use there for compensation for the landowners?

**Mr. Guillet:** — I'm uncertain on the question . . .

**Mr. D'Autremont:** — Okay. You're building your pipeline across somebody's quarter section of land.

**Mr. Guillet:** — Right.

**Mr. D'Autremont:** — You've got a half a mile of line that

you're building. Do you pay them for access to 16 feet, 25 feet, 100 feet, and how is that compensation determined as to what it's going to be?

**Mr. Guillet:** — The compensation is based upon the acreage that we're utilizing, so that factors into the actual land use that we are having. So depending upon the amount of property that we're crossing and the amount of acreage, that is what the fee is based upon. It's based upon the actual land that we are having an easement registered upon.

**Mr. Kelln:** — In terms of the easements for a typical pipeline, a steel pipeline, we'd have a 15-metre easement. That would give you a sort of sense of the width of the land that we're looking for the rights on. And then of course, you count the number of feet that you do that or metres and you calculate your acreage.

**Mr. D'Autremont:** — 16 feet to the half mile.

**Mr. Kelln:** — Yes. That's right.

**Mr. D'Autremont:** — To the acre. When you are looking at that kind of compensation and you use a formula, that's the same rate across the province then because you're not taking into account crop variances and those kind of things. It's damage to the property.

**Mr. Guillet:** — Okay. There's two different calculations that are utilized. When we're utilizing the easement itself, that will vary upon the actual land that's used. So different land use, different land value will have a different compensation paid to the landowner on a per acre basis. So that varies across the province.

The portion dealing with the actual crop damage, which is assessed after the pipeline project has been completed and we go and meet with a landowner and determine what crop was there and what crop damage was involved, that basis is a different calculation that is utilized.

**Mr. D'Autremont:** — So you would be paying a percentage of the assessment then, would you, for damages?

**Mr. Guillet:** — No. On the damages side is the actual . . .

**Mr. D'Autremont:** — Excuse me. For access. I shouldn't say damages. For access.

**Mr. Guillet:** — For the right, the easement right itself is based upon the fair market value calculation for that particular property. So for instance, a pasture land will be paid at a lesser value than high-yielding property in a different area of the province.

**Mr. D'Autremont:** — So that's determined then how, by local sales or by assessments?

**Mr. Guillet:** — Correct. It's on a local sales comparative basis.

**Mr. D'Autremont:** — And how broad of an area do you look at for when determining local sales? Is it the same municipality, the neighbouring municipalities or . . . Because some municipalities don't have a large number of land transfers.

**Mr. Guillet:** — I'm unsure as to how broad the basis is actually utilized for the fair market value calculations.

**Mr. D'Autremont:** — Because fair market value calculations can change fairly rapidly. Just ask people in the cities right now with their fair market value of their . . .

**Hon. Ms. Atkinson:** — In the country too.

**Mr. D'Autremont:** — Pardon?

**Hon. Ms. Atkinson:** — In the country too.

**Mr. D'Autremont:** — Yes. Yes. Although farm land itself hasn't been moving very fast.

**Hon. Ms. Atkinson:** — Yes. It just depends.

**Mr. D'Autremont:** — Not in my area.

**Hon. Ms. Atkinson:** — Some areas, it is.

**Mr. D'Autremont:** — Yes. The other area that's of concern for compensation is most pipelines, private pipelines, pay taxes to the municipalities through which they transition. Does SaskEnergy pay any compensation to the municipalities for their property in those municipalities?

**Mr. Guillet:** — The policy that we have and the practice that we follow as a Crown corporation is if we are purchasing a pipeline, an existing pipeline that's in a municipality, then we will pay to that municipality a grant in lieu of taxes equivalent to what the tax base is. So that the municipality is zero-sum loss/gain for the municipality.

In building a new pipeline going through a municipality, as a Crown corporation statutorily we are not required to pay property taxes. It's right in The SaskEnergy Act and it's from the constitution, and we do not pay taxes on that basis. We do in building and constructing on the transmission line. We also do pay a mitigation payment to the municipality. So during the period of construction there is a calculation that is made for the use of the roads and some of the wear and tear that's being done on the roads, and we do pay some compensation to the municipality during the construction phase.

There is also a mitigation payment that is paid to the various rural municipalities in areas where we have facilities, the TransGas facilities, for instance. Where we are travelling consistently on the roads and there's wear and tear, we do pay a mitigation payment to those municipalities.

**Mr. D'Autremont:** — Doesn't that create though a bit of an unlevel playing field where if SaskEnergy purchases a pipeline from some other entity then they continue to pay grants in lieu to those municipalities versus the next municipality down the road that may have the same amount of SaskEnergy pipe in the ground and receives no compensation?

**Mr. Guillet:** — The reasoning behind making the payment on a purchased pipeline was not to remove any revenue from the municipality that they were receiving from a previous pipeline company. It was not to put them in jeopardy of losing some

revenue base. The other basis for the new construction is once again we're, I guess, not in a competitive situation. We have a provincial statutory franchise for the distribution and the transmission of pipelines. It's not a competitive basis, I guess. And we are, I guess, in compliance, I guess, with the statutory right and also the constitutional right as being owned. We are owned by the province of Saskatchewan.

**Mr. D'Autremont:** — On the new pipeline that is going in up to La Ronge, will there be any ongoing grants in lieu to any of the municipalities or First Nations along that route?

**Mr. Guillet:** — The routing for that particular pipeline, as Mr. Reeve had indicated, is all within the ditch road allowance and is not — the transmission pipeline — is not crossing any private landowners.

**Mr. D'Autremont:** — What about municipal?

**Mr. Guillet:** — It's Crown land.

**Mr. D'Autremont:** — It's all Crown land. Okay. Once your pipe is in the ground and now you're going back and doing your inspections and you find a problem, does SaskEnergy pay for access to that, to their right-of-way for repairs or inspections later on after construction?

**Mr. Guillet:** — The easement that is granted by the private landowner does allow for TransGas to be entering the property for maintenance purposes or for any other purposes. There is no entry fee to be paid subsequent to the fact. If, however, in doing any of those maintenance or any inspections there's new land rights that are required for temporary workspace, compensation is paid to the landowner for that temporary workspace. If there are any damages that are created to the landowner's property during our activities, then most certainly we will pay the damages to the landowner for that. But there is no additional right-of-entry fee paid. It is all paid on the, upfront on the compensation for the easement itself.

**Mr. D'Autremont:** — Do you pay any damages for further soil disturbances after the initial pipeline is built?

**Mr. Guillet:** — Yes. If there's some slumping that occurs if, you know, a year or two later that may occur from the soil, then we will definitely pay for those damages, yes, if that is a result of our . . .

**Mr. D'Autremont:** — How about though if you need to dig up a piece of pipe and do some maintenance on it, do you pay damages in that case?

**Mr. Guillet:** — Yes. If there's some crop loss or some soil disturbance, yes, there will be. We will pay damages for any damages that are incurred during the re-entry.

**Mr. D'Autremont:** — Do you pay damages if employees of SaskEnergy access SaskEnergy's right-of-way but through the private property, not coming in from the road allowances?

**Mr. Guillet:** — If there's, like if there's crop disturbance or . . .

**Mr. D'Autremont:** — If a SaskEnergy employee's vehicle

drives across the field to get to SaskEnergy's right-of-way, but doesn't access it from the road allowance so that you're travelling up the easement but comes across country, do you pay damages in those cases?

**Mr. Guillet:** — If there is physical damage done to the property, yes we would pay damages. If there's crop damage or anything like that, yes we would pay damages for that.

**Mr. D'Autremont:** — Okay. Thank you.

**The Chair:** — The Chair recognizes Ms. Harpauer.

**Ms. Harpauer:** — Thank you. Just a quick change of area, and I would like to discuss the status of the storage capacity within SaskEnergy again. It was referred to this morning. I think the minister said that it has been increased and I know in 2004 it was a very hot issue in the Asquith area because of the building of new caverns and what was happening there. So what is happening in that area? Is it complete? Have the property owners in that area been satisfied? Where are we at?

**Mr. Kelln:** — To give you an update — very timely because we started . . . The last cavern has just ceased being mined and is now presently getting injected with natural gas to get ready for this winter. So we've seen all four caverns have been mined in completion and have turned out very well.

We saw last winter very clearly how important it was. We had that vicious storm that blew through. You know, we would have been in a very difficult situation without Asquith providing the storage, the gas into the Saskatoon area. We saw in about four or five hours when the front of that storm came through incredible use of natural gas in the Saskatoon area. And you look at the growth of that Saskatoon and area, you clearly can say, well there would be load there.

The challenge you have as a natural gas utility, you don't get to see how much people need every day. We design for once every 20 years there will be a day that we need to manage and certainly we came close to that last February.

So we are in a situation that Asquith is moving to be fully operational. We have continued to work with the residents in the area relative to water. We did modify two years ago a little bit of our plan, that we went to washing one cavern at a time and that just reduced the amount of daily demand that we needed. And I think that was helpful to the residents. And now we're going to work with them because as we no longer pull on the aquifer, the aquifer's coming back up and we want to make sure if they drop their wells down that they're at the right place.

So we'll continue to work with them and, you know, I think we had some of the residents that had concerns. And what our view is that, you know what, if we have a resident that has a concern we want to talk to them and work through it. And I think we have kept them up to date. There's a group that we kept up to date on just where things were at and we plan to have a little bit of an open house here at the end of just explaining again that we're fully into the natural gas side of things.

And it's very difficult but to try to — and last winter was a great example — try to show that without these kind of

facilities, you know, the expectation of when's the last time natural gas wasn't available in your home when it's 40 below. Well we've got a reliability we're very proud of but there's a bunch of good reasons or hard work that's involved in and Asquith is part of that solution. So I think we're on our way.

We're continuing to grow storage and that's something that we're seeing for a couple of reasons. One, Asquith is a great example that that was a strategic location to add storage. The other element is in the present commodity market with the volatility that exists, Saskatchewan users of natural gas are very interested in having additional storage space so they can manage just as the distribution utility uses storage as part of its portfolio. They're continuing to look for those having additional space and we're being able to do it. But we're not contemplating at this time building any additional caverns at Asquith.

**Ms. Harpauer:** — I'm just going to get you to clarify something. Are you still testing the water, like the wells in the Asquith area? Is SaskEnergy looking after the testing of those wells to ensure water safety?

**Mr. Kelln:** — We're going to continue working with the Watershed Authority — yes.

**Ms. Harpauer:** — Okay.

**Mr. Kelln:** — Because there's going to be a period of time now that those aquifers now, with the amount of rain that they've had in that area, there's certainly a lot of recharging going on in all kinds of ways, probably more than farmers would like. But no, we will continue to work with the Watershed Authority and spend a fair amount of time with the Watershed Authority upfront. I mean this is something that, you know, since we started washing our first cavern in 1962, you know, we are familiar with the fact that, you know, you see an aquifer go down a bit when you're pumping water and come back up at the end of it. And again this is non-potable water but it's water just the same and we want to work with the water authority.

**Ms. Harpauer:** — Now and I'm going back in memory here because 2004, but my understanding was that there was going to be some storage that was going to be abandoned or discontinued in usage in the Lloydminster area, if I'm correct. What's happening with that?

**Mr. Kelln:** — Okay. It's actually north of Lloydminster in the Beacon Hill or Pierceland, Goodsoil, maybe west of Meadow Lake is probably another way to reference it.

**Ms. Harpauer:** — Okay.

**Mr. Kelln:** — We're continuing to decommission that. It's something that is occurring. It's nearing the end of its completion and I think that's proceeding as planned, so to speak. And probably in the next several years — we're keeping an eye on it — from a broader circle, is that potentially a place that could be a candidate for CO<sub>2</sub> sequestering. You know that's another thing that we'll certainly maybe ask some technical questions if that's a relevant thought, but it's nearing the end of its natural gas use.

**Ms. Harpauer:** — So what would be our storage, the percentage of our storage capacity that we have right now? Of the, say, for an annual usage of gas, what percentage can be stored?

**Mr. Kelln:** — In the broader sense we have 32 petajoules and petajoule is an energy of storage. Of that 32, the distribution utility uses about 17. So you have the distribution utility being a significant customer but you also see potash mines, fertilizer plants, all of those using storage, SaskPower using storage as well. With the distribution utility we're at about 40 per cent of the winter needs are met with storage. And that's just a rough number.

**Ms. Harpauer:** — So you mentioned that you're looking at increasing that even more. So what area or where do you plan, are you projecting to have that increase of storage capacity?

**Mr. Kelln:** — We're presently looking at developments at Landis, which is west near Biggar, and Unity at the Unity storage field, and down by Bayhurst which is simply south of Kindersley, are the three primary locations.

**Ms. Harpauer:** — So what is the cost of creating a storage cavern?

**Mr. Kelln:** — Well it certainly can be capital-intensive. Asquith, which was estimated at about \$36 million and that's what it came in at, you can say that's sort of a way to quantify it.

We see, and it fits with the cost pressures that exist in today's world, is that we're focusing on brownfield developments. We're focusing on optimizing further or enhancing our existing locations. And Unity was a good example. Something we started a couple years ago, looking geological, get the geologists involved in this, was we have successfully drilled the first horizontal natural gas well in the province at our Unity storage field. And it performed on an exceptional basis this past winter.

So using a bit of that technology that certainly oil producers in the province who also produce natural gas . . . But drawing on that, we've been able to really take an existing facility and get more out of it. And that's going to be our focus at those locations. Moosomin is another location that, you know, possibly could fit into that as well.

**Ms. Harpauer:** — Thank you.

**The Chair:** — The Chair recognizes Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. A couple of questions. Why do natural gas caverns have a life expectancy? What happens to the cavern that would cause it to no longer be a viable storage area?

**Mr. Kelln:** — Well caverns are like any facility. You monitor how it is operating and see if there is any variances in that operation that you have to manage. For a cavern, if you can visualize it, it's about a mile down into the ground. It's rock that's at about 3,000 pounds pressure and that's why, when you fill it, you fill it right up to that original rock pressure. Now

when you empty it, the science is, how low can you go? Because when you have that balloon half empty, that rock wants to squeeze together. That's just the reality of it. And usually we cycle our caverns anywhere from up to 3,000, but usually around 22, 2,400 pounds down to the 700-pound level. And you cycle over time.

We monitor that hole to see if there's any changes that occur over time and over many, many years. And with that I'll use example of Prud'homme which is east of Saskatoon, which is a major . . . first part of why we serve Saskatoon and area, operated for . . . Some of those caverns are 40, 45 years old and are exactly in the same state that they were 45 years before. So that's good. They have many, many years of life left in them.

We have a few caverns that have had, part of the rock has fallen in and that creates us to manage it a little bit differently. Because if there's any kind of a communication with say a very deep water aquifer, you then need to adjust the pressure so that again you're just having that gas move in and out.

**Mr. D'Autremont:** — So the one west of Meadow Lake, you're getting some collapse internally there, are you? Or some communication with some of the other aquifers or zones in the area?

**Mr. Kelln:** — West Meadow Lake was a little different. We actually have two types. We have storage caverns which we make ourselves. And they tend to . . . I mean we're very fortunate in Saskatchewan to have salt through a good portion of the province, and that's very helpful. But that's part of our storage facilities.

The other part is storage fields, and they really were natural gas fields at one time. And if you visualize it, they were being produced and the geological characteristics of them were very, very sound. They were somewhat like a contiguous hole in the ground. Well that's what the Beacon Hill was, a storage field. It was actually a natural gas reservoir at one time.

The challenge it has is it needs a lot of cushion gas, or it needs to keep gas in all the time to provide enough pressure to cycle the top part, if you want to visual it that way. The top part is storage gas. Well with the price of the natural gas commodity today, it really required too much cushion to be really beneficial as a storage facility. So we were able to say, you know what, we're better off economically to add a little bit of cavern capacity at Asquith, to increase our capabilities at the Unity storage field to replace that capacity.

**Mr. D'Autremont:** — Okay, thank you. That's a good explanation. When you're washing the caverns to create them, what do you do with the salts that are washed out? Are they injected into another zone or are they disposed of in some other manner?

**Mr. Kelln:** — They're sent down to another brackish reservoir. And usually that is about three-quarters of a mile down. We will pick a formation that has as salty a water as we're putting into it and therefore in no way does it end up at surface. It just goes back down and is back where all the brine is very similar to what we're putting into it.

**Mr. D'Autremont:** — Okay. Thank you.

**The Chair:** — The Chair recognizes Mr. Krawetz.

**Mr. Krawetz:** — Thank you, Mr. Chair. I would like to refer to one specific section of the 2004 documents, and that's section no. 7 entitled the Swan Valley Gas Corporation.

In light of the explanation . . . And I'm not fully aware of this, and I'd just like some clarification. The explanation indicates that the corporation was created on November 30, 1999. And of course this is the '04 report. And a couple of questions. The expectation obviously was greater. Because the paragraph on page 2 subsection 3 indicates that "Due to lower than forecast natural gas sales over the past four years . . ." That development in '04 already was five years in the making, and the projected sales weren't there. Could you explain what were the reasons why the projected sales didn't come into being?

**Mr. Kelln:** — Maybe I can start off at a high level. Both Dean and myself have been directly involved in Swan Valley Gas, so we can give you explanations.

I think for us the one part of it was we've had customers . . . That area is very much served by the Yorkton area. So the long-standing item was that they were very interested in receiving natural gas service just as Saskatchewan had. And we saw it as an opportunity to really serve them out of our Yorkton facility. So when you make a call to Swan Valley Gas today, it's actually answered at the Yorkton customer service centre. And the technicians from Saskatchewan, in Canora and Kamsack, serve that area as well. So that was the synergy opportunity we saw.

What we did see with the development of that, the price of natural gas went through a dramatic change from the point when the project was developed to today, and that's made the competitiveness of natural gas to be in a little different spot relative to electricity. And I'll let Dean expand on it.

**Mr. Reeve:** — Well yes. And I think Doug's done a great job of indicating some of the competitive challenges we had in terms of connecting new customers and bringing new customers on to the Swan Valley Gas system. And primarily our competitor there is electricity. And if you think about the electricity for a resident in Swan River in terms of heating their home with electricity at I think it's about 5 cents a kilowatt hour versus natural gas, we are obviously competitively challenged. We have connected virtually all of the propane customers, fuel oil types of customers in that community, but to try to attract somebody to natural gas that is served by electricity is obviously a very difficult challenge.

Over the last number of years really what we have done is work very closely with the major user of natural gas in that area, and that company is Louisiana-Pacific oriented strand board plant in Minitonis. And whereas we were bumping along trying to break even in Swan Valley Gas in some of those initial years, we've returned Swan Valley Gas to its profitability in 2005, 2006, 2007, and it really was with a renegotiation of a major contract with that oriented strand board plant.

So we made up the revenue out of the residential sector really

by working with that oriented strand board plant to make sure the system was stable in terms of its ongoing economic viability and stability, yet still delivering significant economic benefits to the strand board plant because they really were a propane user. And their economic benefits of natural gas versus propane are still significant enough that with the increase in revenue that we've got from the strand board plant it really has returned Swan Valley Gas to the kind of profitability we expected from day one. It's just coming from a different type of customer than we had originally contemplated. We certainly expected more residential customers in Swan River than what we have today.

**Mr. Krawetz:** — Further to that, as a usage question, it indicates, the report indicates that the gas is taken a kilometre east of the Manitoba-Saskatchewan border. Is the entire region then strictly within Manitoba? And I'm talking about rural customers, farmsteads. That, I mean, it's an imaginary line that exists there that's called a border.

**Mr. Reeve:** — Right.

**Mr. Krawetz:** — But are there any users that are within the province of Saskatchewan?

**Mr. Reeve:** — Well the reality was there most of that area had been served in Saskatchewan many, many years before. There had been pipelines up into that area in I think in the '80s, at that point in time. In fact I think we have stories of a lady in Benito who put in a propane furnace in 1981, that thought natural gas was going to be in Benito, Manitoba within the next year or two because it had arrived really basically to the border in Saskatchewan. Well that lady changed out her propane furnace in 2000 or 2001. So that area had always been served for the most part by natural gas in that area.

The system we talked about really took gas off the Saskatchewan system and delivered it into Swan River, Benito, and Minitonis.

**Mr. Krawetz:** — Okay. The specific financial report indicates that there was a significant share offering in 2004 — 316,000 shares netted, I believe, over \$3 million. Who are the owners of the shares?

**Mr. Mrazek:** — The Swan Valley Gas Corporation is owned 100 per cent by SaskEnergy, the Crown corporation. All the shares are owned by SaskEnergy.

**Mr. Krawetz:** — So the capital that was provided to obtain those shares, the \$3 million then, that money is provided for by SaskEnergy?

**Mr. Mrazek:** — That would be correct, yes.

**Mr. Krawetz:** — Okay. Now I notice that the financing activities, you have a line item that says that the indebtedness to the bank was decreased by over \$1 million. So are you taking then SaskEnergy's dollars, transferring that into share equity, and then applying that money to the bank indebtedness to lower the bank . . .

**Mr. Mrazek:** — That's exactly what happened, yes.

**Mr. Krawetz:** — Okay, thank you. In light of then, and I don't . . . You've made reference, Dean has made reference to the '05, '06, '07 reports. In Saskatchewan, could you indicate then, near the border, the First Nations reserves of Cote, Keeseekoose, and Key, how many residences on those reserves would be served by natural gas?

**Mr. Kelln:** — I don't have that number with you. I can tell you we now serve approximately 54 out of the 72 First Nations in the province. I don't know if Dean knows offhand. We certainly could provide that as an undertaking to you.

**Mr. Krawetz:** — The reason I'm asking the question is that there has been circumstances . . . You referred to the storm, and we've talked about the storm in Saskatoon and the problems. There are difficulties with propane usage in wintertime on-reserve, and my office has been approached numerous times during 40 below evenings and on a Saturday morning to be called by an individual on one of the First Nations reserves to say, my propane tank is out and I have no heat.

So I'm wondering, is there a capital project, is there a plan as was the, you know, the need to serve Swan Valley and that entire area to expand natural gas services? Are we doing the same thing for reserves beyond the, I guess, 18 or 20 reserves that still may not be served by natural gas lines?

**Mr. Kelln:** — We certainly are. I mean we do have a high . . . You know, we have served a significant part of this province, but we still have some communities we haven't served. And when you look at propane, the cost of propane, and the operating characteristics of propane, I mean cold, 40 below is a problem with propane; 40 below is not a problem with natural gas. We continue to have discussions. We've had a number of . . . We certainly haven't got to that 40 . . . 54 First Nations with gas all at once. It's been done over time. And we're certainly interested to keep talking with them. Montreal Lake was, you know, a step a few years ago and La Ronge First Nation is another one. Certainly we are interested on an ongoing basis in talking with them.

**Mr. Krawetz:** — Well as you've indicated with about the La Ronge development, obviously there was, the initiative was by the mayor and the chief and the communities, the levels of government. Will that be the requirement for expansion into Key and Keeseekoose if indeed, you know, those areas, the individuals there see need? But will that have to be a directive of the band council?

**Mr. Reeve:** — Well clearly we do not go into any community without the support of the community and the underlying commitment for natural gas and the product. And as Doug mentioned, really in the last 20 years we've served a good majority of First Nations communities in the South, any place there is access. We do still have some active files in terms of trying to get that level of commitment to natural gas as an energy form.

And it takes, as I mentioned about La Ronge, it takes a number of different parties to come together to make that happen. It's the community. Obviously when you're talking about a First Nations community you're talking about Indian and Northern Affairs in terms of the large funding that's required. And to be

fair, in some communities they have other infrastructure projects that may place natural gas service further down the list. And we continue to work with all of those communities.

And, you know, it's our hope in our business that we serve every one of them one day in terms of bringing natural gas to their communities because we believe in those cases the economic benefits are there. But we know that every community has different priorities in terms of what they're trying to accomplish. And we know in those communities that we've served in the last 20 years, some communities saw this as a very high priority for their community and they were some of the first to receive natural gas service. Others have had different priorities.

**Mr. Krawetz:** — As a rural member of the legislature, the individual concerns are always different. I mean I listen to a farmer who happens to have the property on the other side of the highway and the railroad track, and the transmission lines are on the other side. And then the cost of course of putting that line under those structures, that infrastructure is tremendous. And they choose then to go with electricity as their main source or whatever. But the situation that exists on First Nations reserves might be very similar. There could be a pipeline very close and yet an individual then may have difficulty obtaining natural gas if the community of the First Nation isn't supportive.

**Mr. Reeve:** — That's correct. And in fact we do deal with the bands and Indian and Northern Affairs in terms of trying to serve those types of communities.

**Mr. Krawetz:** — My request would be, if I could obtain from SaskEnergy the question regarding the three First Nations in the Canora-Pelly constituency in terms of which of those First Nations communities are 100 per cent served by SaskEnergy and which are not, I would appreciate that.

**Mr. Kelln:** — We'd be pleased to provide that.

**Mr. Krawetz:** — Thank you very much.

**The Chair:** — The Chair recognizes Ms. Harpauer.

**Ms. Harpauer:** — Thank you, Mr. Chair. I just have a couple of questions on the unique situation of Lloydminster and have met a few times with the different city officials in Lloydminster, and my understanding is the gas distribution system in that city is entirely owned by Alberta. However, we have customers — or we, meaning SaskEnergy has customers — within the city of Lloydminster but only on the Saskatchewan side. Now I think I've brought this up before. Is there any consideration of selling gas to the customers on the Alberta side in the city of Lloydminster?

**Mr. Kelln:** — That's a good point. The mayor, who Dean and I got to know fairly well when we started meeting with town council, and really saw the momentum build of providing an option on the Saskatchewan side which I think has been very good. We were fortunate that we had a former Saskatchewan fellow who's in charge of ATCO Gas — who is the distribution utility — that we were able to make an arrangement that very seamlessly allowed Saskatchewan residents of Lloydminster to

choose a SaskEnergy option that really looks like the same bill that you would have anywhere else in the province. And we're seeing the numbers continue to grow. I think we're close to 900 residents and businesses that have chosen that.

The next question that was asked by the mayor is, well why not do that on the other side? And you know, it's something that we certainly can always consider. We have to be fair that there is a return element that would have to be put into the discussion about that side versus, that the serving within our franchise area that we explained to him. I mean it's something we've thought about but haven't pursued at this time. We felt it was important for those Saskatchewan residents to have the same offerings. We think it's a bit of a strategic advantage for people to build their next house in Saskatchewan and their next business and have done some preliminary thinking. But just at this time really if we were to go in to provide a service offering in there, we would have to structure it in a bit of a different way.

**Ms. Harpauer:** — Would you have to change the pricing structure in order to offer your gas product to Alberta customers?

**Mr. Kelln:** — That's our view. We view it as it would be a non — if you want to put it in regulatory terms — a non-regulated activity because it's no longer in a franchised area. There's not the utility obligations that we're serving. We need to make it, we have to be very careful that the customers in Saskatchewan are comfortable with the fact if they're going to go into an endeavour like that, it better be on a profit basis. And it probably would have to be more transparent relative to the actual charges from ATCO Gas. We were able to — because it was in Saskatchewan — give a rolled-in bill that looks exactly like SaskEnergy's bill. We wouldn't be able to do that in Alberta. Just by the regulatory requirements in Alberta, we would have to have a different type of charging mechanism to meet the requirements of the AEUB, Alberta energy utility board.

**Ms. Harpauer:** — Okay. Thank you.

**Mr. Kelln:** — And I guess we've cursorily had a look at it because initially it was felt that we would have to follow the same rules on the Saskatchewan side of Lloydminster, and they were very onerous. You need a number of customers to make the economies work for their requirements. We were able to indicate that, you know what, we're just talking about Saskatchewan, and were able to strike and arrange a contractual arrangement. We're really paying to lease the space on that ATCO Gas pipeline system so we can provide service to Saskatchewan customers.

**Ms. Harpauer:** — Thank you.

**The Chair:** — The Chair recognizes Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. My colleague, Mr. Krawetz, was asking about access for First Nations to natural gas. I'm wondering if you could give us some sort of an indication of what kind of, what the percentages would be of rural communities that have access to natural gas and what the percentage would be of urban communities that have access to natural gas in Saskatchewan.

**Mr. Kelln:** — Well we're at a high saturation level. When you compare ourselves to utilities across the country, we have a higher saturation rate. There's still a few. We estimate 7 or 8 per cent of Saskatchewan residents still do not have service. When you look at the hamlets tend to be geographically remote, is a simple characterization that Creighton, Cumberland House, there's a number of places, that the challenge is we would have many, many kilometres to go to access them. Yet in terms of within our coverage area, which simply put is Prince Albert, Nipawin, Meadow Lake, hamlets of the size of 10 houses are still being served. So we have a high serving rate for them.

The one thing we do provide is a consistent service policy throughout the province of establishing what the cost is, establishing what we can invest based on how much usage is going to be, and that determines the customer contribution.

**Mr. D'Autremont:** — So of that 7 to 8 per cent that do not have access to natural gas service, would most of that be north of P.A. [Prince Albert]?

**Mr. Kelln:** — Most would. We do have remote farms though, within the southern section. We serve 23,000 farms, but there's still a few farms that are a bit remote or have the circumstance that was discussed that there may be a railway, there may be some physical obstacles that make it more challenging to serve.

**Mr. D'Autremont:** — If there's 23,000 farms served, would that mean that there's approximately 23,000 then that have not been served? Because I think we're in that 40 to 50,000 farm ...

**Hon. Ms. Atkinson:** — Some farmers live in town.

**Mr. D'Autremont:** — But the farms may not be served, though.

**Mr. Kelln:** — Yes. Certainly there are farms that have not been served. It was a bit of a choosing in the '80s with the gas distribution program. There was an offer provided to a lot of those farms whether they wanted service or not. But there were some areas that didn't get served on the gas distribution program, and what we've been trying to do is on a project basis serve them over time. And some of them we have.

We've enhanced the ability to serve them with a few things. Financing is something we introduced in early 2000 which gave another option. That's attractive right now because it can be a bit of a self-financed loan. When you look at the savings relative to propane, there's some advantages to really help you pay for the loan.

We do recognize though there's others that have chosen ... I mean really we're an option. We're an energy option. That's what we try to do. We try to make it as attractive as possible. We do have the one structure that we have, is we establish what we can invest, we determine the cost, and the rest is a customer contribution. That allows our rates of serving, once you become a customer, to stay at we think a very competitive level because we're not trying to subsidize additional customers coming on to the system.

So there's a benefit of that. In terms of those rates, once you are

a customer they are the same whether you're in La Ronge or you're in Regina.

**Mr. D'Autremont:** — So most of the small urbans, the hamlets, the villages are serviced, but there would be approximately 50 per cent of the farms do not have service. Would that be ...

**Mr. Kelln:** — I don't think it's that high because I think there's a couple of things that have happened. One, they've chosen different systems like geothermal, those type of things. And two, you may have some clustering of farms.

We're not getting a lot of activity of requests now. Now we're very game to talk about putting projects together which ... And of course the more you can aggregate together at once, the better the economies of scale.

**Mr. D'Autremont:** — You mentioned problems with railroads. Isn't it though, if you're putting in a line, would the costs be significant to bore under the tracks?

**Mr. Reeve:** — My answer to that is yes. You know, you're talking about a completely different construction technique, piece of equipment. You know, there's a big difference going 500 metres down a field with a plough versus boring under a railway track and doing all the things necessary. Yes there is; there is quite a difference.

**Mr. D'Autremont:** — See, I see that happening lots in my country, but it's not natural gas. It's pipeline, oil pipelines and ...

**Mr. Reeve:** — And it is, you know, the boring technology is much better today than it was a decade ago and we use it a lot more than we used to. But the reality of the cost of that versus a plough running 500 metres down a field is, they are very different.

**Mr. D'Autremont:** — Well probably the cost for 500 metres and one 99-foot bore are about the same.

My colleague was asking about Swan River gas, talk of potential, of providing natural gas access to Lloydminster on the Alberta side. Does SaskEnergy or TransGas, whomever it might be, or Swan River gas pay property taxes in Manitoba or would they pay property taxes in Alberta?

**Mr. Reeve:** — Swan Valley Gas does pay municipal taxes in Manitoba because we do not have the legislative situation that we have in Saskatchewan. So we, as part of that project in working with the municipalities and others, it was clear that we were going to be required to pay. We were required to pay municipal taxes in Manitoba.

**Mr. Kelln:** — The element with that, it becomes part of the rates. When you look at delivery rates of Swan Valley Gas, that's one of the items that gets added on to them. Swan Valley Gas customers have a higher delivery rate. That's one component of it.

**Mr. D'Autremont:** — So the constitutional protection or exemption for SaskEnergy applies only in the province of

Saskatchewan? Or does it apply outside of the province?

**Hon. Ms. Atkinson:** — We're not a Crown corporation in Alberta; we're a publicly owned company, Swan River, operating . . . or in Manitoba I should say. So if you're a Crown corporation within your own boundaries then you have the legislative right not to pay tax, constitutional right not to pay tax.

**Mr. Guillet:** — Yes. The statutory Crown corporation at SaskEnergy is right within our legislation it indicates that we are exempt from all forms of taxation. And Swan Valley Gas Corporation is not a Crown corporation itself. It is actually a subsidiary of SaskEnergy and it is incorporated under the legislation in Manitoba. And that's why, when Swan Valley Gas Corporation was making those arrangements . . . And it has a different regulatory scheme also in Manitoba and there was actually a tax requirement that had to be dealt with.

**Mr. D'Autremont:** — If SaskEnergy was to look at selling natural gas through SaskEnergy into Lloydminster, I don't know if SaskEnergy would be putting pipe in the ground to do that or would be accessing somebody else's system to do that. Because SaskEnergy would not be a Crown corporation in Alberta, they would not have that exemption then as well.

**Mr. Guillet:** — The property tax situation deals with only infrastructure. The sale of the commodity itself is not dealt with through the taxation situation. In Lloydminster there already is a significant amount of infrastructure there. So from a regulatory perspective you wouldn't have duplication of facilities so it would just be the sale of the commodity. So we would not be dealing with a property tax situation.

**Mr. Kelln:** — In Alberta in the Lloydminster area you do actually have ATCO Gas not providing the commodity option itself. So it's allowing . . . Within the Alberta side there is a default — if you want to put it in simple terms — marketer that provides the commodity and it's open for others too to provide commodity options as well. And they're all using that one set of pipes, which is the logical way that ATCO will . . . whoever wants to use that pipe to bring the commodity to it. Or the way they've structured it is ATCO will charge for the pipe part of the thing of moving the gas, and you choose which supplier of commodity you want to have your gas provided to you.

**Mr. D'Autremont:** — Thank you.

**The Chair:** — I recognize Ms. Harpauer.

**Ms. Harpauer:** — Thank you, Mr. Chair. My final area of questioning is on Heritage Gas. And if we could find out today what Heritage Gas has spent to date, what have they recovered to date, and where their customer base is at.

**Mr. Kelln:** — Okay. I'll maybe just make an overview comment, and then I'll pass it over to Dean. Dean is the acting CEO of Heritage Gas so certainly has the next level down. I mean Heritage is continuing to grow and that's very positive. We've just crossed one major hurdle — crossed, I guess — is that we've got the customer commitments, including some major load at the universities and the hospital, to go across the harbour and serve the peninsula. So we're well on our way.

We continue to provide several aspects of it. As a rule SaskEnergy's been having the mother ship provide about point six million dollars of services that come back to here. Today the Heritage Gas facilities are being managed right out of our control centre. So we're running the station with Saskatchewan people. We've had construction people, managers going out there and also providing our expertise to the project.

So that element's been very, very worthwhile in terms of, I think, the pride of the 50 years of the things we've developed. We haven't dug as much rock as you do in Halifax, but the techniques that we use in terms of operating a system have been very applicable. I'll turn it over to Dean to talk about the capital and the exact customer numbers.

**Mr. Reeve:** — Well as Doug mentioned this is about as greenfield opportunity as you get. Natural gas is brand new to the Maritimes and so we are in the process of . . . We are in two communities today. We are in Dartmouth, which is obviously a very significant urban community, and we are in Amherst in Nova Scotia. And we are just about to put the pipe across to — and this is a significant directional bore, this one — across the harbour into Halifax, obviously the largest single customer area in the province. Dartmouth and Halifax, that Halifax regional municipality, would have a total population base of about 400,000 people, and so a very significant area for natural gas.

So far our focus has been building out what I call kind of the backbone of infrastructure in these communities. And most of that has been anchored by not residential customers but commercial and light industrial types of customers in Nova Scotia. Today we have in Dartmouth and Amherst about 1,000 customers burning. And when you say, well 1,000 customers, that's not very much, I mean we have 1,000 customers in Melfort — but the reality is is that they are very significant customers. And as an example the pipeline that is going across to Halifax, the one large anchor customer is the hospital facility there — a major hospital for Atlantic Canada — and that hospital will provide delivery charges to us of between \$800,000 and \$1 million a year of annual delivery revenue. So when you talk about one customer, those are the kinds of customers we've focused on in the initial periods of development.

At SaskEnergy we've invested about \$24 million I believe — let me just see — yes, shares . . . total investment, Heritage Gas for 2006 is \$24 million, and that's a mix of shares and loans. And of that, basically it's been spent on building the infrastructure in Nova Scotia, and to date, you know, I think our business plan is proceeding as we had contemplated in terms of the type of infrastructure we're building and the customer base that we're building.

We have been in regular contact there with the Nova Scotia regulator in terms of our plans, and in fact late last year took an application before them in terms of proceeding to Peninsula Halifax and had all the financial conditions reconfirmed again in Nova Scotia, of which our debt/equity structure there is 50/50 and the equity that we earn on that investment is a 13 per cent return on equity. And that has been confirmed by the regulator for the next number of years, I think it's a five-year rate application that we put in front of them, so they have guaranteed us those kinds of financial parameters over the next

five years.

**Ms. Harpauer:** — What's the projected cost of this expansion across the harbour?

**Mr. Kelln:** — The Halifax project is about a \$15 million project in total. That's not just to cross the harbour obviously; that's to build infrastructure in the city of Halifax. So the total project's about a 15 to \$18 million project.

**Ms. Harpauer:** — So presently there is no natural gas in the city of Halifax, so that you literally have to put the pipe in the ground.

**Mr. Kelln:** — Yes, there is no natural gas infrastructure in the majority of Nova Scotia, and in fact in the Dartmouth side and Halifax side there was no natural gas service there. And it really only came about because natural gas was commercially found on Sable Island and a major pipeline infrastructure came through the region both serving Atlantic Canada and serving the northeastern United States.

**Ms. Harpauer:** — So where are you going to access that funding, through a loan or . . .

**Mr. Reeve:** — Well we did come forward and secure additional capital. And as you know, we are only a, we are a 50.1 per cent shareholder in Heritage Gas, so we do not fund the entire operation. We fund our half.

We have two other partners, a major utility out of Alberta called AltaGas Utilities and then the Scotia Investments Group in Nova Scotia. So they fund half the project, we fund half the project. So our funding comes out of our annual business plan and capital allocation that's required for our share.

**Ms. Harpauer:** — What's the projection of recovery on that money expenditure?

**Mr. Reeve:** — Well I mean it's like the system we built in Saskatchewan. This is a 20- and 30- and 40-year business and so our returns will be recovered over that period of time. In terms of its reaching its full potential, we feel that that's still five to seven years away, in terms of, you know, the full development of the infrastructure and the attachment of the customers.

I mean, the good news is that we are building considerable revenues every year and you are starting to see those revenues to the point where it will support the operation on an ongoing basis. And so you know, we're building a long-term utility there and we're doing all the things necessary that we have to take to build that long-term utility.

**Ms. Harpauer:** — Thank you, and I have no further questions.

**The Chair:** — If there are no further questions, then it would be quite appropriate to have a motion related to the consideration of the report before us. Ms. Harpauer.

**Ms. Harpauer:** — I move:

That the committee conclude its review of the 2004

SaskEnergy Incorporated annual report, financial statements, and related documents.

**The Chair:** — The question before the committee is the motion moved by Ms. Harpauer:

That the committee conclude its review of the 2004 SaskEnergy Incorporated annual report, financial statements, and related documents.

Is there deliberation on that question? Those in favour, please indicate. Opposed? And that's carried unanimously.

That concludes our deliberations related to SaskEnergy. I want to thank the minister and the officials for your attendance and your response to the questions. I want to thank committee members for your thoughtful questions and also the auditor officials for your advice and guidance in our deliberations here.

Before we recess, okay, Mr. D'Autremont.

**Mr. D'Autremont:** — I'd just like to thank the minister and her officials for coming in today and participating and the Provincial Auditor and Mr. Aitken from Deloitte & Touche. Thank you.

**The Chair:** — Thank you very much. This afternoon we will proceed to a review of the SaskWater Corporation, consideration of 2004 annual report and related documents. And having said that, the committee stands recessed. Oh, Madam Minister.

**Hon. Ms. Atkinson:** — I just wanted to thank the officials for their answers to the questions. And I know we have taken a number of undertakings to get back to committee members with information and we will do so in a timely basis.

**The Chair:** — I thank the minister for your commitment and we'll look forward and anticipate receipt of those. Thanks very much. And the committee now stands recessed until 1:30 p.m.

[The committee recessed for a period of time.]

### Saskatchewan Water Corporation

**The Chair:** — Okay. It being the hour of 1:30, I will call the meeting to order and welcome all present for the afternoon sitting of the Crown and Central Agencies Committee. We have Ms. Crofford, who is substituting for Ms. Morin for this afternoon. There was a substitution this morning that was previously announced and that still continues, related to Mr. Krawetz for Mr. Duncan.

The item before us is the Saskatchewan Water Corporation, consideration of the 2004 Saskatchewan Water Corporation annual report and related documents. This is the third time that this report is before the committee and so we will want to keep that in mind, I'm sure, as we're proceeding, given that it is some time ago and has been before the committee for two lengthy sessions previously.

I assume that somewhere way back when, there was an opening statement. But I would certainly accommodate the minister. I'd

ask the minister first of all, Minister Forbes, if you would introduce the officials who are here with you today. And then if you wish to make an opening statement for today's deliberations, recognizing that it is the third time that this report has been before the committee. Minister Forbes.

**Hon. Mr. Forbes:** — Thank you very much, Mr. Chair. I appreciate that and I do have a few comments, but first I'd like to introduce the following SaskWater officials: Marty Cram, senior vice-president of operations and temporarily acting as president on behalf of SaskWater president, Stuart Kramer, who was unable to attend today and sends his regrets. Denise Soar, on my left, is vice-president of corporate and human services. Behind us, Greg Argue, vice-president of business development; Monty Gendall, general counsel; Daniel Bollinger, manager financial services; and Jim Warren, manager of corporate communications.

Mr. Chair, SaskWater's appearance before the committee today involves a continuation of discussions, as you've mentioned, relating to the corporation's 2004 annual report. I would like to say a few comments.

Today SaskWater is one of Saskatchewan's youngest Crown corporations. It received its new mandate as a CIC commercial Crown in 2002 in conjunction with the launch of Saskatchewan's safe drinking water strategy. The new SaskWater role makes it unique among Crown corporations. SaskWater remains the only Crown utility in Canada that is providing water and waste water services to rural communities.

The province's 2002 safe drinking water strategy shaped the work of three provincial agencies. The Saskatchewan Watershed Authority's role involves the protection of the province's water resource. Saskatchewan Environment has the responsibility for developing and monitoring standards for safe drinking water and waste water management. SaskWater's role as a commercial Crown water utility is to provide water and waste water services and solutions to municipalities and rural residents, assisting them in their efforts to meet the demands of today's regulatory environment.

It is true that some confusion remains in the minds of the public with regards to the roles played by the three key agencies dealing with water and waste water in Saskatchewan.

Now the corporation has been active in implementing strategies to establish its brand and better inform the public with regard to services and solutions it provides. This process is ongoing and not yet complete. SaskWater staff still on occasion redirect public inquiries to Saskatchewan Environment and/or the Watershed Authority.

Staff at the new SaskWater recognize that as a result of their branding efforts people have in a very short time become better informed about the roles of the different agencies involved. Canadians' concern for the safety of our drinking water was obviously heightened by the tragedies at Walkerton, Ontario and here in Saskatchewan in North Battleford, but there are additional factors impacting our province's water and waste water systems that contribute to the need for the services SaskWater provides.

Aging water delivery and treatment infrastructures in many communities require upgrading to meet new safety and quality thresholds. Growing communities are challenged to expand existing water supplies, treatment facilities, and waste water treatment systems. Smaller communities as well as communities experiencing population declines are often hard pressed to meet the demands imposed by a greater concern for the safety of drinking water and the need to ensure waste water systems do not damage the environment.

SaskWater has worked at being a solutions provider to municipalities within this new environment. One of the corporation's early successes involved a partnership with Saskatchewan Urban Municipalities Association. SUMA and SaskWater co-operated on a project that provided water system assessments to 306 urban municipalities in the province. This occurred primarily in 2004 and '05. Encouraging partnerships has become one of the key solutions SaskWater offers to municipalities.

The corporation and municipal partners have developed a number of creative regional solutions to the water and waste water challenges faced by rural communities. For example, SaskWater's Melfort regional system has allowed several communities including Weldon, Beatty, Star City, and many farms in the Melfort area to make use of the same supply which takes water from the Saskatchewan River system.

Regional strategies clearly offer economies at a scale that cannot often be achieved by smaller centres seeking solutions on their own. One of the challenges involved in developing regional systems is that not all communities in a region may perceive the same degree of urgency in meeting their water and waste water challenges at the same time. That said, the corporation views the development of creative regional solutions as an important strategy for growth as well as the means to provide safe and reliable services to more communities.

Of particular interest to municipalities is SaskWater's ability to take on capital costs of designing and constructing new systems. This offers a number of benefits to municipalities. It relieves the municipality of a need to find financing, and when SaskWater takes on a responsibility for the operation of, let's say, a water treatment plant, the municipal government is relieved of much of the responsibility and liability involved in supplying safe, quality drinking water to its residents. SaskWater offers the benefits and convenience of what one might call one-stop shopping. The corporation can take on the role of financier, designer, builder, and operator. Town and village mayors may see the advantage of being able to put their hip waders and rubber boots away and rely instead on highly trained SaskWater operators when water or waste water problems arise.

Now trust is a key ingredient in building successful partnerships. SaskWater is successfully building trust with the municipal customers across the province. The foundation of the solid customer relation rests on integrity, accountability, and the depth of skills resident in the corporation.

SaskWater has 28 certified operators on staff as well as engineering specialists in water and waste water treatment. And

I might add SaskWater operators and engineers demonstrated a high degree of dedication and creativity in meeting the challenges to the systems that arose during the record hot weather we experienced this hot July.

SaskWater is now providing water to 55 Saskatchewan municipalities. The corporation has 37 industrial customers involved in areas such as added value, agricultural product processing, and potash production. It is also working with 51 water boards and user groups providing water to 1,140 rural households and farm residents.

The corporation now owns seven water treatment plants, three waste water treatment systems, and over 830 kilometres of pipelines supplying both potable and non-potable water customers.

The corporation has invested \$14.4 million in water and waste water infrastructure to date from 2003 to 2006 inclusive. And between 93 per cent and 97 per cent of the goods and services SaskWater has purchased since 2003 to 2006 were from Saskatchewan suppliers.

The corporation continues to provide certified operations and maintenance to a number of municipalities that continue to own their own water and waste water systems. It also offers training to First Nations through agreement with Indian and Northern Affairs Canada. This has seen 109 operators trained to provide service to 54 First Nations communities.

SaskWater also plays an important role in northern Saskatchewan, planning and managing the design and construction of water and waste water systems on behalf of Saskatchewan Government Relations.

The development of regional waste water systems emerging on the horizon is an area of SaskWater's activity that offers potential for growth in coming years. SaskWater's new \$5.9 million waste water system commissioned just this month to service Fort Qu'Appelle offers a glimpse to the future. The new state-of-the-art system will ensure that treated effluent from Fort Qu'Appelle will no longer be discharged into the Qu'Appelle River and importantly, the Fort Qu'Appelle system was built with regional solutions in mind and can be adapted to meet the requirements of neighbouring valley communities.

In June 2007 SaskWater launched its supervisory control and data acquisition or SCADA system. SCADA allows SaskWater technicians to monitor water quality and delivery from sites around the province 24-7 from a central monitoring station here in Regina. The SCADA system may be another solution that SaskWater will be able to offer Saskatchewan communities in the years ahead.

The expansion of SaskWater's customer base has been accompanied by growth in its gross revenues. The corporation has moved consistently towards profitability from 2003 to the 2006 period. Revenues have grown from \$16 million in 2003 to 18.5 million in 2006. It's worth noting that SaskWater has lowered its operating expenditures over the same four-year period from \$18.7 million in 2003 to 18.2 million in 2006. Indeed SaskWater's consistently improved its operating results over the 2003-2006 period from an operations loss of 3.4

million in 2003 to a modest operations profit of \$295,000 for 2006. Hot summer weather in 2006 contributed to increased consumption and revenues in 2006.

Rate increases have been another contributor to revenue growth. SaskWater's mandate as a fully commercial CIC Crown requires the company to employ rates that support it as a sustainable water utility. Similarly some municipalities are discovering that rates charged historically to consumers have not provided the revenue streams required to meet the demands of replacing aging infrastructure, increasingly stringent health and safety measures, and increase and expanding capacity to accommodate growth.

Now SaskWater is currently undertaking a cost of service and rate review exercise to intend to ensure that rates applied by the corporation continue to accurately and fairly reflect the interest of customers, the public, and the fiscal sustainability of the utility. So with that, Mr. Chair, I would welcome any comments and questions from the committee. Thank you.

**The Chair:** — Thank you, Minister. I'll introduce the principal here from the Provincial Auditor, Andrew Martens, and ask Mr. Martens to introduce other officials and make any comments that you wish to make at this time.

**Mr. Martens:** — Thank you, Mr. Chair. With me today is Bill Harasymchuk, senior manager from our office who works on this audit. And since we've given our opening comments at a previous meeting we don't have any further comments on this year at this point in time.

**The Chair:** — Okay. Thanks, Mr. Martens. And as we proceed, anticipating that there will be occasions during the committee meeting when officials are responding to questions. In order to aid Hansard in doing its job, I would ask that officials, the first time that you speak, to identify yourself by name and position so that we can ensure that we're accurately recording your involvement in the committee's deliberations.

Now the floor is open for consideration of the SaskWater 2004 annual report for the third time, and I recognize Mr. Krawetz.

**Mr. Krawetz:** — Thank you very much, Mr. Chair. And, Mr. Chair, in light of the fact that this has been before us a number of times and some of the information provided in the 2004 report, I note, Mr. Minister, that you've updated some of the information.

And I just wanted to clarify because the '04 report, I think, gave me some different numbers than the ones you indicated. When you were giving the current status of the number of water boards, the number of industrial users, could you review those numbers just real quickly for my sake? Because I think I have put down 55 municipalities and I'm not sure that that's the number that you used in your information that you gave to us just about five minutes ago. If you could turn back to that line.

**Hon. Mr. Forbes:** — The number that I have that I referred to — I'll just quote myself — SaskWater is now providing water to 55 Saskatchewan municipalities.

**Mr. Krawetz:** — Okay. And is it 37 industries?

**Hon. Mr. Forbes:** — Yes.

**Mr. Krawetz:** — Could you explain what, across the province, what would be the makeup of the 37 industrial users?

**Hon. Mr. Forbes:** — Oh, they range. I had the pleasure this summer of touring some of them and especially the mining sector is a very significant group. But what I'll do is I'll ask Greg to come forward, if you want to give a review of what the range is of that very important component. And I know that we've secured some very significant ones just recently.

**Mr. Argue:** — It's Greg Argue, vice-president of business development. In terms of the customers, industrial customers that we supply, we supply a number of the large potash mines in the province. We also supply Saskferco. We have an interim agreement now with Terra Grain Fuels out at Belle Plaine, a recent acquisition to that industrial customer base. And, you know, so those are our largest, our largest industrial customers.

**Mr. Krawetz:** — Is the growth in industrial customers, is it due to the fact that there is a reliability of SaskWater in terms of the provision of water?

**Mr. Argue:** — Yes. Our sense is from doing a customer survey of industrial customers that the industrial customers like SaskWater's service largely because of the reliability of it. And so that industrial customers, because they use it in the process of whether it's producing potash or making ethanol, that they really look to suppliers for reliability and consistency in the product. Generally speaking we supply non-potable water to those customers, so primarily it's about reliability.

**Mr. Krawetz:** — In the acquisition of a new industrial customer, how often does it require the installation of additional pipeline? Mr. Minister, you indicated, I think, that we have about 830 kilometres of pipeline currently serving the province. Do industrial users require a heavy capital injection?

**Mr. Argue:** — Yes. That is fair to say, yes. You know, generally speaking it might be new pipelines, new booster stations, a combination of those two things. But they are, they tend to be fairly heavy capital users.

**The Chair:** — I'd just like to interrupt just for a moment if I may. I think we're experiencing a bit of the complication when we're reviewing an annual report that is so far in the past. Both the minister in the minister's remarks provided updated information because there has been change in status in some things since that time, and that's clearly where the questions are as well.

As Chair I do feel obliged to keep us to the '04 annual report unless it is acceptable to the minister to proceed outside of that scope, because technically that is the item that's before us. And I'm recognizing that as we're beginning we're, right off the bat we're varying away from the '04 report. And so I'd ask, Minister, if it is your preference to stick to the '04 report or if you're willing to go beyond the scope of the '04 report.

**Hon. Mr. Forbes:** — I appreciate that you recognized in my comments I updated several of the things . . .

**The Chair:** — Yes. That contributes to the problem the Chair is identifying.

**Hon. Mr. Forbes:** — Exactly, yes. I would really like to finish up with the '04. And then if we want to talk about '05 and beyond, I'd be open to that.

**Mr. Krawetz:** — Mr. Chair, if I might, thank you for that. I'd like to turn to page 28 of the report.

**The Chair:** — Sure.

**Mr. Krawetz:** — And I'll try to provide to the committee . . .

**The Chair:** — So I'd ask you to provide the '04 . . .

**Mr. Krawetz:** — . . . the reason for my questions.

**The Chair:** — The '04 context.

**Mr. Krawetz:** — Right. On page 28, on the last bullet, it indicates that the infrastructure investment by SaskWater was \$3.2 million and that was less than the 8.3 million. So I think now you see, Mr. Minister, where my questions were going in terms of capital investment for some of the industrial users. The gentleman, Greg, indicated that there was a large capital investment needed for industrial users and in the 2004 report it does state that only \$3.2 million was used of the original 8.3 million.

So then my question is, based on this data that was provided in the '04 report, is that still continuing or was this an anomaly in 2004 that only approximately 30 per cent — a little bit better, 35 per cent — of the anticipated budget for capital expenditure was spent, and do we see that kind of continued expenditures?

**Hon. Mr. Forbes:** — No, I think that when we put together the budgets . . . And if you want more specific about this one in particular, but we see that as when we're anticipating deals being closed, some of the discussions that we have with some of the different potential communities that want to come on board, that type of thing. So we're anticipating that when we're preparing the budget. We set it aside.

Is it a typical thing? I wouldn't be able to comment on '05-06 and how that's comparing to our budgets but I know that we do, I would say, budget optimistically so we're not caught off guard there. But I understand where this is coming from, where we're hoping that we would have as a business more business. And sometimes we don't meet those targets. And I know there are a couple out there that we've been working on for the last couple of years.

**Mr. Krawetz:** — Right. And that's the second part of that statement that says that potential customers have decided not to proceed. Could you indicate then, do these customers who determined in 2004 that they were not wanting to proceed with their project and as a result, you know, just about \$5 million was not spent, do these communities, did they come on board in '05 or '06 or did they give reasons that the project that was anticipated is completely shelved and has not even taken place to this day?

**Hon. Mr. Forbes:** — I would say that it is a combination of both. I don't know, Mart, if you want to comment on that but you know some that would come on later and . . .

**Mr. Cram:** — Yes. Mart Cram, vice-president of operations, acting president for today. I think the minister's assessment is correct in that it's a combination of both. It would be some who were deferred to a later year and some who chose not to proceed with a SaskWater solution. SaskWater does not have a monopoly, and communities and industries can choose to do things on their own.

**Mr. Krawetz:** — The water boards that have been working with SaskWater through probably 2001 to all the way up to '04, to the time of this report, delivered services to many different communities. And you've updated the numbers. One of the concerns that was expressed in '03 and '04 by water boards was the cost of having a telephone system installed in the pumping station as the entire line was proceeded. Was that identified to SaskWater and how has it been handled?

**Mr. Cram:** — I think you're probably talking about rural water supply systems that are owned by rural utility boards. And they own and operate their own systems and we don't get involved in those, so it hasn't been an issue for us.

**Mr. Krawetz:** — Okay. So those are systems that do not operate under SaskWater. They are individually administered by municipal boards?

**Mr. Cram:** — Yes. Typically rural water utility boards or co-ops or non-profit corporations, that type of thing.

**Mr. Krawetz:** — Mr. Minister, you made comment about the rate increases that had taken place and I note that in 2004 I think the rate increase as I see it is about 26 per cent. Is that accurate, first of all? And then secondly, I note that the last increase prior to '04 was in 2001. So is the 26 per cent then a catch-up of the rate increases that may have been necessary in '02 and '03 or were there other circumstances that required SaskWater to increase rates by 26 per cent?

**Hon. Mr. Forbes:** — Yes. I think that you would be correct in saying that the increase was significant. I'm not sure if it was 26 per cent or what it was exactly. But it went, it did go up significantly and in part to catch up and part of what our philosophy is in terms of full-cost accounting that, you know, the full costs of providing the service. But we are actually doing some current work and I reference that in my remarks in terms of making sure that there's a fairness to how much the prices are. So much of your question was accurate.

**Mr. Krawetz:** — Mr. Minister, again by looking at the 2004 report I do see an increase of 26 per cent and I also see that 2005 — which I know the Chair has referred, made a comment about moving beyond — but 26 per cent in 2004 was followed by 22 per cent in 2005. Is that accurate? Close?

**Hon. Mr. Forbes:** — Well yes, that would be correct. Yes.

**Mr. Krawetz:** — Okay. Thank you, Mr. Minister. Now, Mr. Minister, you made reference to looking at the entire provision of services in the province. With that kind of rate increase in

2004 and 2005 and we look, obviously in a global market we're looking maybe even at Western Canada — let's narrow it down to Western Canada — are our rates that we see now that have been adjusted up to this year, are we competitive?

**Hon. Mr. Forbes:** — This is something we look at very closely and of course I signed off on this as minister. And of course we saw rates increase in Saskatoon, in Regina. And the whole movement in terms of making sure that when you pay for services, that there is a full cost and also the fact that the quality of the service we're providing in terms of the operations and all of that is fully accounted for, I think that we're seeing this and I think we are competitive.

I think that you'll see this, the cost of water . . . I mean, people have talked about water being the new gold of the 21st century. This is a hugely important area in terms of utilities that are provided in municipalities. And the days of it being inexpensive or sort of a last thought about how much the water costs, well people want to make sure they have safe, quality drinking water.

I might ask some of the officials to comment on the processes involved in this. But it is one that we think a lot about, because of course . . . and the costs of infrastructure, making sure it's current and the best possible infrastructure is in place. So I think, as minister I think they're fair prices. I understand that there are costs involved and this is one that's challenging to municipalities.

**Mr. Krawetz:** — Mr. Minister, before one of your officials makes additional comments, could they also indicate when did the province, when did SaskWater move to the full-cost pricing model as far as Saskatchewan is concerned?

**Mr. Argue:** — Just to a couple of points in terms of competitiveness, SaskWater is competitive when you consider the number, the percentage of the population that SaskWater serves and over the expanse of the province. Our rates are, we believe, competitive, you know, based on providing economies of scale but over what is really a large rural population.

In terms of a full cost of service, we are in the process right now of developing that model internally. The pricing structure that we've used to this point in time has been based on our assessment of costing. We have brought in an external consultant now to help us with the development of a more refined model if you will, and we expect that to emerge over the next 12 months or so.

**Mr. Krawetz:** — When you make a comment that we are competitive on a broad basis in the province of Saskatchewan, could you narrow that down? And we've had some discussion about the industrial users and the cost of pipeline and as we compare water utility companies across Western Canada, would there be a competitive rate, is the question that I'm asking. Would there be a competitive rate for a business who is looking to set up in Saskatchewan if they were now . . . As the minister has indicated, water is becoming important. You want to be guaranteed a source of water, a reliable source as well as a price-competitive situation. Are we competitive then with water utilities in Western Canada as far as one of those industrial users that you've talked about, Mr. Minister, that might see

Saskatchewan as a potential base for establishing that business? Are the water utility rates of SaskWater competitive for that business here in comparison to water utility companies across Canada, across Western Canada?

**Hon. Mr. Forbes:** — Well I think we are. I mean when we see the economy and how it's growing and I know that I was at one of the potash mines that we service . . . And of course we provide a range of services. It's the infrastructure. It's the reliability. It's the relationships. And I would stress this as very important. And I noticed this particularly around the Saskatoon region, working with regional groups and just the partnerships. So when you're inviting or if you're a business looking to come, to move to Saskatchewan and you're looking for the basic services, as Greg mentioned, the reliability, the ability to deliver and just the good business community.

So I think in terms of the specific numbers we have, how do we compare to . . . Does it compare? How do we compare to other parts of Canada? I don't have those numbers with us. But clearly we're seeing, you know, as part of our business model we're able to meet our targets or start to develop those relationships, which is a good thing.

**Mr. Krawetz:** — Thank you, Mr. Minister. And Mr. Minister, I've talked about the rate increase of '04 and '06, or sorry, '04 and '05. Has there been a continued increase in rates? Has SaskWater had to adjust the rates at that significant a rate in '06 and now into '07?

**Hon. Mr. Forbes:** — Yes, we've had the two increases — one last year and one this year. This past year was 6 per cent. And so I think that it's one . . . And as I had cited earlier, other municipalities, large municipalities — Regina, Moose Jaw, I believe Saskatoon — had some rate increases.

I would say that part of this too, I would mention, and as my interest in environmental issues, we've also worked with the municipalities in terms of water conservation because you may have a rate increase but you can also deal with that by consuming less. And so we're working on that as well. Very important that when we talk to municipalities that their customers may be concerned about the rates going up but that doesn't mean that their bill has to go up. They can be a much better consumer.

**Mr. Krawetz:** — Sure. Mr. Minister, I think individuals and municipalities are all looking at reducing the costs of their water bills, whether it be at the municipal level or at the individual residence level.

When you mention a 6 per cent rate increase, obviously it's quite a bit higher than the cost of living. So there must be other circumstances that are built into SaskWater's decision to increase a significant amount. I don't know what the totals would be but it would be probably in that 50, 60 per cent since 2001. That's the kind of increase we've seen in the rates. Will that continue? Will we see 6 per cent again or 7 per cent? And if we are, what circumstances are contributing to SaskWater's decision to say, we do need 6 per cent? Are they labour costs? Are they capital costs? What is addition to the regular cost of living that we see?

**Hon. Mr. Forbes:** — Well there's several factors and I will go through . . . Because it is, and many municipalities are facing the same issues that SaskWater is in terms of how to come to terms with infrastructure — aging infrastructure — whether they make a choice to come with us or to replace their own. The new regulations to ensure water quality is a huge issue, huge cost as well as . . . And I referred to capital investment.

But some of the other actual costs include operations, maintenance, construction, water purchases — because we actually do purchase water from the cities of Saskatoon and Regina — energy, and electricity. They've gone up. Monitoring safety and efficiency improvements and actual labour costs and so . . . And as we mentioned, the whole issue about scales of economy in terms of providing services to some 40,000 customers over a huge land base. But we believe the rates are competitive.

**Mr. Krawetz:** — Thank you, Mr. Minister, for that answer. Mr. Minister, one of the other things I think that is evident in the 2004 report is that SaskWater has a high manager/employee ratio. I think it's at about 4:1 and that seems larger than the other Crown corporations like SaskPower and SaskTel who are, you know, significantly different when you compare the employee ratio to a manager or for that matter even an executive manager.

I think the SaskWater's ratio in '04 . . . I'm talking about '04 and that's where I'm going with my question. Back then it seems like the manager ratio was at about 4:1 for employees to managers. Has SaskWater done anything to improve that or is there, after assessment — and I understand that it's a Crown corporation since 2002 — since this report was issued in 2004, has there been significant changes to the ratios that I've just indicated?

**Hon. Mr. Forbes:** — I'll get Denise to give more specific answers too. But SaskWater, because of the nature of its work and its size — and I appreciate you've noted that it started in 2002 as a CIC Crown — that in the kind of work it does in terms of utilizing very skilled professionals in terms of engineering, that type of thing. And so with that, Denise, I don't know if you have any thoughts on that but I appreciate the comment.

**Ms. Soar:** — The numbers I have referenced here — I'm Denise Soar, sorry — 2004 we had in-scope employees 46, out-of-scope 22 so about a 2:1 ratio.

**Mr. Krawetz:** — See and I was giving you a better . . . 4:1.

**Ms. Soar:** — And currently 52 in scope and 31 out of scope.

**Mr. Krawetz:** — So then my question is, as I look at other Crown corporations, SaskPower, SaskTel — especially SaskTel — SaskTel has a much different rate of managers for out of scope and in scope. Is it the makeup of the company that requires this? And will this be constant? Or will we start to move to a different ratio?

**Hon. Mr. Forbes:** — . . . a very interesting question because generally we have about 100 employees and of course this doesn't add up to 100 so there're some that are temporary

employees.

**Mr. Krawetz:** — 83.

**Hon. Mr. Forbes:** — Yes. And the other part is we have a significant number of engineers who would be out of scope as well just because of the kind of work that they do. So I think it's a kind of company we have even though we try to . . . And this was interesting in my opening comments how we've reduced the amount of our operating expenses. I'm not sure if that's from the wages and Denise can elaborate that more. But it is a kind of company where we provide the consulting, the services to the municipalities and that type of thing, and we then contract out a lot of the construction work so . . .

**Mr. Krawetz:** — Sure and, Mr. Minister, I'd like a follow-up on that because you indicated that expenses had been reduced. And my question then is, in what areas were expenses able to be reduced? Was it on the human resources side? Was it due to . . . I mean I don't think it was due to utility rate decreases from SaskPower and SaskEnergy, from the rates that I think have been enforced. But so where did SaskWater make significant gain in reducing expenses?

**Ms. Soar:** — One area for sure would be interest savings. We reduced our debt and we're saving approximately \$2 million a year in interest. So that's a significant savings.

**Mr. Krawetz:** — Now, Denise — yes, sorry — as you've indicated, debt was reduced significantly I think in that neighbourhood of about \$35 million. And that kind of debt reduction, was that a grant that was received?

**Ms. Soar:** — Yes, that was. In 2005 we received \$35 million from CIC.

**Mr. Krawetz:** — So did CIC then incur the debt to give you the 35 million?

**Ms. Soar:** — It was debt that went back to Sask Finance, yes.

**Mr. Krawetz:** — Okay. So as a result, SaskWater then has, you know, written debt, has written, has had debt eliminated from its, from its numbers and we have a savings of interest . . .

**Ms. Soar:** — Correct.

**Mr. Krawetz:** — Of the dollars that you've indicated. You've also indicated, I think, Mr. Minister, that revenue increased to 18, I believe it was \$18 million?

**Hon. Mr. Forbes:** — It was 18.6.

**Mr. Krawetz:** — 18.6 I think was the number that you quoted. So as we're seeing debt now not as significant a factor, and as we see revenue having grown to that number, getting back to my question of rate increases, do you see stability in rate increases now more so in the line of 3, 4 per cent rather than the 6 or 22 or 26 per cent that we've seen in 2004, 2005, and now again in '07?

**Hon. Mr. Forbes:** — I do. And I think that I can't predict what the rate increases will be. And I'm just very excited, very

interested to see what the work that Greg has been leading in terms of the costs of the fair-value costing project that they're doing, how that will work with their rates. Because it is a challenge because of course when some of the other utilities or some of the other Crowns where we have a province-wide grid or a province-wide system, that's not the same with SaskWater where we have regional pipelines and that kind of thing. So we have to take into account local issues, that type of thing.

So I don't know if Greg wants to explain more on this, but I think that people can expect a more, I would say, a more stable, a more fair system of pricing for them that they will be able to understand the costs of the infrastructure, the costs of operating and getting value for or paying for their water.

**Mr. Krawetz:** — Mr. Minister, as the group who's working on the full-cost pricing model and is developing the strategy, what do you see as the plan? Will you see a report come to you as minister or to the board that will make a recommendation based on the analysis done by Greg and others that this is not the way to go or that this is the way to go? What will be the procedure?

**Hon. Mr. Forbes:** — The procedure. Well I'll ask Greg to come up and explain the procedure, but of course we involve, CIC will be involved in this as well and so I imagine this is quite a project actually.

**Mr. Argue:** — Yes. The process will be that the recommendation will come forward to SaskWater's board of directors, and then from there it will move on to the Crown Investments Corporation as part of an overall rate strategy.

**Mr. Krawetz:** — And when do you expect that report to go to the board?

**Mr. Argue:** — Probably within, oh, eight months to a year.

**Mr. Krawetz:** — So then after due deliberation and consideration, when do you think — if indeed that is the model that is selected — when do you see the first year of implementation?

**Mr. Argue:** — Well I guess we're talking about probably '09 right now.

**Mr. Krawetz:** — '09?

**Mr. Argue:** — Yes.

**Mr. Krawetz:** — Okay. Thank you very much.

**Mr. Argue:** — Okay.

**Mr. Krawetz:** — Mr. Minister, in the '04 report it indicated that there was, I believe, one boil-water order issued in '04 to one of the treatment plants that SaskWater was operating. And that it also indicates that the health authority issued the boil-water order, extensive improvements to the plant were undertaken in 2004. Since that undertaking, has there been any further development in terms of boil-water advisories that have been issued?

**Hon. Mr. Forbes:** — Yes. I may get Mart to give a specific

answer, but I understand just that Edenwold, there was one instance at Edenwold before we had completed the purchase and updates. But generally, and I would say this, now '04 doesn't have this but our new reports do have all the information about water standards and I think this is an innovation that we're very proud of. But, Mart, if you could give an explanation in terms of the water quality in '04 and some of the challenges that we may have.

**Mr. Cram:** — Yes. We acquired the village of Edenwold's treatment plant and committed to do some upgrades to it. We knew it did not meet regulations, and there's a window where you have to meet regulations. So the boil-water order occurred before the upgrades were completed. Since the upgrades have been completed, there have been no issues there. So . . .

**Mr. Krawetz:** — And that's the specific one referred to in the report of 2004?

**Mr. Cram:** — Yes, that's the only boil-water order we've ever had.

**Mr. Krawetz:** — So since 2004, for '05-06, there have been no boil-water advisories on any of the facilities.

**Mr. Cram:** — No boil-water orders.

**Mr. Krawetz:** — No boil-water . . .

**Mr. Cram:** — Precautionary drinking water advisories are a different matter, and those are routinely issued to all the municipalities now whenever you do maintenance on the line or whatever. But that was an emergency boil-water order that you're referring to.

**Mr. Krawetz:** — Correct.

**Mr. Cram:** — And that's a different matter.

**Mr. Krawetz:** — Right. Thank you for clarifying that because those two are entirely different.

**Mr. Cram:** — Yes.

**Mr. Krawetz:** — In light of your mention of SUMA and working with the municipal authorities in the province, there has been an expression of course by many municipalities about the cost of ensuring that water treatment plants are tested accurately and the cost of having the person do that. Is that still an ongoing problem regarding the, you know, safe drinking water regulations of '02 and trying to implement them? Do you still at SaskWater receive the kind of concerns from municipalities about the ability to pay, to ensure that they have the proper person trained and on staff, or is it getting better?

**Hon. Mr. Forbes:** — Mart will give more of a specific thing, but I know as minister when I go around to different facilities and opening of infrastructure, it's still an issue. I mean it will be one that, you know, we wrestle with in terms of funding. Of course this is more of a Government Relations and a federal issue than us. But of course we're on the ground and we hear it. So, Mart, if you have . . . What's your take on out there?

**Mr. Cram:** — I would say staffing is still a very large issue for communities — and for SaskWater, as far as that goes. The new regulations did require higher levels of education and certified staff. That has resulted in a highly competitive market for certified operators, which is part of the reason why our most recent rate increases exceed typical inflation numbers. And that's pretty typical in the industry right now.

And certainly for smaller communities, they're having trouble finding qualified operators, and they're finding various creative ways to overcome that. Some of them are sharing operators. Some of them use the SaskWater solution. But it will be an ongoing issue. We all hear that we're moving into a labour market area where the baby boomers — and you can see by my grey hair that I'm in that group — are retiring. And finding qualified operators is a challenge for everybody in the industry right now.

**Mr. Krawetz:** — Thank you very much for that answer. Is there a plan of discussion between SaskWater and SUMA in terms of addressing those concerns? Because as you've indicated, Mr. Minister, SaskWater hears about those things on an ongoing basis, but we as elected representatives out there in rural Saskatchewan hear about them on a, I won't say a daily basis but definitely a weekly basis. And the concern of course is the ability to provide the financing to ensure that there is a competent individual. And you've identified now a subsequent problem is you may have the resources or you may be able to combine with another municipality and have the resources, but now you don't have the actual human resources.

**Hon. Mr. Forbes:** — Well I would say just a couple of things, and Mart's opinion too, but two things. One is that we're working really hard. This graduate tax thing that we've got for graduates, programs, this is very important. And the other one is that I was very happy when they announced the SCADA system because that helps in rural Saskatchewan. Clearly we need operators out there. But in terms of the demand, I know when I was in Wakaw talking to the folks there where . . . Now SCADA is actually not in Wakaw right now, is it?

**Mr. Cram:** — We have a local SCADA.

**Hon. Mr. Forbes:** — A local SCADA based with a cellphone with the operator. But it's a way of, how do you make it inviting but not a 24-7 commitment on a single person in a community? And so we're trying to be supportive across the province, and the SCADA system can be very helpful in that. But yet you need people out there. So SaskWater can play a big role in terms of helping communities meet that challenge. Mart, do you anything to add to that?

**Mr. Cram:** — Yes, I do. I would say the SaskWater solution is one where we are typically trying to encourage regional developments. And there, there are economies of scale in terms of the number of operators required. And that is similar to what communities are doing on their own where they're sharing operators.

So that is our solution to that. And Saskatchewan Environment also is encouraging some regional initiatives among communities as well. But that we think is part of the answer. The SCADA is another part of the answer because we know

we're going to have trouble getting enough operators. Technology can help us, yes.

**Mr. Krawetz:** — Thank you for those comments. Has the concerns with settlements of Walkerton and the liability that is imposed on an individual as well as a municipality, has that been a hindrance to individuals wanting to take the courses and become fully trained at the various small-community levels? And I'm not referring to the, you know, the big city, large town type of individual. But when you are trying to encourage the local individual who is the jack of all trades, who does everything in small town Saskatchewan to become that fully trained technician to be able to accurately ensure that there is, you know, clean, safe water, has that been a deterrent?

**Mr. Cram:** — I would say no. I think it's probably had the opposite effect because they understand now that they need more training and they're willing to take it because of what's happened in places like Walkerton. It may be a deterrent for some people to get into the business but as far as people who are in the business, I think it opened their eyes and they're willing to take training where they hadn't before, perhaps.

**Mr. Krawetz:** — I would concur with your comment about people who are in the business because, you know, if you're partially responsible and you're going to become fully responsible, you'd better be fully trained. So I think that would be an encouragement.

I'm just worried, as you've indicated about retirements and the like, and whether or not that has become an occupation — and I'll use that word in a very general sense — has become something that people will think twice about entering based on the liability question.

**Mr. Cram:** — Myself I don't think that is an issue. The operators that we see coming in don't have that concern, and that's because they have the training and they know how to operate. Walkerton they did not have the training and really did not know what they were doing.

**Mr. Krawetz:** — No.

**Hon. Mr. Forbes:** — I just have . . . You're seeing me thinking of some experiences, and as I travel about I hear different circumstances throughout the province. And of course there's a way that, you know, we work in partnerships with different communities, and one in Pierceland where we have . . . Actually it is a bit of an opportunity to work with SaskWater. It's a part-time situation that I'm thinking of, just how it all works out.

But I just wanted to check with Mart if I've got my facts straight on that one, whether that was a good example or a bad example.

**Mr. Cram:** — Pierceland is a unique example. We have a partnership with the community. We own the works but they provide the day-to-day certified operation and they have a certified operator. But we have resources to go and do the more extensive maintenance and that type of thing with our more highly skilled operators. So we've done that there.

There are other places where we've had to use part-time operators because in small communities, running a plant isn't necessarily a full-time job. And so if you don't have a number of communities, that regional concept that we like to see, then we have to look at part-time solutions as well.

**Mr. Krawetz:** — When you mention small communities — and you've mentioned in 2004 the plant at Edenwold was something that SaskWater acquired, and you've mentioned Pierceland and others — what circumstances come into fruition that then cause a municipality to say, we want SaskWater to now take it over?

**Hon. Mr. Forbes:** — Well I'll ask Greg, who specializes in this, but I know I've been to SUMA conventions and . . . This again speaks to their relationship where, you know, when we try to put forward the case that we might be able to provide a solution, it's not a real hard sell but it's an opportunity. And I see Greg at SUMA conventions and being at different things, just being available for questions like this. But maybe, Greg, if you want to give a more fuller answer.

**Mr. Argue:** — Yes. I think when we see communities coming to us and looking to SaskWater, there's probably three things that we see, is really a need for capital — whether the community is overextended or not I'm not sure, but there's a need for capital. There is concerns about liability, sort of at the administrative or maybe political level, as well, at the local community. They're worried about that and whether they have enough depth, you know, backing up their local operator and whatnot. And the other part really is the concern around the operators themselves and whether that person is comfortable or not comfortable with operating the system on an ongoing basis.

Really, you know — and Mart and the minister alluded to this — is really one of the values that SaskWater brings is the depth of expertise that backs up the local operator. Because what goes on behind that local operator with SaskWater is a large group of very well-trained engineers, SCADA system as the minister identified, people to help the community in terms of rate planning. A whole bunch of things which the smaller community — which is our target market between about 500 and 5,000 people population — is really helpful for them.

**Mr. Krawetz:** — Since 2004, Mr. Minister, where Edenwold was the plant that was acquired prior to that, how many other plants have come on board in terms of SaskWater assuming control of those treatment plants in all of Saskatchewan?

**Hon. Mr. Forbes:** — We'll get the specific list here for you.

**Mr. Krawetz:** — If we could have a listing of, you know, if the plant referred to in the '04 report is Edenwold, then since Edenwold what other plants that . . . Because I do note that the numbers have grown in your report, oral report that you gave at the beginning of this session versus what is contained in the actual report.

**Hon. Mr. Forbes:** — Okay. I have that list now so I can give it to you.

**Mr. Krawetz:** — Oh, great. Sure.

**Hon. Mr. Forbes:** — Yes. In 2005 Elbow came online, potable water and certified operator; Jackfish Lake, certified operator and management maintenance; Sherwood Industrial Park, certified operation and maintenance; and Dundurn Rural Water Utility Board for potable water. That was 2005.

In 2006 there was none, I don't believe. And then this year we've got the Fort Qu'Appelle waste water treatment system. So yes, Elbow is the only plant that we own that we just listed in 2005 of the four.

**Mr. Krawetz:** — Mr. Minister, you made reference in your report that there were three waste water treatment plants of which Fort Qu'Appelle is one of them that has come on board. I believe it must be one of the three. What circumstances then would come into being for a waste treatment plant to be under the control of SaskWater?

**Hon. Mr. Forbes:** — I'll let Greg answer this.

**Mr. Argue:** — I think a lot of the same things that go on with drinking water. Probably less important around the certified operations, though that is important. You know there is an increasing awareness in the communities about the importance of managing waste water in an environmentally friendly manner and so these communities look for expertise to help them with that. There is a lot of regulations that the local communities have to go through to get new waste water systems put in place. Part of SaskWater's management of this is to help the communities with that on going through those regulations and helping them resolve any issues and the like.

**Mr. Krawetz:** — So if we're dealing with a waste water management treatment plant and, you know, whether it be Fort Qu'Appelle or I'm not sure of the names of the other two communities — you might be able to provide them — when those become under the control of SaskWater, what is different with the management and the operation and the construction of that, of one of those three water treatment plants that are under SaskWater's guidance, in terms of whether or not it would have stayed under Fort Qu'Appelle or any other community with just SaskWater rules and regulations in place? What are the differences?

**Hon. Mr. Forbes:** — Well the other two are Nipawin and Pierceland, and so I'll let Mart speak about those specifically and what brought them along.

**Mr. Cram:** — Nipawin is a regional system. It involves more than just a community. So that is part of the reason SaskWater would be involved. It handles the waste water from Nipawin and the village of Codette and the canola crushing facility up in Nipawin that's currently called Bunge Canada, formerly CanAmera Foods. So I think they look to SaskWater for the regional solution in that case.

But as Greg has said, I think environmental concerns, some communities are having problems with discharge of waste. We know the regulations are going to get tighter in waste water as well in coming years and so communities are looking for somebody who has a higher level of expertise. Again as we said before, we not only have a number of certified operators, but we have all the backup behind them and the resources that local

communities just do not have those resources, the small communities. They have their operator and there's nobody else with expertise backing that person up.

**Mr. Krawetz:** — Would there be a definite financial advantage to the community, to be one of the communities that you've just mentioned.

**Mr. Cram:** — A financial advantage?

**Mr. Krawetz:** — Yes.

**Mr. Cram:** — There could be in certain regional situations. We have never tried to sell ourself as the lowest-cost service. We feel that we provide value for service and we would tend to be slightly higher than the community can do it for itself, for the reasons I've talked about — the depth of resources that we have and what we bring to the table.

**Mr. Krawetz:** — When you talk about then a regional delivery of services, are you then talking about SaskWater officials being those trained individuals that will now provide that, not only the advice but the actual work that is being done?

**Mr. Cram:** — That's right.

**Mr. Krawetz:** — I think as far as the questions regarding the numbers that you provided, Mr. Minister, I'm just about through those. I'd just like, I guess, a projection as we look at the '04 stats and we see the numbers there, that we've seen some growth in '05 and '06. What are you seeing, what is SaskWater seeing as projections from where we were in '04 to where we might be in 2012? Do you see continued growth? Revenue-wise I see a significant increase in revenue but that's not necessarily true to the fact that you have a huge number of additional customers. So do you see growth, and what kind of growth would you expect to see for SaskWater?

**Mr. Argue:** — We do see growth over the next number of years. We see it in the drinking water side. We also see what I think is an emergence of more importance on the waste water, so we see perhaps a number of communities coming on in the waste water area over the next few years. We also see that certified operation and maintenance. That's where the local communities own the system themselves but we do the certified operation and maintenance for them. We see that as an important area emerging over the next number of years. You know, we're relatively a small company so, you know, when we add two or three or four customers a year that's significant for us. But we do see those sorts of growth trends over the next number of years.

**Mr. Krawetz:** — One of the other issues that occurred in 2004, Mr. Minister, of course, was the settlement of the SPUDCO [Saskatchewan Potato Utility Development Company] lawsuit and that was an '04 undertaking. I understand that the Government of Saskatchewan and SaskWater reached an out-of-court settlement in 2004 and in fact the investors were paid significantly less than what the lawsuit had initially required.

My question is a very broad-based question, Mr. Minister. Since that '04 settlement with the various plaintiffs, have there

been any residual court costs or any other costs that the taxpayers of the province of Saskatchewan have incurred in settling those affairs of SPUDCO from previous years?

**Hon. Mr. Forbes:** — No, there's been nothing since I last reported, and as far as reviewing the Crown and Central Agencies Committee, that was March 22, '06. So nothing further on that.

**Mr. Krawetz:** — Thank you.

**The Chair:** — The Chair recognizes Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you very much. Question to a couple of different areas. Basically part of the operation of SaskWater is now a commercial enterprise. You provide not only operating systems and services but you also provide I believe design services to communities that are looking at establishing their own plant. Is that the case?

**Hon. Mr. Forbes:** — Just to clarify. It's more of a project management service than a design service.

**Mr. D'Autremont:** — So project management, if a local municipality was putting in a new water system for potable water, they would get the engineering, the design work done through some private firm?

**Hon. Mr. Forbes:** — Yes.

**Mr. D'Autremont:** — And then come to SaskWater and ask you to do the construction. Or they would get the construction done privately and you would simply operate it afterwards?

**Hon. Mr. Forbes:** — I'll get Mart to answer that specifically.

**Mr. Cram:** — Yes. We don't do a lot of this. Other than in the North we do a lot of this, but in the South we don't do a lot, but we do a little bit. But we don't provide design services for communities. Communities hire consultants but sometimes they'll want somebody to oversee the work that the consultant does, sort of lead them through the process, be their project manager for them. And so we'll do that, but we're not doing the day-to-day design. But we would do design review with the consultant and that type of thing as part of our project management.

**Mr. D'Autremont:** — Okay. Thank you.

**Mr. Cram:** — We don't supervise the construction in those cases either.

**Mr. D'Autremont:** — Yes, because I know that was a concern when SaskWater moved from a department and became a commercial Crown was that SaskWater was going to be into the field of competing against the local engineering firms for design projects and for the construction and the operation of those kind of entities. So that's why I was concerned and wondering what was happening in 2004 and since then.

**Mr. Cram:** — I could just add to my earlier comments. As a result of the issues you're talking about, SaskWater very early on entered into a partnership with the Consulting Engineers of

Saskatchewan where we've come to an understanding of what our role is and what their role is. And we have a very good working relationship with them.

**Mr. D'Autremont:** — Okay, thank you. I'd like to go to the minister's opening remarks, and you had a sentence in there, Mr. Minister, dealing with rubber boots and hip waders. I wonder if you could read that again please.

**Hon. Mr. Forbes:** — All right. Just for the record. Okay, here we go. Town and village mayors may see the advantage in being able to put the hip waders and rubber boots away and rely instead on highly trained SaskWater operators when water or waste water problems arise.

**Mr. D'Autremont:** — Okay, thank you. I guess that brings into question though the interpretation you're putting on all those communities and towns and villages that are not operating through SaskWater. Are their operations simply rubber boots and hip waders, which to me has a connotation that they're not up to standard, that their water is not safe and is questionable then? Are you saying that if you don't operate utilizing SaskWater that those communities are endangering the lives of their citizens and anyone who drinks their water?

**Hon. Mr. Forbes:** — Not at all. And I just think of my own experience in Saskatoon this past weekend when the mayor was out visiting the west side. And whenever we have situations, we know that elected officials like to and should be there when issues arise. And so this is a case of when we can be helpful and we can be on the spot and in fact be ahead of the game and provide those elected officials who've decided to take the services of SaskWater . . . But this is not to put any sort of opinion on others because, you know, I know that I'm sure the mayors of the communities that were involved, and the Reeves, are all hands-on people too. So just a little humour into the situation.

**Mr. D'Autremont:** — Well, Mr. Minister, I think your attempt at a little bit of humour was denigrating to all those officials that are out there doing that work. And there's lots of those officials that are out there looking after their communities and doing the best possible job they can with very limited resources. And in a lot of these cases they struggle for those resources with the increased costs of everything that is going. And you talked about raising your prices by 26 per cent one year, 22 per cent another year, 6 per cent last year. There's only a few property tax payers paying that bill and the SaskPower rates keep going up and the SaskEnergy rates keep going up and the fuel prices keep going up. They struggle to pay those bills and I don't think they'd appreciate being told that they're just a rubber boot operation.

So I think the minister needs to consider his words carefully when he's talking about the officials that are doing the best possible job they can to ensure their communities remain viable and safe. And if they're not safe, then there's a department of the Saskatchewan government that is responsible to ensure that their water safety is looked after.

**Hon. Mr. Forbes:** — My comments really are to say that the customers that have come to SaskWater and those can have a bit of peace of mind because there's a strong corporation that's

supporting them.

But it is, and this is a challenge that I know is out there in terms of facing all municipalities, all elected officials and administrators, that in order to provide good quality, safe drinking water, it's a huge challenge that's going to grow. And while I appreciate your take on the humour, but to me I stand by my words because I do think that it's not one that you can see.

And as former minister of Environment we would also have people say, oh, you know, it's not that big of a deal. It is a huge deal. And I know that all mayors and administrators who take their job seriously know that and it's important and it's one that . . . Well we've talked about the tragedies at Walkerton and North Battleford. And it's coming more and more to the front of mind. What other services are important in communities? Water is becoming more and more number one and not an afterthought.

**The Chair:** — Okay. If there are no more questions then it would be in order to have a motion dealing with the consideration of the 2004 report. Mr. Addley, did you have a question?

**Mr. Krawetz:** — Mr. Chair.

**The Chair:** — Mr. Krawetz.

**Mr. Krawetz:** — Mr. Chair, I would move:

That the committee conclude its review of the 2004 Saskatchewan Water Corporation annual report.

**The Chair:** — Thank you. The question before the committee then is the motion moved by Mr. Krawetz:

That the committee conclude its review of the 2004 Saskatchewan Water Corporation annual report.

Is there a discussion on that motion? There being none, then those in favour please indicate. And down hands. And opposed? And that's carried unanimously.

I thank the minister and officials for your attendance and provision of answers to the questions of the members of the committee. I thank as well the representatives of the Provincial Auditor's office for your input on this report, not just at this meeting but previous deliberations on the same report. And I also want to thank the committee members for the deliberations in the best interests of the relationship between SaskWater and the people of Saskatchewan. Mr. D'Autremont.

**Mr. D'Autremont:** — I would like to take the opportunity to thank the minister and his officials for coming in today and to thank the Provincial Auditor and his officials for being here as well. Thank you.

**The Chair:** — And thank you, Mr. D'Autremont. Mr. Minister.

**Hon. Mr. Forbes:** — Yes. I too would like to thank the officials for their attendance and answers today, and the committee too for their very important issue and this corporation. Thank you.

**The Chair:** — Thank you, Mr. Minister. Members of the committee, I advise you that just upon adjournment in a moment, the committee will then adjourn until tomorrow at 1:30, at which point we will consider the 2004-05 and '05-06 annual reports of the Saskatchewan Gaming Corporation. And I wish all members a good rest of the day. Thank you for your attendance and participation.

Meeting stands adjourned.

[The committee adjourned at 14:49.]