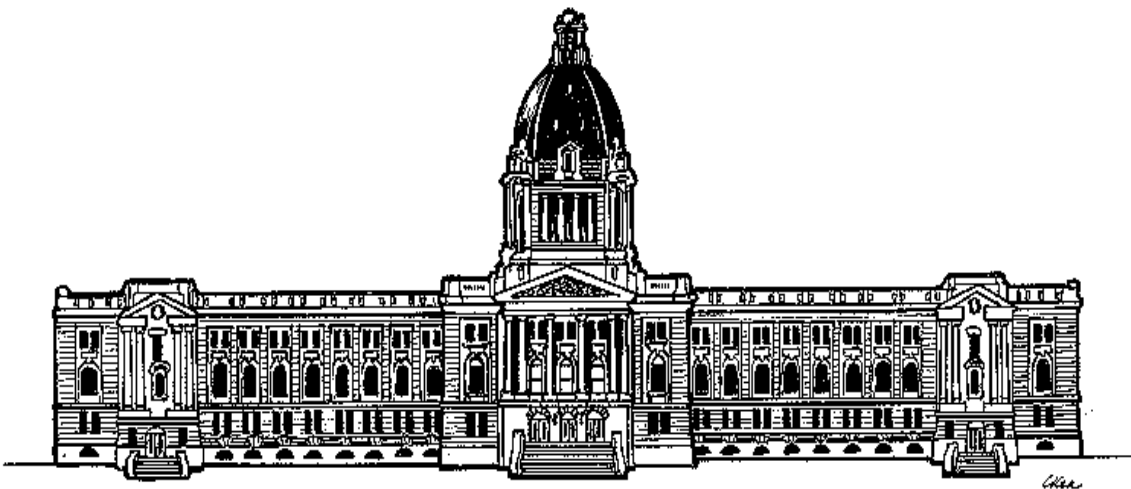




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

Mr. Greg Brkich, Chair
Arm River-Watrous

Ms. Cathy Sproule, Deputy Chair
Saskatoon Nutana

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Melville-Saltcoats

Mr. Darryl Hickie
Prince Albert Carlton

Mr. Gene Makowsky
Regina Dewdney

Mr. Scott Moe
Rosthern-Shellbrook

Mr. Roger Parent
Saskatoon Meewasin

[The committee met at 10:00.]

The Chair: — Good morning. We're here for . . . I want to welcome members here today. I see we have no substitutions. Members have a copy of today's agenda. If members are in agreement, we will proceed with the agenda. We have five documents to table today. I'll read them into the record.

CCA 69/27, Minister Responsible for Crown Investments Corporation: correspondence received from the Hon. Donna Harpauer, Minister Responsible for Crown Investments Corporation of Saskatchewan re CIC Asset Management Inc. investment in Big Sky Farms Inc., dated April 2, 2013.

CCA 70/27, Saskatchewan Power Corporation: NorthPoint Energy Solutions Inc. financial statements for the year ending December 31, 2012.

CCA 71/27, Saskatchewan Power Corporation: Power Corporation superannuation plan annual report, financial statements for the year ending December 31, 2012.

CCA 72/27, Saskatchewan Power Corporation: SaskPower, Shand greenhouse financial statements for the year ending December 31, 2012.

CCA 73/27, Saskatchewan Power Corporation: annual report, consolidated financial statements for the year ended December 31, 2012.

On today's agenda is the consideration of 2008, 2009, 2010, and 2011 annual reports and financial statements for SaskEnergy Incorporated and subsidiaries. I will later introduce the minister, Mr. McMillan, and then I will have him introduce his officials. And if he has a brief opening statement before members start with the questions, thank you. Mr. McMillan.

SaskEnergy

Hon. Mr. McMillan: — Thank you, Mr. Chair, and thank you committee members for reviewing these annual reports with us today. I will make some brief comments and then we'll get directly into questioning. Joining me today are Doug Kelln, president and chief executive officer of SaskEnergy; Dean Reeve, executive vice-president; and Dennis Terry, the vice-president of finance and the chief financial officer for SaskEnergy, as well.

I would like to thank these officials for appearing with us today to enable the committee to ask the relevant questions with the annual reports 2008 to 2011. During this period, economic growth as well as continued diligence related to public safety and effective service delivery were key areas of focus for the corporation.

As this is the second time we're before the committee, I will keep my comments relatively brief to this point, and we would be happy to answer any questions that committee members may have for us.

The Chair: — Thank you, Minister. Ms. Sproule.

Ms. Sproule: — Thank you very much, Mr. Chair, and thank you, Mr. Minister and staff and people from SaskEnergy for coming in today. As you're aware, I am the new kid on the file. And so if it pleases the committee, I would just like to ask some general questions about all the reports. I won't be asking specifically on each annual report, but I will focus my comments on the 2011 report as it seems to be, you know, accumulative anyway. So we'll just go from there.

And I think to begin with then — I've got a lot of paper here — I'm going to start with the 2011 financial statements. And my first question is the nature of the consolidated financial statements. In SaskEnergy's books is that, the consolidated statements, are those the combined statements of SaskEnergy, TransGas, and Bayhurst? So that represents all three companies then? Okay.

I'd like just a little bit of a background or briefing on the debt situation of the corporation. So for example in the consolidated financial statement for 2011, I see there's debt retirement funds are identified a couple times. And basically could you just advise — I think, Dennis, most of these will be for you — the general nature of what that is, and I guess a statement generally about SaskEnergy's debt?

Hon. Mr. McMillan: — Okay, committee members, I'm just going to make a couple of comments and pass the numbers work on to Dennis.

But the point that I think is important to note when we're looking at these annual reports in a group is that in 2009 we used the GAAP [generally accepted accounting principles] accounting principles and in 2010, we switched to IFRS [international financial reporting standards]. And there was a fundamental shift as to how things are accounted for between those two years, and where numbers don't necessarily join up, that is usually the transition year. I believe that in the years previous to that we were doing both IFRS and GAAP so that we could have consistent number transition back and forth, so we can also follow up with a previous year, 2009, IFRS number to see how the two mesh together.

With that, I would ask Dennis to maybe comment on the numbers and the transition through that period.

Mr. Terry: — Okay, I believe — Dennis Terry, vice-president of finance, chief financial officer, for the record — I believe your first question pertained to the sinking funds and the funds that we put away in anticipation of debt maturities. So if you do go to the financial statements for 2011, on the balance sheet or statement of financial position you will see two assets: first, debt retirement fund in the current amount of \$6 million; and then in the long-term portion, debt retirement funds of \$67 million.

What that pertains to is, we are required in collaboration with the Ministry of Finance to put away roughly 1 per cent of the maturities of the debt over time such that funds are available when those funds do mature, when that debt does mature, that we have cash set aside. And that's actually part and parcel of the legislative requirements and the bonds that are issued to the third parties involved. So we do set aside funds, sinking funds

they're called, administered by the Ministry of Finance, as I said. So that's the nature of that particular asset.

Maybe I'll pause there and see if that . . .

Ms. Sproule: — Yes, thank you. When you say the Ministry of Finance, what legislation is that? *The Financial Administration Act*?

Mr. Terry: — *The Financial Administration Act*, I believe. Now I could . . . That's not my area of expertise, but . . .

Ms. Sproule: — No, that's fine. I'm just trying to get a handle on this. So debt retirement funds, if you could explain just a little bit more what a sinking fund in a general sense is so I understand the concept.

Mr. Terry: — What we are required is actually to forward funds on an annual basis to the Ministry of Finance. So that's what this asset represents. Those funds are set aside by the Ministry of Finance and actually they're pooled with other funds held by the Ministry of Finance on behalf of the Crown corporations. That money is sequestered. It's invested for the future to coincide with the maturity of the actual bonds and debt, so it shows as an asset on our statement of financial position until such time as that debt matures. When the debt matures, we have to pay out the debt obviously, the bond. That money is flowed to the Ministry of Finance, and they've already got that sinking fund on deposit there which they use to offset the debt at that point in time.

Ms. Sproule: — Okay, thank you. And just one more question on that. Like under current assets you have 6 million in debt retirement funds as of December 31st, 2011, and then there's another line further down. I mention both, but what's the difference between the two?

Mr. Terry: — Yes, the \$6 million would represent the amount due in the next fiscal year. So it's listed as a current asset. It's the same fund, it's just we break out for financial statement purposes, as we're required to, that portion which will be due and liquidated in the following fiscal year.

So that's what the 6 million . . . And actually if you look further down, you will see a current portion of long-term debt of 50 million. That's what that 6 million would be, monies that have been set aside to help offset the maturity in the next fiscal year. So that's why the asset gets broken down. Really there's, between the two, \$6 million in current and 67 in long-term to pertain to all the rest of the debt. Between the two, there's \$73 million worth of funds set aside, as I mentioned, with the Ministry of Finance.

Ms. Sproule: — Okay. I note that the liability is much larger than the asset.

Mr. Terry: — Yes. Yes. The requirement — then again, this ties back to the bond issued to the marketplace initially — that we are required to put away 1 per cent of the maturity every year. So if by the time we get to, say, a 20-year bond, we've put away 20 per cent of the maturity. The rest is either subject to financing or internal cash flows.

Ms. Sproule: — Okay, so moving down then to the liabilities, the short-term debt . . . Before I do that, I have another question and that is, how are dividends paid to the general revenues of the province? And where do they show up on your financial statements?

Hon. Mr. McMillan: — Mr. Chair, the precise place to find it would be on page 45, under the consolidated statement of changes in equity, under dividends. And for the year currently under discussion, it was 39 million. The process as to where those dividends are paid, they would be paid to Crown Investments Corporation on an annual basis.

All the Crowns . . . SaskEnergy puts together a business plan for the year. Their business plan entitles their capital expenditures, all the pieces they expect to do in a given year. And they have a targeted debt/equity ratio which is also approved by the CIC [Crown Investments Corporation of Saskatchewan] board. In that business plan, they work to ensure that their debt/equity ratio targets are reasonable and that the dividend is a reasonable dividend to get to those targets.

Ms. Sproule: — Thank you, Mr. Minister. And you referenced page 45, and my consolidated statement only goes to page 32. So I'm not sure where to locate it.

Mr. Terry: — You're looking at the audited financial statements that appear. The notes, page we're referring to was in the actual annual report itself.

Ms. Sproule: — Oh, I'm sorry.

Mr. Terry: — Yes.

Ms. Sproule: — Okay. Thank you. So this is page 45. Do I have the right year? Consolidated statement of changes in equity, is that the correct page?

Mr. Terry: — Correct.

Ms. Sproule: — So there's a balance, total comprehensive . . . oh, there's the dividends there. So this shows as a minus 49 million at the beginning, or beginning of January 2010. So where's the amount that was actually paid?

Hon. Mr. McMillan: — If I could jump in?

Ms. Sproule: — Yes.

Hon. Mr. McMillan: — The 49 million is the 2010 number. If you go down to the next column, it is the 2011. And that's the 39 million.

Ms. Sproule: — Okay. Thank you for your patience. I found it.

Hon. Mr. McMillan: — No problem.

Ms. Sproule: — That's good. Okay. So I know you just released your 2012 annual report. Do you recall off the top of your head what the dividend is for 2012? Just so I can get it in balance. No? Okay.

The Chair: — Yes. And I'll just . . . We're just dealing with

the '08, '09, '10, '11.

Ms. Sproule: — Yes, I understand. I was just trying to get a sense of where we're at.

The Chair: — Okay.

Ms. Sproule: — Then the only question I would have on that is, why was there a \$10 million drop between those two years?

[10:15]

Hon. Mr. McMillan: — The principle at play here is that when we target our debt/equity ratio and, keeping it in line with the targets put forward by CIC, if we have a year with substantial capital expenditure, that then has effects on what dividends can be taken to keep the ratio. In the years between 2010-2011, we saw capital expenditures grow from 144 million in 2010 to 172 in 2011. And in the business plan put forward, it contemplates the work that would be under way in any given year, and you work backwards to ensure it remains at a healthy level.

Ms. Sproule: — Thank you. So are those business plans on your website as well? Like can a person see what the projections are for the future years?

Hon. Mr. McMillan: — The business case that goes before the CIC board is not a public document, but the information that we're speaking of, if you look at page 26 of the annual report, it shows the business plan for capital expenditures in years going forward. Also on the website is SaskEnergy's balanced scorecard targets that they put forward and make public. That's also available.

Ms. Sproule: — So I'm looking at page 26 of the 2011 report, and I don't see any mention of capital there, so could you show me where it is? Or is it just the total?

Hon. Mr. McMillan: — Mr. Chair, I raise your attention to page 29. It has the core growth component broke out of the total capital expenditure, and it forecasts that out to 2014. Now what core growth is, is just what you would think. It's core growth. It doesn't include the integrity program spending nor the support-related capital. It's on the growth side. Now if you would like us to provide to the committee the global numbers, we can certainly do that as well.

Ms. Sproule: — No. I thank the minister for that response and that's sufficient for this question. Thank you.

I think for the moment then I am going to leave the consolidated statements and just turn to some general questions based on the annual report, starting with page 15 of the 2011 report, annual report. And I guess the first question, I just wanted a little bit of explanation of Bayhurst, and basically why the subsidiary was needed. Oh yes I have another question I just remembered and wanted to ask, but I'll save that. So just tell me a little bit, if you can, about Bayhurst, and why SaskEnergy saw a need for a subsidiary in that context. What is Bayhurst? I'm just looking at the second paragraph on page 15.

Hon. Mr. McMillan: — One more moment, Mr. Chair.

Mr. Chair, I'm going to go back a few decades. Bayhurst is a couple of decades or more old at this point. When it was first set up, my understanding is it was to handle the royalties. Traditionally SaskPower had a certain amount of production and Saskoil was set up. And when those lands were sold to Saskoil, the royalties were not transferred. They were transferred to SaskEnergy who set up Bayhurst to handle the royalties that needed to be collected from those lands.

Since that time, Bayhurst has been the branch of the company that has still handled the royalties. It also has done the gas marketing as a large part of the business that that branch of the company does, as well as the joint ventures, joint ventures at Kisbey and with Faro are the two that I would highlight for the committee.

Ms. Sproule: — I'm sorry. Kiseby and . . .

Hon. Mr. McMillan: — And Faro Energy. It's a gas storage joint venture.

Ms. Sproule: — And Kiseby is gas storage as well?

Hon. Mr. McMillan: — It's a processing plant. With the substantial oil production and the gas that comes on with it, instead of flaring it we're attempting to capture as much of it as possible, therefore reducing greenhouse gas emissions and capture the energy as well. It's a joint venture with Atco company.

Ms. Sproule: — Sorry, which company?

Hon. Mr. McMillan: — Atco Gas.

Ms. Sproule: — Atco Gas. And who is Faro a joint venture with?

Hon. Mr. McMillan: — I'll have Doug Kelln speak to that.

Mr. Kelln: — Doug Kelln, president and CEO [chief executive officer]. The Faro Energy is actually the Alberta company that we're joint venturing with on a storage field development that's just south of Rosetown.

Ms. Sproule: — Rosetown, did you say? Is that operational right now?

Mr. Kelln: — We just made initial steps in . . . We started the process in 2011 and right now we're just in the . . . Really, the operational side of things is just getting going.

Ms. Sproule: — Thank you for that. So the Bayhurst to TransCanada Pipeline loop that is described on page 15 of the 2011 report, I just wonder if you could tell me where that loop is, where it's connecting with the TCPL [TransCanada Pipelines Ltd.] line. Where's the geographic location?

Mr. Kelln: — That loop is approximately 50 kilometres east of the Alberta border. So if you visualize approximately where the No. 1 Highway is, it's about 80 kilometres north of that highway and 50 kilometres east of the Alberta border. And it has the role of being able to, when gas comes in from Alberta which is a portion of the supply needed to serve the province, it

aids moving the gas north up into the Kindersley area which ultimately serves Kindersley, Saskatoon, Biggar, those different areas of the northern part of our province.

Ms. Sproule: — So would it be fair to say that your goal then when you have needs to import from other provinces is you would have pipelines supplying areas where you don't have underground storage? Is that sort of a very general approach?

Mr. Kelln: — It is a combination. If you think of Saskatoon and area, we combine pipelines with storage facilities. So when it's 40 below, we rely on these storage caverns to assist in the pipelines to make sure that everybody stays warm. In the summer, we use those pipelines to meet a much lower load, but we also then inject gas into that storage. So we're always looking at, do we have enough pipeline capacity? And we adjust as we go.

Ms. Sproule: — I did have a couple of questions about pipelines. I noted that the Provincial Auditor had made some comments in 2012 on pipeline regulation. And my first question is: what laws regulate the pipelines that SaskEnergy is responsible for?

Hon. Mr. McMillan: — Any pipeline that we have in-province would fall under *The Pipelines Act* of Energy and Resources. We're also responsible under any relevant environment, Ministry of Environment Act. If we have a pipeline that crosses a provincial border or into the United States, then the National Energy Board then becomes the overseer and we are responsible to be in compliance with any regulation or oversight they would have.

Ms. Sproule: — So the auditor's comments then regarding improvements in pipelines, would that have a serious impact on SaskEnergy? I guess depending on what the ministry chooses to do.

[10:30]

Hon. Mr. McMillan: — SaskEnergy obviously meets and follows any regulatory and oversight requirement of any of the agencies that we work with, be that Energy and Resources, be that National Energy Board. We also follow industry best practices above and beyond any requirement of any of the jurisdictions that we work in, and we have an excellent safety record of our pipeline system. And we continue to put more money into our integrity work and to our testing and we think that that's a key to our business.

Ms. Sproule: — Thank you, Mr. Minister. I just wondered if there was any . . . I guess it remains to be seen. It may be questioning, a line of questioning that would be more appropriate at a later date. But certainly the way that your ministry chooses to implement the recommendations of the auditor, I'm assuming will have an impact on the programs at SaskEnergy. But I will save that for a later date once we see what your ministry decides to do with that report.

Okay. There is a question I meant to ask earlier and it goes back to finances. And just basically if you could tell me what the acronym IFRS stands for and the difference between that and GAAP on a very general, basic level?

Hon. Mr. McMillan: — International financial reporting standard. And the differences between GAAP and IFRS, I'm guessing that is about a 20-hour conversation with an accountant. But if Dennis could condense it for us, that would be terrific.

Ms. Sproule: — You have three minutes.

Mr. Terry: — Okay, thank you. Actually I'll boil it down to one fundamental difference between . . . Okay, I'll back up. Two, two fundamental differences between historical Canadian GAAP and the switch to IFRS as it pertains to our business. So I'll focus in just, pertains to our business.

One, pertain to the treatment of customer contributions. In the past, where a customer put X amount of funds towards gaining facilities at their premise, we used to take that money and defer it and recognize it over many years — basically the same number of years as the asset itself. So that money basically got deferred and amortized into income over many years.

What IFRS required us to do, after much investigation, was to basically recognize that revenue upfront. So now those customer contributions hit earnings in the year we receive the money or the project is completed.

In the case of TransGas, we have large projects that span multiple years. The funds that customers contribute towards that capital build do get recognized but now when the project is done. Okay? So there's still an element of defer and amortize there with IFRS.

The second component that would have changed fundamentally for us and many other companies as well with the adoption of IFRS was the requirement to look at our asset base and look at components. So for example, in the past we would have depreciated assets over a lump sum on a given plant.

For example, Success, Saskatchewan, we would have depreciated that over a number of years. Now what IFRS required us to do is go back and break that plant into components so the compressor would have one useful life, the building would have another useful life, the outside plant beyond that would have a different life. So IFRS really caused us to back up and analyze the asset base, break it up into components, and assign different useful lives to each of the assets — which was a lot of work, by the way.

Ms. Sproule: — And that would be. Yes, okay. Thank you for that. I just had a question too about SaskEnergy. And I note that there's a company called Northland that's producing power with natural gas and selling it to SaskPower. I think they're beginning this year operations. Is there anything in your capital planning for the years related to producing power with natural gas? Is that in your capital plans?

Hon. Mr. McMillan: — To the Northland Power project, most, almost all of that capital work would have been done in 2012. But there were three power projects in the years that we are discussing today: Tantallon; the Brada, which is the other, the peaking plant in North Battleford; and the work at Queen Elizabeth power station. Those figures would largely be reflected in these years under discussion.

And to your previous question about how we treat customer contributions, those customer contributions from any of the power producers that is requiring the work would be reflected here as well, and then the amortization would start from there.

Ms. Sproule: — So for the three power projects that you referenced, I'm just going to make sure I get them correct. So Tantallon and then Brada?

Hon. Mr. McMillan: — Yes.

Ms. Sproule: — And Queen Elizabeth in Saskatoon. What is SaskEnergy's connection? Is SaskEnergy actually building those? Is it a retrofit for Q.E.? Or are these brand new operations?

Hon. Mr. McMillan: — I'll have Doug walk us through the technical pieces on that.

Mr. Kelln: — Thank you. Queen Elizabeth was a situation where, as their load grew, as they decided to produce more electricity from that location, we had to do some system reinforcement in the area around Saskatoon to make sure the supply was available. For Brada and Tantallon, it was really extending a pipeline off our existing infrastructure to those locations. So there was some new pipeline laterals that needed to be constructed. In all of the cases, there's also station work. So once a line gets to the site, we have to build a station that then provides the right pressure and those kind of things to the customer.

Ms. Sproule: — And if I understand correctly, the pipeline work would be TransGas? Is that out of the TransGas operation?

Mr. Kelln: — That's correct. As a rule these are all major loads, so they need high pressure pipeline supply. So TransGas would provide the pipeline facilities.

In some cases they want regulated gas; they want it at a low pressure, a lower pressure. And that's where SaskEnergy would get involved as well, but we do it in a coordinated fashion. But it's seamless to the customer.

Ms. Sproule: — Right. And for the purchase of natural gas, is SaskEnergy the only vendor of natural gas in Saskatchewan or are there other companies that would sell gas to these operations?

Hon. Mr. McMillan: — In all these cases we are just the transporter of the product. They would be buying from a vendor selling the gas at some other point, and we would charge them a fee for bringing it to their facility through our network.

Ms. Sproule: — Thank you. So the natural gas that SaskEnergy is responsible for is basically for residential distribution, is that . . . like in your underground caverns.

Hon. Mr. McMillan: — Industrial purchasers almost always buy their own gas, and then they would pay us for the transportation. They may also contract some storage services from us as well. On the residential and commercial, they are largely buying, purchasing gas that has come through our

system that we purchase first.

Ms. Sproule: — Okay. Thank you. Just today in the news there was a big sale of Suncor assets to some companies. How do those types of private . . . I guess it's a private sale of their business. How does that factor into the business that SaskEnergy has been conducting in the years in question? Is that just part of how you purchase gas or . . .

Hon. Mr. McMillan: — We have long-term purchase agreements with many vendors of gas. In those agreements oftentimes the assets will change hands. It is something that hasn't, in the years under discussion, there has been no conflicts or challenges with transitions of that nature.

Ms. Sproule: — Thank you for that. I'd like to move on now to the workforce. At page 15 of your 2011 report, you describe the negotiation of a collective bargaining agreement. I'm just wondering, what is the number of workforce for all the years in question, starting in 2008? What is the SaskEnergy workforce 2008, 2009, 2010, and '11?

Hon. Mr. McMillan: — The numbers are in 2008 there were 1,080. In 2009 there was 1,128. In 2010 there was 1,110; and in 2011, 1,085.

Ms. Sproule: — Okay. I guess my question then is, given that's a fairly stable number over four years, and yet I understand that the upgrades, there's been significant increase in demand for services, so are you contracting out any work? And how many contracted positions would there be outside of . . . Like I'm assuming this is the people within the union? Or do you have that breakdown?

Hon. Mr. McMillan: — Of the numbers I gave you, the number that would be unionized and numbers that would be management? Roughly a 75 per cent split; 75 per cent would be unionized of each of those numbers in each of those years.

Ms. Sproule: — Okay. And how much work is contracted out to non-unionized workers?

[10:45]

Hon. Mr. McMillan: — Okay, when we look at the utilization of contractors by SaskEnergy and the ability to maintain a relatively stable workforce over that period of time, that has been achieved by finding productivity gains with their own employment of about 12 per cent over the time frames under discussion today. With that, an increased amount of work has been contracted out as well. In 2008, 37.81 million; in 2009, 49.19; in 2010, 78.51; and in 2011, 77.12 million was contracted out for largely programming type services is what we utilize contracts for.

Ms. Sproule: — Could you elaborate a bit on what you mean by programming types of services?

Hon. Mr. McMillan: — Absolutely. The integrity work that has ramped up substantially in the last few years to ensure that the safety and reliability of our lines, doing inspections in South Regina, traditionally by code they have to be done every five years, an actual surveillance of the area. With the type of soils

we have in South Regina and the incident of a couple years ago, we're now doing it every two weeks. And that is a service that for a long period of time has been contracted to a contractor. It still is, but the nature of the importance of that work, we've now increased the frequency.

We also utilize contractors in some of our . . . In that same area, we've gone in and retrofitted a type of fitting that was put in from the '60s to the '80s that was a compression type fitting. We utilize contractors to go in and retrofit a substantial number of those fittings where we thought there was challenges. It's the type of work where it's taking out one fitting, putting in a new fitting, and that has been relatively successful as well.

Ms. Sproule: — Given that it looks like the amount of contract work has almost doubled in four years, is there any reason why these types of jobs wouldn't be permanent jobs within the organization? Do you foresee an increase in this kind of contract work? Or, you know, given the doubling, why has the corporation chosen not to just simply increase the workforce rather than dealing with contractors?

Hon. Mr. McMillan: — Consistent with the long-standing practice of SaskEnergy of utilizing contracts where there's a good business case and it makes financial sense to do so, that principle is largely carried forward into the years under discussion. When I speak of some of the work that has been contracted in the last few years, it may require fairly specialized equipment which we would only need for a period of time, and it would make . . . The business case would be far better to contract a company that may utilize that equipment throughout the year, as opposed to purchasing a piece of equipment for a relatively short time frame for our use, or many other cases that where the business case makes sense to bring in a third party.

Ms. Sproule: — Yes. I guess you can kind of figure out where I'm going here. I mean certainly permanent full-time secure jobs are very important to the workers. And I see you are up for collective bargaining again this year. So in that bargaining that happened, was there concern on the part of the union in relation to this trend, or is that something you can comment on?

Hon. Mr. McMillan: — The collective bargaining is currently ongoing now. And when it comes to what work is going to be contracted and what'll be done in-house, that is something that is an ongoing discussion between management and the union to ensure that everybody is upfront and well aware of what work is going on. And there are many jobs at SaskEnergy, crucial that they are done by SaskEnergy employees, and that work certainly has continued to and will continue to be done in-house by SaskEnergy.

Ms. Sproule: — Thank you. I'm just going now to page 20 of the 2011 annual report and just had some questions about the sales and purchases of gas. In particular there's a comment that SaskEnergy provides with your larger end-use customers a non-regulated contract sale. That's just at the very top of the page. What is a non-regulated contract sale?

Hon. Mr. McMillan: — I guess the short answer is any sale that would fall within the mandate of the rate review panel or the Act that governs that would be a regulated sale. If it is not governed by the rate review panel, it would be unregulated.

What's referenced here is most industrials have their own suppliers and purchase their own supplies. But a small percentage of them on occasion will ask SaskEnergy if they have supply and will purchase it from them, and that is what's reflected on this page. And the rate review panel does not review any of those transactions.

Ms. Sproule: — And what percentage then . . . In 2011 there was gas marketing sales of \$275 million. Is that total or is that the non-regulated contract sales?

Hon. Mr. McMillan: — That would be total.

Ms. Sproule: — So what portion of that would be the non-regulated contract sales?

Hon. Mr. McMillan: — Maybe 1 per cent.

Ms. Sproule: — Oh, that low. Okay, thank you. On page 21 there's a comment — of the 2011 annual report — there's a comment on the second column at the top saying "During the year, the Corporation introduced a NIT to TEP receipt service as a response to the declining Saskatchewan natural gas production." And it's quite a significant decline if looking at the chart just previous. What do those acronyms stand for?

Hon. Mr. McMillan: — I'm going to ask Doug to answer that one.

Mr. Kelln: — I'll give you the two acronyms. The Nova Inventory Transfer is what NIT is and I'll explain what it is. It is the trading point in Alberta for natural gas. So this is a trading point. This is where the producers of natural gas come to sell their gas, and it's where the end-users take the gas away.

Ms. Sproule: — Kind of like a farmers' market for gas.

Mr. Kelln: — There we go. And the TEP is the TransGas Energy Pool, which is the Saskatchewan marketplace trading point. What we've had to do, and this is something that's been asked by our customers to arrange, is for us to make it easy for end-users in the province to be able to access Alberta's supply as the amount of supply available in the province has decreased. That decrease in supply is related to the price of natural gas that has been very attractive to consumers but has got to a very low state that you do not see the development of natural gas in Western Canada. Certainly we're not alone. Conventional natural gas has stopped being drilled. So the reality of that is that there's less natural gas, conventional natural gas available in Saskatchewan; therefore we need to arrange for more supply to come in from Alberta.

Ms. Sproule: — And when you say your end-users are looking for access to the Alberta supply, that's not the average customer that's receiving natural gas in their homes, right?

Mr. Kelln: — Again SaskEnergy arranges for supply for the residential and commercial customers. A portion of SaskEnergy's portfolio now has Alberta supply in it because we are having to access some of that supply. The majority is still Saskatchewan producers.

Hon. Mr. McMillan: — I would add to that that I don't think

the customers in their home look to Alberta for their gas, but they look for the price point that's only available with the types of plays that are going on in Alberta and not Saskatchewan.

Ms. Sproule: — Okay, thanks. What concerns would SaskEnergy have with that decline of production in Saskatchewan? Is that concerning to the company?

Hon. Mr. McMillan: — It's something that in our planning and in our capital budgets we need to ensure that we're looking out and looking forward to be ready for what may come in price changes, and what that may drive in production volumes in each place. So yes, we need to be prepared, and we need to ensure that the infrastructure can accommodate those things.

Ms. Sproule: — Well I guess more supply as well. I mean if prices increase suddenly, which I don't suppose you would know if they're going to or not or have a good sense of when they will, it would be in relation to supply. Is that what would drive a price increase?

Hon. Mr. McMillan: — Well I think we have seen the price go from \$12 a gigajoule or higher, maybe at the start of this reporting period of discussion, to by the end of it, it was down to four. And that changed the nature of where the supply, where you can produce \$4 gas is now where it's coming from, which is great for the customer paying 4 instead of 12. You may pay a slightly higher rate on the transportation of it, but it still comes out as a net benefit substantially favouring the customer.

Ms. Sproule: — Okay. Thank you. I just wanted to move then to page 27 of that 2011 report where you're talking about some of the programs that SaskEnergy develops for energy efficiency and rebates. And I noticed that in 2011 there was a significant drop in customers accessing those rebates or those programs. Do you have any comment on why does the corporation think those numbers dropped?

Hon. Mr. McMillan: — The drop was about 1,700 customers between 2010-2011, and that was a program that we were in conjunction with a program that the federal government had offered as well. The federal government sunset theirs at that point.

Ms. Sproule: — So basically you could attribute the decline in terms of the cancellation of the federal program.

Hon. Mr. McMillan: — I think that that certainly would have contributed.

Ms. Sproule: — I know I certainly availed myself of the benefits of that program. So it's a good program. Any plans then on the part of SaskEnergy to replace the loss from the federal government and ramp it up provincially?

Hon. Mr. McMillan: — In these years under discussion, we carried on with the program from our point of view, but customers no longer had access to the federal one.

[11:00]

Ms. Sproule: — Thank you. If I'm critic long enough, I'll ask that question next year. All right. Carrying on then. On page 35,

34 and 35, it's about the workforce portion of the annual report, and there's something discussed there about . . . Well first of all, I'll start with the employee engagement. And you indicated in 2011 you did a survey, and you referenced the Hay norm. And I just would like to know what Hay norm is. It's not calling somebody for a beer, I assume.

Hon. Mr. McMillan: — We utilize the Hay Group to do our employee engagement work to ensure that we're doing our part and have motivated employees that value their company and all the good things that we want in a progressive company like SaskEnergy. So the Hay Group is who does that work for us, and their norm would be their baseline that we would be compared to.

Ms. Sproule: — And I assume they're a popular choice for many corporate Crown agencies? Okay. Thank you.

On terms of physical safety, you have some good indicators there of favourable results on the PVCRC, which I think is the preventable vehicle collision frequency rates, but I think there was some concerns about . . . Which one was it? Sorry, it may not be in this location. I know I saw some concerns with some of the results being not as favourable as the company wanted them to be. Now maybe you could help me out. I know there was one quartile where you didn't reach your goals. Maybe I can locate that if I keep looking, but if you can help me out.

Hon. Mr. McMillan: — Doug will answer.

Mr. Kelln: — During the period, the roll up is reportable injury rate and, just to give you the background on it, that is both medical aids and lost time injuries, and we track it in that manner. Safety is the number one thing that SaskEnergy does every day, and it starts with employee safety and certainly is also part of public safety. So for us we want to be very much leading in that category. And you know, unless we're right at the top of where we feel our peer companies are, which is at a very high standard, we're just not happy, and we want to get there.

So it's something that you annually see us report on. We have had I think a pretty consistent record relative to safety, and we're going to keep working at it. During this time frame at the end of this period, we did become a charter member of the Mission: Zero provincial initiative as well.

Ms. Sproule: — Were there any workplace fatalities in the years that were related to this period of time?

Mr. Kelln: — No.

Ms. Sproule: — No. All right. On the next column on page 35, there's a discussion about the company . . . It's the second last paragraph, midway through, and you're talking about your resourcing strategy. You “. . . continue to highlight technology integration, process improvement, Crown collaboration, utilization of external expertise and employee leadership.” I think we talked about that a little bit in terms of external expertise in the contracting out.

And then it goes on to say, “The company will seek to capitalize on opportunities created by regional trade

agreements, including the New West Partnership.” Were there any opportunities capitalized upon by the company in the time frame that we’re talking about?

Hon. Mr. McMillan: — In the time frame that is before us, we believe that the New West Partnership was enacted and was brought into . . . that SaskEnergy is in compliance with the procurement provisions under the New West Partnership. We think that that has and continues to ensure that we have a competitive bid process and competitive bids that come in. We would also note that Saskatchewan contractors still fare extremely well with the services they provide to our company.

Ms. Sproule: — And that’s good to hear. Okay. Thank you. Page 37, there’s a discussion of risk management, and the first question I would have in relation to that is the regulatory risk, if you could explain a little bit about the risk involved with the rate process. I assume it’s a financial risk?

Hon. Mr. McMillan: — The risk referenced on that page is directly connected to the risk of when of you have a regulated commodity, being able to explain and articulate the costs. And as those change, certainly in a volatile commodity like natural gas, as we discussed earlier, as the price goes down, it’s great for the customer. They may see their rate of their transmission increase slightly, but that’s far more than offset by the decrease in the commodity price.

But the risk to the company is that when it’s a regulated rate, that has to be explained and has to be approved by a regulator. If it isn’t, even though the product is being carried a longer distance — we believe that the costs are justified — it would damage the financial health of the company. So we identify it as a risk, but it’s something that, a responsibility we take very seriously and have worked very collaboratively with the rate review panel.

Ms. Sproule: — Thank you. So it is a financial risk that . . .

Hon. Mr. McMillan: — Correct.

Ms. Sproule: — And if you could just tell me a little bit about the panel itself. And is that SRRP, is that the panel? The Saskatchewan rate review panel? Is that correct?

Hon. Mr. McMillan: — Correct.

Ms. Sproule: — And do they review the rates for all the utilities or is it specifically SaskEnergy?

Hon. Mr. McMillan: — All the regulated utilities, correct.

Ms. Sproule: — Okay. Thank you for your patience with my questions. I’m just warming up for the 2012 budget reviews or financial statements. Special interests is further down the page, and I note that the comment there was in relation to special interest groups making claims and opposing projects in regulatory and legal forums. Were there any special interest groups that raised concerns in the fiscal period in question?

Hon. Mr. McMillan: — No specific group or specific challenge, but it is something that SaskEnergy has identified as a risk and, because it’s identified as a risk, have done more

legwork, for lack of a better term, to when they put forward proposals, have alternate routes and ensuring that they’ve done everything they can to find the safest, most efficient, most cost-effective route forward, and that the parties that would be involved are treated in a very respectful manner.

Ms. Sproule: — That just leads to my next question then. Is there any litigation that SaskEnergy is subject to in this fiscal period, those four years?

Hon. Mr. McMillan: — Three that I could highlight for the committee. One stemming from the south Regina incident that happened two years ago. One following the Nipawin — what would that be — incident. How many years ago? Five years ago. And one related to the landlord of the SaskEnergy head office in downtown Regina.

Ms. Sproule: — And what year was that statement of claim filed, the landlord one?

Hon. Mr. McMillan: — 2011.

Ms. Sproule: — Thank you. Credit risk is identified on page 37. And people don’t pay their bills. So where in the consolidated financial statement could I find sort of where the debt — what’s the word? — creditworthy, where people have defaulted basically? Where do you write those off? How much is it?

Hon. Mr. McMillan: — On page 55 under 6, trade and other receivables, the line, allowance for doubtful accounts at \$2 million.

Ms. Sproule: — What’s the percentage of that 2 million in relation to residential versus industrial?

Hon. Mr. McMillan: — Almost entirely on residential and commercial. Next to nothing on the industrial side.

Ms. Sproule: — All right, thank you. Moving on, there’s the environmental risk. And I find a curious statement in the middle of that paragraph, the bottom of page 37, where it said, federal greenhouse gas conventions present risk to SaskEnergy. And perhaps you can explain how conventions create a risk. I thought they were a good thing.

Hon. Mr. McMillan: — The nature of the company is one that moves gas, moves our product over long distances. To do that, we utilize a lot of horsepower and it takes energy to move natural gas. So we recognize in our statements that this, as the world around greenhouse gases changes and hard numbers start getting put in place, it is something that we’re going to have to be proactive and face head-on.

[11:15]

A couple of positives to report are we talked earlier about the Kisbey gas plant, which is actually capturing what was once just vented CO₂ emissions and adding value to them. Not on our transmission side, but I think it’s still a net positive for our province.

On the one example for our transmission which is exactly

relatable is at Rosetown, heat capture — what would be the right terminology, heat capture? — waste heat capture facilities have been installed on our pumping stations, which actually captures the waste heat and turns it back into electricity and is one of the positive things that we can do as we look for solutions and ways to do things more efficiently.

Ms. Sproule: — Thank you for that. That's helpful. I think, going back to that statement though in the annual report, I still don't understand why conventions would present a risk to the company. Is it a financial risk?

Hon. Mr. McMillan: — We're using the word convention as a way of symbolic future regulation, that if we see as a risk a future regulation that will impose a certain action or direction on our company, we believe that we need to be prepared for that. And that's why we state it. So that's what the use of the word convention is used for.

Ms. Sproule: — Yes, that's about the word convention. To me I'm seeing this as more a financial risk in terms of regulation. You know, it's more a regulatory risk than an environmental risk. It's actually a positive thing for the environment. So I'm not going to go on any more about that. But it's a curious statement.

Did you track your greenhouse gas emissions in the years and, if so, could you give me those figures please?

Hon. Mr. McMillan: — I would make the committee aware of page 26. At near the bottom of it, it's greenhouse gas reductions and a per cent of the Go Green regulatory target achieved. So in 2011 this was new, and 71 per cent of that target was achieved. The very last asterisks at the bottom, no. 4, it spells it out a little further. And it states that the 2011 results include CO₂ reductions of 5850 tonnes associated with the TransGas Rosetown waste heat recovery project.

Ms. Sproule: — I see. It goes on to indicate that those credits actually belong to SaskPower because they're purchasing the power that's coming out of the waste recovery project. In terms of the reductions, you showed it in a percentage. Do you have any numbers, actual numbers of greenhouse gas emissions?

Hon. Mr. McMillan: — We don't have those in front of us, but we can certainly provide those to the committee.

Ms. Sproule: — That would be helpful. Thank you. So you only started this in 2010 or 2011?

Hon. Mr. McMillan: — That's correct.

Ms. Sproule: — 2011.

Hon. Mr. McMillan: — We have been tracking the greenhouse gas measure for a period of time. New to 2011 is the Go Green numbers that we're comparing as our target. That's the new to 2011.

Ms. Sproule: — So the targets were new?

Hon. Mr. McMillan: — Yes.

Ms. Sproule: — All right. Then if possible, I would appreciate any information you have on greenhouse gas emissions on the part of the corporation from 2008 to 2011. And if possible, a breakdown between the actual emissions of the company in your production, or in your operations, and then if you have any numbers related to residential use of natural gas — I don't know if you would have that or not — but whatever information you do have in terms of greenhouse gas emissions.

Hon. Mr. McMillan: — We'll endeavour to get you something fairly close on . . . We can certainly get you the SaskEnergy stuff.

Ms. Sproule: — Okay.

Hon. Mr. McMillan: — Presumably we can give you the volume of gas going to residential and I think would be fairly easy calculation from there.

Ms. Sproule: — Thank you. That would be helpful. All right. On page 38 on relation to the economy, just a curious question here: "SaskEnergy currently serves more than 92 per cent of all communities in Saskatchewan." Why not 100 per cent? Where are the other eight?

Hon. Mr. McMillan: — It's I guess an infrastructure challenge. And obviously the ones that are closest to the mainline are serviced, and the further you get out, the more challenging, more cost prohibitive it gets. That's on a community basis as well as on farms and ranches, that many are served but some of those are not as well. I happen to own one of those that is not serviced by natural gas, but it's one of the challenges I guess of having a province like ours.

Ms. Sproule: — Okay. So 90 per cent of all communities have access. What percentage of residences would be served by natural gas for heating?

Hon. Mr. McMillan: — We don't have the exact percentage here, but we believe it's roughly about the same percentage as well.

Ms. Sproule: — Oh. So I'm thinking there's a number of communities in the North. Would there be a capacity in the North to access natural gas in the northern communities?

Hon. Mr. McMillan: — There was a build-out to La Ronge and Air Ronge in recent years. But communities to the northeast and northwest, still there are some fairly substantial challenges, one of the large ones being that the Canadian Shield is a formidable challenge for pipeline infrastructure. And northern Saskatchewan is vast and would require a substantial amount of pipeline work, and the Canadian Shield is a challenge to that.

Ms. Sproule: — Understood. It just seems like a high number — the 92 per cent of all communities — when I know there's so many that couldn't access that, but that's a significant service then. At the very end of that paragraph there's a comment where ". . . Service is only expanded where anticipated incremental revenue is sufficient to recover incremental costs of service." I'm assuming that where there's a pressure or demand for new service . . . When would you refuse to go in? Or are there instances in that time period where you would have said,

no we're not installing the infrastructure?

Hon. Mr. McMillan: — With any of SaskEnergy's infrastructure, be it to a residence or to a community, we, if the request is made, will figure out the cost of putting in the infrastructure. We'll figure out what contribution SaskEnergy can make into that infrastructure. It's a percentage based on what they will be able to capture back through supplying the community or the residence over time and allow the community or the residence to make the decision whether they want to move forward and put up their portion of the capital cost or not.

Ms. Sproule: — Have there been any cases in that time period where a community decided not to because of the cost?

Hon. Mr. McMillan: — On a regular basis there's interest from communities and residents that express interest and look at the economics of it.

Ms. Sproule: — Yes, I recall doing that myself up at Ness Creek one time. It was too expensive, so we didn't do it. Okay. That's quite a ways from a community though. I was just thinking in terms of suburbs in the cities. I would assume that it's pretty straightforward and people go for it, yes.

All right. Just a few questions now. I'm looking at the financial statements from 2011, tab 3, which is Bayhurst, and just had some questions on some of the consolidated or the notes to the financial statements. I'm on page 4 of tab 3, and we talked about this a little bit earlier. But under the summary of significant accounting policies, no. 3(b), the interest in joint ventures, I would just appreciate a bit of a walk-through in terms of how the corporation's share of those jointly controlled assets and incurred liabilities, revenues, expenses, etc., show up and, like what is that 50 per cent? Just can you tell me more about the finances of the joint ventures and where they're located within the financial statements?

Hon. Mr. McMillan: — Dennis will walk us through the financial accounting practices in regards to this.

Ms. Sproule: — Thank you.

Mr. Terry: — Okay. Certainly, my pleasure. Interest in joint ventures, as we spoke of earlier, pertains under Bayhurst Gas Ltd. There are two entities, BESCO [Bayhurst Energy Services Corporation], the energy services corporation which holds the investment in the Kisbey plant by way of joint venture with the accounting policy note. And the same with the Totnes, Faro joint venture, same idea. We will record 50 per cent of the assets and in turn we will record 50 per cent of the revenues and expenses from those particular joint ventures.

In the case of Kisbey, Atco Gas is the joint venture party. And in the other case, Faro Energy is the partner at Totnes. And again, so one party will be the operator for the joint venture. In the case of Kisbey, it's Atco where they effectively pay all the bills, record all the revenues. We contribute 50 per cent towards the assets but in turn we get to record and receive cash for 50 per cent of the revenues net of any expenses. So it's basically a 50/50 accounting.

Ms. Sproule: — Was there any numbers entered in your books

for 2011 in relation to that?

Mr. Terry: — Indeed. Kisbey was operational in 2011 and typically the net beneficial impact of Kisbey in 2011 was relatively small. A relatively small investment in terms of Kisbey, but it would have been less than \$1 million.

Ms. Sproule: — Is it located anywhere . . . Like what line item would it be?

Mr. Terry: — No, it is throughout the financial statements. So where we would have recorded 50 per cent of the revenues, 50 per cent of their expenses, it would have been included in the various line items included on page . . . what would it be . . . Basically the statement of comprehensive income, where you go and look at the individual components, the bulk of the revenues for Bayhurst Gas Limited, if you look at 2011 for example, \$79.7 million. The bulk of the activity in these entities are the buying and selling of natural gas. The royalties we spoke of earlier also get included in Bayhurst, so the bulk of other revenues would have been the two joint ventures.

[11:30]

Ms. Sproule: — And then the recording of the liability or the assets . . .

Mr. Terry: — [Inaudible] . . . expenses as well would be permeated in operating and maintenance expenses and the various line items that you see on that financial statement as well.

Ms. Sproule: — I'm sorry, I'm having trouble finding the expenses.

Mr. Terry: — Yes. So if on that same page where you saw the revenues of some \$86 million before market values, it would be two pages past the auditor's opinion.

Ms. Sproule: — Is there a page number for that?

Mr. Terry: — Yes, the version, they don't have pages numbers on it. So I guess if you back up three, two, one. Yes, the notes to the financial statements are numbered, but not the actual financial statements.

Ms. Sproule: — And what note would that be then?

Mr. Terry: — So if you go to the actual financial statements themselves, it's called consolidated statement of comprehensive income, at the top. It's the one that's landscape on the . . .

Ms. Sproule: — Oh, okay. Same one. Okay.

Mr. Terry: — Okay. So as I mentioned . . .

Ms. Sproule: — That's operating maintenance under expenses?

Mr. Terry: — Yes.

Ms. Sproule: — Okay, thank you. Sorry it took me a while to get there. So that's where all the assets are as well or . . .

Mr. Terry: — Or 50 per cent of the expenses. So we record 50 per cent of the revenues up above, under other revenues. And then included within the various line items, in particular if there are salaries at Kisbey, if there are operating and maintenance expenses, we would also record 50 per cent of the depreciation and taxes at that particular plant. So it really permeates all four of those line items.

Ms. Sproule: — And as far as the capital assets themselves, where do they show up?

Mr. Terry: — Okay. If you back up one page to the consolidated statement of financial position . . .

Ms. Sproule: — Yes.

Mr. Terry: — The Kisbey assets for example, some \$19 million that we have invested would be included in the property plant and equipment line.

Ms. Sproule: — Okay. And are there assets related to the Faro joint venture?

Mr. Terry: — Yes, quite small at the end of 2011; roughly some \$2 million at that point.

Ms. Sproule: — And then depreciation would be in the liability there.

Mr. Terry: — Taken on those particular assets. Now I should state for Faro in particular, it was not quite operational at that point. We're still exploring improving in the underground storage capabilities of that field. There would be very little by way of revenue and expenses at that point.

Ms. Sproule: — Right. Right. Thank you. I'll see how . . . We'll find out more in 2012, eh? I have a question on page 7 of the notes for Bayhurst. It's under number 3 ii, non-financial assets. And if you could just explain the first statement there: "At each reporting date, the Corporation reviews the carrying amount of its non-financial assets to determine whether there is any indication of impairment."

Mr. Terry: — Under this particular requirement, at each reporting period including every month-end, we have to back up and evaluate the carrying value of any assets, including any non-financial assets. So for example, property, plant and equipment, we have to back up and prove that the cash generated from that particular business over the future period is sufficient to warrant the carrying value of the asset on the balance sheet. So that's a process we go through every annual report in conjunction with the external auditors to ensure that there is no impairment of the underlying asset.

Ms. Sproule: — And the financial asset would be physical property?

Mr. Terry: — Yes. Typically, yes.

Ms. Sproule: — I guess we did cover this a little bit earlier, but under Bayhurst, page 11, note 7, there's a statement of financial instruments. And this is just basically a layperson's sort of being mystified by some of these statements. And there's a

description there, the fair value of the instruments described above in the financial instruments is based on the following, and there's three items there. And I'm just wondering if you could elaborate a little bit more on the debt retirement fund, the notes payable to parent, and the other financial instruments, and just a sort of a general explanation of what that's attempting to describe.

Mr. Terry: — Indeed. My pleasure. We spoke of the sinking funds earlier, the debt retirement funds. So as those funds are sequestered with the Ministry of Finance, as interest rates move for example, they will look at that portfolio. It's kind of like your RRSP [registered retirement savings plan]. They'll look at the portfolio and say, based on today's interest rates, is the market value of that portfolio either up and down? And we are required to reflect the corresponding market value adjustment each period-end.

The concept is similar for other financial instruments as well where we have sold gas into the future. In particular, if we would've sold that gas for \$5 for example into future periods, if the market value moves opposite that \$5, we would end up writing up an asset or a liability depending on how the market moved. That's a requirement to record market values, and we do that every month and every year-end.

Ms. Sproule: — And then notes payable to parent, what does that mean?

Mr. Terry: — Same concept. To the extent Bayhurst Ltd. is a subsidiary of the holding company, its debt would have a certain coupon rate attached to it. For example, if it's borrowing money at 4 per cent and interest rates were to drop, it would record a fair value adjustment on that debt portfolio if required.

Ms. Sproule: — That was helpful, thank you. I hate to ask this next question, but I'm going to do it. Page 12 you speak about derivatives, risk management. So it's note 7, paragraph d, the bottom of page 12 on Bayhurst. And it indicates that through your normal course of business, Bayhurst has exposure to market risk, liquidity risk, and credit risk, and the board of directors has the responsibility to establish and oversee your risk management efforts.

And then it goes on to say, "The corporation seeks to manage the financial impact of natural gas price risk by using derivative instruments to manage its exposure." Could you summarize for a layperson how these derivatives work?

Mr. Terry: — Actually it coincides with the accounting policy we just reviewed where ultimately . . . As part of risk management — just to back up there — there's an established, well-established process within SaskEnergy that monitors the parameters that we operate under in terms of the entering of derivatives, in terms of future purchases of gas and the sale of gas. So within that policy framework we actively manage and report through to our board where we're at on various financial instruments into the future.

So the example within Bayhurst that is particularly relevant is where Bayhurst is a storage of gas in Pierceland, some 50 PJs [petajoules], 50 million GJs [gigajoules] of gas in storage. That gas, by and large, is sold forward where we would have entered

into sales contracts two, three years ago, for example, at \$5. We are required, within the framework and the policies that we have established, to report on where we're at with those various contracts. And again, tying back to the accounting policy, whether we are . . . if the market has moved opposite those future contracts.

So the derivatives really are saying that we've sold that gas forward into future years, and then we have to market those contracts, as I mentioned earlier.

Ms. Sproule: — So basically the derivative is the future sale?

Mr. Terry: — Correct.

Ms. Sproule: — Okay. One of the pieces of legislation introduced this session is regarding over-the-counter derivatives. Would these be over-the-counter derivatives?

Mr. Terry: — Typically we are dealing with third parties. So it could be Husky. It could be Shell. It could be third parties that we're selling gas forward to and that is through an established exchange. NGX [Natural Gas Exchange] out of Alberta is typically the entity that brokers those type of sales. So yes, it is over-the-counter, publicly traded information.

Ms. Sproule: — Okay. The last question I have in relation to Bayhurst is on page 20 of the notes. It's paragraph 24 and I guess 25 — although we did talk about 25 a little bit already — the exchange amounts. I guess it's just another explanation. And the second sentence, well I'll just read the whole paragraph:

Included in these financial statements are transactions and balances with the Corporation's parent company SaskEnergy and its subsidiaries. These routine operating transactions were settled at exchange amounts which approximated prevailing market prices under normal trade terms.

And then there's a description there of the significant transactions. What does that mean “. . . settled at exchange amounts which approximated prevailing market prices”?

Mr. Terry: — Yes. As part of related party transactions disclosure, we are required to disclose the intercompany sales back and forth between the subsidiaries. We have consolidated the gas marketing activities within basically SaskEnergy holdings and the distribution utility, so in effect it enters into all the natural gas sales with third parties on behalf of Bayhurst. So where Bayhurst is recording natural gas sales, effectively they're selling it to the gas marketing group who in turn enters into the financial transaction with a third party — again the Shells or the BPs or Imperial Oils of the world. So because there's two corporate entities involved, we end up disclosing the nature of all those sales and purchases between the related companies.

Ms. Sproule: — Okay, that was complicated. Yes, I'll leave that for now.

And then finally the transition to IFRS. So these were the first statements in this year that were prepared in accordance with

IFRS and it said, “. . . the corporation adjusted certain amounts reported previously in accordance with . . . GAAP.” So I guess my only question there, and the reason I highlighted it, was what would be the biggest . . . I guess you've already indicated that. The difference you said . . . You know what? I'm not going to ask that question because I think you've already answered it previously. So that's good for the financial statements. Just let me check my notes for a minute, please.

Okay. I think at this point that would be the . . . Oh and I did want to ask one question about this sheet that you provided, and I have to confess I'm not totally up to speed on the line of questioning that led to its creation. But if you could just tell me a little bit about the two transactions, Gas Sur and Igasamex. And I assume these are the costs that came out of the legal costs, it looks like, and accounting costs that came out of those transactions. If you could just give me a little explanation of these figures and how they fit into those particular transactions.

Hon. Mr. McMillan: — Both of these sales took place in 2011. I'll start with the Gas Sur sale of the Chilean asset. This was a joint venture with a Chilean partner. We I guess ultimately took a \$10.7 million loss on this sale. Proceeds from the sale were \$6 million, and we had a 30 per cent share in the company. You'll notice that the transaction costs which you referenced are substantially lower than the Igasamex. The reason for this is it was a sale. The only interest we could get in the purchase of this was from the existing shareholder. So it was a sale of the asset to the other shareholder and a relatively simple and straightforward transaction.

[11:45]

The Igasamex sale, again 2011, it had proceeds of \$17 million and a net gain of 2.5 million gain overall. This was a far more complicated sale as there were multiple parties in ownership of the asset, not just another. We had a process of public expression of interest were asked for, ultimately worked our way through the process, took the most advantageous bid. And as you see reflected, the transaction costs of going through that public process with multiple parties was far more expensive.

Ms. Sproule: — Would these be the type of sales . . . Is this a sale through Bayhurst?

Hon. Mr. McMillan: — No, SaskEnergy International.

Ms. Sproule: — Oh okay. Oh I see you have it right there at the top. And where does SaskEnergy International fit into the consolidated financial statement? Where would these be reported? I'm sorry for not knowing this, but I don't. Is that a commodity sale under your financial statement?

Mr. Terry: — If you go to the original corporate structure on page 2 of the annual report, you can see where SaskEnergy International in 2011 . . . This is the last year that it was active, given the two divestures we just spoke of. And underneath that would have been the investments in Chilean . . . investment in — sorry — Gas Sur, and then on the right-hand side the investment in the Mexican Igasamex entity.

Where this would have been reflected in the actual financial statements, if you then flip to page 44 of your annual report —

I'll give you a second to get there — if you then flip down near the bottom, there's a note, note 10 on the loss of sale of investments in associates, some \$8 million. That's reflective of the \$2 million gain on Igasamex net of the \$10 million loss on Gas Sur. So that's where it would have been reflected in the financial statements for 2011, and as I mentioned, that SaskEnergy International was wound up at that point.

Ms. Sproule: — Okay. So I know we're nearing the end here. That's helpful, and thank you for pointing that out. In terms of page 2 in the structure of the company, then we've talked about Bayhurst, and we've seen the separate financial statements for that. TransGas is also I believe filed separately right at tab 2. Now we haven't talked about Many Islands Pipe Lines and Swan Valley Gas Corp. or Saskatchewan First Call Corp. I think for today I will leave those and then we'll need to try and understand better what they . . . But in terms of SaskEnergy International Incorporated, could you explain why the decision was made to wind up that particular company or subsidiary?

Hon. Mr. McMillan: — This goes back I think to the Sask-first policy ultimately. But these two investments both, one in Mexico, one in South America, the one in South America was plagued by a couple of challenges. Maybe the most obvious one would be there was a major earthquake that disrupted some of the infrastructure. But more broadly and more I think the direction of Saskatchewan changed in the intervening years from when these investments were made until ultimately the sales that we believed under the Sask-first policy that the need for infrastructure in Saskatchewan was substantial, that the best place to invest in the world was likely in Saskatchewan, and by freeing up the capital that was tied up in these assets to invest in our province was a priority for our province and probably a prudent financial place to be investing as well. So ultimately that was the basis of these two transactions.

Ms. Sproule: — Thank you for that response. I think, Mr. Chair, at this point I have no further questions. Perhaps some of the other committee members may have questions in the remaining 10 minutes. I don't know. But certainly I would like to thank the minister and the officials from SaskEnergy for their forthrightness and valuable information, and I look forward to the 2012 annual report review. I might have more detailed questions at that time.

The Chair: — Thank you. And you're going to conclude then? Consideration . . . You'll conclude . . . I don't see any other questions before the committee. I want to thank the minister and his officials for coming here. Do you have any final remarks?

Hon. Mr. McMillan: — No. I guess, ultimately, are we planning to vote these off today?

The Chair: — I think so, yes. Yes.

Hon. Mr. McMillan: — Okay. I guess my closing remarks would be, you know, to thank the committee for their questions, and we look forward to presenting our 2012 to you a year from now. So thank you very much.

The Chair: — Thank you. Do you have any closing remarks?

Ms. Sproule: — No. I . . . [inaudible] . . . my thanks earlier,

and thanks to the committee and the Chair.

The Chair: — Okay. Well thank you. And yes I look forward to you coming back again, Minister. I would ask a member to make a motion to conclude consideration of SaskEnergy Incorporated and subsidiaries.

Mr. Moe: — I so move.

The Chair: — Mr. Moe moves that motion. All those in favour?

Some Hon. Members: — Agreed.

The Chair: — Agreed. Carried. Just before we go, I'd just make the one announcement. We'll table CCA 74/27, SaskEnergy International 2011 transaction costs, Igasamex, which I think has already been distributed to the members but I will table it.

And thank you for . . . And I believe before it's 12, can I have a motion to adjourn now that we've had our agenda? Mr. Bjornerud has moved a motion of adjournment. All those in favour? Carried. I look forward . . . This meeting is now adjourned and to the call of the Chair. Thank you.

[The committee adjourned at 11:53.]