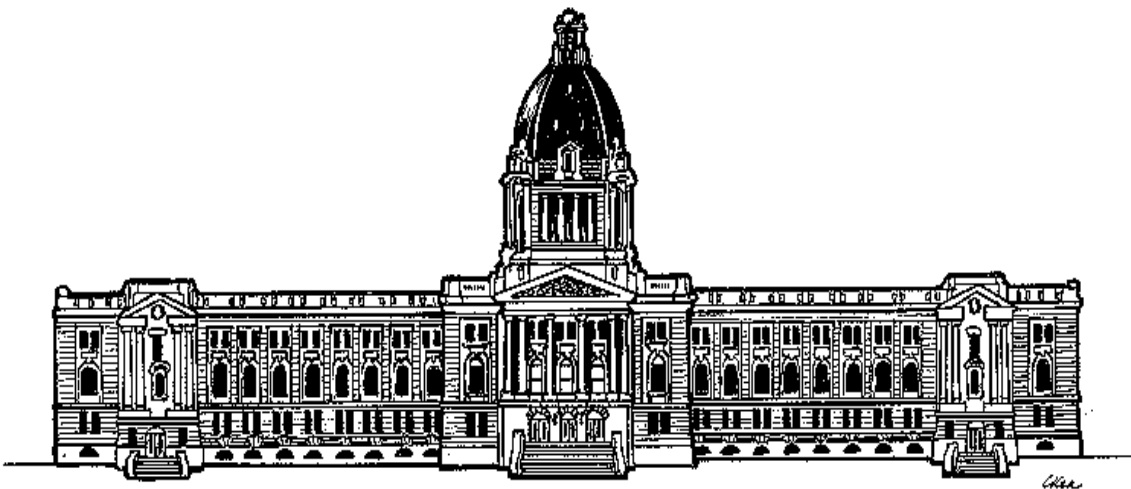




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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Mr. Roger Parent
Saskatoon Meewasin

[The committee met at 19:00.]

The Chair: — Welcome to this evening, this committee. I want to welcome the members. We have one substitution: Warren McCall is substituting for Cathy Sproule.

Members have a copy of today's agenda. If members are in agreement, we will proceed with the agenda. We also have two documents to table today. They are: CCA 140/27 — Provincial Auditor: Report on the 2013 financial statements of CIC Crown Corporations and related entities, dated May 1st, 2014; CCA 141/27 — Crown Investments Corporation of Saskatchewan (CIC): A report on public losses (January 1st, 2014 - March 31st, 2014) for CIC and its subsidiary Crown corporations, dated May 2nd, 2014.

This evening the committee will be considering the estimates, lending and investing activities for Saskatchewan Telecommunications Holding Corporation, Saskatchewan Water Corporation, SaskEnergy Incorporated, Saskatchewan Liquor and Gaming Authority, and Saskatchewan Power Corporation.

The committee will start with examining the estimates, lending and investing activities for Saskatchewan Telecommunications Holding Corporation. We will begin the discussion with vote 153, Saskatchewan Telecommunications Holding Corporation, loans, subvote (ST01).

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Telecommunications Holding Corporation
Vote 153**

Subvote (ST01)

The Chair: — I welcome the minister here tonight and his officials. And I'll ask the minister if he has any opening remarks, and he can introduce his officials. And I'll just ask officials the first time they use the mike just to give their name for Hansard. Welcome, Minister.

Hon. Mr. McMorris: — Thank you, Mr. Chair, and to the members of the committee. It's my privilege to be here on behalf of the Government of Saskatchewan and the Minister Responsible for SaskTel.

I do have some very short opening remarks, which is traditional for myself. They'll be very short. I do first of all want to introduce my officials, and then short remarks and I'll turn it over to questions from the committee. I believe we have about 30 minutes, so we'll mainly use that up with questions, I would suspect.

With me today, officials here from SaskTel: to my left is Ron Styles who's the president and CEO [chief executive officer]; to my right is Mike Anderson who's the chief financial officer; over my right shoulder would be Darcee MacFarlane who's the vice president of corporate and government relations; and Scott Smith who's senior director, finance. I want to thank you for the opportunity to make a few opening remarks.

SaskTel plays a vital role in our province and has done an excellent job providing the people of Saskatchewan with technology and services that are industry leading. SaskTel continues to deliver on its mandate to deliver high-quality, accessible, and affordable services while investing in core business operations and services within Saskatchewan.

We are here today to answer any questions that you may have about SaskTel's 2014 budget. I look forward to those questions.

The Chair: — Mr. McCall.

Mr. McCall: — Thank you very much. Mr. Chair, Mr. Minister, officials welcome to the committee this evening.

I guess the first question off the top would be sort of a global question in terms of the borrowing under consideration here tonight. First off, 2013-14, the borrowing was forecast at 150 million. That was subsequently reduced to I believe 123.1 million. Could the minister talk about the discrepancy in anticipated and actual?

Mr. Styles: — Ron Styles, president of SaskTel. The difference was primarily the result of the federal government deferring on the sale of spectrum in 2013. And the sale of spectrum occurred in 2014 and was completed, I think if I remember correctly, in February.

Mr. McCall: — I thank the official for that question. So tonight we've got consideration of borrowing 133.5 million. Minister or officials care to characterize the purposes for that borrowing?

Mr. Styles: — So in total our capital program is valued at around \$354 million this coming year. And so there is a variety of different programs within our capital budget. Fibre to the premise is going to cost, fibre optics to the premise is about \$55 million. Fibre to the business, about \$6 million. We're putting in a new billing environment that will be worth about \$9.8 million. A number of different IP [Internet protocol] products and services that we're just bringing to the market including a number of new ICT [information and communications technologies] services, cloud services, things like that, around \$11 million. Product service enhancements, these are a variety of things that we're beginning to modernize and update — for instance in our retail stores is one good example of that — another \$8.8 million.

We're working on a customer self-serve program that provides e-bill functionality together with certain capacities for a customer to actually establish what they're looking to get for us and to control their products as well, and that's another \$5.3 million. Network spending around \$77.2 million; wireless network enhancements, \$36 million; information systems, another 38 million; digital interactive video, or Max as you might know it better, \$10 million; buildings and equipment about \$10.5 million; other departments around 12.5.

We set aside \$48 million for a spectrum auction this year. In some ways we were quite fortunate. We ended up only having to pay around \$7.5 million for spectrum, so we will come in under budget, obviously. Regina data centre or a new data centre that we're working on right now, about \$16.3 million,

and then there's a variety of other small things. So if you'll look at the amount of money we're looking to borrow this year, the \$133.5 million, the difference between that and our overall capital budget is really the additional cash flow that we're getting through corporate operations.

Mr. McCall: — I thank the official for that response. In terms of it would be . . . I guess we'll go at it a bit more thematically now in terms of the question. Starting with the spectrum auction and how that worked out, from SaskTel's perspective, did that work out? Did you get everything you were looking for in terms of the way it played out? And in terms of the federal regulatory or the federal approach on telecommunication issues generally, the CRTC [Canadian Radio-television and Telecommunications Commission], how is that landscape evolving?

Mr. Styles: — Okay, so maybe I'll start with the spectrum auction. So the process that the federal government set up to auction the spectrum in this go-around was considerably different than has been used in the past here in Canada. And I think in fact it was only the second time the process has been used throughout the world.

It's a two-phase process: depends a lot not just on what you're bidding for individual blocks of spectrum, but rather it depends on scenarios that each bidder puts together across Canada. Therefore regional carriers are disadvantaged in the process, and it was something that we identified to the federal government early on. And we identified that our view was the results of the spectrum auction would be such that regional providers would not be able to obtain the prime blocks of spectrum, which were essentially A and B in the 700 megahertz spectrum grouping.

What occurred in the auction was exactly what we thought would happen, and so we ended up, we did pick up spectrum C1. It is a piece of spectrum that right now phones cannot utilize. Now we believe by late 2015, probably 2016, the new phones that are coming out will contain the necessary antennas and chipsets that they'll be able to utilize the C1 band. We got it at a very, very enviable price, seven point, I think, five million dollars, \$7.5 million. So we're very happy with the price.

We're very happy we got 10 megahertz of spectrum, but we would have much preferred to been able to bid on, bid and win on A, B, A and b. Those would be the prime blocks. They could have been used right away. So again, we would have liked to have seen something a little different. We would have liked to have won potentially more spectrum as well. It would have helped us with the deployment of LTE [long-term evolution] into rural Saskatchewan, but we've made some initial steps.

Mr. McCall: — Thanks for that. Again in terms of the response to the feds announcing their intention and there being some shifting ground to navigate there, you talked about the earlier response. Yourself or the minister, if you could just talk about the response made by the corporation to safeguard that SaskTel interest.

Mr. Styles: — Well there's just been a lot of change with the federal government when it comes to the regulatory framework, both through the CRTC as well as through the federal government and the department of industry. The changes are

having a significant impact on the industry overall. A lot of them are designed to be customer friendly. That is the intention, and each on their own I think you could debate the merits back and forth.

The issues from our perspective is that they are having a significant impact on the industry and its ability to make investments. So both from a profitability perspective, if the business isn't making money, it's going to be difficult to invest. But more importantly, potentially if you don't have a foundation that you can make investments in, but rather that foundation is changing on a regular basis, the amount of risk that goes with your investments becomes quite considerable. So there's a lot of those concerns that are going into it.

I think the sheer volume of change as well is proving difficult for the industry and even for ourselves to be able to manage. As an example, the recent federal legislation that's in their budget bill is changing the roaming framework here in Canada. And so for the commercial agreements that we already have in place, that we've negotiated successfully with the other companies here in Canada, those will be overridden by the legislation of the federal government is passing. Now we're still in the process of evaluating it, but we believe it will have, you know, a negative impact on us in terms of our overall financial situation.

There's a considerable number of these, and again it's the volume that is really causing, I think, the entire industry as well as ourselves to have a lot of concerns. Another one is a change to the broadcast framework. And again depending what they decide to do, you know, it's not so much you're making changes, it's sort of how do you adjust to those changes.

As a good example, if there was a decision to unbundle all of the stations, there could be a considerable number of stations that may not be able to stand on their own, which means you may lose them here in Canada. You may lose them from the package of stations that are available. And for us, we've built a system, servers, an environment that'll provision based upon that size of a channel universe. And again there's a challenge to be able to adjust over time, and you have certain investments that are set up and predicated upon a universe of channels that's bundled, largely. So again lots and lots of impacts.

Hon. Mr. McMorris: — I think just if I could just add to that too is that, you know, I think the intent of the federal government is laudable, to make sure that the consumer has, you know, the best deals they possibly can get. I mean the federal government was certainly interested in a fourth national carrier and thinking that would create competitiveness, which would then help consumers.

So I think all the . . . the intent of what the federal government wanted to do through these changes — and there were a lot, but all targeted kind of to the same end-user — may have been laudable. Have they produced the results that they wanted, the federal government? I think that's very debatable. You could debate that, and especially when you talk in the jurisdiction such as Saskatchewan, Quebec, and Manitoba where there is a fourth carrier, regional fourth carrier. You know, we're seeing impacts that, and I said this during the annual reports, that I think we're seeing unintended consequences of rules and

regulations that the federal government are putting in place. And they're definitely having an impact on the regional carriers such as SaskTel.

Again the intent may have been great, but what's actually happening is difficult for us. And when you see, you know, issues around pricing in Saskatchewan compared to pricing in other provinces that don't have a regional carrier, there's some real discrepancies. I think you could probably talk too about, you know, whether it's a three-year contract, two-year contract, and all of those changes. And as I said, those are just two of many. I don't know if they've really reached the conclusion that the federal government was looking for.

Mr. McCall: — Well I certainly agree with the minister and officials in that regard. It has been said, there is some laudable aims been expressed in terms of the consumer agenda as articulated by the federal government. But the way this plays out for a jurisdiction like Saskatchewan is almost diametrically opposed to the consumer's interest and the way that that has been well afforded by a corporation like SaskTel.

It leads to a number of questions. Does the minister or officials gain any sort of encouragement that the message might be getting through in terms of what the minister characterizes as unintended consequences? But I don't know if it's . . . Certainly they're not speaking the Saskatchewan language on this issue. Is there any sign of encouragement in terms of the feds getting better tuned in to how this actually plays out on the ground in a jurisdiction like Saskatchewan, or can we expect further sort of damage to the Saskatchewan interest coming from the federal government?

[19:15]

Hon. Mr. McMorris: — Well certainly we have raised the concerns. And especially, you know, Mr. Styles has been to Ottawa previous, before these changes were put into place. And we certainly raised our case. I know the Premier had talked to the Prime Minister at one point and raised some of the concerns that we would have when we were anticipating what changes were coming into play. So we raised those concerns at that time.

Since the changes have been put into place, we've continued to raise those concerns. I would say that one of the federal ministers is receptive and hears us. Whether that will carry the day and have them revert back or . . . and I don't think we'd see a complete reversion back to where things were before.

But I think, you know, they understand the impact that it's having on regional carriers. And if they don't yet, we're going to continue to lobby and make sure that they do, with continual communication. And in fact, we're looking at myself trying to down there sometime in the next month or two to, you know, have a visit with the minister and again make sure that they understand the impact that it's having on us.

You know, it's a difficult one because if you were to look at some of the pricing here in Saskatchewan — compared to Ontario, for example, on similar product lines — if they're looking to get a better deal, federal government was looking to get a better deal for consumers, you could say they are here in Saskatchewan because our prices are lower where there's a

fourth carrier compared to when there isn't a fourth carrier, regional carrier, you know. So it is a difficult one but, you know, the argument being is if the prices have dropped here in Saskatchewan, why haven't they dropped in Ontario if you're hitting your mass market like you want to?

So you know, we need to continue to make sure the federal government knows exactly what's going on across the piece, but more importantly what's happening where there's a regional carrier.

Mr. McCall: — Can the minister or officials describe what these recent federal changes mean for the risk to the corporation? Risk always means, when you calculate it as, you know, damages to the well-being of the corporation and that ability to deliver the product. Does this make it more risky, less risky, and then how does that translate into the bottom line in terms of cost, both to the consumer and to the corporation?

Hon. Mr. McMorris: — Of course, you know, there is not a corporation the size of SaskTel that doesn't plan on its out years and tries to budget and understand what's going to happen, not this year but next year or the year after. And there's absolutely concern. Now I think you used the word risk. I'm not sure if risk is the right term, but we do know that if we see these changes play out the way we anticipate them, it will definitely have an impact on our bottom line on what the profitability of SaskTel is. I don't know if that's risk as much as it is it just makes it more difficult for SaskTel as a corporation to continue to invest in its infrastructure, which is extremely important.

I mean the day of the copper line going into farmhouses is done, and we have a whole new infrastructure to invest in. We can't just kind of continue to ride out the process and live off a depreciation or depreciated copper lines. We need to . . . And you know, Ron had mentioned fibre to the premises, fibre to the business, how important all that is, not to mention the wants and the demands out there from the whole part of the province, not just in urban Saskatchewan, but in rural Saskatchewan.

I talked to friends that are on the farm, and they want to be able to be on their tractor and receive, you know, high-speed Internet on their smartphone while they're in the middle of seeding or whatever: on their combines, selling grain. That's what's expected out there. They can come into Regina and receive it. They want it out there. That takes investment into infrastructure. Investment into infrastructure only happens if the corporation is receiving some profits, and these changes will definitely have an impact as we move forward.

Again, budgeting is always an interesting process because you budget to the best of your knowledge years out. Is it always 100 per cent accurate? You can maybe debate that. But what I do know is some of the changes will absolutely have an impact, and we don't see it being a positive impact.

Mr. McCall: — I thank the minister for that response. In terms of, I guess, sort of shifting gears a bit, going through the operating highlights from the annual report and again how that translates into the borrowing represented here today, another question that I think SaskTel and customers would look to or the people of Saskatchewan would look to in terms of the long term of the corporation, Ron had touched on the situation with

unbundling and what that might or might not mean for the offering of Max, SaskTel Max. Certainly one of the other features of the on-demand, online universe is the rise and continued rise of Netflix. What sort of impact does the corporation see Netflix having on the health and viability of something like SaskTel Max?

Mr. Styles: — Over-the-top and providers such as Netflix or Apple TV, there's a Google TV product out there right now, Amazon looks like they're getting into the business as well — all of these are a technology risk. And we face quite a number of these right now. At this point in time, over-the-top does not look like it is cannibalizing existing broadcast customers for companies across Canada. There's sort of no evidence of that happening. It's a concern, I think, going forward. And as these services gain more content and as these services gain maybe improved access to content, quicker access to content, they could become obviously a preferred provider. But at this point in time, we haven't seen it as a substitution.

In fact and in point of fact, people seem to want both. They still want the scheduled TV product from telcos and cable-cos, plus they want the over-the-top product as well to be able to, at certain points in time, pick up alternative product. And for anybody who follows Netflix very closely, you'll see there's a number of products that are . . . or a number of pieces of content now that are strictly proprietary to Netflix. So they're not in a sense a competitor. It's not the same product being delivered. It's a different product at different points in time.

So it's obviously of concern to us. And any time a new product comes into the market, it has the potential of being a disruptor. But to this point in time, it hasn't caused us a lot of problems.

Mr. McCall: — Well it's certainly an interesting atmosphere that the corporation is operating into. And again we talked about risk earlier. You know, yesterday I was driving down north Albert where there used to be a lovely Blockbuster video, and it is of course, it is gone now.

So in terms of SaskTel Max continuing on and providing not just that service for the people of Saskatchewan but also that return to the corporation and how that translates into the well-being, am I hearing correctly from Mr. Styles that Netflix to date has not impacted the market share of something like SaskTel Max? Is that a correct characterization, or anything else you'd like to say on that score, Mr. Styles?

Mr. Styles: — It really has not had an impact in terms of our market share or the volume of customers. We just passed 100,000 customers in the fall of 2013. We're continuing to grow on a year-by-year basis, so we haven't seen it have much of an impact. Our competitors are the two satellite TV services and cable right now. So there hasn't really been a shift at all on that.

Now we're actually growing our product in terms of its diversity as well. So there is now something called Max on the go. So if you're a Max customer of ours, you can now download an app onto your iPad or onto your telephone and you can actually receive some aspects of Max. Not all aspects, but some: movies for instance; video on demand; our local Max, which has local television products on it. So those now are

available to people. Again, you can get them on your computer or you get them on your iPad, you get them on your phone.

So we're pushing back a little bit into that over-the-top area, and you'll find that all the rest of the companies that are in this business are doing the exact same. So it works both ways. When you open a new door, if you can step through it, you can add that to your portfolio and improve the desirability of your product at the same time.

Mr. McCall: — Okay. Not to belabour the point, but last spring about this time there was a survey conducted where about 40 per cent of the Saskatchewan residents that have been contacted were utilizing Netflix. And you know, Saskatchewan was touted as the biggest adopter in terms of Netflix going.

So again I'm glad to hear if it's not having a big impact on what SaskTel Max is doing, glad to hear it. But surely the corporation will continue to be vigilant in seeing what they can do to make sure we've got a competitive offering out of SaskTel Max and that it's not going to go the way of the Blockbuster Video on north Albert.

Mr. Styles: — We're definitely very concerned about it, continue to watch it. We'll continue to adapt the product as well to meet it. I would think when it comes to Max, rather than the technology risk right now, probably the regulatory risk is much more significant. Whatever the CRTC decides to do in terms of unbundling programs could have a major impact. And again, you know, we would go from a 300-channel universe down to something substantially smaller, and that may change television viewing habits quite dramatically. So that's probably the risk that we see most predominant right now for 2015 and 2016 when it comes to the Max product.

Mr. McCall: — On the question of unbundling, what is the sense on the part of SaskTel of the timeline of how these events will be unfolding? What's the latest from the federal government?

Mr. Styles: — So the CRTC will start holding hearings, we understand, in September of 2014. They have not provided us with information on when they think they'll complete the hearings and when they think they may lay out a set of recommendations or the implementation time frame for the recommendations.

One of the industry analysts is speculating that everything would have to be implemented by late 2016, but nothing's been nailed down yet by the CRTC.

Mr. McCall: — I thank the official for that response. In terms of, I guess, is there anything else that the official or minister would like to identify at this time in terms of the biggest challenge for the well-being of SaskTel? And certainly again that work as a regional carrier with a sometimes unresponsive federal regulator and providing that service over a fairly significant geographic base, I can imagine some of the challenges. But, minister or official, want to chime in on something that I'm not hitting on right now?

Mr. Styles: — The only thing that I might touch on — the minister addressed it in his comments and he was right on the

money — we have an older package of infrastructure right now that's here in place in Saskatchewan. A lot of it was started to be put in the ground in the 1950s, 1960s, 1970s. Our first venture into fibre optics was in the 1970s. The infrastructure is old; it's been, you know, well used. It's served its purpose.

There's a need now to replace the infrastructure and replace it with modern infrastructure, if I can use that phrase. So rather than copper, you go to fibre optics. In terms of our wireless system, 4G was an interim step and we're moving into LTE right now. And there is some discussion that VoLTE, voice over LTE, will be here probably in late 2015 into 2016. There's something called advanced LTE which will increase speeds again. So there's a lot of change going on right now. We've actually brought in another product called LTE TDD [long-term evolution time division duplex] as well to provide Internet into rural Saskatchewan.

So all of the new technologies and the change obviously require a lot of capital. And deployment of new technologies, there's a learning that goes along with them. My staff have to be trained and equipped with the right information, experience, background to be able to operate them. So there's a lot of change going on right now. And I would suggest that is probably the biggest challenge that we face now and probably for the next six or seven years.

Hon. Mr. McMorris: — Just kind of in closing because we don't have much time left, is that I would agree completely. I think if you look at, you know, the whole communications industry over the last 10, 20, 30 years, it has been massive change — massive change — going from having a monopoly to competing in an extremely competitive market now.

I think SaskTel has got a very, very strong brand in the province, and we're going to work hard to keep that. I think customers are looking for the best of what they can get. And I think we've been able to offer it for the most part across the province, and we have to continue. Because just, you know, pure loyalty alone I'm not sure is going to carry the day, come four or five years from now if we can't offer the latest in product line. We've done a lot to do that, and we continue to, we continue to invest in infrastructure like no other telecommunications company in the province.

But having said that, we need to, in order to keep the loyalty that we have in such a competitive market — which again, depending on some of these decisions, are just not in our control — we have to live within the environment that we are set for or that is set for us. So you know, I think we're positioned well as we move forward, but having said that, we don't take it for granted because of the competition.

[19:30]

Mr. McCall: — Mr. Chair, I thank the minister and officials for the consideration of these statutory estimates here under consideration.

The Chair: — Thank you. Do you have any closing remarks or that was it?

Hon. Mr. McMorris: — Just thanks to my officials. And for

those that have to drive, drive safe yet tonight.

The Chair: — I'll ask just a member to adjourn consideration of estimates for lending and investing activities for Saskatchewan Telecommunications Holding Corporation. Mr. Moe. We'll have a minute recess while we change ministries and officials.

[The committee recessed for a period of time.]

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Water Corporation
Vote 140**

Subvote (SW01)

The Chair: — Next we have a substitution before we start. Mr. Belanger will be substituting for Cathy Sproule. Next the committee will examine the estimates, lending and investing activities for Saskatchewan Water Corporation. We will begin the discussion with vote 140, Saskatchewan Water Corporation, loans, subvote (SW01). I welcome the minister here and officials. And if you have any brief opening remarks, you may do them now and introduce your officials, Mr. Minister.

Hon. Mr. Cheveldayoff: — Thanks very much, Mr. Chair. Good evening. With me today from the Saskatchewan Water Corporation, Doug Matthies president; and Jeff Mander, vice-president operations and engineering; and Danny Bollinger, manager of finance. Mr. Chair, I do have a brief opening statement, after which both myself and officials would be happy to answer any questions you or any committee members may have.

The budget documents contain the following items for SaskWater: notably no. 1, additional long-term borrowing of \$10 million, which is included under vote 140 on page 151 of the Estimates book. The authority already exists for SaskWater to borrow funds to support its activities, as it does with other Crown corporations. Therefore this item is denoted as statutory.

Item no. 2, SaskWater also intends to repay a net amount of \$3.7 million against its short-term line of credit with the province. This amount is noted on page 148 of the Estimates document. Again loan repayments do not require a vote, but are included in the budget documents for information.

Third item is the budgeted end-of-year net debt position for SaskWater, which is on page 145 of the Estimates document.

And finally no. 4, SaskWater has budgeted to earn \$3.7 million in 2014. This amount is included in aggregate figures in the budget summary *Steady Growth* document, where members will note on page 62 that individual Crown earnings are listed. As a small Crown, SaskWater's results have been aggregated on that page into the line other agencies, which indicates a combined earnings amount of \$4.7 million.

SaskWater will be reinvesting all of its earnings into refurbishing its existing infrastructure and supporting expansion requirements of its growing customers. Therefore, no dividends to the Crown Investments Corporation are included in the

budget for 2014.

SaskWater's capital plan for 2014 includes \$14.2 million that will be supported through its additional borrowing, earnings, and cash flow. The major 2014 capital project is \$4.9 million for completion of the expansion of the White City water supply system that was started in 2013. The rest of the capital program is spread over numerous smaller refurbishment or replacement projects across various SaskWater systems. These investments are being made to ensure the continued reliability of services.

SaskWater will also continue the construction of the water supply system that will serve the BHP Billiton Jansen potash mine. This is a 3-year construction program expected to be complete in the third quarter of 2015. Under the terms of the water supply agreement between SaskWater and BHP, the initial capital costs are being fully provided by BHP.

Mr. Chair, this concludes my opening remarks. And my officials and I would be pleased to answer questions that any committee members may have.

The Chair: — Thank you, Minister. Mr. Belanger.

Mr. Belanger: — Yes, I just wanted to focus a bit on the BHP, when you talked about the capital project costs. What is the total costs for that project, for the BHP mine itself?

Hon. Mr. Cheveldayoff: — Thanks very much for that question. The entire budgeted amount for the BHP project is \$141 million. It's over three years, and yes, again that costs are fully being provided by BHP.

Mr. Belanger: — Okay. So SaskWater works with BHP to provide the contractor. Or is it all BHP's total decision as to who they hire to provide all the necessary infrastructure, and you guys . . . or SaskWater primarily provides the water? Is that correct?

Hon. Mr. Cheveldayoff: — Again thank you very much for the question. SaskWater will at the end of the day own the system, so we are responsible for it. So we follow all our procurement rules. And we are responsible, and we make the decisions.

Mr. Belanger: — So this would be a totally owned project, but BHP is going to be paying the bill. And I'm assuming that as a result of the discussions and negotiations, I guess, that . . . Is there a forgivable portion of, say, the water supply pricing? Is there any of that part of the mix?

Hon. Mr. Cheveldayoff: — Yes, indeed that is the case. The member is correct. We refer to it as a discount rate to the standard service rate that BHP will benefit from, in recognition of them putting forward all of the capital upfront.

Mr. Belanger: — And that would obviously have an impact on your long-term borrowing cost and obviously the projections, I guess, of what you would owe five, six, seven years down the road. So I'm assuming this would be a long-term arrangement, right?

Hon. Mr. Cheveldayoff: — Thanks again for the question. It is indeed a long-term project. It is a long-term payback period as

well, but it won't have any impact on the borrowing again because BHP is putting up all the capital. So it doesn't affect the bottom line for SaskWater in that regard.

Mr. Belanger: — Yes, I understand that the capital costs, which I accept that BHP's paying that so it doesn't add to our cost, but as a result of BHP putting in the capital cost, there'll be less revenues for your water royalty fees, I guess I'm trying to get at here. Is it a significant difference, say for example from another potash company from where you're negotiating again another water agreement? So that reduces your cash flow from the perspective of supplying water. Am I correct, and by how much?

Hon. Mr. Cheveldayoff: — Thanks very much for the question. So when the set rate is established, it reflects the capital contribution that will be made. And I understand the member understands that. So then we discount that rate to the standard service rate to reflect the contribution of capital, but that discounted rate still puts SaskWater in a profitable position. So over the long term, it's still a very profitable arrangement. You know, naturally the assets of SaskWater will increase substantially, but in the formulation of that rate, it's done in such a way that it doesn't affect SaskWater negatively in any regard.

Mr. Belanger: — So the whole arrangement is not an issue of saying look, you're spending \$141 million for your capital, and over the next 20 or 30 years you'll recover that to a relaxed water rate. It's nothing of that sort in terms of the arrangement. Is that true?

Hon. Mr. Cheveldayoff: — Yes, that's correct. We wouldn't be looking to recover the 141 because we didn't put it in in the first place. So you're correct.

Mr. Belanger: — So I just wanted to clarify because I don't want to assume anything at this stage of this process. So a supposed example: I am BHP. I come along. I'm going to build a system to provide my mine with water, okay. And so I'm going to pay for that system, but SaskWater's going to manage and own it. In exchange for putting that \$141 million, you're going to give me a relaxed water rate so that over a period of time I recover the \$141 million that I invest into this infrastructure project. Is that correct?

Hon. Mr. Cheveldayoff: — Thanks very much for the question. So BHP will be, you know, spending many billions of dollars on the entire mine, and the \$141 million will be part of their overall capital expenditures. So the rate that we're charging them will be the discount to standard rate, but it will reflect a commercial return for us as well. So we still have that commercial return coming back to SaskWater.

Mr. Belanger: — So there is room for the commercial return plus the reduced rate for BHP to recover some of their capital costs?

Hon. Mr. Cheveldayoff: — Correct.

Mr. Belanger: — Now have we done any analysis of what BHP may have done in some of the other countries that they've operated, for example, Australia? Is there some comparative

negotiations if one . . . what the Australian government might be negotiating with them versus how we are dealing with them? Has there been any of those comparisons?

[19:45]

Mr. Matthies: — Mr. Chairman, we didn't get into a lot of the details with BHP, but as a large global miner, they operate . . . They'll use various scenarios depending on the jurisdiction that they're working with.

But basically when you're building a water infrastructure for a mine, the rate is dependent on who's putting up the money in part, and how much does it cost to get water from its point of origin to the point of the mine. So in this case we're actually going to be moving water all the way down the SSEWS [Saskatoon southeast water supply] canal to the Zelma reservoir, and then a further 94 kilometres through a pipeline to the actual mine site.

So the rate that they're paying reflects the cost of moving the water all that distance. It does not incorporate any of a capital charge because they're putting in the capital. In other jurisdictions where they may have operated, you would probably find, I suspect, a mix, although I don't want to put words in their mouth. But again it would sort of be somewhat dependent on who's putting up the cash and how far you're moving the water and those sort of things.

Mr. Belanger: — No, I'm just trying to ascertain I guess from the perspective of the costs of putting up the capital for the actual facility or the facilities. And then you get to own that, and you have enough room, as the minister alluded to, to not only make some margin of profit, but give them a reduced cost for the water.

And plus we have the royalty scheme that we have adjusted very well and continue attracting investment. And I'm assuming that larger corporations get to write off that capital investment, or is that part of the ownership scheme, that it becomes your asset so you get to . . . I don't know if there's any tax credit from one level of government to another. But I'm assuming that from the corporate perspective that there'd be some tax credits for the capital costs of putting in that infrastructure. Is that a fair assessment to make? I'm trying to determine the net value here to Saskatchewan people as a result of us doing some of the work here.

Mr. Matthies: — Mr. Chairman, if I could just say that we're not prepared to comment on how BHP is doing the accounting on their side of it. At the end of the day, we signed a water supply agreement where they will provide the capital upfront but we will have ownership. So we will reflect a \$141 million asset on our books. We will also reflect on our books a contribution in aid of capital from BHP which will be an offsetting 141 million. So those two will just depreciate over time, matching each other. How they do it on their books, we wouldn't want to speculate.

Mr. Belanger: — Okay. You know, I just thought it would be a fair question to ask. I'm assuming that it's probably standard practice within a corporate world to seek some tax concession on their capital investment. So I'm assuming that BHP probably

has negotiated something to that effect, and I'm just trying to see that the overall benefit to Saskatchewan as it comes to, you know, the whole notion of the reduced water rates and of course the royalty rates for the potash and so on and so forth.

I want to shift gears here just a bit. Thanks for answering some of the questions on that front. In terms of the White City project, what is all involved with the White City project, like from the start of SaskWater's involvement to the completion?

Hon. Mr. Cheveldayoff: — Thanks very much for the question. As the member will know, White City is one of those communities that have benefited from the tremendous growth that we're seeing in the province, and certainly with its proximity to Regina. And I know all members will be familiar with the needs for infrastructure that are going on there. The White City project, from SaskWater's perspective, what we are doing is twinning the lines that are out there to provide for extra flow. We're also enhancing the filtering and storage and the reservoir as well, so pretty well all aspects of the operation are being increased because of the substantial demand that we're being asked to provide.

I've had the opportunity to meet with the mayor and council of White City on several occasions and they're very much appreciative of all the work that SaskWater has been doing in being able to keep up with their demands, because of course that affects their ability to continue growing and continue adding new subdivisions and the like. So it's a good customer-corporate relationship here and we're satisfied that we're meeting the needs of one of the fastest growing communities in the province.

Mr. Belanger: — So the basic premise though is the fact that in White City . . . I'll give the example, the comparison. Like back in my hometown of Ile-a-la-Crosse, the water and sewer system is owned by the town, so they're responsible for the maintenance and the cost of operating their water and sewer system. In White City, the town council doesn't own the water system. SaskWater does. And does all the delivery? Is that a fair assessment?

Hon. Mr. Cheveldayoff: — Thanks very much for the question. SaskWater and the model that we operate in in White City is SaskWater brings in the water and treats the water, makes it potable, and then the town is responsible for the distribution itself. So it's a model that, you know, works very well from our perspective, but the town is responsible for the distribution. But we bring in the water and own and facilitate the treatment plant as well.

Mr. Belanger: — So in a sense though if there is a breakdown on main street in White City, that wouldn't be SaskWater's . . . within their purview to repair that broken water line or sewer line. Is it both for water and sewer?

Hon. Mr. Cheveldayoff: — That's correct. That would be part of the distribution system and that would be the responsibility of White City.

Mr. Belanger: — Does the town have access or . . . and the reason I'm asking this question is other communities might want to look at the model itself. But does the town basically

have access to some of the professional people within SaskWater for, like for example, engineers and some of your suppliers to be able to buy the parts and to repair their system from time to time?

Hon. Mr. Cheveldayoff: — Thanks very much for the question. What we provide in White City is the operation and maintenance of the entire project. So I was explaining to the member earlier about the part that SaskWater is responsible for and then the part that White City's responsible for, but we provide operation and maintenance services for the entire operation. And you know, basically SaskWater would be open to, you know, different types of arrangements based on what the community's wants and needs are and their ability to do their own servicing, or if they feel that it would be more cost effective to allow SaskWater to do that. And that's open to communities across the province and, you know, we're open to discussions. So if the member knows of communities that may be wanting to enter into discussions, we'd certainly be open to do that.

Mr. Belanger: — I guess would you be privy to what the . . . I think you would obviously have to have information as to what White City charges their customers, like an average monthly water bill? And if it's as simple as that. And it might be more complicated because you have commercial customers and different rates of use and so on and so forth. But even an average would be fine. And say if the average is \$120, and of that the supply of water would be — I'm just picking out figures out of the air — \$20 and \$100 would be towards the distribution system that the town owns and operates. So how would the rate or the water bill on a monthly basis break down to what SaskWater gets versus what the town would get?

Hon. Mr. Cheveldayoff: — Thanks very much for the question. Unfortunately we don't have that information because it's up to council to set those rates on their own. They would cover the cost of buying the water from SaskWater and then cover the costs of their own capital replenishment as well. So each community would be different.

But you know, generally speaking when somebody enters into an agreement there are some pretty substantial increases that are needed to cover those costs. So it's a decision that the community has to, you know, look at very seriously over the long term and see what would be the better route to go.

Mr. Belanger: — That's a very interesting scenario, but obviously White City, are they part of a larger water distribution system where you're tying in a number of communities, or are they kind of a standalone?

Hon. Mr. Cheveldayoff: — They are a stand-alone community.

Mr. Belanger: — No, the reason why I'm asking is that we often hear from a number of communities, not just in the southern part of the province, but the North as well, where a lot of communities are struggling with meeting the basic infrastructure needs of water and sewer systems. Some of the systems I know in my constituency are, you know, 30, 40 years old, and some of the sewer lines and the water lines only meant for a lifetime of 25 years. So there's a lot of different

communities struggling with that.

Now the reason I'm asking these pointed questions about SaskWater in terms of, you know, the relationship with White City is that it's probably leading edge in the sense of partnering to make sure that you continue seeing the growth, which is something everybody applauds around the Assembly. But you know, some of the other communities that are struggling to find answers . . . Have you had much interest from a lot of other communities or have you got current operations that are in the various regions of Saskatchewan that we can compare White City to?

Hon. Mr. Cheveldayoff: — Thanks very much for the question. And you know, from our perspective we do see a real benefit for communities that are able to operate on a regional system. And I have in front of me a few of the regional areas that we have in the province and the operations that take place. You know, one of the largest, or the largest, is the Saskatoon area where potable water supply is about 22 different entities that, you know, share in the costs and the benefits of it as well.

So ideally if communities can work into a regional perspective, you know, we have the Melfort area. We have Wakaw, Humboldt. We have the Buffalo Pound system as well. The unfortunate part is that, you know, communities grow at different times, make decisions at different times, but I think it's fair to say whether it's water or treatment plants or landfills or whatever, as a government we're encouraging the regionalization and encouraging communities to talk to each other to see if they can amortize those costs amongst the different communities.

Mr. Belanger: — We've probably exhausted all the avenues of a regional water supply potential in the province. And I guess I'm looking at those communities that may be 40, 50 miles from each other where regional supply wouldn't work. Maybe it'll work in the sense that you can dig pipelines anywhere. But I guess from the northern perspective, say if a community comes up, and as the MLA [Member of the Legislative Assembly], and says, well we're trying to get a new water system here but we can't afford it, you know, am I in a position to say, well SaskWater can provide that for you, but you've got to sit down and chat with them and what they can put in and what you're responsible for and so on and so forth?

So I guess the question I would have is, are communities . . . Is SaskWater open for business for providing all the services for sewer and water and maintenance and replenishing all the lines that may be too old to be in the ground and they're breaking on a regular basis? Would you consider that as part of your core business?

[20:00]

Hon. Mr. Cheveldayoff: — Thanks very much for the question. And you know, above all we are a Crown corporation. And we want to provide the service to all Saskatchewan residents, so we'd be open to the discussion with communities, regardless of where they're located. But we're also a commercial entity and we have to have a return on investment, and it's very important to us to operate on a commercially sound basis.

So you know, I don't want to lead the member on in any way because where the model really works well is that leverage that we can gain off of existing infrastructure, where we can look at regional systems and add on to them and things like that. It's very difficult for communities that are quite a distance from other communities to actually go ahead and to do it. So there are certain challenges as well, but certainly we're interested in having those discussions with communities and advising them as best we can.

Mr. Belanger: — I would certainly find that answer encouraging in the sense that if perhaps we can't share the same water system because we're too far apart — I'm talking about the northern communities in general — but perhaps we can share the same supplier. Perhaps we can share the same technician. Perhaps we can share the same consultant or engineer that we need.

So if SaskWater is able to come along and say, look, we can do this and here's how we would do it, and provide a kind of leadership on that front, that was the point. There's other ways that you could collaborate amongst four or five communities, even though they're 30, 40, 50 miles apart, in the sense of providing a wide array of services. And that was my point. Because we often get questions from the northern communities as to meeting the challenge of their infrastructure for water and sewer, and it all relates to your long-term debt.

So if one were to say, yes, SaskWater is looking and is interested in these kind of proposals, the worst you can get is a no, so go and chat with them. Because I think in the North, where we would get some extreme benefit is a one-stop shop for advice, engineering services, supplies, that kind of service. So that's the reason I'm asking the questions, and I think a lot of communities would be interested in working with SaskWater on this front.

Hon. Mr. Cheveldayoff: — Thanks very much. And that's an excellent point. And you know, one great example that we have as well is the operations around La Ronge. We operate in La Ronge, in Air Ronge, and the Lac La Ronge First Nation. And they own the facility, and we come in and operate the facility and oversee operations of it and maintenance of it. So it's a win-win situation for all involved.

I just want to mention that, you know, when I go to a SARM [Saskatchewan Association of Rural Municipalities] convention or a SUMA [Saskatchewan Urban Municipalities Association] convention, I'm always meeting with communities who ask these types of questions of me. And I encourage them to, you know, whether it's SaskWater or Water Security Agency, or Environment, I encourage them to have those discussions. So we're more than willing to have those discussions with any communities that the member may have in mind.

The Chair: — Okay. Thank you, Minister. Seeing there's no more questions, we will adjourn the consideration of estimates, lending and investing activities for Saskatchewan Water Corporation.

Next the committee will examine the estimates, lending and investing activities for SaskEnergy Inc. So we'll just have a quick minute while we have a change of ministries and

officials.

[The committee recessed for a period of time.]

**General Revenue Fund
Lending and Investing Activities
SaskEnergy Incorporated
Vote 150**

Subvote (SE01)

The Chair: — Well I said before — committee is back — we're examining the estimates, lending and investing activities for SaskEnergy Incorporated. We'll begin the discussion with vote 150, SaskEnergy Incorporated, loans, subvote (SE01).

I welcome the minister and his officials that are here. I will ask him if wants to introduce his officials and if he has brief opening remarks. I will turn the floor over to the minister.

Hon. Mr. McMillan: — Great. Thank you, Mr. Chair, and thank you to the committee for hearing our estimates this evening. I will start off by introducing the officials that have joined me. Chief Executive Officer and President Doug Kelln is to my right. To my left is Cory Little, treasurer for SaskEnergy.

I have some brief remarks but then would be pleased to answer any questions you would have. SaskEnergy enjoyed another strong operational and financial year in 2013. The corporation is meeting the needs of its customers across Saskatchewan, and in doing so, fulfilling the priorities our government outlined for the Crown corporations.

Saskatchewan's population growth is reflected in SaskEnergy's customer base. The corporation added 7,700 new customers in 2013, the highest figure in two decades. SaskEnergy's customer base has surpassed the 373,000 customer mark. This has grown by 9 per cent since 2008.

Through its TransGas subsidiary, transmission volumes have increased by 27 petajoules in 2013, an increase of 11.2 per cent over 2012. SaskEnergy has made a significant investment in its distribution and transmission system to connect customers in a wide range of key Saskatchewan industries, including power distribution, potash mining, and enhanced oil recovery.

I would like to acknowledge for the committee the strong work done by SaskEnergy and TransGas employees this past winter. The extreme weather conditions created a 1-in-30-year winter with February being a 1-in-50-year month of . . . February is 1 in 50 years to get a February this cold. We'll all remember the period from February 28th to March 2nd when temperature records were shattered with wind chills into the mid-minus 50s. During this period no SaskEnergy customer lost service, thanks to the many SaskEnergy and TransGas staff working out in these extreme conditions.

Extreme temperatures in December contributed to a new record set by SaskEnergy for the most natural gas consumed by Saskatchewan customers in a 24-hour period ever. This record saw the delivery of 1.24 petajoules of natural gas to customers. This is a 5 per cent increase over the previous all-time record set in 2012.

As part of its commitment to safe and reliable service, SaskEnergy dedicated 94 million to system integrity in 2013, an increase of 15 million over 2012. This is yet another example of how SaskEnergy's top priority is the safe operation of its pipeline infrastructure in Saskatchewan.

Through this period of continued growth and increased use of natural gas by homes, businesses, and industry, SaskEnergy continued to effectively manage its costs. Efficiency measures generated \$5.5 million in savings in 2013, part of \$27 million in savings since 2009.

SaskEnergy supports our government's vision of sustainably growing with the province's economy, with its extensive ties to contractors and suppliers and its commitment to alliances and joint ventures with the private sector. SaskEnergy ensures that Saskatchewan advantage is a lasting one.

With these brief comments, Mr. Chair, we would be pleased to answer any questions that the committee may have in regards to the estimates.

The Chair: — Mr. Belanger.

Mr. Belanger: — I am obviously chitting in for the regular member that does sit in on this committee and probably has asked a lot of questions on the southern-based customers.

So I want to focus on my constituency a bit because I obviously wanted to come to the estimates tonight to chat about natural gas service to the Northwest. It's been something that I think is really important, and I think SaskEnergy may have spent quite a bit of time researching that particular option because the business community and the families of the Northwest certainly have been wanting natural gas. You look at the cost. I think somebody's paying \$100 a month even though the really cold winter months that you're speaking of. That is a significant advantage for a lot of businesses, and of course the people as well.

How much work and how much time have you or the officials spent recently on looking at the expansion of natural gas service to the Northwest? I'm talking about the communities of Green Lake, Beauval, Ile-a-la-Crosse, Buffalo, La Loche — that whole main highway stretch?

Hon. Mr. McMillan: — This is something that we, work we do with these communities and really any community or individual in Saskatchewan that wants natural gas. We will look at what the costs are to put it in. SaskEnergy has a policy of investing in infrastructure, and the decision is up to the customer whether they would want to go forward with it or not. When we're talking about putting in this type of infrastructure to communities or individuals that are a long way from the current infrastructure, costs can be very prohibitive.

I find myself in this situation. I have diesel fuel heating our house. It is because the cost is prohibitive. Even with SaskEnergy's investment in it, it still is prohibitive for that investment. The same is seen in other communities across Saskatchewan that have to weigh the options and look at the long-term cost of natural gas versus the long-term cost of the diesel or propane or other heating. So the decision ultimately

rests with the community that would have to come up with their portion of the funding to make it economic but we, on a regular basis, meet with and look at what the cost really would be.

Mr. Belanger: — What was the cost of the La Ronge line and what was the total distance of the La Ronge natural gas line?

Hon. Mr. McMillan: — The total cost was 24 million. It was split out 10 million to the communities. SaskEnergy invested 7 million, and the Government of Saskatchewan put in another 7. I believe 150 kilometres.

Mr. Belanger: — 150. Okay. And there must have been some scenarios drawn up, and I'm sure Mr. Kelln has been around for a long time. And I can remember a lot of people approaching him at the time and of course continuing to ask the question, has there been any work done on a feasibility plan, and how far along are we? Because I think the closest SaskEnergy, I guess, infrastructure piece is just north of Meadow Lake. I don't know how far north. But has there been any scenarios or any kind of drawings done up to suggest that this is the better route? And you look at Fort McMurray as an example. Is it a closer route coming that direction? Is there any kind of preliminary work to look at different routes for natural gas for the Northwest?

[20:15]

Hon. Mr. McMillan: — When we look at the communities, the infrastructure on the Saskatchewan side makes more . . . or is closer and is a more cost-effective option for these communities that are trying to decide whether to go forward or not. If there was infrastructure that was put in on the Alberta side and was closer, of course that would likely be the preferred option. But when we look the map today, the south is usually the best option. We have communities today that are looking at whether they would want to go forward or not. We put together a quote of what those costs would be.

Mr. Belanger: — See, based on the La Ronge model — and correct me if I'm wrong because my math skills are not all that great — but 150 kilometres and the cost is 24 million. That's what? Roughly 1.6 million a kilometre. Is that right? Or is it more?

But I guess my point being is that from Meadow Lake to the community of Buffalo Narrows is probably about, let's see: 50 into Green Lake and another 90 in to Beauval. That's 140. And another 90 in to Ile-a-la-Crosse, that's 230. And on to Buffalo, which is another 70. There's almost 300 kilometres that you'd have to put in the Northwest. And a lot of people don't . . . They think it's a lot more than . . . I assumed 150 kilometres you're putting into the Northeast was going to be costing a lot more than 24 million.

What would it take for SaskEnergy to say we're prepared to do this if the communities come up with X amount of dollars? I guess I'm asking you for a scenario. How would we convince SaskEnergy to come and bring natural gas to the Northwest?

Hon. Mr. McMillan: — As I said earlier, this is how these communities, if they want to put forward the cost of construction minus the investment from SaskEnergy, which is their model across Saskatchewan, this is the business

SaskEnergy is in.

Mr. Belanger: — Right, I guess we've got to start somewhere. My point is I wouldn't mind if you were to market SaskEnergy and tell the Northwest communities that, look the options we have here is, you want natural gas in Green Lake, this is the cost to Green Lake from Meadow Lake. You want natural gas in Beauval, this is the cost to Beauval.

I guess as their MLA I'm asking you what would those costs be. Have we done any kind of scenarios in the event that the Northwest does want to see that happen? Because natural gas from the consumer perspective is affordable. It's very steady, as you indicated. But more so, the business communities would benefit tremendously. And that's the whole argument that we have, is between the cost for the businesses and the consumers, the private homeowners, it'd be something that they would, I think, invest in. But where do they start? Where do they begin? Well I think SaskEnergy should provide some of that information.

Hon. Mr. McMillan: — No, you don't have to sell me on the benefits of natural gas and SaskEnergy. As I said earlier, some of those communities are currently asking for a quote from SaskEnergy. The cost of construction changes over time and we have been in discussion with them at several points in the past. At points in the past, some communities have moved forward. Some haven't. Some of those that haven't have again asked us to get them a quote. So that is what we do, and we will work with any community that would like natural gas service in their community.

As their MLA, there may be a role to coordinate. When the La Ronge project went forward, that was not natural gas going to La Ronge. That was natural gas servicing Montreal Lake, servicing Elk Ridge resort, servicing Christopher Lake. All the way along, people were contributing. The model here is SaskEnergy will invest proportionally, like they do all over Saskatchewan. But the communities of La Ronge or Christopher Lake, of Montreal Lake, all contributed what was left over to justify the construction.

So as an MLA, potentially if you brought those communities together . . . In the La Ronge example, a committee was struck of people from multiple different communities that coordinated how they would move forward, how they would get the funds required to put in their contribution. So today we are putting together quotes for individual communities that have approached SaskEnergy. But potentially you may be able to bring those communities together and do a more of a collective piece of infrastructure and bring that common voice together.

Mr. Belanger: — Yes, we're actually working on that. And that's one of the reasons why I wanted this evening's time with you, in the sense of seeing the appetite for SaskEnergy to look at these options. But I'm sure, like anything else, SaskEnergy, as you've indicated — and there may have been other instances where you have invested as a Crown corporation — you've invested, and I guess I'd use the phrase ate up some of the costs of providing the service, in the sense that you're getting more customers and you're stimulating the economy in a region that needs that stimulation.

So as in the La Ronge situation, my point being is I could forward you a letter and saying yes, can we have the officials come to Buffalo Narrows for a meeting? We're arranging seven or eight mayors to be there and a couple of chiefs. Can you come and sit down with us for a few days so we can figure this out? But obviously there must have been some work, preliminary work, being done. Or maybe I could suggest we do that this evening.

So in light of the potential meeting that we're working on, if we have that in place, then there's some real answers there. There isn't just, oh we'll get back to you in a few months. But here's the scenarios that we worked out. So that's what I'm trying to get at here tonight.

Hon. Mr. McMillan: — The answer to your question is yes, SaskEnergy is a gas distribution company. And if we can bring in more customers, it's better for the company. And this is on a regular basis, we are promoting our product and trying to get more customers.

Will we make a contribution? The answer to that is yes. Every rural customer in Saskatchewan that gets natural gas, they get a quote as to what it would cost to move gas from the pipeline to their farm or their shop. And then SaskEnergy invests \$1,500. They subtract off the cost.

The same is true when we go into a community in a different part of Saskatchewan, north or south. In La Ronge it was \$7 million when we looked at the number of customers, that we then calculated out what the contribution per customer would be, and it came out to \$7 million. So in the communities that you had mentioned earlier, again in each of those examples or in a collective example, there would be a proportionate calculation as to what it would cost and a proportionate calculation as to what the investment would be as well.

Mr. Belanger: — What's all involved with the natural gas line? Do you have to dig at a certain depth? And the reason I'm saying that is that all these towns have their own crews. They have maintenance crews. And they put in their own system as their contribution following the requirements of SaskEnergy. They're obviously probably very strict. But you know, can that be viewed as a contribution?

Because I noticed when the La Ronge line was going in, I'd travel up and down that highway for a number of reasons, and I'd see the progress they were making. And these crews were making good progress. So you know, it couldn't have been to a point where these things or the lines were 20 feet down and covered in sand and the whole bit, that they're probably pretty resilient lines.

So what's all involved when you put a distribution system to the La Ronge area in terms of the depth and the soil conditions and so on and so forth?

Hon. Mr. McMillan: — You're absolutely right. Any time a natural gas pipeline goes in, it meets some very high specifications for safety, for appropriate depth so it doesn't get easily split from a surface disturbance, so it's in an appropriate bed and doesn't chafe and get a hole.

SaskEnergy has very high standards as to what is acceptable and what isn't. They then have invested in this year's budget over \$90 million in integrity work. If we compare that to 2002-2003, it was around 10, 11, \$12 million worth of integrity. So the investments are being made on the front end — on the pipe, on the trenching, on the products that surround the pipe.

It's also investment, substantial investment from SaskEnergy on a yearly basis, to ensure that that pipe, once it's in the ground, remains safe and at a very high standard. The practice of who does the work, the contractor has to comply with all of SaskEnergy's engineering and standards. It is usually in an RFP [request for proposal] process on those major projects as to how that work would be allocated.

Mr. Belanger: — So how many of these companies exist in Saskatchewan that can actually do, are qualified and certified to install SaskEnergy lines?

Hon. Mr. McMillan: — There are a number of contractors that we have worked with for a long time in Saskatchewan, established relationships. There are new operators within Saskatchewan that want to bid and are bidding on SaskEnergy work. But as signatories to New West Partnership, when we put out a bid, it is in compliance with New West Partnership. And there is interest, from across the New West Partnership and beyond, in doing natural gas and putting in infrastructure here in our province.

Mr. Belanger: — Can your office send me a list of those that are certified to do this kind of work?

Hon. Mr. McMillan: — If we are going forward with a project, then we're going to put out an RFP. We first go forward with an RFQ, a request for qualifications. Anyone that meets our qualifications is then eligible for the RFP. So on any given project, we don't have a list of people that can apply. We have a public tendering process, the first step of which is the qualifications. So who went forward on the last RFP is possibly not the final list of who would go forward on the next or on a different one, different length or different challenges.

Mr. Belanger: — There must be three or four companies that you've worked with in the past that know what they're doing and are probably, I don't want to use the word heavy favourites, but would meet all the qualifications. Those are the companies that I would need if you have a few of the names.

Hon. Mr. McMillan: — The one that might be most relevant for the communities is, Timberline was the one that won the contracts out of Pierceland for the La Ronge infrastructure that went in the 2008 time frame.

Mr. Belanger: — Okay. Now in this scenario, because I'm obviously going to be taking up the minister's offer to have a bunch of communities come in and talk about this issue because it's a really important issue, we've been having a lot of folks that are continually reminding me that this is something that the business community wants, and they're quite keen on this. And obviously it's going to take a lot more work to organize everyone, but that's part of what needs to be done.

But in the scenario that, and I look at your home community of Lloydminster in the sense of, you know, you've got half the community in Alberta and half in Saskatchewan. Is there a partnership on the distribution of natural gas there? Like how does that partnership work?

Now the reason why I'm using that line of communication is the fact that perhaps in the Northwest we can connect Beauval and Ile-a-la-Crosse and Buffalo through the Meadow Lake line. [Inaudible] . . . a partnership for Fort McMurray, we can connect La Loche and Turnor Lake through that line. Maybe it makes a lot of sense because between Buffalo Narrows and La Loche, it's about 60 miles. And there's different ways that you can design these things. And that's why I think the Lloydminster example would be probably relevant to the La Loche-Fort McMurray connection. It might be better to go that direction.

So is there a precedent set through the Lloydminster example for an Alberta-Saskatchewan joint venture to connect La Loche and Turnor and the Clearwater Band — there's probably about 7 or 8,000 people in that area — and then do another connection through the Meadow Lake trunk? I guess that's the appropriate phrase that you use for gas.

So these are some of the things that a lot of people wouldn't mind finding out at this initial meeting. There's a lot of interest. And what's the cost for a business hookup versus a private home? Sask Housing Corporation, are they in a position to convert their electric heat, which they've recently done, to go into natural gas and the savings there for themselves as a Crown corporation? These are all the questions that people will have.

But the key thing I think the officials would be able to contribute there is the scenarios and the cost for the different routes. So I'd really encourage them to be engaged in that sense because the questions will come forward.

Hon. Mr. McMillan: — And I would say I don't think there's a need to overly complicate this with partnerships with Alberta to get natural gas into Saskatchewan. A large percentage of our gas comes from Alberta with pipelines. If you're serving Swift Current, a large portion of that gas is coming from a pipeline from Alberta. All the way across, just over 50 per cent of the natural gas we use in Saskatchewan today is coming from across the Alberta border through multiple different connections, some in the South, some at Pierceland. The pipe comes across so there would be no special partnership required. There would be nothing. It would be business as usual. Accessing natural gas through a pipeline to customers, that's SaskEnergy's core business.

And any of those communities you mentioned, the option to bring gas to their community would be based on their ability, or their interest, in coming up with their . . . bringing their partners together to make it economic. And be it from a pipe coming from the west or from the south, whichever would make more economic sense, would be more attractive to that community, SaskEnergy's in the business of getting gas and delivering it to customers. So they will be looking for the most efficient way to do it.

Mr. Belanger: — Okay. And in terms of the soil conditions,

I'm assuming that it's probably a bit more difficult to put the natural gas line into the La Ronge area than it would be to put natural gas to the Northwest because La Ronge has much more of the Precambrian Shield and the bedrock there is certainly a challenge. But it was done. It was completed. It was done. So I think it would be probably smoother sailing on the Northwest. But you know the questions of what kind of . . . What's the best soil conditions? What's the situation on moisture, like crossing small rivers or those challenges? These are some of the things that a lot of people will ask. So for the sake of time, can you respond to those questions and then that'll be it for me for tonight, Mr. Chair.

Hon. Mr. McMillan: — No. Any time that a community, a business, or a resident wants a quote from SaskEnergy, they look at how many road crossings, how many rail crossings, how many rivers, how many sloughs. That's what costs. The cost of the pipe, all these factors go into the quote, be it the business, the community, or the individual. SaskEnergy calculates the cost. They subtract the investment they're willing to make and if the community, the individual, or the business wants to go forward, we do. We want to have more customers to grow our business.

Mr. Belanger: — Sorry, I had just one final question. I have to ask the question. In terms of the federal government, I know at one time there was discussions with them on the La Ronge project. I don't think they came through with any contribution on their part. Is there anything that you're aware of, that the province is aware of in terms of the national government doing something to provide natural gas service to underserved regions of Saskatchewan and of Canada generally, whether it's through an environmental initiative or an economic plan? Nothing that you've heard of that would support that need?

Hon. Mr. McMillan: — No to the member. The distribution of natural gas, with the La Ronge example and beyond, has been something that they have not been engaged in particularly.

Mr. Belanger: — Well those are all the questions I have. I want to thank the officials for the answers, and if I can get their business cards after I'm done here and certainly may connect with them at a later date. But I thank the minister for the offer of having a meeting with our regional folks.

I think people will be quite interested in this project because that's one of the consistent questions we're getting from the business community — natural gas. Because all we have, there's diesel fuel or electric heat, which is high, and of course you've still got propane as well. But even housing authorities are getting away from diesel fuel because of the cracking of the fuel tanks and the leakage of diesel on to the property and contaminating the subfloor and the basements kind of thing. So they're getting away from diesel and going just to natural . . . or, sorry, to power, and that jacks up the costs of heating your homes through electric heat.

And the only other solution we have is what I do, is we have a combination of a wood stove and diesel furnace for the evenings. But I'm always being accused of clear-cutting when I go out and get wood. That's where I store my skidder because no human being can haul out that much wood in one day, they say. Just kidding.

So I think what's important is I take your offer to have the discussion at a regional level. I think people will show up and have a good, solid discussion. Thanks again.

The Chair: — Okay. Seeing no more questions, we will adjourn consideration of estimates, lending and investing activities for SaskEnergy Inc. We'll just take a one-minute break while we change ministries and officials. And I thank the minister and his officials for being here tonight.

Hon. Mr. McMillan: — If I could just thank the committee for their questions and thank my officials for being prepared for tonight's estimates. Thank you.

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Liquor and Gaming Authority
Vote 142**

Subvote (GA01)

The Chair: — Next the committee will examine the estimates, lending and investing activities, for Saskatchewan Liquor and Gaming. We will begin the discussion with vote 142, Saskatchewan Liquor and Gaming Authority, loans, subvote (GA01). I welcome the minister and her officials here tonight, and if the minister has any opening remarks she may make them now and also introduce her officials if she so wishes to.

Hon. Ms. Harpauer: — Thank you, Mr. Chair. And joining me here today from SLGA [Saskatchewan Liquor and Gaming Authority] are, to my right, Mr. Barry Lacey, president and CEO; and to my left is Ms. Val Banilevic . . . Am I close?

A Member: — Close.

Hon. Ms. Harpauer: — Okay. Director of financial services. SLGA's 2014-15 estimated financing requirements are represented for your consideration in vote 142. The amount is 125 million. The financing requirement relates to the capital projects initiated in 2012-13, the most significant of which was the replacement of the provincial network of video lottery terminals known as VLTs, along with the VLT central operating system. Initially the financing was done through a line of credit with the General Revenue Fund and this appeared as Crown corporation general debt. During the last year, SLGA and the Ministry of Finance mutually agreed to convert the line of credit to a series of short-term promissory notes which now appear as the government business enterprise specific debt, and that is why you will see SLGA listed in both sections.

So that's the conclusion of my remarks and I am prepared to answer questions.

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

Ms. Sproule: — Thank you very much, Mr. Chair, and thank you to the minister and staff for coming in this evening and answering these questions. The very first question I wanted to establish with the minister is, where can we locate the payee accounts for SLGA? Because they're not in the Crown disclosure report and I can't find them in the public accounts.

Hon. Ms. Harpauer: — They're tabled along with the annual report.

Ms. Sproule: — When I have the annual report for last year, is it a separate document from the annual report?

Hon. Ms. Harpauer: — It's an insert in the annual report.

Ms. Sproule: — I'm just looking at 2012-13. It must have fell out, I guess. Okay, I can't ask questions on that then.

Okay. I want to make sure I understand the report that you just gave on the debt. When I look at the core operational plan for '14-15 in terms of borrowing for Crown corporations, the planned borrowing is zero, and if I understand correctly, that's because you're not doing it through the Crown corporation borrowing at this point. It's through short-term promissory notes.

Hon. Ms. Harpauer: — That's correct.

Ms. Sproule: — Okay. And those are found, if I'm correct, on the next page then under government business enterprise specific debt.

Hon. Ms. Harpauer: — That's correct.

Ms. Sproule: — So page 48, and this \$125 million then seems to be a pretty stable number. Is this how much you borrow every year for your services or your needs?

[20:45]

Hon. Ms. Harpauer: — So typically SLGA does not borrow. They fund their capital projects through their cash flow, but this was a special borrowing because of the replenishment of the VLTs, which is a considerable cost.

Ms. Sproule: — So this is not an aberration, but sort of not a normal status for SLGA.

Hon. Ms. Harpauer: — Exactly. It's quite rare.

Ms. Sproule: — And that replenishment, is that finished now?

Hon. Ms. Harpauer: — Yes, it's completed.

Ms. Sproule: — Okay. I just wanted to touch a little bit on funding for the Yorkton harness racing; as you'll know, that's been in the news a little bit recently. And on April 11th the news announced there will no longer be standardbred harness racing in Yorkton in 2014. And into the future, the impact of that is they're losing, the exhibition has lost a large portion of their summer programming. Horsemen have lost a place to race in Saskatchewan. Hundreds of people have lost their Friday night entertainment. And Yorkton is losing an estimated economic impact of \$1 million. And if I understand correctly, the request to your government was an investment of \$200,000 per year for the next three years as they retooled to cover the loss of the betting tax.

Now last year in question period, we discussed this a little bit. We were focused more on West Meadows Raceway, but in your

response on April 24th of last year, you mentioned that, you know, Cornerstone, which is the Yorkton exhibition, would also say that there should . . . Well I'll have to read the question. They would say there wasn't enough revenue to warrant two home market areas. And I know we talked about that a little bit. What's changed between last year, when Yorkton I think was reported to support the Marquis Downs arrangement, and now where they're actually shutting down their operations?

Hon. Ms. Harpauer: — You would have to talk to Yorkton. But in fairness, I don't have the officials here for horse racing because we're here just for this one capital budget. So that's the questions that I'm prepared to answer tonight.

Ms. Sproule: — Thank you. Fair enough. You may not have officials for this next line of questions either. I just wanted to talk a little bit about your announcement on April 3rd that you were going to close public liquor stores in four rural communities: Ituna, Langenburg, Ponteix, and Kerrobert. And according to the press release, the claim was that it was a business decision on part of SLGA to close these stores. But the evidence is that they all have provided solid financial returns, and I have numbers from the last three or four years. So could you comment a little bit more on this business decision and why it was made without consulting with either the staff or the communities?

Hon. Ms. Harpauer: — Okay. Again, it doesn't have anything to do with this particular estimate that we're here tonight, but it was a business decision because SLGA will profit more from having a franchise, giving them the product with a 15.3 per cent discount, than they were making on those operations. This is not unusual to conversions that have taken place in the past.

Ms. Sproule: — I'm going to try this one. In your plan for 2013-14 — I have to find it — one of the key actions under your strategy to modernize your policy framework was to allow enhanced use of technology in the charitable gaming sector. Does that include on-reserve gaming?

Hon. Ms. Harpauer: — Yes.

Ms. Sproule: — Has SLGA made any consideration about online gaming on-reserve?

Hon. Ms. Harpauer: — We have had discussions in the past. We have chosen as a government not to. However those discussions are ongoing with the First Nations.

Ms. Sproule: — Is that with individual First Nations or with the . . .

Hon. Ms. Harpauer: — FSIN [Federation of Saskatchewan Indian Nations].

Ms. Sproule: — FSIN, FSIN. Okay. I do have a number of questions in relation to the plan for 2013-14.

The Chair: — I'll just remind the member, some of them questions might be better directed when we're dealing with the annual reports, because today we were just, this committee was just dealing with the lending and investing activities for the Crowns tonight, the four different Crowns. So I'll just ask the

member to try to focus more on the estimates of the lending and investing activities for Saskatchewan Liquor and Gaming. Thank you.

Ms. Sproule: — Okay. This could be short. Could the minister provide a detailed breakdown then of the \$125 million that were requested last year and then maybe the 125 that are planned. I think you have 125 forecast debt for 2014 and 2015. So I'm just wondering, is that the same 125 million or is it a new 125 million?

Hon. Ms. Harpauer: — It's the same 125 million. And these are approximates, but 98 million is the VLT program replacement, which is the replacement of the VLTs and the central operating system. There's 12 million for the slot program replacement, 14 million for the IT [information technology] system replacement, and about 1 million for building and equipment.

Ms. Sproule: — Could you just give me a little more detail on the 1 million for building and equipment?

Hon. Ms. Harpauer: — It's store maintenance.

Ms. Sproule: — Store maintenance.

Hon. Ms. Harpauer: — Yes, store and our warehouse maintenance. It's jacks, lifts, coolers. It's very minor renovations such as signage, boilers, light fixtures.

Ms. Sproule: — And I note that there is no plan to reduce the debt through the sinking funds in 2015. When do you expect this debt to be repaid?

Hon. Ms. Harpauer: — So because SLGA generates revenues, when there is surplus cash flow is the intent to write down the promissory notes. But we are mindful that we're also building a warehouse so that will also tap into the surplus cash flow.

Ms. Sproule: — So what is the anticipated term for payback of this investment in the VLTs?

Hon. Ms. Harpauer: — I'm being advised that it's fluid, that there isn't a goal set at this point.

Ms. Sproule: — So the intention basically is just let it sit on the books for now?

Hon. Ms. Harpauer: — For now, for this year, it is.

Ms. Sproule: — In terms of anticipated revenues, you say you do generate a significant amount of revenues. With the transition of some of your operations to franchises and then also the new stores being privately owned, are you anticipating that will have an impact on the revenue flow?

Hon. Ms. Harpauer: — The conversion of the stores will increase the revenue flow to SLGA. And by indication of the volume of the one private store that's opened, it's significant volume that's contributing to the revenues of SLGA.

Ms. Sproule: — I just wonder if the minister could explain that a little bit more, how the conversion of these stores — I think

it's called conversion in your term — will actually increase revenue flow?

Hon. Ms. Harpauer: — If the cost of operations is greater than the 15.3 per cent discount, then you generate higher revenues by allowing the sales with a 15.3 per cent discount.

Ms. Sproule: — Okay, I need to think about that one. I think that's the extent of my questions at this time, Mr. Chair. Thank you.

The Chair: — Does the minister have any closing remarks?

Hon. Ms. Harpauer: — To thank the member for her questions, as well as the officials for coming tonight.

The Chair: — Okay. We'll adjourn consideration of estimates of lending and investing activities for Saskatchewan Liquor and Gaming. And we will have a brief recess before the next minister and officials come for Saskatchewan Power Corporation.

[The committee recessed for a period of time.]

[21:00]

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Power Corporation
Vote 152**

Subvote (PW01)

The Chair: — The committee is back in session again. We will . . . Next up on the committee agenda, we're examining the estimates of lending and investing activities for Saskatchewan Power Corporation. We will begin the discussion on vote 152, Saskatchewan Power Corporation, loans, subvote (PW01). I welcome the minister here and his officials. And if the minister would like to introduce his officials, and also if he has some opening remarks he may make them now.

Hon. Mr. Boyd: — Thank you, Mr. Chair. Committee members, good evening. I'm joined here by a team from SaskPower: on my left Sandeep Kalra, chief financial officer; behind me over my shoulder is Guy Bruce, vice-president, resource planning; Rachele Verret Morphy, vice-president, law, land and regulatory affairs; Scott Chomos, business and financial planning; Donna Dressler, I don't see her — just stepped out — I think she's here this evening somewhere; and Jan Craig, consultant, stakeholder relations.

These are important times for SaskPower. In 2013 demand for power increased by 6.4 per cent, the highest annual growth in 20 years. SaskPower continues to grow steadily. Our electrical infrastructure needs to grow as well to support that growth. The environment that SaskPower operates within is complex and changing with growing demand, aging infrastructure, strident environmental regulations. Meeting this challenge requires sound investment, and SaskPower will continue to invest about \$1 billion a year for the long term to renew our province's electrical infrastructure.

While SaskPower invested 2 billion in our province's electrical generation system, total system, in 2013, they did it while holding operating costs steady. SaskPower will continue to look at a mix of generation options to meet our future needs while balancing costs and changing environmental regulations.

SaskPower will continue to balance the economic, environmental, and social needs of Saskatchewan while providing a reliable, affordable, sustainable product both today and in the years ahead. We have an infrastructure challenge to meet, investments to make, and a future to plan for. Mr. Chair, with those brief comments, we're willing to take questions, please.

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

Ms. Sproule: — Thank you very much, Mr. Chair, Mr. Minister, and the officials for coming out this evening. Just going to take a quick look here at the borrowing requirements plan for 2014-15. As indicated, they are \$676 million. I know the planned borrowing for '13-14 was 595 million and it actually . . . the forecast then turned into 949 million — quite a substantial leap — and now is down again this year. Could the minister and her staff just sort of walk us through those three numbers, why the jump was so great on the forecast and why it's back down again for this plan for this year?

Mr. Kalra: — I'll start with this year, 2014-2015 estimates. What is sort of common for all three years is that our cash flow from operations provides between 40 to 50 per cent of what's being invested in the business, and the rest needs to be borrowed. So in 2014-15 the cash provided from operating activities is expected to be 491 million. The capital expenditures are expected to be one billion, one sixty-eight so that leaves us a shortfall of 677 million to be financed through debt.

In 2013-14 the original estimate was the operating cash of 585 million. In the forecast that was reduced to 526, because the net income was reduced from 140 million to 94 million. The capital expenditures on the other hand were expected in the original estimates to be 1.12 billion, and in the revised forecast they were expected to go up to 1.413 billion. As a result, to fund these additional capital expenditures, the proceeds from issuance of new debt was expected to go up from 596 million to 950 million, so a slightly lower net income and higher capital expenditures during the same period.

Ms. Sproule: — Okay. I know that in your most recent financial report you were indicating your debt-to-equity ratio has gone up into a range that I think is probably as high as is recommended. Can you sort of address whether this is something you hope to bring down in the next couple of years, or is that going to be the norm for the next few years because of the massive infrastructure obligations?

Mr. Kalra: — Our capital structure asks for a debt ratio of between 60 per cent and 75 per cent. Over the last few years, as we have borrowed to invest in infrastructure, the debt ratio has gone up. It's at 70 per cent right now, 69.7 at the end of the year. We expect to continue borrowing for the next few years and the ratio would get up to 75 per cent which is the upper threshold. By the end of the decade, we expect this ratio to

come down to 70 per cent again as we start paying down the debt from additional cash flows. So this would still be in our expected range, going up to 75, and come back to 70 by the end of the decade.

Ms. Sproule: — I note that you are looking at a \$78 million increase in finance lease expenses as a result of the commissioning in the North Battleford generating station, and I'm just trying to understand why that's such an increase. So could you explain that?

Mr. Kalra: — So the North Battleford Energy Centre is a long-term lease, financed lease, with Northland Power and it's, I believe, it's roughly a 30-year lease agreement. And instead of borrowing as we do for most of our capital expenditures upfront, that lease entails we pay for that asset over the time of the contract which is roughly 30 years. So some of that . . . It's like mortgage payments. Some of that repayment goes to pay down the principal and the rest is for interest payment, and that's why you see a jump of the amount that you mention in the financed lease expenses year over year.

Ms. Sproule: — Is that 78 . . . You also have put \$702 million as a liability on your books for that same station. So how does that work in relation to the \$78 million finance charge?

Mr. Kalra: — The accounting treatment used to be before . . . [inaudible] . . . these changes that the finance leases were off books. They're not off books anymore. So we look at the cost of the asset which is roughly \$700 million. On day one this asset shows up on our books for 700 million and off-setting by the liability of the same amount.

As we make the payments, we accrue the interest expense and, you know, that's paid down and the amount of the asset gets depreciated down, and the amount of the lease obligation starts coming down by the amount of principal alone. So after 30 years we would have fully depreciated the asset. There would be nothing left and nothing would be left on the liability side as well.

Ms. Sproule: — So I'm just trying to understand the actual full payment that you will be paying over the 30 years. So it includes the \$702 million construction costs, plus the interest on the lease.

Mr. Kalra: — That's correct, yes.

Ms. Sproule: — So a \$78 million finance charge, what percentage of that is that on the total construction? Like what's the interest rate?

Mr. Kalra: — We'll have to calculate the inherent lease rate on that. I don't have that information with me right now.

Ms. Sproule: — I think that would be something important to be able to determine what sort of financing, what the financing actual costs are, vis-à-vis whether SaskPower had constructed the plant itself.

Mr. Kalra: — That's correct. And those costs would be higher than if we had borrowed it ourselves. There is some . . . there is a bit of a difference, because when we do IPP [independent

power producers] we do transfer some of the risks to the proponent. So the overage costs when we build the project, if the cost goes up, it becomes the proponent's responsibility, not our responsibility. And also the proponent takes the operational risk for a 30-year period. We don't have that risk either. So we do pay more as compared to what we would be able to borrow, but there is some risk transference as well.

Ms. Sproule: — Are you aware of whether there were cost overruns in the construction?

Mr. Kalra: — I'm not aware of it.

Ms. Sproule: — And then in terms of operational risks, I understand in the power purchase agreement that you've executed with Northland Power, there are in addition to I guess you paying for the lease over 30 years, there are a number of tariffs which are locked-in tariffs, if I understand correctly, which are of benefit to Northland Power. So what risks are they taking in this arrangement?

Mr. Kalra: — As I said, it's the upfront construction cost risk and the ongoing risk, kind of the technology risk, the ongoing operation risk, the risk of, you know, the salaries of the people, the risk that the people would be available at any given point in time.

Ms. Sproule: — In terms of the costs of operating the plant — am I correct? — all the prices for the natural gas are basically guaranteed. Is that not . . .

Mr. Kalra: — We take that risk. It's a flow-through, so SaskPower takes the natural gas risk.

Ms. Sproule: — Okay. One of the tariffs was pre-commercial operation date full-load price for metered energy expressed in dollars per megawatt hour. What was the total amount of that pre-commercial operation date cost?

Mr. Kalra: — I'll have to get back to you on that one. I don't have that information available right now.

Ms. Sproule: — Thank you. I note that in the . . . I have to find this now. We were looking at the payee disclosure reports for SaskPower. There's a number of items that are excluded from public reporting. And we see that there's I think at least eight payees under the category of payment information excluded from public reporting, and three of them are commercially sensitive. Would that include Northland Power?

Mr. Kalra: — Northland and any other IPPs, we do not disclose the payments made to them and that's because the . . . with the confidentiality agreement that we have signed with the proponents, so their information is not, you know, compromised, and the competitors don't have access to it.

Ms. Sproule: — I guess that's something that's confusing to me, because there are no competitors in this context.

Mr. Kalra: — When we issued the RFP, there were lots of proponents. And Northland was the successful proponent because they were, you know, they were a qualified bidder and they had the lowest bid. And so that's why we . . . They like to

keep that information confidential, and we would like to keep that information confidential as well under the terms of the agreement.

Ms. Sproule: — I mean obviously if SaskPower had chosen to do this internally, which it certainly has the capacity to do, that kind of information would have been made available to the public. And I guess the concern is the day that Northland Power signed the power purchase agreement, their shares went up and have almost doubled ever since. So their shareholders are very happy with the arrangement, but the public doesn't get to know why, and there seems to be no reason to not disclose it. There's no one else in competition with them now. So why does it remain confidential at this point?

Ms. Verret Morphy: — I can answer that question. The power purchase agreements all have confidentiality provisions that we have negotiated with the independent power producers. Typically they require the information to remain confidential, because it represents their competitive position. That is how they compete. That is their trade information, and they will lose their, in some cases, competitive advantage if that information is known to their competitors, the price that they are able to charge an owner under a power purchase agreement.

Ms. Sproule: — Would that then suggest that SaskPower's contemplating entering in other arrangements like this in the future? Is that why it's still competitive?

Hon. Mr. Boyd: — I would take that question. SaskPower and the Government of Saskatchewan would always reserve the right to look at power purchase agreements now or into the future if it makes sense. Absolutely the Government of Saskatchewan would consider it. If it doesn't make sense, we wouldn't.

Ms. Sproule: — I guess the concern is the fact that the public doesn't get a chance to see whether this is benefiting the people of Saskatchewan. And all that we can see is that Northland Power shares have doubled since the agreement was entered into.

[21:15]

Hon. Mr. Boyd: — Well I'm not sure that would be the only reason they've doubled, but nevertheless we'll take that at face value. I would say that the competitive position of SaskPower or companies that they deal with is something that has a long-standing practice of some of the information being confidential. This is nothing new at all. This is a practice that has been a well-worn practice of SaskPower and other Crown corporations.

Ms. Sproule: — There's one other payee disclosure that's withheld, payee no. 9. It's \$155 million, and this is from the year ended 2012. I'm assuming that this is continuing in this year, last year and this year. But it refers to a minute from the Standing Committee on Crown and Central Agencies, minute no. 23. And it says, does not apply to payments made pursuant to SaskPower purchase contracts or power agreements. So would Northland . . . I'm just trying to determine which one they fit in. Is it under (f) or (g) in these categories you have established in your disclosures? Is this the one that . . . Does it

fall under minute 23, which is a separate category to the commercially sensitive information?

Mr. Kalra: — I don't have the copy of the payee disclosure at this point with me, so we'll have to get back to you on that one.

Ms. Sproule: — Thank you. Maybe a couple of other questions on this finance lease obligations. In last year's annual report you talked about a principal repayment of finance lease obligations, and that was negative \$5 million. And then the net increase in finance lease obligations was \$7 million. That's under financing activities. Could you just explain that in layman's terms?

Mr. Kalra: — Sorry. What page are you on, if you could?

Ms. Sproule: — 51. 2013.

Mr. Kalra: — So what this is showing is the . . . from a cash flow, this is one section of the cash flow which shows the cash coming in and out. So if you look at the top two, that's when we issue a short-term debt or long-term debt. So 40 million comes in and 690 million comes in. 101 is repayment of long-term debt, 7 million after that is redemption of the debt retirement fund, 5 million is the repayment of lease obligations. So that's like paying our long-term debt. But in this case it's not the debt, it's on the finance fees obligations. So think of that as another type of debt which is being paid down by 5 million in this case.

Ms. Sproule: — And then the next line, net increase of finance lease obligations?

Mr. Kalra: — That's right. So that would be another lease that we signed. So it's showing both ins and outs so that's why you see those two lines.

Ms. Sproule: — So just so I understand, you have leases that you have issued to other parties. That's the cash flow in, and that's the interest on those leases and then . . .

Mr. Kalra: — This is just the principal.

Ms. Sproule: — Only the principal?

Mr. Kalra: — Yes.

Ms. Sproule: — Okay, and then down below on that page under capital management there's a line there, finance lease obligations as of December 31st, 1 million, or is that 1.137 billion?

Mr. Kalra: — That's right, yes. So that's the total amount of finance lease obligations outstanding, so this is a discounted amount of that obligation. And that goes up by, you know, roughly \$700 million. So that's mainly because of the NBEC [North Battleford Energy Centre].

Ms. Sproule: — So prior to Northland coming on stream the leases were around 435 million and now they're \$1.1 billion.

Mr. Kalra: — Yes.

Ms. Sproule: — Okay.

Mr. Kalra: — So the NBEC lease is for 20 years, not for 30 years. But the same principle applies as for 20 years.

Ms. Sproule: — On page 63 you're talking about, at the very bottom, your financing requirements for this past year would include 207 million in principal and interest payments, 34 million in debt retirement fund instalments, and 164 million in minimum lease payments under existing PPAs [power purchase agreement]. So that 164 million, how many power purchase agreements does that relate to?

Mr. Kalra: — That's all of our power purchase agreements, and that's principal and interest combined.

Ms. Sproule: — Okay. How many in total are there?

Mr. Kalra: — We'll have to get that information to you but I think it's got to be between five and ten, but we'll get that information for you.

Ms. Sproule: — Thank you. And then it goes on to say, "Included in the future minimum lease payments is the availability payments related to the power purchase agreements, which have been classified as finance leases." What is an availability payment?

Mr. Kalra: — Availability payment is the minimum fixed payment that needs to be made under a lease contract, and that's based on the availability of the plant. So if it's available we would make that payment, irrespective whether we use it to generate power or not. If we generate power, then we have additional fuel expenses, fuel costs of that.

Ms. Sproule: — Are there some of the PPAs where the plant hasn't been used?

Mr. Kalra: — In some cases we don't use all of our plants 100 per cent of the time because the load fluctuates from, you know, peak load to . . . for example, nighttime the load would be a little bit lower. So all plants fluctuate on any given day, so they're not used 100 per cent of the time.

Ms. Sproule: — Right. So there's the base, what you call the availability payments, just basically a retainer fee in some ways.

Mr. Kalra: — It's there for your use. Whether you use it or not, you pay for it. If you use it, then you have additional operating costs and the fuel costs.

Ms. Sproule: — And those additional costs are generally reflected in the agreements as tariffs?

Mr. Kalra: — Yes.

Ms. Sproule: — Okay. I don't know how much time I have left. Just a couple of other questions, I guess. In terms of, you know, we know that you were just before the rate review panel and were given two out of the three years requested. What's the impact of not getting the full three years as requested on your operations?

Hon. Mr. Boyd: — Really there is no impact because it's two years out. I guess this was something that as a government we

wanted to take a look at, was a longer term rate application. This isn't something that has been done before so it was, oh I think in some respects a little bit of an experiment to take a look at this. What we've been hearing from a lot of customers is that they would like some degree of rate certainty going forward so that they have a sense of, you know, what impact it may or may not have on their business operation. So the first year was accepted by the rate review panel; the second year, with some conditions. And then the third year, you know, meeting the folks on the rate review panel and their explanation being that it is difficult to forecast that far out, both the demand and also the, well certainly the demand anyway, going forward. So I don't think it'll have a great impact. It was something that we wanted to take a look at in terms of that stability question.

Ms. Sproule: — We know that there are cost overruns now on the Boundary dam, the CCS [carbon capture and storage] project, and also the Queen Elizabeth power station. Are those cost overruns, have they been factored into these rate increases that have been granted or they will be further rate increases?

Mr. Kalra: — There are no cost overruns on the QE [Queen Elizabeth power station]. The project is still, you know, running according to plan. When the rate application was put together, the BD3 [Boundary dam 3] increases were not factored in because at that time it was expected to be on budget, so it wasn't there. Now that we know, what we have done is we've kept our capital budget for next year at \$1.2 billion. So we have taken out some of the other capital expenditures. We have moved it out. We have deferred it. So our capital expenditure hasn't changed. It's still 1.2. So as a result our borrowing requirements, you know, won't change for 2014-15.

Ms. Sproule: — Just at some point those other costs will have to be factored in.

Mr. Kalra: — The other thing which has happened is in the next rate application, we're not getting our 8.5 per cent ROE [return on equity], so we factored in this impact of this huge capex [capital expense] and where we haven't asked for 8.5, we only asked for a rate of 2 per cent. So we tried to minimize the impact now from a rate impact point of view.

Ms. Sproule: — Okay. And are there any cost overruns in relation to the smart metering project that's under way?

Mr. Kalra: — No. The project is running according to plan. This year we would have roughly 30 per cent coverage by the end of this year, so roughly 130,000 meters would be in place. And then we may take a pause to see how they perform, how the end-to-end metering to billing system is working, see that for a year or so and after that end, you know, install the rest.

Ms. Sproule: — Okay. Thank you. I have no more questions, Mr. Chair.

The Chair: — Thank you, Ms. Sproule. Does the minister have any closing remarks?

Hon. Mr. Boyd: — Thank you, committee members, for the questions this evening, and thank you to the officials from SaskPower for their assistance here this evening. Thank you.

The Chair: — Thank you. And yourself?

Ms. Sproule: — Just a thank you to the minister and staff for, as always, your careful and thorough explanations to my questions. Thank you.

The Chair: — I want to thank the minister and officials for appearing before the committee, and we can excuse you.

And we have a little more business to carry on with. The committee has considered estimates and supplementary estimates throughout the session. It's agreed that the committee will now vote on the estimates and the supplementary estimates that are before the committee.

General Revenue Fund Central Services Vote 13

The Chair: — We will start on the 2014-15 main estimates. So the first vote is vote 13, Central Services, central management and services, subvote (CS01) in the amount of 48,000. There is no vote as this is statutory.

Property management, subvote (CS02) in the amount of 7,063,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Transportation and other services, subvote (CS05) in the amount 8,819,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Project management, subvote (CS03) in the amount of zero. This is for informational purposes only. There is no vote needed.

Information technology office, subvote (CS11) in the amount of 18,494,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Major capital asset acquisitions, subvote (CS07) in the amount of 33,273,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Non-appropriated expense adjustment in the amount of 420,000. Non-appropriated expense adjustments are non-cash adjustments presented for information purposes only. No amount to be voted.

Central Services, vote 13, 67,649,000. I will now ask a member to move the following resolution:

Resolved that there be granted to Her Majesty for the 12 months ending March 31st, 2015, the following sums for Central Services in the amount of 67,649,000.

Is that agreed? Oh, I need a mover. Sorry. Mr. Parent has so moved. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

[21:30]

**General Revenue Fund
Finance
Vote 18**

The Chair: — Vote 18, Finance, page 61. Central management and services, subvote (FI01) in the amount of 6,448,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Treasury and debt management, subvote (FI04) in the amount of 2,326,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Provincial Comptroller, subvote (FI03) in the amount of 11,608,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Budget analysis, subvote (FI06) in the amount of 5,434,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Revenue, subvote (FI05) in the amount of 19,805,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Personal policy secretariat, subvote (FI10) in the amount of 508,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Research and development tax credit, subvote (FI12) in the amount of 15,000,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Miscellaneous payments, subvote (FI08) in the amount of 98,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Pensions and benefits, subvote (FI09) ... [inaudible interjection] ... Oh, sorry. We'll just do miscellaneous payments, subvote (FI08) in the amount of 95,000 instead of 98. 95,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Okay, thank you. Pensions and benefits, subvote (FI09) in the amount of 157,908,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Non-appropriated expense adjustments in the amount of 688,000. Non-appropriated expense adjustments are non-cash adjustments presented for information purposes only. No amount to be voted.

Finance vote, 219,132,000. I will now ask a member to move the following resolution:

Resolved that there be granted to Her Majesty for the 12 months ending March 31st, 2015, the following sums for Finance in the amount of 219,132,000.

Mr. Makowsky: — I'll move.

The Chair: — Mr. Makowsky has so moved. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

**General Revenue Fund
Public Service Commission
Vote 33**

The Chair: — Next vote 33, Public Service Commission, central management and services, subvote (PS01) in the amount of 5,502,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Employee service centre, subvote (PS06) in the amount of 11,373,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Corporate human resources and employee relations, subvote (PS04) in the amount of 3,312,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Human resources client services and support, subvote (PS03) in the amount of 14,489,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Non-appropriated expense adjustment in the amount of 1,500,000. Non-appropriated expense adjustments are non-cash adjustments presented for information purposes only. No amount to be voted.

Public Service Commission, vote 33, 34,676,000. I will now ask a member to move the following resolution:

Resolved that there be granted to Her Majesty for the 12 months ending March 31st, 2015, the following sums for Finance in the amount of \$34,676,000.

Mr. Parent: — I so move.

The Chair: — Mr. Parent has so moved. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

**General Revenue Fund
Finance — Debt Servicing
Vote 12**

The Chair: — Vote 12, Finance, debt servicing, statutory, page 67. Debt servicing, subvote (FD01) in the amount of 263,000,000. There is no vote as this is statutory.

Crown corporation debt servicing, subvote (FD02) in the amount of 22,000,000. There is no vote as this is statutory.

Finance, debt servicing, vote 12, 285,000,000. There's no vote as this is statutory.

**General Revenue Fund
Fund Transfers
Growth and Financial Security Fund
Vote 82**

The Chair: — Next vote is vote 82, Growth and Financial Security Fund. Growth and financial security transfer, subvote (GF01) in the amount of 52,700,000. There's no vote as this is statutory.

**General Revenue Fund
Lending and Investing Activities
Municipal Financing Corporation of Saskatchewan
Vote 151**

The Chair: — Next vote is vote 151, Municipal Financing Corporation of Saskatchewan, loans, subvote (MF01) in the amount of 53,300,000. There is no vote as this is statutory.

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Liquor and Gaming Authority
Vote 142**

The Chair: — Vote 142, Saskatchewan Liquor and Gaming Authority, loans, subvote (GA01) in the amount of zero. There is no vote as this is statutory.

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Power Corporation
Vote 152**

The Chair: — Vote 152, Saskatchewan Power Corporation, loans, subvote (PW01), the amount is 676,700,000. There is no vote as this is statutory.

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Telecommunications Holding Corporation
Vote 153**

The Chair: — Vote 153, Saskatchewan Telecommunications Holding Corporation, page 151, loans, subvote (ST01) in the amount of 133,500,000. There's no vote as this is statutory.

**General Revenue Fund
Lending and Investing Activities
Saskatchewan Water Corporation
Vote 140**

The Chair: — Vote 140, Saskatchewan Water Corporation, also on page 51, loans, subvote (SW01) in the amount of 10,000,000. There's no vote as this is statutory.

**General Revenue Fund
Lending and Investing Activities
SaskEnergy Incorporated
Vote 150**

The Chair: — Vote 150, Saskatchewan Energy Incorporated, loans, subvote (SE01) in the amount of \$88,900,000. There's no vote as this is statutory.

**General Revenue Fund
Change in Advances to Revolving Funds
Vote 195**

The Chair: — Vote 195, change in advances to revolving funds, statutory. Change in advances to revolving funds, vote 195 in the amount of zero. This is for informational purposes. There is no vote as this is statutory.

**General Revenue Fund
Debt Redemption, Sinking Fund and Interest Payments
Vote 175, 176, and 177**

The Chair: — Vote 175, debt redemption. Vote 175 in the amount of 950,946,000. There is no vote as this is statutory.

Vote 176, sinking funds payments - government share, statutory. Sinking fund payments - government share, vote 176, in the amount of 44,128,000. There is no vote as this is statutory.

Vote 177, interest on gross debt - Crown enterprise share, statutory. Interest on gross debt - Crown enterprise share, vote 177 in the amount of zero. This is for informational purposes. There is no vote as this is statutory.

**General Revenue Fund
Public Service Commission
Vote 33**

The Chair: — At Public Service Commission, we need a . . .

Resolved that there be granted to Her Majesty for 12 months ending March 31st, 2015, the following sums for Public Service in the amount of 34,676,000.

Mr. Hickie has so moved. All those in favour?

Some Hon. Members: — Agreed.

The Chair: — Carried.

**General Revenue Fund
Supplementary Estimates — March**

**Finance
Vote 18**

The Chair: — We will now move on to the supplementary estimates for March of 2013 and '14. On supplementary estimates we have vote 18, Finance, which is on page 3, research and development tax credit subvote (FI12) in the amount of 18,200,000, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Pensions and benefits subvote (FI09) in the amount of 2,744, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Finance, vote 18, 20,944,000. I will now ask a member to move the following resolution:

Resolved that there be granted to Her Majesty for 12 months ending March 31st, 2014, the following sums for Finance in the amount of 20,944,000.

Mr. Moe has so moved. Carried. All those in favour?

Some Hon. Members: — Agreed.

The Chair: — Agreed. Sorry, we're going to go back to pensions and benefits subvote (FI09). It's the amount of — and I thought that was wrong just the way it was written — it's 2,744,000. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Yes. Mr. Moe has so moved. Is that carried?

Some Hon. Members: — Agreed.

The Chair: — Agreed.

Committee members, you have before you a draft of the fifth report of the Standing Committee on Crown and Central Agencies. We require a member to move the following motion:

That the fifth report of the Standing Committee on Crown and Central Agencies be adopted and presented to the Assembly.

Mr. Parent.

Mr. Parent: —

That the fifth report of the Standing Committee on Crown and Central Agencies be adopted and presented to the Assembly.

The Chair: — Is that agreed to?

Some Hon. Members: — Agreed.

The Chair: — Carried. Okay, I think we've gone through all the estimates, so I will thank the committee for the hard work and the members for the hard work that they did. I will ask a

member to move adjournment. Mr. Bjornerud has moved adjournment. Is that agreed to?

Some Hon. Members: — Agreed.

The Chair: — Carried. This committee now stands to the call of the Chair.

[The committee adjourned at 21:45.]