

Saskatchewan Power Corporation

The Chair: — Good morning, everyone. Welcome to our first meeting to discuss 1996 annual reports. And also welcome to our 50th anniversary meeting. I would like to welcome a new member to the committee, Ben Heppner, and I hope that you enjoy the proceedings as much as Mr. D'Autremont seemed to have enjoyed them.

As committee members will know, what we do customarily is ask the minister, after he's introduced his officials, to make a brief opening statement about the state of the current Crown that we're considering and to highlight any issues that he feels should be drawn to the committee's attention.

I then ask the Provincial Auditor to make a comment, and the representatives from the private auditing firm to also make a comment. So I will follow that procedure. We will be adjourning at 10:30 this morning because we will be having an anniversary photo taken of the committee up in the reading room of the library.

Since there will only be about an hour and a half to consider this very major Crown, I seriously doubt that we will complete our deliberations on this today. So it's my intention to call SaskPower back in early May. Just forewarning you.

Having said that, I will now call on the minister to introduce his officials and take away the show.

Hon. Mr. Lautermilch: — Thank you very much, Madam Chair, and to all the members of the committee, welcome. I guess we're starting a new round of scrutiny on the public assets that are in the form of Crown corporations that we've been experienced in. And I guess this is now 50 years, I'm told by the chairman this morning, with respect to the history of this committee. And so I'm looking forward to the deliberations.

I'd like to begin by introducing my officials as the Chair has asked I do. I have to my right, the president and chief executive officer, John R. Messer; Carole Bryant is also with us, the executive vice-president of corporate and business services. If you guys can just raise your hands as we go through this.

Michael Hogan, who is the president and CEO (chief executive officer) of SaskPower Commercial; Ken Christensen, to my right, is the vice-president of finance and information systems; Tony Harras, vice-president and general manager of systems operations and decision support; Jack Huntington is the acting VP (vice-president) and general manager of customer services; Rick Patrick is the vice-president and general manager of power production; Roy Yeske, the vice-president and general manager of transmission and distribution; and as well, Judith Fox, who is executive coordinator.

I'd also like to introduce the accountants for the corporation, Rupert James and Ron Ellis, who are senior partners from the corporation's firm, accounting, firm of Ernst & Young. So, welcome all.

My presentation is going to be brief, Madam Chair. I would like to concentrate on reviewing what has been the most successful year in SaskPower's history and it's been a result of corporate restructuring, a focus on competition, and a customer focus service.

Specifically, I want to deal with some of the 1996 financial highlights; the benefits secondly, to SaskPower customers and the taxpayers of the province; and thirdly, the corporation's business results in preparing for competition, including the benefits of rate adjustments and the reconstruction charge.

I'm going to begin with the financial highlights. In 1996, SaskPower recorded, as you will see in the financial statement, a net income of \$139 million, which is a 74 per cent increase over 1995, and that is in fact the best financial results in the Crown's 67-year history.

And this was due mainly to sharply reduced operating expenditures and solid revenue growth. The rate rebalancing, I want to say to all members of this committee, did not contribute to the higher profit because the increases for certain customers were offset by rate reductions for our large-volume customers as we had committed to do in the '95 rate review.

Operating, maintenance, and administrative expenditures dropped nearly 16 per cent or \$37 million, which has demonstrated immediate financial benefit as a result of SaskPower's reconstruction.

On the revenue side of the equation, revenues increased by 107 million, and that was due partly to increased power usage in all customer categories. I am pleased to say that SaskPower's income enabled the corporation to pay a \$76 million dividend to Saskatchewan taxpayers, and the corporation as well was able to pay down \$124 million on its long-term debt.

The corporation had a solid 12-month performance. It puts SaskPower among Canada's top 60 corporations in asset size in that income. And that's an important milestone for us in Saskatchewan — for our economy and ... both for our economy and for our people.

I'd like to turn just briefly to the long-term picture. SaskPower continues to demonstrate progress in achieving key financial targets, bringing each of these five targets closer to a competitive industry standard. It included almost a three point improvement in the corporation's debt/equity ratio and a doubling of internal funding; internal — and I want to underline that — of capital expenditures.

In 1996 SaskPower exceeded the corporation's traditional high level of contribution to Saskatchewan's way of life. As well as playing a healthy ... paying a healthy dividend and reducing the province's debt, the corporation contributed a half a billion dollars through purchases from local suppliers, money paid in lieu of taxes and the municipal surcharge, royalties to communities, royalties, water rentals, and corporate capital tax, and employee earnings. So all of that added up to around a half a billion dollars.

The corporation also contributed substantially to local and provincial community endeavours. In 1996 the corporation . . . and in '95 was working very diligently and hard to prepare for the oncoming competition. We have made some major strides in providing customers improved services at competitive prices.

I think it's important to note that even after the rate adjustments approved in 1996, Saskatchewan residential and farmers received their electrical services at 85 and 87 per cent respectively of the cost of providing that service. Saskatchewan families still pay less for their power than families anywhere else in Canada.

Further, no electric utility in Canada has been able to follow SaskPower's lead in ensuring farm and residential customers a rate freeze until the year 2000, which I can commit to members of this committee, we intend to honour.

Due to the rate rebalancing, SaskPower began to sign long-term contracts with our large-volume customers. This included a 10-year multimillion dollar contract with Interprovincial Pipe Line and TransCanada Pipelines. These long-term contracts mean secure revenue for SaskPower, jobs and economic development for the province, and as well, competitive prices and improved service for our customers.

Negotiations with other key accounts will be completed this year. Progress here is crucial because while SaskPower . . . while commercial and industrial customers are only 14 per cent of SaskPower's customer base, they purchase 63 per cent of the corporation's production.

As promised to customers during the 45-day review process, the reconstruction charge is being kept in a special account and used only for updating Saskatchewan's ageing power transmission and distribution system.

Opinions from the utility accounting experts at three national accounting firms say that this is an appropriate way to account for the reconstruction cards . . . charge — a capital contribution. One of those experts is a member of the national accounting standards board of the Canadian Institute of Chartered Accountants.

In 1996 the reconstruction charge was used for urban, community, and rural upgrades. These included replacing overhead primary distribution lines with underground facilities in about 300 farmyards. As well, system improvements were paid for at Taylor Field, Blaine Lake, Meadow Lake, and at Pike Lake as well.

Moving to service development, SaskPower prepared a five-year strategic marketing plan and began investing in new products and services to be launched in 1997. Beyond Saskatchewan's borders, SaskPower Commercial pursued or continued strategic business partnerships in Ukraine, Pakistan, India, and Guyana. No money has been invested in Guyana to date, since the commercial terms are still being negotiated. And I want to tell members of the board that the project will only proceed if these terms appropriately mitigate the risk and ensure a real commercial rate of return.

In conclusion, Madam Chair, the points that I attempted to make in my opening remarks were that 1996 was a record year for SaskPower. The corporation is contributing in a major away, as it has in the past, to the financial turnaround which the province of Saskatchewan is now enjoying. I want to, as well, state that SaskPower is now poised to compete head-on with all competitors in a deregulated market-place.

So far 1997 looks like it will be another solid year of progress for Saskatchewan's power company. And with that, Madam Chair, I'd like to thank you for allowing me this time and I would be pleased to attempt to answer committee members' questions over the deliberations. Thank you.

The Chair: — Thank you very much, Mr. Lautermilch. Before we do that we will move to the auditor's statements.

Mr. Strelloff: — Thank you, Madam Chair, and good morning. I'm going to turn it over to the officials from Ernst & Young first, Mr. Rupert James.

Mr. James: — Okay. Thank you very much. Madam Chair, yes, for the committee's information, my name is Rupert James. I'm an audit partner with Ernst & Young; I'm here in Regina, and I have overall responsibility for the audit work that we perform on the financial statements of Saskatchewan Power Corporation.

If I could turn your attention to page 34 of the 1996 annual report, you will note at the bottom of the page, our auditor's report on the 1996 financial statements. This report, as you would expect when there is a clean opinion or an unqualified opinion, is three paragraphs.

The first simply states the year that we're talking about and the corporation that we're talking about and the fact that these financial statements are the responsibility of the company's management, and that our responsibility is to express an opinion on those financial statements.

And the second paragraph simply states that we conducted our audit in accordance with generally accepted standards of our profession to do so.

And the third paragraph — the most important paragraph, I would submit — is the opinion. And this is our professional opinion — that these financial statements for the year ended December 31, 1996 present fairly, in all material respects, the results of the year in accordance with the benchmark that we must use in our profession for measuring fairness and that is, generally accepted accounting principles.

I can say that there is one item in these financial statements that is new this year from the perspective of accounting policies. When you go through the financial statements you will notice that all the policies are pretty much the same as the previous year, except for the capital reconstruction charge. And the capital reconstruction charge is, in our opinion, accounted for as a non-revenue item, appropriately, for four reasons.

It is consistent with the rate structure that was approved by the

bodies with statutory authority for approving the rates, and that is the board of Crown Investments Corporation, and subsequently the rates were approved by cabinet.

Secondly, this treatment as a non-revenue item is in accordance with generally accepted accounting principles, in our opinion.

Thirdly, it is consistent with SaskPower's historic accounting for other customer contributions that they have been treating that way for many years. And in fact other organizations treat similar customer contributions in the utility industry the same way across Canada.

And fourthly, the fourth comment was that it is consistent with other utilities accounting for capital contributions.

I guess one other point I could make on that is the fact that when SaskPower was considering recording or . . . I should restate that. When SaskPower was considering the rate, the capital reconstruction charge, the first step they took was to internally have their professional accounting people do research on the matter. They then consulted with us as to whether the proposed treatment would be appropriate, in accordance with generally accepted accounting principles.

We researched the matter ourselves. I involved Mr. Ron Ellis here, who is a senior member of our national accounting group for accounting standards. Mr. Ellis has extensive experience working with electric utilities and other utilities across Canada. Ron is a member of the Canadian Institute of Chartered Accountants Accounting Standards Board, which is the primary source of generally accepted accounting principles in Canada, and which in fact produces the recommendations that appear in the CICA handbook.

So I would conclude my remarks by saying that in our opinion the company followed appropriate due diligence in addressing the issue internally, and they consulted with us and we consulted, again internally, with the experts at our disposal. And we are expressing this opinion on these financial statements.

So those are our comments. Thank you very much.

The Chair: — Thank you. Any other comments from Ernst & Young, as yet?

Mr. James: — Not at this point.

The Chair: — I gather that this may be an item that may be debated at some length.

Mr. Strelloff: — Thank you, Madam Chair, and members. With me today is Brian Atkinson, in charge of the work at SaskPower.

In my opinion the financial statements of SaskPower for 1996 are reliable, except for the failure to properly record the \$14 million of reconstruction charges, which I view as revenue. Since capital reconstruction charges are part of the rates charged to all customers for the electrical energy they consume,

the charges should be reported as revenue. In this respect the financial statements are not in accordance with generally accepted accounting principles.

Therefore in my opinion, both SaskPower's 1996 total revenue and net income are understated by the \$14 million. SaskPower's total revenue should be reported as \$982 million, not the 968 million. And SaskPower's net income should be reported as 153 million, not 139 million.

Today I have asked the Speaker to table a special report setting out my concerns. My special report is called: "Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on Executive Council (Cabinet) and SaskPower."

In my report I recommend cabinet should direct SaskPower to record the reconstruction charge as revenue and to amend and reissue its 1996 financial statements accordingly.

Thank you, Madam Chair.

The Chair: — Thank you. Clearly we have a major issue here.

Hon. Mr. Lautermilch: — Madam Chair . . . (inaudible) . . . if I can. I think this is going to be a matter for some discussion and I think before we continue, it might be helpful if Ken Christensen, who is the vice-president of finance and information systems for the corporation would be allowed to make a statement and to share with the committee some documents that might help us in our deliberations.

The Chair: — Yes, I will allow that because we've already heard from the representative from Ernst & Young and from the Provincial Auditor.

After Mr. Christensen makes his remarks, I would ask committee members to consider whether you want to deal with this issue today or whether you want to call a special meeting after we've had some time to consider the submissions by all three parties on this. And clearly if it's gone to the House, that's going to add yet another layer of complication.

My concern is I want us to be able to deal with the SaskPower annual report and not get totally caught up with one issue, and yet I want to make sure that we have adequate time to deal with this one specific issue as well.

Hon. Mr. Lautermilch: — Madam Chairman, if I could, I think this a matter of just general course. This is one of the items that comes a result of the annual report and I think that I would like to see the discussion flow as a result of the comments that have made by myself, by the auditors, and by the Provincial Auditor, and comments that will come from the vice-president of finance.

And I think that because it is a public issue, that we should continue with the discussions today as it is part of the annual report. I think we've got scheduled till, if I'm right, another hour, and I think that would allow a fairly extensive discussion in terms of this matter.

And I frankly look forward to the discussion because I feel very strongly that the Power Corporation and the independent auditors who have had a look at this, and the accounting principles that have been set by chartered accountants' associations across this nation historically, should be allowed to be aired. Because I think we have a basic fundamental disagreement here.

And I would want to say, madam, that there is a whole army marching here and someone is out of step with the army. Now I have my opinions as to who is out of step. I think the accounting industry is marching right along as it has been doing for many, many years. The industry is clearly aware of principles that have been set historically. I can point to many documents from many different utilities that will confirm what I say.

So I really do look forward to this discussion because I do believe that the accounting industry and the utility industries have some very strong arguments to mount. So I look forward to this discussion.

The Chair: — Thank you, Mr. Minister. I am not trying to prevent this debate in any way, I simply want, out of courtesy, to let the members consider whether they want to deal with this issue this morning or whether they want to review the *Hansard*. Because I'm very much aware that committee members will have come to this meeting today with some prepared questions that they have in mind. They may or may not be dealing with the capital reconstruction charge.

But what we will do is hear Mr. Christensen first, and then the committee can decide if they want to deal with it this morning or at another special meeting, or both. I'm easy on this one. I simply want to make sure that the committee members have an adequate opportunity to deal with this issue, which is a major cat fight, I would suggest, between two opposing opinions with respect to auditors.

Mr. Christensen: — Thank you, Madam Chairman. As has been noted, there's been an issue raised by the Provincial Auditor related to the accounting of SaskPower's reconstruction charge. The Premier, SaskPower and the minister, and a number of others, received the Provincial Auditor's report yesterday, and we've brought it along. And the minister will be tabling it today for the members here to have a look at.

Also we will be tabling our response to the Provincial Auditor's report, along with three accounting opinions from utility accounting experts from different firms across the country. We think it would be instructive for the committee, Madam Chairman, to have a brief history of the reconstruction charge.

The reconstruction charge was approved by cabinet in 1995, after an extensive 45-day rate review period. As part of the approval, SaskPower was to treat the charge as a contribution in aid of construction and it was only to be used in the reconstruction of SaskPower's ageing transmission and distribution facility. And it was a charge that was put on certain customers' bills, not all customers as the Provincial Auditor alluded to earlier.

And in fact the essence of the cabinet order was that the reconstruction charge could not be used for any other purpose except reconstruction. In other words it was not generally available for other corporate use like our general revenues, which are. After the cabinet order, SaskPower's staff prepared an accounting opinion which determined that the reconstruction charge should be accounted for in the same manner as any other contribution in aid of construction. Our independent auditor, Ernst & Young, agreed with that assessment.

After the Provincial Auditor's staff expressed some concern, we asked Ernst & Young to provide us with a written accounting opinion, which they did. The accounting opinion supported SaskPower's position that it would be incorrect to account for the reconstruction charge as some form of general revenue that we could use for any purpose.

After considerable discussion with both the Provincial Auditor and his staff, we decided to seek two more opinions in the unlikely event that both SaskPower and Ernst & Young were incorrect. We also suggested to the Provincial Auditor that he seek a second opinion, which is sort of a normal professional practice in disputes among auditors. To our knowledge he has not done so.

We received opinions from the major accounting firms of Deloitte & Touche as well as KPMG. And these firms were selected because they're large and they're credible, but also as well as the fact that they also have a large utility accounting practice. Both firms again agreed with the treatment used by SaskPower.

And to give you some quotes, what each independent auditor said, Ernst & Young in their report on page 7, they said:

SaskPower is a regulated utility and as such should follow accounting principles which result in an appropriate matching of revenues and expenses consistent with the CICA handbook and utility industry practice.

Accordingly the amounts received under the capital reconstruction charge should be deferred on the balance sheet and amortized to operations when the related costs, i.e., the depreciation of the related construction assets, are recognized as expenses in the financial statements.

On page 4 of the KPMG opinion:

In our opinion, the corporation's accounting policy with respect to the capital reconstruction charge is appropriate in the circumstances and is in accordance with generally accepted accounting principles.

And on page 16 of the Deloitte & Touche report:

Rate regulation can affect what a regulated entity reports in its financial statements. It cannot affect generally accepted accounting principles but it can affect the amount and timing of regulated entities cash flows and therefore affect what should be reported in accordance with GAAP.

As a rate regulated company, SaskPower should not include the capital reconstruction charge in revenue but deduct it from the cost of the related assets.

I'd also like to note that the Department of Finance, for the purposes of the calculation of the E&H (education and health) tax, determined that the reconstruction charge was not revenue, and indeed the reconstruction charge attracts no surcharge or grant in lieu of tax or E&H tax.

To sum up, SaskPower believes its accounting treatment is correct, has three independent accounting opinions which support that belief, and we believe that the use of the Provincial Auditor's method would portray financial results which do not reflect economic reality.

The Chair: — Thank you very much. I will now check with committee members to see . . . it seems to me we've heard three, and if you count the minister's, I guess that would be four opinions on this matter.

Clearly what we're dealing with is not the question of the capital reconstruction charge. Committee members may wish to deal with that separately. But the fact of the capital reconstruction charge is not the issue here. It's how it is reported and recorded — whether it's recorded as revenue or against assets.

So what do committee members wish to do now?

Mr. Heppner: — I'd like to see us start that today, and we can carry this back when we meet next time, because there may be information that comes out today that we may want to digest and get some opinion on and come back with that.

The Chair: — Okay. And that's fair.

Mr. Bjornerud: — Madam Chairman, I think this is actually very new to us what the auditor has brought out. But I do think we should be able to touch on it, as Mr. Heppner has said, and then it will be food for thought down the road. But I don't think we want to let this one lie right now at this point. I think we need a little more information here.

The Chair: — All right. And as I indicated at the start of this meeting, I'm under no illusions that we're going to finish SaskPower today before 10:30.

Ms. Hamilton: — Well I'm just wondering what the purview of the committee is with respect to the issue. Is it our responsibility to be sort of a quasi-court and determine who's got the right idea here and then make a recommendation, or is it to take under advisement and refer to another body? I guess I'm just wondering, we can ask all the questions we want on the issue but when all is said and done, do we give some indication or information to our Provincial Auditor or to SaskPower? Who is the one responsible to do that?

The Chair: — This committee is the committee with the responsibility for reviewing the adequacy and sufficiency of the annual reports. We report to the House. If the House decides

that they disagree with us, they will refer it back. But it is this committee that will be making . . . passing an opinion on this issue.

Ms. Hamilton: — So it would be up to this committee to say the information provided in the annual report is as we want to see it recorded or that we would make a recommendation for change and report that to the House.

The Chair: — That's correct. Similar to what happens in Public Accounts, we will be making a recommendation to the legislature on this issue.

Mr. Langford: — Madam Chair, I think this is a very important issue and I don't . . . we've got the officials here and the auditor, and I don't see why we shouldn't carry on with the reconstruction and deal with it today.

The Chair: — Okay, great. Let's do that then. Mr. Bjornerud, did you want to lead off questioning?

Mr. Bjornerud: — Okay, Madam Chairman, and I believe I'm not sure what Mr. Heppner has in mind for this, but I think we'd like to just touch on a few things on the reconstruction charge that the auditor has questioned, and then it will certainly be brought up again many times, I think.

I think the thing that I have a hard time understanding is what is the real purpose. Why is it so important not to show this \$14 million?

Hon. Mr. Lautermilch: — Well, Mr. Bjornerud, I think when the Power Corporation went to the people with respect to a rate rebalancing, it had two components. One was a restructuring of the fees that were charged to our clients so that we could reduce the fees that we were charging for some of our larger industrial clients so that we could maintain our customer base. So that we could over the long haul maintain, as I've indicated, a small number of companies by a large amount of the electricity that we generate. And so it's important we maintain them.

As you will know, there has been historically a great degree of cross-subsidization in this province in that rural and residential home-owners have in fact paid much less than the cost of production. So in the 8 per . . . in the request in the 45-day review, there was one component that there be an 8 per cent increase for residential and rural consumers and that that be rebalanced and moved to reduce the cost for some of our larger industrial clients. And that was ultimately approved.

The other component of it was that there be a 4 per cent fee put to our client base so that that could be kept in a . . . and it was requested that it be kept in a separate account — accounted for in a separate account — so that it could be applied to the cost of renewing our infrastructure. So those were the two components. That is what the request was, and that was ultimately approved and became practice.

Mr. Bjornerud: — Why, though, could that \$14 million not be shown as the other revenue has been in SaskPower and still be specifically designed to go where it was going. Why do we

have to have a special slush fund I guess you would say, on the one side, where it could have gone to general revenue but still be designated for the . . . (inaudible) . . . reconstruction?

Hon. Mr. Lautermilch: — Let me correct you. First of all this is not a slush fund. This is a fund that is put in place to renew the infrastructure. We felt very strongly that the people of Saskatchewan needed to know and have identified, the fact that the corporation was attempting to minimize its borrowing requirements. Because we are striving very hard in this corporation to reduce its debt load because that ultimately will allow this corporation to succeed in a deregulated market-place.

And we wanted to identify to the people of Saskatchewan that we were in fact applying every cent of these funds to doing just what we indicated we were going to do when we embarked on the 45-day review process. So that's been done.

That is in accordance with what utilities across this country have historically done, and SaskPower is no different. You may favour the Provincial Auditor's opinion. And you may want to impose surcharges and you may want to impose provincial sales tax to the people of Saskatchewan on this particular fund. I don't. I don't choose to do that, nor did the people of Saskatchewan when we did the 45-day review choose that option. The \$14 million is for capital reconstruction. It's identified as being that. It's collected for that purpose, and it is spent for that purpose.

Now you may make the argument that it should have all of the taxes that apply to rates, and all of the charges, municipal and other that apply to rates. I don't take that position.

Mr. Bjornerud: — In the 45-day review were people made aware that this was not going to be shown as general revenue but on a separate account?

Hon. Mr. Lautermilch: — Absolutely. In every public meeting this was presented to the people of Saskatchewan. It was presented to the Crown Investments board, the holding company of SaskPower, and it was presented to cabinet exactly as being that.

There was never any intention — why would there be? — to not disclose the intention to have an 8 per cent rate rebalancing, and a 4 per cent separately identified reconstruction fee. If you look and if you were part of the public hearings, which I wish you were — I hope you were — you would know that the Power Corporation in their presentation very clearly identified what their recommendations were.

Mr. Bjornerud: — Thank you, Mr. Minister. I think what I'm hearing there today then, there is absolutely no way that you're willing at this point to consider what the auditor is saying, and amend the statement and include this in it.

Hon. Mr. Lautermilch: — What we are willing to do is to rely on the recommendations of the internal audit that was done within the corporation. We are willing to rely on the advice of Ernst & Young, Deloitte Touche, and KPMG who are members of the national Accounting Standards Board of the Canadian

Institute of Chartered Accountants, who have historically taken the position that these are appropriate ways of identifying funds done all over this country.

And as I've said before, the army marches, and you may be out of tune and out of step. I can tell you that I'm not, with industry nor with the chartered accountant profession. There may be some that have the thoughts that they want to write a new page in this book, and that would be fine. I would like frankly, and I'm waiting to hear if in fact this has been before the governing body of the chartered accountants, and if the auditor has presented it to them. I'm not sure if he has. But I'm hoping he does because I would very much like to hear what their opinion would be with respect to the different positions taken by the industry and large players in the industry, and the Provincial Auditor.

And I would frankly tend to rely on the advice that we have received from three major accounting firms and industry, and I guess so basically we have a fundamental disagreement. Are we willing to readjust this? The answer is no.

We went to the people of Saskatchewan very publicly, stating what our intentions were. As I've indicated, it's not out of the norm from industry standard. The process is endorsed by the chartered accountant profession, and I tend to support their opinion.

Mr. Bjornerud: — You touched on this as . . . you've checked with other accounting firms and you've sought out other utilities where this same thing has happened. What is happening in other provinces? What did you find?

Hon. Mr. Lautermilch: — What we found, that this is an industry norm. This is how funds of this nature are presented in their annual reports and to the people who they serve. That's what we found. We found that this is consistent with what industry does and with what the chartered accountant profession accepts as being the standard. That's what we found.

Mr. Bjornerud: — Okay, thank you, Mr. Minister. Madam Chairman, would it be out of context to let the Provincial Auditor get into this debate a little bit? I believe . . .

The Chair: — No, as a matter of fact I was just about to encourage this. I'm going to restate that the issue isn't *per se* the capital reconstruction charge. The issue is how it's accounted for.

So it seems to me since what we have is a major point of disagreement between the auditor for SaskPower and the Provincial Auditor, I think that members might want to address most of the questions to those two bodies. Because at the end of the day, once we receive the report that's being tabled in the House this afternoon — and I would assume that it's going to be referred to this committee — we're going to be making a recommendation back to the legislature on this issue of this disagreement between the two auditors.

So ask the auditors any questions you want.

Mr. Bjornerud: — Okay. I think Mr. Strelieff's judgement here is being questioned quite heavily and I would like him to have the opportunity to respond to some of the things that have been said this morning. So, Mr. Strelieff, do you have anything to add to what we have been talking about so far?

Mr. Strelieff: — Thank you, Mr. Bjornerud, and members. I don't think the accounting issue is that complex. What a business charges for product is revenue. Since capital reconstruction charges . . . the capital reconstruction charge are part of the charges or part of the rates charged to customers for the electrical energy they consume, the charges should be reported as revenue.

The Chair: — Thank you. I have other members . . .

Hon. Mr. Lautermilch: — Madam Chair, can I ask the auditor a question? Has he referred this to the chartered accountants' association? And have you had an opinion from your association, of which you are a member, and KPMG and Deloitte & Touche and Ernst & Young, have you had — or any other chartered accountant — have you an opinion to support your position? I would be very interested to know if you have that opinion and if you would, would you table it for the members of the board?

Mr. Strelieff: — Mr. Lautermilch, members, I've asked the CICA to consider examining practices of rate-regulated corporations and I've been advised the matter is referred to the Accounting Standards Board.

Hon. Mr. Lautermilch: — Have you had any opinion yourself, with respect to your position, from any other chartered accountant firms, or is this your exclusive opinion? Have you consulted with anyone in industry yourself to have an opinion with respect to your position on this?

Mr. Strelieff: — Thank you, Mr. Lautermilch, and members. In deciding how best to advise the legislature, I have done research and have consulted with officials of SaskPower, of the Crown Investments Corporation, and of Ernst & Young. And at the end of the day I come to you with my own views, saying that I think the reconstruction charge is revenue.

Hon. Mr. Lautermilch: — So would it be correct to assume that you have no other opinion that would support your position, from any professional body or any professional firm, but that you, the Provincial Auditor, stand alone with this position? Am I correct to assume that then? And I guess what I'm asking is, has any other Provincial Auditor ever taken the position that you have? Since you have researched this quite extensively, I'm assuming you should be able to answer the committee those two questions.

Mr. Strelieff: — I have consulted with colleagues across the country, but at the end of the day, as the Provincial Auditor, I have to come to the table with my own views. At the end of the day, my opinion is that the reconstruction charge should be recorded as revenue. I don't see it as a complex issue. At the end of the day, it's my own opinion as the legislative auditor, as the Provincial Auditor.

Hon. Mr. Lautermilch: — Madam Chair, I would then like it to be noted in the minutes and in *Hansard* that the Provincial Auditor indicates quite clearly that this is his own opinion. It is not supported by any other Provincial Auditor and is not supported by any professional, industry association and/or body, but this is a sole position taken by the Provincial Auditor of the province of Saskatchewan, supported by no one.

The Chair: — Thank you, Mr. Minister. I'm going to now be rather strict and insist that the committee members have an opportunity to ask questions of you, Ernst & Young, and the Provincial Auditor. I think that the committee members need to satisfy themselves about any questions that they may have, any details on this issue, before we pass an opinion on it.

Mr. Heppner: — I have two questions, one to the minister and the other one relates to the report itself. If I just follow the historical run-through that you gave us on how this all transpired, and making a statement that auditing is not an exact science by any means, you said that you came up with this concept, and then you went and found some auditors. I suggest, Mr. Minister, that you went for a shopping trip looking for auditors that would support your point of view.

Hon. Mr. Lautermilch: — Madam Chair, if I can respond to Mr. Heppner — and I very much would like to — this was not a shopping trip of auditors. Three of the largest accounting firms in this country, Ernst & Young, Deloitte Touche, and KPMG all support the position and the process that utilities across this country have used for many, many years. Not only here in Saskatchewan, but in B.C. (British Columbia), in Alberta, in New Brunswick, all over — Nova Scotia. It's nothing new.

What you have here is a basic, fundamental disagreement between the Provincial Auditor who himself, supported by no one, takes the position that this should be included in revenue — against the industry, the association of the industry, without anything to support his position, and that's the disagreement here. So is this a shopping trip? The answer is, absolutely not.

These are addressed professionally — these issues — by professionals who have standards set, who have historical precedents set, based on their professional ability to do their jobs. And for anyone to suggest that these three large accounting firms have inappropriately described the circumstance and their position with respect to this reconstruction fund, I think is totally wrong.

As I've said before, you might support the Provincial Auditor; I don't. He couldn't table . . . he couldn't suggest any one body, and/or professional that supported his position. What you have, if there is a fishing trip, and if there is an expedition that is out of industry — his industry norm — it's the position that the Provincial Auditor took.

And I will defend the way this is accounted for in this '96 annual report, as every other utility in Canada has used. And I support the position that's taken by the people who have been clearly indicated as supporting the corporation's position as to how this is reported.

Mr. Heppner: — I have no doubt that you would support that, because the idea in its origin was yours and not the accountants'. So I would hope you'd support your own idea or we'd be in great problems.

I'd like to refer to the report on page 42, note 3. And I'm wondering if on that particular page and that note, dealing with depreciation and amortization, is any part of the reconstruction charge found in note no. 3, and which part?

Hon. Mr. Lautermilch: — I'll ask Mr. Christensen to respond to that.

Mr. Christensen: — It's part of the amortization of customer contributions, I believe.

Mr. Johnson: — Madam Chairman, in figuring out how something should be accounted for — and a lot of times it pays to sort of understand the actual physical things that are taking place behind what the accounting is for — and so I have a few . . . a series of questions I'd like to know.

I'm told that, if I understand correctly, that this is only charged to some of the customers. And I'd like to know what the breakdown is; which customers and which customers not, so that there's a . . . so I understand that part of it first.

Hon. Mr. Lautermilch: — You're asking for a different . . . for a breakdown of the . . . customer classes, or what?

Mr. Johnson: — Yes, which customer classes is this charged in and which ones is it not charged in?

Hon. Mr. Lautermilch: — I'm told by the officials that it's oilfields, large industrial, and bulk.

Mr. Johnson: — That it's not charged in?

Hon. Mr. Lautermilch: — That's right.

Mr. Johnson: — Okay, in those particular . . . servicing those particular customer classifications, are there charges that are made? And I'm wanting to know, in the sense of if there is a decision made that providing electricity to some particular area is not going to pay, do we have some type of charges in the corporation where we say, you front half the cost of the capital and then we will put the rest in and then charge you for your electricity from there on.

The Chair: — Mr. James, did you have a comment on this question while the minister is . . .

Mr. James: — Well at an appropriate time. I mean there are some . . . I mean I'd actually like to call upon Mr. Ellis, the person who can speak better than I can as to his experience in terms of the type of work he's done in the past, the type of utilities he's worked with, and this principle, the principles at hand. So if I may, I'd ask . . .

The Chair: — Well I think we'll let Mr. Johnson exhaust his line of questioning with the minister and then we will very

definitely open it up so that both you, Mr. Ellis, and Mr. Strelioff, can make any additional comments.

Hon. Mr. Lautermilch: — Madam Chair, if I can just respond to that. If I can direct members to page 38 and if they will look under financing activities. There are two line items here that I would like to bring to your attention.

Under financing activities, one is the capital reconstruction charge, 1996, an amount of \$14 million you will identify there. Another fund, the same, is the customer contributions. There is a fund of \$12 million; there's an amount of \$12 million there in '96, and 8 million in 1995. So those are the two that I would refer you to.

Mr. Johnson: — Okay. And the customer contributions then are . . . where do they show up as an expense then or what . . .

Hon. Mr. Lautermilch: — They're not taken into revenue and they go into servicing the infrastructure. Same as the capital reconstruction fund.

Mr. Johnson: — Okay. That's the reason why I wanted the information on that particular thing, because then the next question I have is related to whether those customer categories that are receiving electricity and paying the reconstruction charges, if they do not consume any electricity in any given month, would they still be asked to pay the charge?

Hon. Mr. Lautermilch: — Yes. It would come as a matter of . . . it's on the bill on a monthly basis.

Mr. Johnson: — So it's not related to . . . for electrical energy they consume?

Hon. Mr. Lautermilch: — No. It's a separate fund that was identified as being focused on rebuilding the infrastructure.

Mr. Johnson: — Okay. Madam Chairman, I wonder if Mr. Ellis could comment on there, because as far as I'm concerned I agree with the accounting that's being done based on the information that I've received.

Mr. Ellis: — Madam Chairman, members of the Legislative Assembly, I would like to try and explain for you in layman's terms if I can, the accounting for the reconstruction charge. Let me try it first in common sense terms and then take a simple technical approach with the accounting.

In common sense terms, customers are paying a flat charge each month and not receiving any services in the current year for that charge. What do you get for that flat charge? You get nothing currently, but in future years you will receive effectively a rate reduction for that charge.

That money is going to be used to construct assets in future years which will generate the electricity, the service that you receive in future years. And therefore it's entirely appropriate under the accounting rules to defer the item and record it as an element of profit and loss in those future years. It's not appropriate to record it in the current year. And the Provincial

Auditor is wrong in his opinion.

It's not that dissimilar also from the sort of situation whereby you sell a house or a car and you receive perhaps a down payment from someone. You don't record that as a sale until you've delivered the goods, you've delivered your house over or you've sold your used vehicle. You haven't earned it until you've provided the services. No services are provided currently for this charge. That's a very critical point to remember. And it's a fundamental flaw in the Provincial Auditor's argument.

In a technical sense, if I move over to the technical arguments, you have a amount that is received by the corporation, and from an accounting perspective you have to decide whether that is a revenue item or a liability. If it's a revenue item, it's recorded on the profit and loss. If it's a liability, it's recorded, as a credit, on the balance sheet.

For it to be a revenue item, you have to have earned the revenue. You have to have provided services. The corporation, as I mentioned, has not provided any services in the current period for this item.

Secondly, there is an accounting rule called matching, whereby you're supposed to match revenues with the costs. The costs, as I mentioned, will be incurred in future years when the assets are constructed; and the costs that will appear on the profit and loss statement is depreciation of those assets. Accordingly, it's appropriate to defer the item, show it as a liability on the balance sheet right now, and draw that down as a revenue item in future years. In fact it appears as a cost reduction, a reduction of the depreciation expense.

Now let's take a look at what would happen if we followed the Provincial Auditor's accounting because it has adverse economic consequences to the people of this province.

Firstly, it would be co-mingled in general revenue — not shown separately. And as the minister stated, therefore subject to provincial sales tax. The residents of this province would pay more for their electricity bills.

Secondly, the corporation, by including it in current revenue, could in future years charge the ratepayers, the users of the service, twice for that service provided. In other words, there's nothing to stop the corporation from showing the cost gross that it's used the money for, and expensing it in future years and seeking a rate increase, which they cannot now achieve because they have to reduce their costs in those future years for this item.

So I think the accounting proposed by the Provincial Auditor does not result in economic welfare for the people of this province.

There is another point that I'd like to raise and that is the fact that the approach taken by the Auditor General in handling this issue is not consistent with that used by other provincial auditors. I'm sorry, I referred to him as Auditor General — Provincial Auditor — is not consistent with that used, in my

experience, by other provincial auditors and by the Auditor General of Canada.

I act as an adviser to the Auditor General of Canada, to the Provincial Auditor of Newfoundland, and to the Provincial Auditor in Alberta. To my knowledge, and certainly in all the cases they have discussed with me, where they find an accounting issue — and they disagree with the accounting followed by the corporation — before going public and criticizing that accounting, they obtain a second professional opinion, independent opinion, from another firm, my firm, or another one of the big six firms.

In this case, we have a Provincial Auditor who has his own views on the accounting. On the other side, what has the corporation done? It has researched the area, formed its own opinions as to how it should be accounted for. It has obtained the support of Rupert James, its auditor. Rupert James in turn has done the right professional thing and consulted with the experts in his firm — me. I have prepared an opinion in support of that. We have in turn . . . The company has in turn consulted with two other major firms. The three largest firms in this country have stated that this accounting is appropriate. That's six — six strikes — six views. The Provincial Auditor has not obtained any independent opinion in support of his position.

We could, we believe — at least I certainly believe — that we could go to the remaining three big-six firms, Price Waterhouse, Arthur Andersen, and Coopers & Lybrand, and also get opinions that would support the opinions we already have. The corporation has not done so. Obviously the obtaining of this costs money, but we believe it could be done. I have my doubts that the Provincial Auditor could obtain an opinion supporting his position from one of the major six firms.

So in summary, Madam Chairman, I do believe that the report prepared by the Provincial Auditor is inappropriate. It would result in the corporation preparing misleading statements and it would result in our firm providing an opinion on misleading statements, that they present fairly, if his recommendations were adopted. And our professional standards will not permit us to do so.

The Chair: — May I ask you then, if this committee were to follow the recommendations of the Provincial Auditor, that would mean then that your firm would refuse to sign off?

Mr. Ellis: — That is correct.

Mr. Bjornerud: — Madam Chairman, in response to that . . . I don't want to lose my spot here, Madam Chairman. I want to come right back, but I would think that if Mr. Strelieff would like to respond to that, we should give him the opportunity.

The Chair: — Sure.

Mr. Bjornerud: — He doesn't have to, but . . .

Hon. Mr. Lautermilch: — I don't want to interject out of order here, but I think this might be really clarified simply if the Provincial Auditor would indicate in a yes or a no whether

anyone else — anyone else — supports his position? Can he identify any area or any one entity that supports his position; and if he'd answer yes or no, it'd be very, very clear as to where we go and whether or not we prolong this debate.

I'm very anxious to sit here and discuss . . .

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

Hon. Mr. Lautermilch: — . . . the annual report as well.

The Chair: — Thank you. Mr. Strelieff, if you would make the comment?

Mr. Strelieff: — Mr. Lautermilch, Madam Chair, members, I don't think I can answer a yes or no. The research that I did, I could not find a similar example of a reconstruction charge and I've asked officials from the accounting firms and SaskPower whether there is another example of a similar reconstruction charge. And too, I could not find an example where cabinet of a provincial government sets the rates charged by corporations.

Hon. Mr. Lautermilch: — But sir, that's public policy and that is not your position to make judgement on whether or not cabinet is appropriately the regulator or not.

The Chair: — Mr. Lautermilch, I would like Mr. Strelieff to have the floor right now.

Mr. Strelieff: — So my first . . . sorry. Mr. Lautermilch, members, so in our research we couldn't find a precedent for a corporation charging a reconstruction charge like this one and then we couldn't find a circumstance where cabinet was the group that set the utility rates. In other jurisdictions, as you know, there's public utility boards that review or set rates that corporations charge.

But I still think this isn't that complex of an issue. You have to remember that the government plans to never record as revenue the reconstruction charge. So that's not just this year but it's next year and next year and next year, as they don't plan to record the reconstruction as revenue.

In addition they plan to report the \$14 million collected each year as reduction in the amount of expenses that they report each year. So in the future, if they continue taking this method of accounting, I think their expenses are going to be understated. That doesn't make sense to me.

How will you as legislators assess SaskPower's performance and compare that performance to other government corporations in Saskatchewan, other businesses, when both revenues and expenses will be understated and therefore the net income amounts won't be as rigorous as they have been in the past, and they won't be comparable to other corporations in Saskatchewan, other Crown corporations.

The third point that I'd like to make is that one of the reasons I hear for following this particular accounting practice is that, is the government wishes to demonstrate publicly that the revenue from this charge is used for infrastructure upgrades and

reconstruction. That information can be disclosed in the notes to the financial statements of SaskPower. It doesn't have to result in not recording, as revenue, the amounts that people pay for the energy that they're provided.

And remember that there's also other flat rate charges that are on the power bills. This isn't the only flat rate charge on your power bills. There's another one as well, and that's recorded as revenue.

And the last point is that it was mentioned that if it's recorded as revenue it will attract the E&H tax. Well my understanding is that the electrical energy services as a whole aren't attracting E&H taxes, and you may want to bring in the Department of Finance officials to explain that.

Thank you.

The Chair: — Thank you, Mr. Strelieff. I just want to ask one question here with the indulgence of the committee. When you were looking for precedents did you look to the city of Saskatoon, which has a construction charge or reconstruction charge for its sewage treatment plant and doesn't record it as revenue?

Mr. Strelieff: — Madam Minister, the accounting practices of local governments are in their own . . .

The Chair: — I'm not a minister. I've never have been; unlikely ever to be.

Mr. Strelieff: — Sorry. Madam Chair, and members.

The Chair: — I mean I appreciate the respect, but . . .

Mr. Strelieff: — The accounting practices of local governments are different. Period.

Hon. Mr. Lautermilch: — Yes, I think it would be appropriate to have Mr. Ellis respond, because I think what the auditor has described here is somewhat inaccurate and needs to be clarified.

The Chair: — Thank you for your guidance, Mr. Minister. I'm going to ask, Mr. Johnson if you have any additional questions.

Mr. Johnson: — The question that I have is that — and I would like Mr. Ellis to answer it if possible — is if I understand correctly the second line, the customer contributions, the capital reconstruction charge and customer contributions, if the Provincial Auditor was to be consistent, he should have flagged both of them? Hopefully I've caught up to where the world is at here. And so if there was to be a consistent complaint, both of them should have been flagged in the same manner?

Mr. Ellis: — May I respond to that?

Mr. Johnson: — Yes, I'm asking you the question as a witness.

Mr. Ellis: — Yes. The capital reconstruction charges are appropriately disclosed in the financial statements. Basically

what happens is that on receipt of the money, the corporation accounts for the items essentially as a reduction of the cost it has to pay for the facilities, and it reduces its depreciation in future years. And that shows up in two places — in note 3 and also in note 10. Note 10, which I don't think we really addressed in the statements — it's on page 46 — shows where on the balance sheet the unexpended capital reconstruction charges are.

These are the amounts that haven't yet been used for infrastructure at this point in time. The money's been received in advance, and it's showing up there as an amount of \$7 million in 1996. And then you can see how the depreciation charge is reduced in note 3. The corporation, instead of expensing \$139 million as expense, has reduced it by 9 million to 130.

Another approach would be to show the item separately. The corporation has followed normal industry practice which is to reduce expenses. It could be shown as a revenue line too, and that would be entirely acceptable. But the practice in the industry is to reduce the cost of the asset because the CICA handbook says, if you receive a contribution from others for a capital asset you reduce the charge. And that's why the corporation has followed that accounting.

I think it's also important to recognize that this flat charge which is very different from the flat charges that customers pay for right now . . . every customer has to pay a charge based on his usage of electricity and an availability charge. In other words, you're paying to have that service available for you. That is a flat charge. It is included as part of your electricity charge and you pay GST (goods and services tax) and sales tax on it. It's a very different element from this charge. That flat charge the corporation can use for general revenue purposes. The corporation cannot use the capital reconstruction charge for any purpose other than to build fixed assets. And that's why the accounting is different. And I think that's an important point to make in this connection.

The Chair: — Thank you, Mr. Ellis. Mr. Bjornerud, you're not losing your place in the speaking order except I would ask if . . . I'm aware that Ms. Hamilton has another commitment at 10:15; do you think she could put a question before she leaves?

Ms. Hamilton: — Well I have two quick ones, but I don't know if they are that necessarily quick. And I do have another pressing engagement.

I guess I'm just asking of Mr. Ellis if it really is important to the whole debate whether or not other provincial bodies that you advise, or the Canadian government which you advise, would have the same kind of bodies in place, and that makes a difference to the accounting principles that are used, or whether you would see some similarities here that you could comment on.

The Provincial Auditor is stating to us that there are no other similar accounting practices, and therefore it's inappropriate to say that we should be looking at this in light of what they would be stating or you would be stating about other

organizations.

Mr. Ellis: — Yes I can respond to that. I think the use of words by the Provincial Auditor is inappropriate. He says there are no similar charges. Well there are many utilities that have capital reconstruction charges and most . . . sorry, customer contribution charges. Many utilities have that across the country, but usually they're specific. In other words, if I own a cottage in a remote location and I want the province, the provincial utility, to string out a line to connect me up, the utility may ask me for an amount towards the cost of that because it's perhaps uneconomic for the utility to provide the service.

The only difference here in the capital reconstruction charge is that it's levied on virtually all customers except one or two exceptions which the minister noted. So there's a very similar precedent that many utilities have of these particular line charges which are all accounted for in a manner consistent with the corporation. And that is a fundamental reason for the opinions that have been rendered by ourselves and by the other accounting firms.

So it's not correct to say that there are no similar charges. There isn't a charge that's exactly the same as this one, but as an informed accountant you rely on similar circumstances of precedent, as well as the informed opinion of others, in forming a professional opinion.

And if you're at odds with another professional, you seek support externally for your views, which the Provincial Auditor has not obtained. And I know from experience in dealing with the other provincial auditors and the Auditor General, whom I advise that they seek the independent opinion of another firm before rendering a report critical of an organization if it's on an accounting issue.

Ms. Hamilton: — Thank you, Mr. Ellis. The other question I have is directed to the Provincial Auditor, because I feel I'm at odds with an understanding that a democratically elected government makes policy decisions, and within that framework, the auditor is to comment on whether or not the detailed information presented is in line with accepted accounting principles, but that certainly I don't know if the electorate of this province have elected him to make statements on the public policy of a duly elected government. And so I'm just wondering how he feels comfortable in his role to be auditing public policy rather than the reports that are presented to this committee.

Mr. Strelloff: — Ms. Hamilton, members. Could you explain a little bit further where I have made a comment on a public policy? I'm not sure what you mean.

Ms. Hamilton: — Well it certainly seems to me that your statements are reflecting and your comments were reflecting that because there are no public utilities review here, we now need to have a set of books that reflect a different policy, but you seem to be stressing the importance of that.

And it seems to me that within the framework of the policies

that we've accepted as a democratically elected government, the comment is on whether or not the accounting principles that you want to see adhered to would reflect how we have done those . . . making of those decisions. They seem to be at odds.

Mr. Strelieff: — Ms. Hamilton, members. I'm not questioning whether or not this province should have a public utility board. That's clearly, as you stated, a policy issue that is clearly up to the elected members of the province.

What I've pointed out earlier is that in our province, unlike other provinces, there is a public utility board that has responsibility to either set or review rates proposed by utilities. And when I said that, what I was pointing out is that in Saskatchewan the circumstances are somewhat different. I also was pointing out that I couldn't find a similar reconstruction charge.

I see the transaction called a customer contribution as different than the reconstruction charge. A customer contribution is where a customer comes to SaskPower wanting an extension of service and they pay for that extension of service. And it will be a line, a physical extension of service.

The reconstruction charge is levied on almost all customers. So I see there is a difference. But in terms of the policy question which I understand to be would be whether or not there should be a public utility board in Saskatchewan, that is not . . . that's your decision; it's not mine.

Ms. Hamilton: — I guess I'm just saying that the reconstruction charge is reflective of a philosophy of having everyone paying a certain amount of dollars to have services provided to the whole rather than have any individual doing that.

So I guess with that then, could you explain to me, when you were doing your research, why you felt it was necessary to highlight that in a very public way when your industry in particular . . . it seems the whole industry would be at odds with your opinion, and yet you choose to reflect the opinion that you've presented. I'm wondering why that would be brought forward in this manner at this time.

Mr. Strelieff: — I see this, members, Ms. Hamilton, I see this issue as important. The financial information provided to you as legislators is important information in terms of your ability to helping you understand, assess, and scrutinize the activities of the government.

In general there is a broader issue here. And that is that the officials of SaskPower and other government organizations advised me that in other provinces, industry practice is to use and auditors to accept accounting rules required by the body that has the authority to set the rates charged to customers.

They point out in Saskatchewan, cabinet is the body that has the authority to set rates. Therefore I'm presented with the argument that I should accept as appropriate, accounting rules specified to SaskPower by cabinet. I don't accept this argument. My responsibility to the Assembly is to assess the

appropriateness of the accounting rules used by government organizations to present its financial results.

This responsibility is not changed when cabinet chooses to direct one of its organizations to use a specific accounting rule. When cabinet tells SaskPower to account for a transaction in a specific manner, I still must assess whether such an accounting is appropriate. If I did not make such an assessment, I would be encouraging an accounting system in which government corporations might account for similar transactions differently, or account for similar transactions differently from one year to the next.

To me in such a system the important performance measure, slight net income and return on investment contained within financial statements, would not be as useful because those measures would be calculated differently. This would make it difficult to understand, compare, and assess the performance of government corporations. And it's for that reason that I bring this matter to your attention.

Ms. Hamilton: — I guess, Madam Chair, because I do have a pressing appointment, I'll wrap up very quickly in stating that . . .

Mr. Bjornerud: — Madam Chairman, we're being blocked out of this debate here by a 10:30 adjournment, and I . . .

The Chair: — That's right. We're going to be dealing with this again and again, I'm sure. And I guess, Ms. Hamilton, I did ask Mr. Bjornerud if he minded if you asked a couple of questions, but I want Mr. Bjornerud to be able to put his questions and then Mr. Heppner to be able to wrap it up while the committee is still meeting.

Mr. Bjornerud: — Madam Chairman, I disagree with the member opposite. I think what she's insinuating is the Provincial Auditor is not doing the job that he was actually hired to do, and I disagree with that. I believe if the Provincial Auditor finds any irregularities or he has any concerns with the way that revenue is shown or anything, he should bring it to our attention and it's up for us to decide from that point on.

So I take exception to what she's said. Whether it's a democratically elected body that's doing this or whatever it is, his job is, if he has any concerns in his mind, is to bring it to our attention. And I think he has done that. I think we will have great food for thought.

Mr. Christensen, I'd like to go back — and, Mr. Minister, if you wish . . . is there interest accumulating then on this fund that's sitting on the side?

Mr. Christensen: — Yes, at the moment there would be interest accumulating.

Mr. Bjornerud: — Okay. Are we showing that as revenue?

Mr. Christensen: — Yes.

Mr. Bjornerud: — Why would we show the interest as

revenue and then we go back and say no, we don't want to show the . . . I have a hard time understanding this, and I think the people out there, that we have jacked up their utility rates last year with this capital reconstruction charge that anyone I have talked to out there was very unhappy with . . . because they believe, to a great extent, we have dropped all our construction in this province when it comes to SaskPower — like the RUD (rural underground distribution) program and a number of others — and all of a sudden we have an extra reconstruction charge and now we don't even want to show them where their money is going.

So I have a great concern with that and I think we're not going to see the end of this by far. This is going to go on for quite awhile.

Madam Chairman, because we are just about out of time and Mr. Heppner has some questions, I'd like to let him get in on this too.

The Chair: — Okay. And then I'll ask the minister to make a summary statement. I think everybody has an awful lot of things to say about this.

Mr. Heppner: — Even the government side.

The Chair: — Yes, exactly. I want to remind everybody here, this isn't a fight about the Provincial Auditor. This is a difference of opinion between two auditors about how to report things. So let's make sure that we try to keep ourselves disciplined and on that particular topic.

Mr. Heppner: — Okay. We had some discussion comparing the customer contribution and the reconstruction fee. From the examples given, a customer contribution fee is totally voluntary; you can decide if you're going to get involved in that or not. The reconstruction fee, there's nothing voluntary about that. So I think when we're trying to link those two, we have to realize there's a difference there.

And my last point is that, for first thing on our next meeting, I would want a very substantial and complete definition of a utility from the minister. Because I think that is going to play a very important part when we look at what actually is involved in this and how that applies to other organizations that may or may not be a utility.

The Chair: — Thank you, Mr. Heppner. Before I recognize the minister, Mr. James did indicate he wanted to say something.

Mr. James: — I just wanted to correct for the record, make absolutely clear, one point. And Mr. Strelieff said a few minutes ago that, to the best of my knowledge I do not believe it's true. And that is that when we do an audit we look for evidence. We look for evidence supporting what an organization has done.

I have never seen any evidence to suggest that the corporation's accounting was directed by anybody, okay. I don't believe there's an accountant in cabinet to the best of my knowledge. Cabinet approved the rates. The accounting, generally accepted

accounting principles, simply gives guidance to an organization as to how to account for that revenue; or not, as the case may be, okay.

Now maybe someone can produce some documentation to contradict that, but I've never seen the corporation be directed to do any particular type of accounting. I want to make that very clear.

The Chair: — Thank you, Mr. James. I appreciate that. Mr. Minister, and then we're going to adjourn this.

Hon. Mr. Lauderbach: — Well, Madam Chair, I know that this has been a very interesting morning. It certainly has from my perspective. And I guess if I could just give a, I guess a brief review of what I see that we have, what we have happening here.

We have on this particular issue, a corporation in its financial statement that has defined very clearly by generally accepted accounting principles and standards by the accounting industry across this country, has identified the handling of the capital reconstruction charges. I think it's also very clear that during the 45-day public review, the corporation presented two elements to change: (1) an 8 per cent rebalancing; and (4) a 4 per cent reconstruction fee that the corporation would dedicate to rehabilitating the transmission and distribution system.

I think thirdly that it is very clear that the Provincial Auditor is totally out of step with his industry, with his profession, as is evidenced by the comments of three major accounting firms. The position that he takes is not supported by his industry association. He cannot table or define any individual accountant or firm that supports his position. He cannot identify any other Provincial Auditor that takes the position that he does. He is totally out of step with what his own industry is suggesting is appropriate. And I think, Madam Chair, that is exactly what you have here.

Now why he would table a document without support or without referral or without a recommendation from anyone else but himself is totally beyond me. And it's a question that the accountants' firm asked him today and suggest as inappropriate that on his own — unilaterally and by himself — without support from any industry or profession, he would table a document with a position that I suggest to you will be unsupportable.

And I don't believe you will find that the Provincial Auditor will have any support from anyone within his industry. If he can find that, I would really be very pleased to have another look at this issue. But given the fact that he stands alone, totally out of the norm from his profession and his industry standard, I would suggest would tell us that this committee should support and accept this annual report based on how it's been presented to the board of . . . to this Crown Corporations board.

And, Madam Chair, I look further . . . I look forward to further discussions. And I'm hoping that the Provincial Auditor can bring some demonstration of support for his position by anyone other than himself when he comes to this board the next time

we meet. And I'm going to ask that he do that because I think that's important.

The Chair: — Okay. Well as committee members are aware, this is a matter of some considerable acrimony and debate. We will be continuing to meet on the general question of the SaskPower 1996 report. And we will also at some point, when we all feel comfortable with it, be making a recommendation back to the legislature with respect to this specific question of how to account for and how to report the revenue on the capital reconstruction charge.

Hopefully everybody's had an opportunity to kind of get their vim and vinegar out of their system today. And we'll be able . . . I would encourage all members to read the *Hansard* account of this meeting when it comes out. And as I indicated already, Mr. Minister, we will be calling SaskPower back early in May to continue this discussion.

Unless of course, members of the opposition decide that they want to have an earlier meeting than that. And then we will resume this as soon as you indicate you want to have another meeting.

But in the meantime I would ask for a motion of adjournment. We will go upstairs to the reading room of the library to have our photos taken with little, happy smiles on our face. Okay? Because hopefully there will still be a Crown Corporations Committee 50 years from now, and they'll realize that we took the long-term point of view rather than getting grumpy over what was happening on one particular day.

And at 11 o'clock we will have coffee, cakes, sandwiches, and all sorts of goodies to celebrate the 50th anniversary of this committee.

Mr. Trew: — I have a cute little saying — I move this committee adjourn.

The Chair: — Thank you very much.

The committee adjourned at 10:36 a.m.