

**SaskEnergy Incorporated**

**The Vice-Chair:** — Order. We'll call the Crown Corporations Committee to order; thank members and the minister and officials for being in attendance. Our job today is to review the annual report and financial statements of the SaskEnergy Incorporated for the year ended December 31, 1996; and subsidiary statements including the financial statements of SaskEnergy Incorporated and subsidiaries for the year ended December 31, 1996; and the purchase and sale of share capital agreement between the Many Islands Pipe Lines (Canada) Limited and SaskEnergy Incorporated dated September 20, 1996.

I'll invite the minister to introduce his officials and then grace us with some opening remarks if you will.

**Hon. Mr. Lautermilch:** — Thank you very much, Mr. Chairman. I will begin by introducing the representatives from SaskEnergy with me here today. As well we have Bruce Willis from Ernst & Young, who is the accounting firm doing the accounting services for the corporation.

**Mr. Hillson:** — He acts on the side?

**Hon. Mr. Lautermilch:** — As well, Bob Watt, who will be here later; he isn't here right now; and I'll just have the officials indicate their presence. Ron Clark is the president and chief executive officer of the corporation; Mark Guillet, who is the general counsel; Doug Kelln, vice-president of the distribution utility; Ken From is the vice-president of gas supply; Dean Reeve, vice-president of business development and marketing services; Larry Smart is the director of accounting representing finance and administration; and Ron Podbielski, acting director of corporate affairs. And I want to say good morning to all of my colleagues in the legislature.

I'm going to begin by just saying a few words about SaskEnergy and its operations as it relates to the annual report for 1996. SaskEnergy continued to provide Saskatchewan homes and businesses with the lowest rates in the country while offering a high-reliability, safe, cost-effective service; and at the same time we've been able to improve our financial position during one of the coldest seasons that we've had on record.

For those of you who are new to the committee, we've provided a hand-out entitled "Corporate Structure" — I think we have. And I'll now go through sort of a financial overview of the 1996 year, and I'll ask Mr. Clark later to discuss some of the challenges that are facing the corporation and explain our transmission and distribution rates for you.

In 1996, SaskEnergy provided its distribution customers with an average 4.8 per cent rate decrease, saving the people of Saskatchewan in the neighbourhood of \$16 million; that resulted in the second lowest rates in Canada for 1996. It's the second consecutive year of retail rate reduction and there has been, in the two years, a combined reduction of over 11 per cent.

We've experienced a robust economy and the agriculture sector resulted in over 3,500 new customers being added in 1996; and a very wet harvesting season, as you will know, and that prompted a lot of interest in natural gas grain dryers, and 63 new grain dryer installations were added to the system.

I'd like to say just a couple of words about TransGas. For the first time in its history, TransGas saw a decline in volumes transported — a decline of about 11 per cent — and that was due to the low natural gas prices, and it really was a disincentive to companies developing natural gas. The financial performance of TransGas is directly tied to natural gas reserve development in Saskatchewan.

Responding to the lower volumes and the downward pressure on revenues, TransGas reduced its planned operating costs by \$2.4 million or 9 per cent. On January 1, '96 a TransGas rate increase averaging 8.9 per cent came into effect. The adjustment was mainly associated with the significant capital expenditures made by TransGas.

That's part of its customer-driven expansion of the north transmission pipeline system in 1995. These expansions were necessary to meet the service requirements of the shippers on the TransGas system. As well, gas production declines in some areas and inter-Saskatchewan consumer movement from Alberta source of supply also contributed to the service rate adjustments.

Prior to the rate proposals, TransGas had received input from groups representing consumers, producers, and marketers regarding the proposed rate increase. In addition, TransGas customers were given 45 days to provide input to the rate proposal.

To enhance customer service, TransGas introduced a more market-oriented contracting system with the TransGas energy pool. As well, TransGas continued to offer customers connections with a competitive 90-day tie-in policy.

Some of the financial highlights of '96. Consolidated revenues were 367 million in '95 and 390 million in 1996. The increase in revenues directly reflects the severe winter weather conditions and the increase was somewhat tempered by the 4.8 per cent rate reduction earlier in the year.

Consolidated assets were 1.113 billion in '95 and increased to 1.132 billion in 1996. Consolidated net income was 58 million in '95, and that compared to 73 million in 1996, once again attributed almost entirely to the severe winter weather that we had.

A dividend of \$40 million was declared in '96, paid to CIC (Crown Investments Corporation of Saskatchewan), compared to 32 million in '95, as a means of providing a return on the province's investment in SaskEnergy.

In 1996 SaskEnergy produced margins in excess of \$8 million from brokering gas on the open market and through competitive bidding for sales to large-volume end users. In addition, sales

by TransGas of surplus natural gas withdrawn from a depleting storage facility produced a further \$4 million of revenue.

I've given just a bit of an overview, tried to paint a picture of the operations of the corporation. I'd like to now turn the floor to Mr. Clark for his comments.

**Mr. Clark:** — Thank you, Chairman. I'll be very brief. I think if there's a . . . if I could communicate with the committee a single word which I think characterizes our business and our industry, and I don't mean just our company, it's volatility.

I think when you think of weather, the volatility of gas prices, and volatility in interest rates which can affect you, although we've seen stability, I think you're really starting to see the critical issues that need to be managed. And I think in a minute I want to try to show you why the volatility around those issues is so critical.

If I could turn very quickly to weather — '96 was the coldest record that we had documents for over the last 45 years and a 1 per cent variation in weather over the five critical winter months can alter the bottom line revenue of the organization by about a million dollars.

And if I could, just as I go through, some of these charts may be very helpful to you, I think. I hope they are. But on the one that's entitled no. 2, or numbered no. 2, you can see that if we go from a period of being 20 per cent colder, which is roughly what we were through the latter part of '96 and January, February of '97, we were about 16 to 20 per cent colder than any reported norm. If we had have been 20 per cent warmer, which was the case, roughly, in 1987, you can see the potential revenue, net revenue swing attributable to weather for which none of us have any control, obviously, can be as much as 35 to \$40 million.

So it just indicates that when it's very cold, I suppose we can say, gee, aren't we doing well, but if it's an exceedingly warm winter, I'd hate to think that somehow the people in the company are managing poorly. So weather is an issue for all of us.

The one that is indeed more manageable and the second factor, which really does affect all of us again, is gas price volatility. We consume in Saskatchewan about 1 per cent of all the gas that's consumed in North America. Natural gas is a freely traded commodity. It's been deregulated. Always a lot of talk in our country around telcos and around other aspects of deregulation. Well of course we've been deregulated since 1986. The natural gas industry has been deregulated since 1986. It is a freely traded commodity. It's traded on the New York Mercantile Exchange and is subject to all the pulls and tugs of supply and demand.

And I think if you could look at no. 3, chart no. 3 very briefly, that's just a snapshot of the period from 1992 to the early part of this year. And you can see what's happened to volatility. We are not a price-maker with 1 per cent of the market share in terms of consumption; we're a price taker. And you can see that in that five-year period we've seen gas move from as low as a

dollar a gigajoule, which is the general unit of measurement, to well over \$2.50. And we have to purchase the commodity. We own no reserves. We buy 60 billion cubic feet a year to supply the homes and businesses in Saskatchewan, and we have to buy that on the open market.

I think there's also a perception that gee, when there is volatility and gas prices move upward in the market-place, that somehow that's good for SaskEnergy. It's obviously not good for our customers. But I want to certainly stress to the committee members that we do not make any money on the commodity and so we take no joy in our residents and our customers being confronted with a rate increase, for all the obvious reasons. And I want to say and stress that we're certainly not . . . we're revenue neutral on the issue of the commodity.

And again, one of the ways, if I could very simply try to . . . This is a simple depiction of what your bill at home, or one of your constituent's bill at home would look like. And you can see that there are three components that really affect the issue of rate.

And I think that there's two things that attract the interest of the people of Saskatchewan about our company. Obviously it's reliability. When they turn on the thermostat they want the hot air. If they turn on the hot water, they want the natural gas-heated water supply. So it's reliability and rates. If we're not reliable or if the perception out there is something about rates, it attracts a lot of interest.

But this is the issue, quite simply, around rates. And we're the same as all the natural gas utilities in this country. We have a basic monthly charge component, which is that box on the left, which is made of fixed costs related to your individual service. It's the meter hanging on your house and the line running from the street. It relates to your bill on the cashing system, etc. There's the cost of delivery, which is all the infrastructure — the town border stations, the odourant, the system maintenance, etc.

And the third box, which is the most volatile, is the cost of gas — that's the commodity. And as we talk rates a little bit I'm sure later today, you will know that in 1997 that box did not change, although there was a rate increase. It was attributed to issues related to transportation, and other costs inside the company was not a function of costs.

But in other years where we see volatility and natural gas prices, that's the box or that's the element of the consumer's bill which is most affected. And you can see it makes up about a third, roughly the \$17 over \$56, roughly about 30 per cent of the normal bill . . . of the monthly bills is a function of the commodity. So our ability to manage the volatility is a critical issue in terms of how it impacts on our customers.

The third issue I mentioned is interest rate volatility. We have a debt/equity ratio that is not yet at the industry norm. When we were created in 1988, we were created with a high degree of debt. We think we have done a good job in moving that debt/equity ratio closer to the industry norm, but obviously

we're slightly over-leveraged and vulnerable to interest rate volatility. Although at this current time in Canada we're all benefiting from some stability in interest rates.

If I could turn just quickly to the TransGas business the chairman alluded to it, it's very much a function of demand for natural gas by the market, which is related to price. And I again would, if I could, turn your attention to graph no. 5. I think it is interesting to look at what goes on in Saskatchewan in the industry related to price. That's the well drilling activity in Saskatchewan over the last number of years for natural gas wells; those are not oil wells. And the lines that are plotted is the price of . . . the trading price of natural gas.

And you can see that when gas prices start to approach \$2, you begin to see almost record drilling activities. We did in 1993 and 1994 with over 900 wells. When gas prices start to fall off, as they did rather dramatically in '95, we saw 207 wells — almost an all time low — and only 343 wells in 1996.

We're very sensitive here in the patch — at least with respect to natural gas — to price. We have shallow wells; they're much easier to bring on but they also are much easier to cap and shut in when times of low price. So TransGas very much affected by the activity in the patch, which is in turn affected by price.

I just want to say very, very briefly, because there are some charts in there that you may want to refer to later about the issue of efficiency, obviously we must keep our cost structure down. We simply can't say: well gee, rates are a function of a cost structure that's out of control. We don't believe it is. We have tried diligently to keep our cost structure under control in this company.

And I think if you look at . . . if you're interested, on graph 6, 7, and 8, those are the results of benchmarking studies done by independent consultants, not done by our company, which indicate both for our distribution company, SaskEnergy, and for our transmission company, TransGas, that in some instances we rate number one. In other cases, we're certainly in the upper quartile or the upper three or four. And in some cases, where we can see we can do better, obviously we're going to strive to do better. But I would want to try to say to the committee that we're very cognizant of issues of cost.

I just want to spend a couple of minutes, Chairman, on rates because I know rates are an issue of some interest. The TransGas rates for '97 were announced some time ago at 5.9 per cent. That's a function of our cost structure. I want to tell the committee that we have a very, very good dialogue, customer dialogue process, that we work with the Saskatchewan industrial gas users association, with other groups who are affected by the movement of gas in our transmission system, and have a very good dialogue process working there.

With respect to SaskEnergy, as you know, last week on the utility side we announced a 2.3 per cent rate increase, about a . . . roughly a dollar and a quarter a month. I perfectly understand that increases are never met with much glee. I do want to say that for 1997 we will have the lowest residential

rates in Canada. In fairness we are usually second lowest in Canada, about \$6 a month behind Calgary. Because of some good management in our gas portfolio for '97 we in fact will be the lowest. It follows two years of decreases.

I do want to say that the 2.3 per cent increase this year was not related to the severity of the winter or to the price of gas, despite what someone may want to believe. The costs were related to transportation and the depreciation of our system as directed by the consultant's review.

That 2.3 per cent rate increase, or 2.5 for residential customers, I think stacks up fairly well. And just before I close, Madam Chair, I would draw the committee members' attention to graph no. 9 which does show our rates for '97 compared to other cities in Canada. Obviously we tend to think of our relationship to the other producing province to the west, and we stack up quite well.

And I think that our rate increase, which again is never met with enthusiasm, I think again relates well to what's gone on in other jurisdictions, and even natural gas producing jurisdictions like Alberta where Calgary, the residents of Calgary, experienced a winter increase of 14 per cent and a subsequent summer gas increase of 4 per cent, for a total of 18 per cent. So that's one of the reasons why our rates are lower this year than that of comparable cities in Alberta.

I'm sure there'll be more discussion of that, Madam Chair. I just want to say that we'd like to think that we have more of an impact on the province than simply the provider of natural gas. We employ about 860 people in the two companies of a payroll of about \$46 million, a third of which is outside the cities of Regina and Saskatoon. We spend about \$20 million buying goods and services from Saskatchewan businesses.

We spent \$71 million last year purchasing natural gas from Saskatchewan producers. Before deregulation we used to buy 70 per cent of our gas from Alberta, which obviously impacts both our home-owners for the tolls and Saskatchewan businesses. Now that's reversed. We pick up about 70 per cent of our gas here in Saskatchewan, which is good for the patch; it's good for royalties.

And I can tell you, if you want to talk to Saskatchewan potash producers or Saskferco, who buy 20 billion cubic feet a year, they want all the Saskatchewan gas they can get their hands on and not pay the Alberta toll and keep their cost structure down. So we try to make an impact here in Saskatchewan and we try, obviously, to provide competitive rates.

One last comment, Madam Chair. I rarely get an opportunity in a public forum like this to acknowledge, I think, the very dedicated men and women who work across Saskatchewan for the company. I say this in no self-serving way with respect to myself, but I do want to acknowledge their hard work and their dedication to the people of Saskatchewan. I'd want the committee members to know that. I think that when we do fairly well on some of those benchmarking figures I've shared with you, it's a function of some very, very dedicated men and women in this province who are committed to our province and

our customers.

Thank you, Madam Chair.

**The Chair:** — Thank you, Mr. Clark. I would now ask the representative from Ernst & Young to make a comment on the financial report.

**Mr. Willis:** — Certainly. Thank you, Madam Chair. As indicated on page 39 of the annual report, our audit report for the current year provides a clean opinion on the financial statements of the corporation. Consistent with prior years, throughout the course of our audit we received excellent cooperation from all levels of management and we found the financial affairs of the corporation to be in very good order.

Besides those comments we really had nothing further to report to the committee at this time, but would just like to thank management and the organization for all their assistance throughout the audit and to emphasize that again we found things in very good working order in the company throughout the year.

**The Chair:** — It's a clean financial statement you're saying, Mr. Willis.

**Mr. Willis:** — Is a clean opinion on the statements, that is correct.

**The Chair:** — Thank you. And now the provincial auditors.

**Mr. Heffernan:** — Thank you, Madam Chair. We concur with Ernst & Young's audit reports. We've had excellent cooperation from Ernst & Young and from the management and board of SaskEnergy, and I'd be pleased to answer any questions of the committee. Thank you.

**The Chair:** — Do any committee members have questions of either the representative from Ernst & Young or the provincial auditor's, it office, department, secretariat? . . . (inaudible interjection) . . . Okay. I don't want to offend you. I realize you have this arms-length relationship and everything but . . . Okay. Office. Okay. Any questions?

**Mr. Hillson:** — Thank you, Madam Chair. The question I'd like to ask, and of course there has been the issue as to . . .

**The Chair:** — This is of the auditors?

**Mr. Hillson:** — Yes.

**The Chair:** — Yes. Okay.

**Mr. Hillson:** — The issue raised as to whether the various Crowns should fall under the purview of the Provincial Auditor. Now under the present system where there is private auditing services engaged and then it is reviewed again by the Provincial Auditor, does that result in overlap and in effect double charge and double expense from doing it that way, as opposed to the Provincial Auditor's department having the responsibility for the audit? Is, in effect, much of the auditing being required to

do twice? Say we've just finished having two opinions here.

**Mr. Heffernan:** — We try to avoid that to the extent possible, by not overlapping on what we do. So what we do is we rely on the work that Ernst & Young does. Ernst & Young does all the direct audit procedures. We look at what they do, have discussions with them and management and so on, and form our opinions. We do each have somewhat different roles.

The Provincial Auditor is the auditor of the Legislative Assembly and has to form opinions on all Crown corporations and government organizations. Ernst & Young is appointed by the corporation — very legally appointed, no problem with that. The government I think, has decided that, for important reasons, they want public accounting firms involved in auditing Crown corporations. We work within that system. And I think that although there are additional costs, I don't think the costs are really that significant.

**The Chair:** — We've had decentralization and deregulation in the auditing industry since about 1987.

**Mr. Willis:** — I would concur with Mr. Heffernan's comments. We would view the relationship as us working in conjunction with the Provincial Auditor and do everything possible to avoid overlaps in that relationship. And I think in recent years that relationship has been going extremely well. And I think efficiencies have been achieved in that so that the overlap — if any — would be very minimal.

**The Chair:** — Mr. Hillson, just for your information there was a review done two or three years ago, the task force on roles and responsibilities of provincial auditors, and you may wish to obtain a copy of that and review that as well. I think it's a very pertinent question to ask but it is — as you're hearing from both the Provincial Auditor and at least one representative from one private firm — it's an area that has been reviewed and it seems that the current situation of having the Provincial Auditor be the auditor of record for CIC and having private firms audit the major Crowns is one that seems to give best comfort for the public and for the legislators.

Any further questions?

**Mr. Hillson:** — Not to the auditors.

**The Chair:** — Okay. Thank you. And now we'll get into the love-in, I guess. As is the standard practice in this committee, I will recognize the representative from the opposition for 15 minutes, then turn it over to the third party for 15 minutes, and then to the government, and we will continue rotating that way.

**Mr. Hillson:** — Thank you, Madam Chair. I appreciate the comments of the president — thank him for them — but it still seems to me that we have a situation where SaskEnergy has recorded large surpluses again this year — 50 per cent increase in the surplus I believe, give or take — and the only explanation I've heard for requiring an increase is that, well if our winter was warmer or if interest rates were higher then the financial statement wouldn't look as rosy as it does.

Now while that no doubt is correct, to say that circumstances could change so we weren't making as much money as we're making — the fact is we've made a lot of money every year. We've made far more money again this year. We were hearing that foreign ventures are being contemplated.

What actually, what actually is the reason for needing a rate increase in the face of high profits outside of speculating that, well interest rates might go up even though of course the experts say we're in for 10 years of low interest rates. That's what the experts are telling us for all that anybody ever knows. Or yes, we might eventually get a warm winter in Saskatchewan. But I haven't heard any explanation for needing an increase outside of this sort of speculation of how the world could change.

**Mr. Clark:** — Well, Madam Chair, I'm sorry if I left it to seem like simply speculation is the result of why there was a rate increase of approximately two and a half per cent in 1997. When we put the business plan together and had it approved by our board in the early fall of 1996, obviously no one was clairvoyant enough to appreciate what the weather may or may not have been.

We identified . . . and I should point out to all the committee, we make a return. We have \$1.2 billion of the public's assets. We operate on returns which are at the industry norm and at the industry average and that's the way we operate the company. And that's the way we're instructed to operate the company.

When we identified additional transportation costs totalling about three and a half to four million dollars, those are very real costs. They were costs related to increased tolls of other transmission companies to move gas to TransGas; albeit it's a sister company, but it has its corporate responsibilities. And the depreciation, if totalled, Madam Chair, about \$6 million.

Those were very real. If we had have not had a . . . let's say a normal winter, never mind it was cold or warm — I was only trying to depict the amount of swings, Mr. Member — we would be quite happy, as all of the regulated utilities across Canada who are permitted a certain return on their investment, to make that same return. And if the winter had been absolutely normal, we would have had a \$6 million shortfall without the 2.3 per cent rate increase. And on that basis, those are real costs that need to be absorbed by this company.

Sorry, I'm not trying to be obtuse. I . . .

**Mr. Hillson:** — I accept that, but I mean we had a \$73 million surplus and you're telling me, a warmer winter, we would only have had a \$67 million surplus. I mean, like, is that . . . Am I missing something here?

**Mr. Clark:** — No, I'm saying that if it had been 20 per cent warmer, we would have gone from \$73 million to \$33 million. We would have, quote, lost, not . . . we would have had an erosion from the return which would be permitted by any utility, regulated utility, regulator in Canada of about 17 to \$20 million. And all I'm saying is that if the weather had have been warmer, we wouldn't have turned around and said, oh, it's not

2.3, it needs to be 4.6 now.

We just identified real costs, and these are very real costs. And in a normal, absolutely normal operating environment where you want the utility to perform at least up to industry norms, it would seem to me if we weren't you would say to us, we must be bungling over there because you're not making at least industry returns on the public's infrastructure, or the public's assets. We identified 2 point . . . well \$6 million in costs.

**Mr. Hillson:** — Again, Madam Chair, I guess I would ask the minister the fact still remains that we've had a substantial increase in our profit this year — over 73 million — and we're being told that the Crowns have to be more active in foreign adventures. I mean is that why we need an increase? Is that why the 73 million is not an adequate return on our investment here?

**Hon. Mr. Lautermilch:** — Well I guess in order to respond to that, let me first of all decouple foreign investment from the profits of the corporation and from the operations with the corporation. As you will know, we've undertaken a very extensive review of these Crowns. We've sought outside opinion with respect to their future — the operations, whether or not they're efficiently operated corporations. The Premier, I guess, refers to it as sort of a medical check-up that we've done with these Crowns; SaskEnergy included in that.

And one of the areas of discussion was whether or not these corporations should look for investment opportunities outside of our borders. And there are those who will argue that the corporations should and can maintain the status quo and still protect the asset base and the investment that the people of Saskatchewan have made in them. And there are those who don't buy into that philosophy and think that if there are business opportunities in other jurisdictions, the expertise that we have gained through the operations of these corporations can be put to use investing in ventures that can and have shown with some of the sister corporations that we can generate profits that in turn can be used to pay down debt, provincial debt, can be used to turn into the Consolidated Fund to deliver programs, as the profits of our Saskatchewan operations are.

Now you will take one position and someone will take another. Yours in all probability will be that the province should not be and these Crown corporations should be not looking at investments outside of this jurisdiction. I don't buy that philosophy. I think they have to operate, whether publicly or privately owned, as any corporation would — in the best interest of the shareholders — and pursue opportunities to generate revenue as any other corporation would.

With respect to the rates, I guess my question to you would be, on an asset base of \$1.2 billion, as someone who has been involved in business in the legal profession and involved with businesses, would you suggest that a return on 1.2 billion of assets of 50 or 60 or 70 million is unreasonable?

I think you can make a very strong business case that that kind of a return is not unreasonable and it's not an irresponsible approach to attempt to generate profits in these Crowns. And I wouldn't suggest to you that that kind of return is unreasonable.

What I'd further like to point out to you is that the profits that these corporations generate are returned to the people of Saskatchewan through the Consolidated Fund and deliver programs like health care and education. And that is a historic use of these Crown corporations. It's nothing new.

Now you may say that 50 million that we projected based on an average year is too much. And I would ask you, what do you think is reasonable?

**Mr. Hillson:** — Well I guess, Madam Chair, I think where many people in the province are feeling uneasy is they see a \$73 million profit, a request for higher profits yet, and while we are hearing, you know, your sister company suggesting a major investment in one of the most indebted countries in the entire world. I believe 400 per cent of GDP (gross domestic product) is the indebted figure.

And so while you've said, Mr. Minister, that the philosophy is to put this money into services for the people, we think there's been a change in philosophy now when we have said here, our Crowns need money in order to invest in terribly, terribly indebted countries of the world. We're wondering now, is the philosophy, is the new philosophy that . . .

**The Chair:** — Mr. Hillson, we will be dealing with SaskPower on July 21, so I would encourage you to keep your questions to SaskEnergy.

**Mr. Hillson:** — Yes, but international debentures are also mentioned in this report, and I'm not talking about Guyana specifically, but I had to ask you: is the new philosophy now that we will either try and make profits on the backs of some of the poorest people in the world or is the new philosophy that we will . . . this is foreign aid to some of the poorest countries in the world?

**Hon. Mr. Lautermilch:** — Let me describe the circumstance as I understand it. Firstly, we're not here to debate the merits of the particular deal that you are describing. That'll be done under SaskPower, and I'll be more than happy to entertain your questions when we do the Crown review of SaskPower's operations. I am willing certainly to speak to some of the initiatives that this corporation has been involved in.

For the most part, well I would say exclusively, the investment has been in the form of consulting with and for other companies. And that's sort of the international exposure that SaskEnergy has had. It's been basically in a consulting role.

People understand that we have, in this corporation, gained experience through the rural gas distribution system and through our transmission system, that is unequalled anywhere. And they're very anxious to obtain the services in that expertise that our people have gained through their experience within the corporation.

I guess I can only say to you that, I do believe really, we would want to be honest in terms of what the role of these corporations are. And the role of these corporations are to serve the shareholder, as SaskEnergy is operating no differently than

any other corporation. There's a board of directors; there's a management of the corporation. They fulfil a role; they provide a service. And ultimately their goal is to provide service to their clients, which in turn will generate profits that can be turned back to the shareholders, to the people of this province.

Now you can make arguments that there may be perhaps not enough profits going back to the shareholder. I don't buy that theory. I think these corporations have done a very good job. I don't think that the profit margins that they have achieved have been through gouging. And let me give you an example.

We've passed out for you a graph which clearly indicates that the consumers of this province, the average home in this province, are receiving the cheapest natural gas rates anywhere in Canada.

So on one hand we're delivering the cheapest natural gas anywhere in Canada. On the other hand you say the corporation makes too . . . we're making too many dollars in profits. Now I don't know what would satisfy the opposition, but I can tell you what I think satisfies the shareholders. Knowing the fact that we are delivering the cheapest natural gas in Canada is somewhat a satisfaction to them. When they're able to look at the annual report that shows we're improving our debt-to-equity ratio on a consistent basis, I think that says something to the shareholders.

And I think the fact when you see dividends coming from the Crown Investments Corporation, from profits of the corporations, that goes into the Consolidated Fund and are spent on programs like health care and education and highways, I think that describes some satisfaction with where the direction of these Crown corporations is going. And I think that's been evidenced as well at the ballot box.

This government was elected in 1991 to be good stewards and good managers of not only the Crown assets, but the operations of government as a whole. We were re-elected in 1995 because we were able to demonstrate to the people of Saskatchewan that we would be good fiscal managers, and had been good fiscal managers. That's why we were elected.

And I would suggest to you that the shareholders, the people of Saskatchewan, will have another opportunity to pass judgement on our management of these Crowns and of the assets of the people of Saskatchewan, 1998 or 1999, and I think we'll be able to demonstrate that we have been good managers in that regard as well.

The other point I would like to make to you is I'm wondering . . . and I've asked you and you haven't been able to . . . you haven't answered my question. And my question to you is: as you do a critique of this corporation and the operations of the corporation, what do you think is a reasonable return on the investment of \$1.2 billion?

Maybe you can describe to me . . . give me even a ballpark figure. If \$72 million is too much or if \$50 million is too much, what would satisfy the official opposition who you represent? Would it be 10? Or would you be satisfied with a loss of 10? Because I'm not quite clear and I'd sort of . . . We've put our

position forward . . .

**The Chair:** — Mr. Minister, I would just like to remind you that we have established a procedure of allowing each party 15 minutes for question and answer. I would like to try to keep the answers about the same length as the questions so I'm going to . . . I realize that you've given a fairly involved and detailed answer and I appreciate that, and I think it's good information for the committee members to have. But the answer did rather cut into Mr. Hillson's questioning time so I will let him maintain the floor for another five minutes.

**Mr. Hillson:** — Thank you, Madam Chair. Well I guess first off, I think where the people of Saskatchewan are having a problem is that they see a profit going from . . . a profit that increases from — is it 53 to 73? It doesn't look like we're in a lot of trouble when you've got 73 million and a substantial increase. And then they hear that, well, the Crowns need money to invest in indebted third-world countries. I think that's where people are getting a little bit nervous. And I think you'll have to accept that they are a little bit nervous about that.

Now I do see that Many Islands Natural Gas has been . . . now it's been reborn as SaskEnergy International — and there was a sale — by that time I gather that the company was an empty shell. Was this company ever a going concern? Did it ever have assets? Apparently it didn't at the time of the final sale and transformation, but did it ever have assets, or was the nominal \$10 price for Many Islands Natural Gas, was that ever a real company here?

**Mr. Clark:** — I'll just defer to our general counsel, Mr. Member.

**Mr. Hillson:** — Thank you.

**Mr. Guillet:** — Many Islands Natural Gas was a subsidiary of Many Islands Pipe Lines Canada, which is the cross-border transporter of natural gas. It had an asset which was a transportation contract which was transporting natural gas on behalf of other corporations across into Canada. That contract was now no longer there, and therefore Many Islands Natural Gas was no longer a going entity.

And at the same time, the company was requiring a corporate entity for SaskEnergy International, and therefore rather than incorporating a new federal company, we utilized a company which we had just wound up that year.

**Mr. Hillson:** — A shelf company then?

**Mr. Guillet:** — Correct. And in order to defer additional expenses at the time, we utilized Many Islands Natural Gas because it was no longer required.

**Mr. Hillson:** — So are you saying then that this contract that it had owned was actually the only asset it ever did have?

**Mr. Guillet:** — Yes.

**Mr. Hillson:** — Okay.

**The Chair:** — Are you finished this round of questioning, Mr. Hillson?

**Mr. Hillson:** — Yes.

**The Chair:** — Okay. Thank you.

**Mr. Heppner:** — Good morning, Mr. Minister — just got that in under the morning time — and to your officials.

First of all, you made a little comment about the ballot box and I think before you get too excited about that, you need to check how often that you've had more than 50 per cent support in the ballot box.

And also I'm not sure that that winning election necessarily means people say we're totally satisfied with rate hike increases and those sorts of things. I think that's a little bit of a jump to make there because if that was the only issue that was out there, you might not be in the particular chair you're in right now.

Question dealing back with the chart on page 2 — that's the one about the increases in cold weather and warm weather. In general, what's the direction that SaskEnergy looks at this with? Like, obviously when there's a cold time you're going to, you know . . . sales are up and from a business standpoint when sales are up those are good times. Do you look at the good times covering the downsides of past years or to build up a bit of a surplus for possible coming warm winters ahead?

**Mr. Clark:** — That's an excellent question, Madam Chair, and I'll ask Mr. From, the vice-president, to get involved. But what we do, as all utilities do in Canada, is we have a 10-year average of what we call degree days in your particular jurisdiction. And the degree days are defined as a number of days where I think the temperature falls below — is it 17 degrees Celsius or 18?

But all companies work on 10-year average so we don't try to just speculate what the weather was going to be like next year based on last year. And we build our business plan around those . . . a normal winter, identify expenses. Usually the most volatile issue has to do with gas price because that's a third of our total expenditures. Last year was about \$95 million just to buy gas. And it doesn't have to change very much before that really starts to influence rates.

But no, we won't be sitting here trying to speculate on what we think next winter will be. We will plan on a basis of the 10-year rolling average of degree days. That creates what we call the pattern for a normal upcoming winter, and we'll identify our costs. And obviously we'll hedge our portfolio for 1998 on what . . . on the best possible commodity prices we can get for our customers — roll that in and create rates.

I'm sorry I didn't want to have a long answer. I hope that helps.

**Mr. Heppner:** — So if we had . . . Last winter was cold. If this winter is true to form in Saskatchewan, we all feel it will be cold again. If we have a series of cold winters then that 10-year rolling average obviously changes and would have some effect

on what's happening.

**Mr. Clark:** — It would if we had every winter. But I say if you go back . . . if you use that 10 years, it would pick up 1987 and 1987 was an extraordinary warm winter. So I think you get the swings — you get the peaks and the valleys. And our experience is . . . as I say, when I speak to all the other companies in Canada, they use the same format.

**Mr. Heppner:** — I believe the minister made a comment in his introduction about grain dryers and I'm not sure exactly the number of new grain dryers that were put on line. Are those grain dryers on farms? Or are those sort of commercial grain dryers that you would see at elevators and these sorts of things?

**Hon. Mr. Lautermilch:** — I don't know. Do you have a breakdown?

**Mr. Clark:** — They're both, Mr. Minister. I know the vice-president has a little more information, but they're both types — the larger commercial at the elevators and on farms. We have had those numbers. We can make those available to you.

**Mr. Heppner:** — How much of a difficulty did farmers have by not having large enough lines? Like the dryers keep getting larger, and so at some point that infrastructure is going to find itself short. How much of a problem was it and do you know what's the reaction that's happening because of that?

**Hon. Mr. Lautermilch:** — I think it's fair to say in some circumstances there were requests that just simply couldn't be dealt with because of the infrastructure not being able to serve that area. When clients and when an installation is put in place, it's based on what the clients assume they will be consuming. And certainly the weather we've had in the last couple of years has increased the desire to have grain-drying facilities in other areas.

I can use one example. Just north of Prince Albert, there was a request by an elevator to put in a commercial installation. And I'm told by the officials that that would consume as much gas as a community of 250 people. Well quite clearly that infrastructure wasn't able to deal with that kind of capacity demand and so it does create us some problems.

What we tried to do is work with some of the people in the rural area to determine, well, if the natural gas line doesn't serve this particular spot, is there a way to relocate, or to locate, a grain dryer in a central location where that infrastructure is there to handle that, you know, that kind of consumption. And I think the fact that we've been able to put 63 on stream over the year before is somewhat indicative of the fact that we've certainly been trying to cooperate with the farming community and business to establish facilities that they require.

**Mr. Heppner:** — Yes, I'd suggest that probably the growth in grain dryers is going to continue for not just the wet weathers that we've had but that there's a lot of change in agricultural procedures, where they go from straight combining and then just dry it off. With farms getting larger, we're going to be

seeing an increased problem with infrastructure being at whatever year it was put in, not foreseeing the size that's happening.

Is the only possibility out there just to put the dryer at a different place? Or is there some other options that are out there that SaskEnergy is looking at to supply those needs because they will be happening?

**Hon. Mr. Lautermilch:** — I'll ask the officials to comment on it. But I mean, when they design an infrastructure it's based on what the clients indicate their demand will be. So you build a line and, you know, it's . . . then we look at what a rate of return is and how much the consumption is and that's all factored into the size and the design.

It's very difficult to overbuild the line because of the costs, and we try and minimize the cost to the clients. And you know, we've got a fairly extensive distribution system in rural Saskatchewan — I would suggest larger than any other jurisdiction. And much of it was done on borrowed money but we're, you know, we're still trying to deal with.

I'm told by the officials that we're using technology improvements and pressure upgrading on the existing lines to try and move more volume but there's only so much capacity, even with, you know, with new technology that you're able to push through those lines. There's some physical limitations.

**Mr. Clark:** — As I say, in short we agree with you that that's another growth opportunity, that grain dryers and grain drying will be more than just related to wet grain. There are some commercial reasons why that's going to be an ongoing, attractive, opportunity for us.

And as Doug Kelln, our vice-president, could elaborate or speak to you privately, is that we're doing everything we can with the infrastructure we have and pressures to try to respond to that. In some cases, I would have to tell you that we just simply have some infrastructure constraints. But we do . . . I would want to communicate to the committee that we do everything we can to go the extra mile to try to accommodate.

**Mr. Heppner:** — There was a comment made earlier on when we're dealing with the rate hikes that there had been . . . SaskEnergy looked for input from some of the major consumers on that or some interaction. I'd like some expansion on what were . . . who were those major consumers and were any other groups involved in that discussion, or just, you know, your two or three big consumers?

**Mr. Clark:** — Fair question, Madam Chair. When I was mentioning the groups being involved in the rate making, I was referring specifically to TransGas. In that case, we know who are customers are. There's roughly 260 TransGas customers — they're potash mines, they're Saskfercos, they're other independents.

And so we have established for the last nine months a dialogue process where these people come to the table every month, get into our company, ask a lot of questions. And so those users,



like the Saskatchewan industrial gas users, the potash industry, Saskferco, who's a big consumer — there's a marketing group out of Saskatoon called CEG Energy Options— they're at the table.

So we've tried to embrace probably about 80 per cent of the volume on the TransGas-side of people who are affected by our business and by our rates and feel that that dialogue process has worked very well. Obviously on the SaskEnergy side, where we have 304,000 consumers, there's been no way to structure a comparable vehicle.

**Mr. Heppner:** — Is SaskEnergy looking at developing some sort of vehicle that will get some input? Because maybe in volume, you know, they obviously aren't the same size as those other 62 but they're still a major component in this province.

**Mr. Clark:** — Mr. Member, as I say, I wasn't trying to downplay the 304,000 members. It's just hard to find proxy representatives for 304,000 people in a forum unlike the TransGas where we are able to do that.

Currently we use the process we have, and if there's improvements, well we'll happily deal with whatever forum we're asked to appear before.

**Mr. Heppner:** — In a discussion of the operation of SaskEnergy, there's a mention made that in many areas you felt that SaskEnergy was doing very well, particularly when we're talking about O&M (operating and maintenance). But you also mentioned that there were other areas that you weren't rated as, you know, one, two, or three. And I'm wondering which ones those were and what sorts of things you're looking at to sort of bring those up to speed and save the consumer some costs in those ways.

**Mr. Clark:** — Fair question, because I want it to be balanced and not say that we do everything perfectly right because everybody can do things better. I can't think of any organization in the world that can't be better.

And as I said on no. 6, for example, if you look at our O&M costs on the distribution side, we rate very, very well. Again on chart 7. In specific response to your question on chart 8, you can see that when we talk about the total expenses per billion cubic feet of gas and the throughput on the TransGas system, we're better than the average by almost \$60,000. But we're also about \$33,000 of Bcf (billion cubic feet) higher than the best or the top quartile.

We've started to identify some of those benchmarking what we call best practices, some of engineering activities. Some of our . . . We're very, very advanced in technology and we've got to make sure that our technology costs are competitive. So we're looking at a number of the sub-components of those larger numbers to try to make sure that we are competitive.

**Mr. Heppner:** — Is there a breakdown available of which ones specifically are lower ones?

**Mr. Clark:** — Our vice-president of business development has

been heavily involved, Madam Chair, and I think could quickly give the member an answer.

**Mr. Reeve:** — I think, as Mr. Clark's indicated, engineering is one of the components where we did fall a little outside the benchmark. But again it was due to some very large capital years which has a large engineering component.

So I don't mean to be an alarmist on the engineering side, although there are . . . we think there are some opportunities on the engineering side. And there are some field practices around compressor maintenance where from a technology perspective we're looking for new technologies — certain automation of compressor units, etc., which can help to bring our costs more in line with the top quartile performers.

**Mr. Heppner:** — Okay, thank you. One of the statements made was that you purchased a large number of your goods and services inside Saskatchewan. Do you have a percentage for those sorts of things? How much is inside, how much is outside, and what the possibilities are to move more of those outside purchases to within the province?

**Mr. Clark:** — I think at the fear of being contradicted by my own annual report, Madam Chair, I think it's over 80 per cent in Saskatchewan. And those cases where we've got some purchases outside of Saskatchewan, they are for commodities for which there's no ready substitutability. Some of them are meters which are produced outside the province — for example, the large compressor station units, the solar turbine engines, which are done by Caterpillar, are done in San Diego. Those kinds of things affect that ratio.

And I can tell you where we do have large purchases outside the province, we try to get an offset agreement where they will in turn try to, in the case of Caterpillar, utilize Saskatchewan producers to offset, and Saskatchewan manufacturers.

So the short answer, Mr. Member, is about 80 per cent in the province. And we look at every opportunity to try draw the remaining 20 per cent back into Saskatchewan or to get offset agreements; where that's not possible, to have that company utilize Saskatchewan companies in some of the sub-components where we are capable and able.

**Mr. Heppner:** — Last July, TransCanada Pipeline announced a \$75 million construction project in Saskatchewan to increase delivery of natural gas. What's the status of that particular project and how will it affect gas supply in Saskatchewan?

**Mr. Clark:** — Well I think, Madam Chair, if you've been watching the gas patch in the last year or so, there's almost a new gas pipeline announced every couple of weeks with massive dollars: the Alliance pipeline out of northern B.C. (British Columbia) through Alberta right to Chicago which, if built, will probably be one of the largest ever undertaken at \$3.6 billion.

The commitment by TransCanada Pipelines that you alluded to is a four-year upgrading of their system right to the Chicago and the Toronto markets. I can tell you, Mr. Member, that that's a

four year . . . That's called a NEXUS (Novel project, Experienced pipeline, Expanding markets, Unique tolling, Select TransCanada) pipeline expansion by TransCanada. It's about a billion dollars a year for the next four years and what it's all designed to do is increase deliverability out of the western Canadian sedimentary basin to both the Chicago markets and to the Toronto and the eastern Canadian markets.

The impact for Saskatchewan is it just gives us more access for our gas to the export market and that can only help exploration in Saskatchewan. So we don't see it as a competitive issue. It's a complimentary issue.

**The Chair:** — Thank you, Mr. Heppner. I would now ask if any members on the government side have questions.

**Mr. Renaud:** — Well I've been sitting here listening, Madam Chairman, to many of the questions. I've heard a lot of the questions in the House this year and I guess I have a bit of a concern that the opposition seems to — I don't want to say misleads the public — but want to have the public believe that SaskEnergy produces its own gas and I would like to have that clarified by the corporation; and also that the review process is a sham, and I don't believe that it is and I would like that clarified; and that the profit for the shareholders, the people of Saskatchewan, is a sin of some kind and I would certainly like the corporation to comment on those.

**The Chair:** — Profit's only a sin when governments do it; when private companies do it, it keeps things going.

**Hon. Mr. Lautermilch:** — I guess I'd like to just make a few comments. I think it's one of the processes that we as politicians go through where opposition takes the opportunity to criticize and I guess on the government side we will sometimes feel that the criticism is unfair. And I think frankly what is trying to be portrayed is a government that is making excessive profits in the Crown corporation sector at the expense of the people of Saskatchewan, their clients.

And I think that it's somewhat unfortunate, because if you look at the record of the corporations since 1991 — and not due to politics or any particular political party — the people who are managing and operating these corporations are doing one heck of a job for the people of Saskatchewan. They've been paying off hundreds of millions of dollars in provincial debt which ultimately results in improved services and will result in improved services for the people.

The vast majority of the debt pay-down has come from these Crown corporations. And so I think it really does speak to the management this year, using just SaskEnergy as an example. And we've seen that here today where members will try and portray a \$72 million profit as being excessive, even in spite of the fact that the explanation from the officials indicates that we had a 20 per cent colder weather than normal and that each percentage point results in \$1 million in profits.

So I mean it's really . . . sure it's politics. It's fair and it's fine.

But I think what we need to do is we need to be the best

managers that we can be. We need to be responsible. We need to try and keep the cost of delivery of service, whether it's natural gas or electricity or whatever service we deliver, competitive with other jurisdictions and as low as we possibly can. And I think that the corporations have been very successful in doing that.

So I don't know if I've answered your question, but I think I've been able, I hope I've been able to describe some of the frustrations that are experienced when you're dealing with these corporations.

When they do a good job they've made too many profits; if they were to lose money, they would be chastised severely for that. It almost appears as some people in this province would not want to see these businesses capture business opportunities.

But I think what we need to do is show leadership, show responsible management in terms of the operations of these Crowns and support the . . . in terms of SaskEnergy, support the 800-and-some people who work for this corporation and do a very good job and should be commended for the work that they do.

**Mr. Renaud:** — I guess the increase that's going to happen on July 1, which is in a few days, I wouldn't mind knowing what effect that will have on the bottom line of this Crown corporation. And I guess how does the increase compare? I think this is mostly for the record. How does this increase compare to increases or decreases in other provinces, other jurisdictions, and how do we compare it to other jurisdictions in the cost of natural gas, myself as a consumer in my home in Tisdale?

**Hon. Mr. Lautermilch:** — Firstly, the 2.3 per cent average increase would result over an annual basis in about \$6 million in revenue, so if we're six months of a fiscal year, it would be around \$3 million.

And we've passed out charts and I'm hoping that members of the committee will take the time to look through them, because really I think it does tell a story in terms of the success of SaskEnergy in terms of being able to contain the cost to our consumers.

If you go across Canada in the comparisons of increases that have happened in other jurisdictions, Saskatchewan stacks up I think very well, and I think SaskEnergy stacks up very well — number 10 on your chart — an increase here of 2.6 per cent; Calgary, 18 per cent; Edmonton, 11 per cent; our neighbouring province, Manitoba, 7 per cent; British Columbia, 11 per cent. So I think it tells a story.

It tells a story of how the corporation has been able to save the consumers of this province from increases that would have been over and above what has been approved, the 2.3 per cent . . . or is it 2.6 per cent that's been approved. And I think we stack up very well.

And as I said earlier it clearly indicates, and the people of the corporation should be commended for the work that they have

done and the success that they've had.

**Mr. Clark:** — Simple answer, Madam Chair, is if you've got a resident in Tisdale who used exactly the same number of cubic metres of gas in the month of January in Tisdale in Saskatchewan for 1997, and they've got a brother-in-law in Calgary who used exactly the same number of cubic feet, your friend in Tisdale paid less in 1997.

I fairly indicated to the committee that there are years when that vacillates a little bit as between ourselves and Alberta. We successfully hedged our portfolio. I give all the credit to Mr. From to my right, and his people, for some very wise decisions about how we put our portfolio together for 1997 and we succeeded in being number one this year.

**The Chair:** — Further questions, Mr. Renaud?

**Mr. Renaud:** — No, that's it.

**The Chair:** — Mr. Trew, would you take the Chair please.

**The Vice-Chair:** — I recognize Ms. Lorje.

**Ms. Lorje:** — Thank you. Either Mr. Clark or Mr. Lautermilch. Mr. Clark, in your opening statement you indicated that a big problem is with gas price volatility and that natural gas is totally deregulated. So I have four questions to ask in total.

My first is given that this is a totally deregulated industry, how would a PURC (Public Utilities Review Commission) or a LURC (legislative utilities review committee) or any such configuration help in terms of the issues that are raised by the members opposite?

**Hon. Mr. Lautermilch:** — Well if I could I'd like to answer that, and I think it's answered by chart 10. The other jurisdictions use different processes and it certainly hasn't protected consumers in those areas from increases. The increases will be due to the cost of transmission and distribution, the cost of the raw material, and those are the things that will affect increases.

A Public Utilities Review Commission cannot decrease the price of natural gas in the market on natural gas. We stack up very well in terms of benchmarking with other corporate entities in the same business as we are, and so I think that speaks for itself.

**Ms. Lorje:** — What you're saying basically we are feckless victims of the market-place, and any kind of rate review process is not going to affect that one way or the other.

**Hon. Mr. Lautermilch:** — Well if gas is \$2.50 a unit as opposed to \$1 a unit, it would be I think, fairly clear and fairly reasonable to assume that the cost to the consumers will be increased. I mean the prices that come on a residential bill are very much contingent on what it costs to buy natural gas, what it costs to buy the material.

**Ms. Lorje:** — Since I take it this is likely to be your swan song

as minister appearing before this committee, I would then ask the true power centre now for a similar response to the question. Mr. Clark, can you tell me, will a PURC or a LURC help this situation for the people of Saskatchewan in any way?

**Mr. Clark:** — First, and not to be flippant, explain all this power that I have. Sorry, I was being flippant.

I only comment that the structure would make no particular difference from the point of view of the result. In Calgary the utility asked for a 14 per cent rate increase. They went to the Alberta Energy & Utilities Board and within I think six weeks, I have it here, less than six weeks — you can call it rubber-stamping if you like — they got a 14 per cent rate increase.

I guess one could argue that it's an independent third party, and when we stand up and try to tell you that we've got 2.3 per cent in additional costs, we're I guess, not believable. But it would make no . . . In my view, Madam Member, it would make no difference to the result.

**Ms. Lorje:** — Thank you. I tend to concur with what both of you are saying, and it was my experience when we had a PURC in this province that it was an unnecessarily litigious process that really gave a great deal of money to a lot of out-of-province and out-of-country consultants but didn't really result in anything for the people of Saskatchewan.

But I'm wondering if there isn't some possible role . . . And it seems to me that it is passingly strange that there should be an 18 per cent rate increase in Calgary and a 2.6 per cent rate increase in Saskatchewan, and I think the reason is imbedded in one of your charts wherein you indicate that you were able to hedge the market prices. Did the Alberta Review Commission allow the Calgary gas company to hedge?

**Mr. Clark:** — I'm going to . . . I think I know the answer but I'm going to defer to Mr. From who's very familiar with this.

**Mr. From:** — What I can do here is read from the ruling that the Alberta Energy Review Board released. It states that:

Alberta has a policy that allows the market-place to determine natural gas prices.

They further say that:

The board has also directed Northwestern Utilities to provide alternatives and recommend solutions which would moderate the impact of market price volatility on customer rates in the future. These alternatives will be reviewed by the board at a fall hearing.

**Ms. Lorje:** — So in essence, Mr. From, you're saying to me that in Alberta they have determined, through their public utility review commission process, that the market-place is the supreme arbiter and that no matter what kind of a review process there is, there's not a thing that can be done by the people of Alberta for that.

**Mr. From:** — Up until now. And I think given the increasing costs for this past winter, the board is now saying that perhaps there are some things that you can do — look at your sister utility to the east, see what they did, and perhaps come back to us with some recommendations.

**Ms. Lorje:** — So in essence then there still is some sort of a social democratic role to be played in curbing some of the excesses of the market-place in natural gas?

**Mr. From:** — What I think it is, is trying to meet expectations of the customers. Customers want some price stability and one of the mechanisms of providing that is to have some more price certainty rather than just letting things arbitrarily flow with the market price.

**Ms. Lorje:** — And a 2.6 per cent increase, while it still is an increase, relative to an 18 per cent increase, is price stability?

**Mr. From:** — Absolutely. And further to that if I can add, other jurisdictions allow claw-back of costs. And that is indeed the case with Alberta as well. If the utility has some extra costs incurred in providing service they do not anticipate, they can go back to the consumers and say, we didn't charge you enough so for the next three months we're going to up your bill because we underestimated previously. Our jurisdiction, we do not do that.

**Ms. Lorje:** — I said I had four questions and I know I've . . . I actually only am on my second question. I just want to say, will the company now, as a result of the Crown review process and the new policies and so forth that are in place, will the company continue to hedge? And I guess I best direct that to the power centre here, Mr. Clark.

**Mr. Clark:** — The answer, yes we have approval from our board for our hedging strategy. We think it's in the best interests of our customers and we will continue to undertake that activity because we think it does shield our customers.

**Ms. Lorje:** — Thank you. Mr. Trew, I have two other questions when it's our turn again.

**The Vice-Chair:** — Thank you.

**Mr. Hillson:** — Mr. Chairman, she continued until 12:30 on the dot.

**The Vice-Chair:** — Thank you, Ms. Lorje. Mr. Hillson, it is your turn for a second round. The floor is yours.

**Mr. Hillson:** — Thank you, Mr. Chair. I first of all want to congratulate the minister in his defence of high corporate profits and tell him that I heard almost the identical in a recent speech by the president of the Canadian Bankers Association. And the reasoning was pretty well identical, and in pointing out that in terms of net investment, that the profit level wasn't really that high after all. But it was an eloquent NDP (New Democratic Party) defence for high corporate profits. And as I say, it was pretty well identical to what I heard from the Canadian Bankers Association, so I congratulate you on that.

But you've been asking, well what's your position on this, opposition. May I put this question to the minister. If you were opposition, faced with a public utility with a \$73 million profit, would you be arguing that an increase in rates is obviously desperately needed?

**Hon. Mr. Lautermilch:** — I think, looking at the corporate health and understanding of the operations of the corporation, I would suggest — and when comparing to other jurisdictions — I would suggest the 2 per cent, two and half per cent, or 2.6 per cent is certainly not out of line.

But you know, and I guess what I believe was a fair question in terms of the . . . What would be an appropriate return? I'd be really interested to know what your position would be in terms of a return. What is a reasonable return?

Certainly you've indicated on a number of occasions that 56 or \$72 million is excessive. Would you manage these corporations . . . would you put in place a five-year business plan with a zero balance profit? Is that how you would put together a business plan, is what I'm asking you. Would you put your operations and your rate structure and put this in a five-year plan such that every year the corporation would be targeting a zero balance in terms of profits? Would that be your optimum goal?

Because it just seems to me the questions, the way you're phrasing your comments, that that would be how you would establish a business plan if you were the president or if you were on the board of directors, that that would be your recommendation. And I'd really like to have that clarified. Because you see, if 56 is too much and if 72 is too much, what is reasonable then? Is it zero, or is it 1 million, or is it 2 million?

And what would you do in the case of an unforeseen event? As an example, maybe a warm winter when there might be a loss of say 10 or 15 or \$20 million, how would you recover that? Would you just increase the debt of the corporation, or would you go through a process whereby you would ask the consumers to bring that back to a zero balance the next year?

Maybe you could explain that for me, because . . . I mean, we put our position clearly forward here. We've put the business plan together. We suggest that 56 is a reasonable profit and a reasonable expectation. I've indicated that I think that's reasonable. You've indicated that you don't think it is. So describe for me and for the people of Saskatchewan how you would operate this; how you would manage this. I'm very curious about that.

**Mr. Hillson:** — Okay. Well as I say, I realize, Minister, it's safe to say you're in good company; the president of the Canadian Bankers Association agrees with your thinking.

**Hon. Mr. Lautermilch:** — You're not answering my question.

**Mr. Hillson:** — I would tend to think, on behalf of the Liberal opposition, that a \$73.3 million profit is probably sufficient and doesn't cry out for an increase.

However, if I may turn to something else, Madam Chair, it is 12:30 . . .

**Hon. Mr. Lautermilch:** — I can understand why you want to turn to something else, because you will not answer the question that I've asked you and I think you've got a responsibility . . .

**The Chair:** — Mr. Minister, I realize that you will be a minister in charge of SaskEnergy for only a short while yet, but really it is the custom in this committee that the members put the question to the minister and the officials and not the other way around, and I'd like to maintain that custom.

**Hon. Mr. Lautermilch:** — Well it may be custom, madam, but I think as responsible, elected people, we have a responsibility to put forth our position and it's not good enough to come in and make a political statement, as I have seen members of the opposition do. People want to know where they stand. And so I don't think it's unreasonable for me to ask this member what is a reasonable profit level.

**The Chair:** — It is not unreasonable for you to ask, but you might choose a different venue, Mr. Minister, because we are really here to be reviewing the annual statements. And quite frankly, it is the purview of the committee members to be asking the minister questions, not the other way around.

**Hon. Mr. Lautermilch:** — Perhaps I'm asking for some advice in terms of how we would operate.

**The Chair:** — Mr. Minister, I've just given you the advice.

**Mr. Hillson:** — Yes. Madam Chair, I've been listening with some interest at some of the government members contradicting what is as of 12:30 government policy — namely that rate review, the procedure for rate review is deficient and inadequate. And if I may now read from the report which I understand to be government policy on the Crown corporations:

The government accepts that if the Crowns are going to reach a higher level of accountability and transparency, improvements must be made to the way the public receives information about proposed rate changes, and the people must have an improved opportunity for input into such charges.

So I was kind of surprised to hear government members saying that there's really no problem with the present situation, where the government now appears to accept that there definitely is.

And I would like to ask the minister what plans SaskEnergy has in place to provide to that transparency and that input that his government concedes is presently lacking.

**Hon. Mr. Lautermilch:** — What I think I would want to say is we have been using and put in place as a government a 45-day review process with public meetings around the province. And I wouldn't suggest to you nor do I think other members of the government would suggest that there isn't room for improvement in terms of that process. And I think the same

could be said with the Public Utilities Review Commission and how they operate and how they function.

And there's always room for change and always should be room for change and improvement to a system. And I think the government acknowledging the desire to have more transparency has been a very positive move. And I think it should be welcomed by the members of the opposition as I think it will be welcomed by the general public.

With respect to transparency I can tell you that SaskEnergy has not been sitting on its hands. They have been involved in — and let me use TransGas as a specific example — they have been involved in a dialogue process with the clients of that corporation that has created, I think, a much better environment in terms of rates and structuring of rates with their clients because they've been sharing much more information over the last few years, over the last couple of years.

And so it's a process that's always improving and will always want improvement. And the corporation is striving to do just that. Government sets a policy in terms of rate restructuring, a review. And it's not a decision that's made by the corporation; it is a process that's followed by the corporation.

But I would only say as a member of government, as with any process there is always room for change and always room for improvement.

**Mr. Hillson:** — Okay. Can you give any specific examples of how this accountability and transparency, how it will be introduced in the system?

**Hon. Mr. Lautermilch:** — Well I think I just gave you an example of what's happened with respect to TransGas, and how that system has been made much more open. The information shared with the industrial gas users has been expanded greatly. And I think they have a lot of satisfaction knowing that when a change in rates comes, the corporation will give as much information as they possibly can to ensure that it's an appropriate change.

**Mr. Hillson:** — In the question also of international investments, I note that the government review says that it is imperative that there be an exit plan in place for all international ventures. Is an exit plan in place for SaskEnergy International in its present international contracts and in the contemplated ones?

**Hon. Mr. Lautermilch:** — I'll ask my officials to deal with that, but what I want to suggest to you is that each individual initiative will have different requirements and different, you know, different agreements will be put in place because they're all individual deals.

As I've indicated, this corporation, in international dealings, has been operating basically as a consultant, but I will ask Mr. Clark to respond to the specific initiatives that they're involved in.

**Mr. Clark:** — Mr. Member, a fair question. We are not

engaged in any equity projects so therefore I think the reference to equity . . . or to exit from business arrangements that's alluded to is a little bit different in our circumstance.

All of our consulting contracts are rigorously undertaken. We've been paid in every circumstance. So I can't comment on any circumstance where we've entered into an equity situation where we would want to exit the arrangement because we didn't like, after some more additional due diligence or whatever . . . We would want to exit an arrangement, because we've not had any equity involvement. But any contractual relations we've had with other parties have always been done with due diligence and we've always been paid. So I . . .

**Mr. Hillson:** — Madam Chair, if I can switch the subject considerably here. Letters of offer have gone out to large numbers of residences of the province in the last several months in various areas, that natural gas service is being contemplated for their area — in resorts and communities and farms, and of course obviously this is something we're pleased to see.

But there seems to be a lot of confusion over the rates and how they are arrived at. Is there an understandable formula that I can provide constituents with to help them understand how the rate structure is arrived at? What is the cost of providing service?

I understand obviously that would vary from locale to locale, but the figures that farmers and others are telling me, that they're given one figure and a few months later given a very, very different figure — sometimes down admittedly, not necessarily up — but they vary by many thousands of dollars. And it just seems that nobody really seems to understand the process and how it's arrived at. Is there anything you can tell me that would help my constituents understand how these figures are arrived at?

**Mr. Clark:** — Absolutely, Madam Chair, and we'd be pleased to provide it for you in writing so you can communicate with your constituents. We have a single business policy that applies to everybody in the province now, whether in a resort village or an Indian reserve or whatever, and it's cost of installation minus our investment equals a customer contribution.

And obviously it's a function of location, how far away they are from the existing service. In a case of some resort villages or a cluster of farmers, the more farmers or more customers we can firm up, we can drive the per unit cost down. I give a very brief example from last year — Katepwa, out here, to the resort village to the east of Regina. We were able to drive that down to about \$1,100 because the community out there was able to sign up 480 customers.

And with that we will commit to a price; we will stay firm to that price for 5 years. And we were able to install that natural gas in that area last year. Very . . .

**Mr. Hillson:** — I don't mean to interrupt, Mr. Clark, but are you saying . . . the initial letter of invitation, are you saying that if there's a very good response, that the figure mentioned in that initial letter may come down depending on the number of subscribers who sign up?

**Mr. Clark:** — Absolutely. So that's why you, for example, you get a situation where a constituent may say to you, my goodness, why don't they make up their mind. I got two different prices. What invariably happens is we'll get involved with a small group or a large group, they will say yes, we can guarantee you a hundred and fifty customers. We do our cost calculations, divide by a hundred and fifty and get a per unit cost, and then we'll send that out.

Then all of a sudden when they really start to see the whites of their eyes and people have to put a cheque in the mail, all of a sudden it's not a hundred and fifty, it's a hundred and four. And then we'll say, oh but I'm sorry; the cost divided by a hundred and four is not the same unit cost. And they'll say, well why don't we make up our mind?

Well we gave the people an estimate based on some firm understanding of the potential number of customers. And so we get into that situation when we're trying to be of service and try to stimulate new business development; we do that. And then when the number falls much shorter than their commitment, they say, well you guys changed your estimate. And we're saying no, no, no, no, you changed the number of customers you said you had.

So we get into that tug of war, Mr. Member, and we don't like it either.

**Mr. Hillson:** — Is it possible, Madam Chair, is it possible for this letter to say, at 50 sign-ups we can deliver it for X; at a 200 we can deliver it for X? Would it be possible for the letter to say that? Because the letters I've seen, I don't think they put it that way. And while I certainly understand what you're telling me, I'm just wondering if . . .

**Mr. Clark:** — . . . vice-president of distribution, and we're certainly looking for ways . . . We don't want people angry at us either and we're looking at ways to try to improve communication and not have disappointed customers who say, well that's not what I thought you meant. Doug, do you want to elaborate?

**Mr. Kelln:** — Yes. On some of the larger resorts this year we have been trying to give them at times a step — if 500 sign up, if 750 sign up, if a thousand sign up, this is the rough estimate.

In the final analysis, we have to know which 500 do sign up, which determines what the facilities cost. But we are trying to give . . . I know up in the North Battleford area we did provide the three levels. So they had a broader idea, depending on how many people in the area signed up, what the cost would be.

**Mr. Hillson:** — And for the farmers who now are finding that their present hook-up does not allow grain drying operations, is there a set fee as to how much it costs for them to upgrade, or does that again depend on where they are, how far from other subscribers, etc?

**Mr. Kelln:** — Yes, it is again dependent on what facilities we need to add to bring that grain dryer on. In all cases we work with the farmers. When we receive a request from them for

adding a grain dryer, we establish what the facility costs are to bring that grain dryer on in the location they've requested, and the timing associated of bringing those facilities on.

**Mr. Hillson:** — So it would not be the same for all subscribers?

**Mr. Kelln:** — It'll be dependent on the facilities required, that need to be added to bring the grain dryer on.

**The Chair:** — Thank you, Mr. Hillson.

**Mr. Hillson:** — Can I just ask one more quick question on this . . .

**The Chair:** — Well since I had left a couple of minutes unused, I guess you can use them up, you know, but this is political quid pro quo.

**Mr. Hillson:** — I'll remember that, Madam Chair.

Just one quick question on the same point. Future farm hook-ups, will they allow for grain dryers? Or the farm hook-ups you're still doing, the grain dryer capacity would be an extra?

**Mr. Kelln:** — When we look at system design, I mean if you have farms that are just extending off an existing system, we will look at that extension to meet the present loads. But we do take into account . . . if we have a known future load we will try to assess it, and if it involves looking at upgrading our system somewhat to accommodate future, we consider it. But we apply our judgement on whether that can ensure that there's an investment return over the long term.

**The Chair:** — Thank you, Mr. Hillson. Mr. Clark, you mentioned earlier that you would be providing some information to Mr. Hillson. It is the custom in this committee when information is requested by an individual member that we ask that the information be tabled with the Clerk of the Assembly with 15 copies and she will distribute them to all members.

**Mr. Clark:** — Certainly.

**The Chair:** — Thank you. Mr. Heppner.

**Mr. Heppner:** — Thank you. We had a member from the government side express some great personal emotional agony, apparently, that the 45-day review thing had been called a sham. And yet I think we've been told that that price increase is tied very closely to supply and demand and costs that SaskEnergy has. If rate increases are tied that very closely to inputs, then, Mr. Minister, in fact a 45-day review period is somewhat a sham either in fact or in intent, is it not?

Like, what my question then would be . . . Okay, go ahead.

**Hon. Mr. Lautermilch:** — I think if you look at the breakdown of how costs are arrived at — and that's in one of your charts here and I'm just looking for it now — but if you

look at the three areas, item 4 will describe for you the three areas by which rates are put together in monthly charges.

You've got a basic monthly charge, you've got a cost of delivery, and you've got a cost of gas. The cost of gas is clearly market-driven and not controllable by any, you know, by any review of any sort. It's there; it's a reality of life.

The cost of delivery can vary and the return on that cost and the profit is, I think, reason to have due diligence done and scrutiny done on your basic monthly charge. Those are the two areas that I think are important for the corporation to describe what they're asking for and why they're asking for it. And I think the 45-day review gives an opportunity for people, as does a PURC, to do a critique of the request.

So if you're making the argument that because the market drives the cost of gas, the 45-day review is not a necessity or not an entity that can change anything there, you would also have to make the same argument with a PURC. The two areas where it can make a difference is in the basic monthly charge and the cost of delivery.

**Mr. Heppner:** — Okay. Keeping in mind that that rate had gone through some of the 45-day reviews, have any of the other categories then — let's say the basic monthly charges — been lessened because of the input that you received through the 45-day review?

**Hon. Mr. Lautermilch:** — I'm not sure what your . . .

**Mr. Heppner:** — Okay. Say in the 45-day review . . . and there's a lot of concern expressed about the proposed increase. And so you can't do anything about the gas costs, because that's external. It's not something that you can do anything with. But you just finished saying you can do something with box 1 and 2.

So my question is, have you on occasion addressed box 1 and 2 and said, okay, we could probably reduce some of these to accommodate the concern for increases?

**Hon. Mr. Lautermilch:** — Well I think Mr. Clark can explain that to you in terms of the management of the corporation, and he can describe that for you.

**Mr. Clark:** — This is a grey area of discussion because this whole issue is so difficult for the public. And I think, Mr. Member, if we just looked at the result of an increase then I think you could call . . . I suppose you could say all the processes are a sham. I mean the Alberta Energy Review Board gave the Canadian Utilities in Calgary a 14 . . . that's the result.

I guess that people could say well, there was a process. I could show up if I wanted to. So I guess one could say that the process is better, if not the result. And I was speaking to that earlier when I was asked the question about did I think the result would change. I don't know that the result would change.

The answer I'd really like to give you with respect to those other two boxes is that in respect to those things . . . were they

changed? No they weren't. But I can tell you that we made a lot of changes in the management of the company before we ever incorporated those into rates and had those dealt with either by, in this case, 45 days or anybody else.

And I say quite openly, I say quite openly to the members of the committee, when I talk to my CEO (chief executive officer) colleagues in other companies — and we're the only publicly owned one in Canada, so they're all private — is what they will do is they will load up their costs and they'll take it over to the regulator and they'll make the regulator figure out whether they should take . . . whether 6 million is too many or depreciation is too high, and they'll go through it all and they'll pull some of it out.

We don't do that. We know we can't do that. And we do a lot of that internally. I'm not asking for any credit for that. I'm not saying that makes us noble and wonderful.

But so no, I think the answer is probably there hasn't been a lot of changes. But I think . . . I want to say to you that I think that we've managed a lot of that out already. Where a regulator will . . . When I talk to Otto Lang, who runs the Centra energy services in Manitoba — he's a colleague on the Canadian Gas Association with me — he will openly admit and they will openly admit they take things over. Let the regulator deal with some of these issues. And if the regulator rolls it back a little bit, well so be it.

We don't do that. We roll it out ahead of time.

And the only thing I can say finally and not again by way of defence or being defensive, Mr. Member, is that we asked for a 2.3 per cent rate increase effective February 1. We didn't get it until July 1. Calgary got theirs the day they wanted it. They got it January 1 — or was it January 1, Ken? I'm not sure, whatever.

**Mr. From:** — It was February 16.

**Mr. Clark :** — February 16, sorry — the day they applied for it.

So in that respect we had identified \$6 million worth of costs. That really is 2.6 per cent. We will eat, we will eat about three and a half million dollars this year because we didn't get a rate increase.

So I guess in that respect who got served better? The Alberta utility with a regulator or us with our 45 days?

I wasn't commenting . . . and, Mr. Hillson, I just want to say that I wasn't commenting on the efficacy of 45 days when I was answering the member's question. He asked me about the result. And I think that if you had five fair-minded people, a panel, call it what you want, and they sit down and look at the facts and look at the data and assuming our cost structure's not out of control — and I feel comfortable in defending that, as I was stating — that I think they would come to the same conclusion. That's all I was . . . I wasn't wanting to comment on the efficacy of the process.

**Mr. Heppner:** — Okay. One comment and then we'll leave this for awhile. If you're doing your request for raises or increases effectively, you will obviously know that your increases aren't going to happen the day that you want them — even though Alberta happened to have that — so you probably would ask for that raise well enough ahead of time. So when you say you had to eat the cost, I'm not exactly sympathetic at this point.

I do have a question on the hedging component though. So this last winter you did some hedging and it was very good for Saskatchewan consumers. What would have been the effect had we, for example, had a winter that instead of being 20 per cent colder than average would have been 20 per cent warmer than average. Would the hedging that you had in place have had any negative effects?

**Mr. From:** — The hedging program that we put in place last year was based on the fact that gas prices were at historical lows. We were of the belief that they could not go much lower. There might have been downside for 5 pennies. We saw that the up-side was almost unlimited.

So we locked in those low gas prices, and we did that prior to September of last year. As it turned out, we were correct and gas prices did go through the roof — \$7 for a few days last year. That was driven by supply and demand caused by the severely cold weather.

Your question is, had it been much warmer, what would have happened? Difficult to say other than of course the supply and demand equation would not have been in balance. Prices would not have increased to that level. They may have decreased. Our information is that they probably could not have gone any lower than what we had hedged at, so I would think that our situation would have been neutral.

In fact our hedging program is not there to make money or to lose money or anything like that. It is to lock in a price that we believe our customers would think to be fair in the market-place and to ensure some rate stability. Ideally I'd like to see hedging come in at zero each and every month. All that does is mean that we're on the market and things are stable for our customers and they are paying the cost that we incur.

**Mr. Heppner:** — I think it's good for the consumer, as I said, that the hedging worked this last winter. It's just that sometimes when we sort of do a wager on what we see out there, it doesn't always turn out that way. This time it was good, and you know, obviously I think there's not a single person would say, hey that's a bad move, because we all benefited.

**Mr. Clark:** — That's a very fair question, member, and it's raised by our board in terms of our hedging strategy sometimes, but it's not akin to saying, gee, I wonder why I bought insurance this year because I didn't have a fire. Hedging strategy is buying insurance. We're ensuring a price, and there'll be times that if we hadn't bought the insurance at all so to speak, the market would have delivered that very same price and you could say, what did you do that for. And we do it to protect the up-side.



And as I say, it's like the years you didn't have an accident or fire, you say, well I guess I didn't need any insurance; but you had the premium, and you're right. But on the long haul we think it's the best way to try to manage out some of that volatility I spoke to.

Again, and I don't mean to be long-winded, members, is that in other areas where you have the regulator and they don't hedge, it's just whatever — if it runs to 2.79 a gigajoule, that's what it is, and that's what happened in Calgary. And if it goes to 95 cents, they benefit on the other side. They just say, whatever happens, happens. And we try to manage that volatility a little bit.

**Mr. Heppner:** — I asked a number of questions earlier on on trans-Canada pipeline and I have a few more; in fact one specifically. Will that particular project have — two questions — will have an impact on pricing, and what impact if any will it have on increased natural gas to rural areas? Will it make a difference there?

**Mr. Clark:** — I think I could safely answer the second question first, Mr. Member, that it won't ... the trans-Canada system we're talking about, 42-inch huge transmission system across Canada and into the American market, and so it'll have no impact on the availability, for example, to rural Saskatchewan.

And in terms of price, I suppose ... Ken, do you want to comment on whether more take-away capacity out of Alberta or out of the western Canadian sedimentary basin, of which we're a small player — we have 6 percent; Alberta has about 80 some per cent of the gas — what impact that might have?

**Mr. From:** — Okay. There are two schools of thought right now. One is that the Chicago market has very high prices. The Alberta market has very low prices. One school of thought says that the Alberta market will rise in price to match that of Chicago, less any transportation. The other school of thought says no, Chicago is just going to go down.

The likely more probable answer is somewhere in between. Clearly with the western Canadian basin being the lowest priced supply basin in North America, the price in it really only has one way to go. It should not go any lower, probably only higher. But the jury is still out on it and it's speculation as to where the price may end up.

**The Chair:** — Thank you, Mr. Heppner. Ms. Hamilton, would you take the chair, please?

**The Acting Chair:** — Thank you. I'll check now if there are government members who have questions.

**Ms. Lorje:** — I do. I said earlier that I had four questions. I'm coming to the end of them. I would like to know the fiscal health of the company and what steps are being taken to maintain it or to improve it. I'm specifically concerned about the debt/equity ratio. And I would like to know what's going to be happening in the future and how we will be improving the fiscal health of this company.

**Mr. Clark:** — Well, Madam Chair, obviously we are concerned equally about the debt/equity. We've moved it from a very highly leveraged position in 1988 to a better position, but not an industry benchmark yet, which is about 65 per cent debt, 35 per cent equity. We're roughly 77/23 debt to equity. We are continuing to manage our capital program.

For the next five years we will finance our capital out of retained earnings or out of accrued earnings and therefore not incur more debt — which is critical, a way to try to improve that situation. And also I think that quite candidly, it's an issue that's between ourselves and our shareholder to the extent to which we pay a dividend to the General Revenue Fund.

If you want to improve the debt/equity situation, then you leave more equity in the company. That's what a private business would do and that's an option. That's not something we have control over. And so that the straight, the short answer is we're going to try to control our costs, try to keep our capital under control, not grow more debt, and pay down equity ... or pay down debt to improve equity.

**Ms. Lorje:** — The debt situation, was that as a result of the structure or the process under which you were hived off from SaskPower or is it the result of the rural gasification program?

**Mr. Clark:** — I should probably defer to somebody who was here before me who can ... First of all, I think when the company was hived off, as you call it, from SaskPower in 1988, in fact it was loaded up with debt. There's no question about that.

And what the motivation was I can't comment on, I can't speak to that; but yes, there was a great amount of debt that was given to the new company. In fact so much so that the Provincial Auditor, if you will recall, in 1992 or 1993 stepped in and sent some of the debt back to SaskPower because he said it wasn't an arm's-length transaction. So I think I can fairly say that the debt, the company was loaded up.

And certainly the gas distribution program was very costly. It cost approximately 320-some million dollars in total. And there were customer contributions of about 40 million, and I think the net cost to the ... I have the exact numbers and I can provide them for the committee, because I do not want to be accused of exaggerating them. But the net cost of that program as a drag on the company is some \$250 million.

**Ms. Lorje:** — Which is now being spread out amongst all customers, rural and urban — is that correct? — as you work to improve your debt/equity ratio.

**Mr. Clark:** — That's part of our problem. I'm sorry, I have the numbers; I would like to correct them for the committee.

The total distribution system cost was 313.7 million; the actual customer contributions was 65.7 million; the net SaskEnergy cost was 248 million. There was an economic investment, as I mentioned in response to Mr. Hillson about our business policy; we do make an investment ourselves. In that case it was 49.5 million. And the uneconomic investment — call it subsidy, call

it drag, whatever you like — was \$198.55 million.

**Ms. Lorje:** — I'll try to refrain from calling it anything. Can you tell me how CIC dividend affects customer rates?

**Mr. Clark:** — CIC dividend does not affect customer rates whatsoever. We establish rates on the basis of fair returns. And the cost factors I've just spoken about this morning create what we think is an industry standard return that would be expected for the company operating such as we, or a private company, and produce a net profit statement. Then our shareholder, like a private shareholder, can determine how to distribute the dividend.

**Ms. Lorje:** — The planned profit.

**Mr. Clark:** — That's correct. And if you take a private company . . . it's been our experience if you take Consumers' Gas, which is owned by IPL (Interprovincial Pipe Line Co.), Canadian Utilities in Calgary, which is owned by ATCO, that on balance they distribute about 58 per cent of the net return profit in a year to the shareholder — to the shareholders.

**Ms. Lorje:** — So if this company were privately held there would . . . is it fair to say that Saskatchewan people would be unlikely to see any change in terms of the current rise and fall of gas rates?

**Mr. Clark:** — Well I can't imagine why there would be any, because we think our rates are fair and equitable. Our cost structure — there's always the issue, well we'll do a better job cutting costs, and therefore we'll be able to pass on better rates to our customers. I think we have demonstrated that our cost structure is very comparable, very defensible.

So I can't imagine why if the ownership was changed, why the Saskatchewan consumer would benefit from a rate point of view, quite frankly.

**Ms. Lorje:** — Except to put more hands . . . more money in the hands of a few private stockholders, there would be no tangible benefit to the people of Saskatchewan to privatize this company.

I'm sorry. I won't even ask you that question because I realize your position is still a little . . .

**Mr. Clark:** — It's a subject I prefer not to comment on, what I . . . It's a normative question, I think.

**Ms. Lorje:** — All right then. Let me ask my final question. The profit margin in this company, or I guess the dividend or whatever, the planned profit, and the return to the shareholders, the people of Saskatchewan — how does it compare historically? What is it projected to be? And how does it compare to other, private gas companies?

**Mr. Clark:** — Our returns are absolutely, on a before and after tax basis, comparable to the industry. And in fact in some cases a number of basis points above the industry on a given year. But we perform very comparable to what's called return on rate

base as regulated utilities in this country also perform.

**Ms. Lorje:** — All right. That concludes my questions.

**The Chair:** — I would ask at this time if any other government members have questions to put to the minister or his officials?

**Ms. Hamilton:** — I have one that's fairly specific and not in an overview way, but I thought just so I would be clear, I talked with some individuals who have gone through a service training program. And I know in some areas it's difficult to get people who are trained; in other areas we'd be cutting back. Do you feel that now we would have good coverage throughout the province, and that we have enough trained individuals? Or there would be any changes to that program at all?

**Mr. Clark:** — The answer, Madam Chair, is that we're totally committed in our company to training. I think it's one of the reasons why we get what I consider to be higher productivity measures.

We have grown the system. You will note in the remarks earlier that we had 35 . . . or approximately 3,500 new customers in 1996; we anticipate about 4,000 in 1997. I think that's a function of a fairly robust economy. We certainly see it around Saskatoon. We are adding staff because amongst everything we must do we have a safety reliability commitment.

Obviously rates are critical. I mentioned earlier, nothing will draw the attention of Saskatchewan people more quickly than rates or lack of reliability and safety. We're adding people, adding more people to both what's called our DMO program, which is district maintenance operator program in TransGas, and adding more people to what's called our D&R (development and relief) program, which is to provide ready people to serve our customers.

I hope I'm answering your question, Madam Minister . . . or Member.

**Ms. Hamilton:** — I think so. I think what you're saying is that you are adding more people to the training and the involvement in training. I'm wondering if there are areas you're having difficulty filling that, because there was some discussion about people entering a pool under moving provisions that have changed, and whether or not now we're to the point where you have people who are able to be servicing every area of the province.

**Mr. Clark:** — I understand the question better now, Madam Member. Yes, we have . . . I made reference to this D&R pool that we have, is that it's kind of like a relief pool. We bring people in, we train them, we make a major commitment to training our people internally. And the situation used to be, before I arrived at the company, is that there was no requirement, once you took that training, to take a vacancy in the company if you didn't prefer to go to a certain location.

Let us say we spent money, X number of dollars, training you, getting you certification, which we believe is a good thing. And then the next vacancy that comes up is in Rosetown, and you

say, well gee, I don't want to go to Rosetown. My view, quite straightforwardly, is that's too bad. We spent X number of dollars training you; you must take the first vacancy that comes up.

And so I can tell you, as negotiations between myself and the president of the union, we've ironed those issues out; they've agreed to that. It is a change. It has been somewhat unsettling, I concede that, but I think we've gotten over that hump now and I think it's going to be fine now. But I can understand where you might have heard that it was troubling to some members of our company.

**Ms. Hamilton:** — Thank you.

**The Chair:** — Thank you. Any other government members? So I just point out, Mr. Clark, in other circles, in health circles, DNR means, don't resuscitate.

**Mr. Clark:** — Well we still are going to use it.

**The Chair:** — Mr. Hillson, you now have the floor.

**Mr. Hillson:** — I see that the Crown review today is suggesting that possibly SaskPower and SaskEnergy should be re-amalgamated. I wonder if either the minister or Mr. Clark could indicate your thinking on that point.

**Hon. Mr. Latermilch:** — Well just the fact that I'd like to just make some brief comments. I think during the Crown review there were a number of scenarios and a number of outlines that were looked at, and the Crown review has asked both SaskEnergy and SaskPower to see if amalgamation, consolidation, could effect some efficiencies with respect to the operations. As you will know, it was at one time a single entity. That's no longer the case. And I think over a period of time the executives of both corporations will have a look at this and determine what the outcome of that review might be.

Now Mr. Clark might want to make some comments with respect to this.

**Mr. Clark:** — Very, very briefly, Madam Chair, I think that the minister is referring to the issue of exploring synergies which might be accomplished with a merger of SaskPower. I think the key phrase there, Mr. Hillson, is synergies. I think that we're all aware that there's a tremendous revolution going on in North America with respect to the convergence of electricity and natural gas utilities in United States, that there's even discussions of Consumers' Gas and Gaz Métropolitain in Montreal and Quebec Hydro — and these kind of things are going on.

And so the obvious questions to ask is, well boy, you had the gas and the power in one place before, maybe you were ahead of your time and maybe we should re-examine it. I think that you have to understand that that trend in the market is to capture, in situations where, for the consumer, the crossover between putting electric baseboard heating in your house and putting natural gas in your house is a very, very difficult decision.

It's a no-brainer in Saskatchewan. It's four times cheaper to use natural gas — three and a half to four times cheaper — to use natural gas than to use electricity. Nobody in a new subdivision in North Battleford or Regina would, in their right mind I think, talk about putting electrical heat in.

So the convergence issue is a business activity to capture the revenue that comes from whether I'm in a molecule market or am I in an electron market. And if I'm in that private market, and it's a crossover, I better have my foot in both of those revenue camps. And that's what driving this "convergence".

I think the reference here . . . We aren't troubled by this reference in our company. We're focusing on synergies and opportunities. And if there's ways we can serve our customers better, can reduce costs, can seize opportunity, then I think it's incumbent upon us to look at that.

I would say to you that the consultants have visited that issue in their review. We already have common meter reading. We have a common communications centre. We have a common after hours call centre. We share offices in as many places as we can in rural Saskatchewan. So we've tried to find the synergies or the efficiencies, if I can put it that way, through our operations. And if there's more, that we should look at it. And I suppose if somebody could demonstrate that a full-fledged reintegration was advantageous for a cost point of view or a customer point of view, it should be looked at.

I would only speculate that there may be opportunities. I think the full-scale reintegration is probably questionable in terms of real efficiencies. But we certainly are not troubled by looking at any way in which we could benefit from . . . as I say, I think the key word is synergies or opportunities.

**Mr. Hillson:** — I note, Mr. Minister — and I guess the Chair has already indicated that you'll not be with us in this particular capacity long, so I wish you well wherever you are headed — but I note that the suggestion is that ministers will no longer sit on the board of directors. Can you tell us what impact you see that having in terms of the operations of the corporations?

**Hon. Mr. Latermilch:** — Well if I could answer. The time that I have spent on the boards of the Crown corporations in Saskatchewan have been very gratifying, in that I have learnt an awful lot about the operations of the corporations. I think really, what we are trying to achieve and the results of the changes are to remove these corporations much further away from government and government operations.

I can tell you that I have taken the position in my time as the chairman of the board as one of development of policy, and the day-to-day management should be and need to be done by the president and his executive and his team. I'm really hopeful that the changes and the removal of ministers from the boards of the Crown corporations will allow these corporations to, in a less political way, achieve their business goals and their operational goals that they need to achieve to be a success.

I think too many times there is too much politics played with the operations. And I'm not speaking in terms of political

pressure put on the executive to move one way or the other or to do this thing or that thing. I think too often the companies are impeded by the goings-on in the Legislative Assembly and the politicizing of business decisions.

And so I'm really hopeful that these corporations can become, and not only in perception but in reality, much more isolated from the political games that happen in this provincial legislature, and that they can be allowed to do what business should do, whether it's publicly or privately owned, but that's act in the best interests of the shareholder.

So ultimately that's what I'm hoping we can achieve from this, because I think the days of political gamesmanship and attempting to make political points while the corporations and the people within those corporations are out trying to make business decisions based on the best interests of the people of Saskatchewan, need to be gone. And I'm truly hopeful that this implementation and these changes will allow that to happen.

**Mr. Hillson:** — Speaking of trying to depoliticize decisions, the president mentioned that the projected increase was delayed from February 1 until July 1, and I'm wondering, Mr. Minister, if that was in order to get us past the sitting of the legislature and to get us past the federal election that that was delayed, or if there's some other reason you can point to for the fact that the increase has gone through, but as I say was delayed until a few days after the federal election.

**Hon. Mr. Lautermilch:** — I think certainly it was not without some scrutiny during the session, as you will know. I can recall answering questions more than once as a result of the request by SaskEnergy for a rate increase. So to suggest that the implementation of the increase neutralized the politics during the session, I think is quite inaccurate. And you being a regular attendee of the proceedings of the legislature, will know that that wasn't the case because the questions were there and the answers were hopefully provided.

Cabinet has had a very, very heavy agenda in the last few months dealing with the Crown review and many other issues that have been before us and I can tell you that it certainly wasn't my desire to rush a rate increase through cabinet for a decision.

I think what we were able to achieve is the increase didn't come at a time when energy bills were higher than usual. People were facing, because of the weather, some very high energy bills, both power and natural gas. And the fact that they were approved for July 1, I think, reflected on the pressures that were on the consumers at that time and the fact that cabinet has had some very major decisions that we've been dealing with. And it certainly wasn't the priority, the introduction wasn't a priority. Although it may have been from the corporate standpoint, it wasn't from cabinet's. And so the approval was allowed to take place on July 1.

**Mr. Hillson:** — And still, on a different part of the new relationship to cabinet and depoliticizing the Crowns, I note that apparently the cabinet will retain decision-making authority for all international contracts. Is that correct?

**Hon. Mr. Lautermilch:** — That's right.

**Mr. Hillson:** — And can you maybe discuss for a minute for us the thinking of why international ventures would continue to be the direct responsibility of the cabinet?

**Hon. Mr. Lautermilch:** — Well there is some responsibilities that were and will remain. I guess if you look at the structure you can see that the independence of the board of the corporation and the changes that will take place there, I think, will be positive. That ultimately the holding company, Crown Investments Corporation, will be chaired by a minister, which minister and his board will set policy and set direction for the corporations, and that that board has, as it does with all other issues that are felt necessary, reports to cabinet.

So I think clearly, given the concern, and there is an awareness in terms of international investments, that cabinet reserve the right to approve international investment opportunities. And I think it's another . . . it's just another level of due diligence to ensure that the appropriate decisions are made. And I think it's what the people of Saskatchewan would ask us to do as elected representatives. So it's another level of, I guess of scrutiny that I think is appropriate.

**Mr. Hillson:** — And I wanted to ask you, in terms of rate review, I understand that last year when the corporation decided to decrease rates that a 1-800 number was installed in order to get subscriber reaction. And I'm wondering if you've looked at that as something that might be a good idea for a rate increase.

**Hon. Mr. Lautermilch:** — I think what we're looking for is openness and the ability for people to access the corporation for information and to share their views and the 1-800 number was one of the vehicles that the corporation used.

It's interesting, two years in a row we've had decreases amounting to in the neighbourhood of 11 per cent. So I can tell you that the interest really wasn't as acute as it is when there's an increase, but I think it's fair . . .

**Mr. Hillson:** — I think that's called human nature.

**Hon. Mr. Lautermilch:** — I think it might be, but I think it's fair to say that the corporation will do what it can in terms of . . . and what is required in terms of allowing transparency during the review process.

**Mr. Clark:** — Absolutely. I think, Mr. Hillson, we did have a 1-800 number this year as well. And I would say to you that we would welcome more transparency. To be quite candid with you, I think we have, on behalf of the Saskatchewan people, a good story to tell. I believe that. I believe that with my heart, and no reason not to want to have people engage in the discussion.

**Mr. Hillson:** — Can you tell us what the profit picture of the corporation would have been, assuming an average winter this past year? It was 77.3 and I think you said that it would have been . . .

**Mr. Clark:** — The business plan when we put it together last fall anticipated, with a normal winter, a net profit of \$56 million. For the two ... keep in mind those are always aggregated. Those are the two companies; that's not just SaskEnergy. That's TransGas and SaskEnergy. So I wouldn't want people to think that when you're thinking about 56 or 73 or 33, that that's the utility. That's TransGas and the SaskEnergy. So the answer is 56.

**Mr. Hillson:** — Okay, thank you. And so from 56 you went to 73.3, basically because of the cold winter.

Is there any, as yet, profit and loss statement on SaskEnergy International? Or you say that at present those activities are fairly limited?

**Mr. Clark:** — I can tell you, Madam Chair, that the budget for SaskEnergy International for this year is \$206,000. You can see it's a very modest operation, and we anticipate making a very small profit this year. And next year we anticipate making above the hurdle rate, what we would consider to be a fair rate, fair return. So they're quite modest consulting activities at this stage.

**Mr. Hillson:** — Okay. Thank you, Madam Chair. And thanks again to the officials for ... and the auditors for the forthright way that they have dealt with our inquiries. I appreciate the information they've given. I'm satisfied that there are indeed very competent and responsible people in charge. And again, my thanks and best wishes to the minister.

**The Chair:** — Thank you, Mr. Hillson.

**Mr. Heppner:** — Thank you. We had a couple of questions about the new direction that's happening with one minister and this sort of thing. Part of the rationale seems to be to depoliticize it. However when you have a Crown corporation that is by nature political, because it's owned by the people, the public and this sort of thing, what happens to accountability?

**Hon. Mr. Lautermilch:** — Well I think it's fair to say that the accountability will be there, given the reporting mechanism. There'd be a minister in charge of Crown Investments Corporation, which is the holding company. There will be a chairman of the board, and there are fiduciary responsibilities of that board and those will have to be maintained. There will be scrutiny by outside auditors, and certainly the Provincial Auditor will play his role in dealing with those issues.

The Chair of Crown Investments Corporation sits in the legislature with all of us, and quite clearly if there are areas of policy and areas that CIC will be dealing with, those questions can be addressed to that minister.

With respect to the day-to-day operations of the corporation, there's chief executive officer, which there is now. And so you have board members, you have a Chair of the board, and you have a president. And you have the same kind of scrutiny that any shareholder of any private corporation would have as an individual. You have access to those people; the media has access to them.

So in terms of accountability, I think that the difference and the change will be not in accountability but the difference will be, and needs to be, in allowing the political gamesmanship with respect to their operations, to decrease dramatically. Because if they're going to succeed that's really what we need to do.

The other option is to privatize, frankly, in my opinion. And I don't speak on behalf of all of my colleagues, but the other option is to privatize and risk losing your corporate headquarter base here.

But I think now these corporations will have the flexibility to do what they need to do in terms of having their market share there, having a good bottom line, and having a reasonably well-run operation. I think frankly the Crown corporations are the best-managed entities. I wouldn't say better, but I would say just equal to any private companies that I have had dealings with in the time I've spent in this Energy portfolio.

I can tell you that the two Crown corporations, two major Crowns that I'm responsible ... have been responsible for, have got some very top quality people working there. And I think we should all, Saskatchewan people, be very proud of them and protect these assets in every way that we can. And I think the changes that we're making and that we're recommending and suggesting, that were announced today, will help us to do that.

**Mr. Heppner:** — I'm a little concerned about the concept that the — what you've called the political gamesmanship — is all negative because the people of each one of our constituencies are not likely to contact any one of our utilities. They're more likely to contact their MLA (Member of the Legislative Assembly) and say, what's happening. And you know, call that political gamesmanship, but basically those questions that we have are ... by and large originate from concerns that are out there. And so that aspect isn't, I don't think, as near as negative as you purport it to be unless you happen to be the minister who has to answer all the questions, which can make it a little tougher.

With this decrease of ministerial involvement — by quantity let's say; we'll see what happens with the quality of it — is there going to be a decrease in number of people at a particular level that are sort of employed, or is the only difference going to be that we've just pulled one or two ministers out and everything else at the top stays the same?

**Hon. Mr. Lautermilch:** — Are you talking about the cabinet structure? I think that is, you know, I think that is and will be a decision that will be made by the Premier. I think the Premier's the only one who knows where that is headed and certainly that's his responsibility as the Chair of Executive Council, to determine who and how many people sit around that table.

**Mr. Heppner:** — In April of '96, it was passed on — part of a \$13 million reduction in natural gas costs to consumers. Was that passed on 100 per cent or what per cent of that 13 million was passed on to consumers?

**Mr. Clark:** — I believe, Madam Chair — I stand to be

corrected — it was \$16 million, but in any respect, Mr. Member, that we passed on all of them.

**Mr. Heppner:** — Okay.

**Mr. Clark:** — All of the savings.

**Mr. Heppner:** — Your gas costs have dropped, I think what, 50 per cent over the last two years, approximately? Has that all been passed on as well? And I guess, one, while you're looking up the specifics on that one, I guess the same concern we often have with cost that . . . gas for cars, it always seems that increases are passed on quicker than decreases.

**Mr. Clark:** — Sorry, member, I apologize. I was trying to get ready to answer your first question.

**Mr. Heppner:** — I'll repeat my second one when you're finished the first one.

**Mr. From:** — In answer to the question about the decrease, if you look at the percentages, you are in the ballpark. Keep in mind that costs of gas, you know, in our whole rate-making process, is only one-third of the cost. So if indeed costs have gone down, let's say 30 per cent, divide that by three and our equivalent rate pass-through would be roughly 10 per cent. And when you go through the math, indeed our rate reductions have passed on that decrease in costs.

**Mr. Heppner:** — Okay. The other one I related to the increase and decrease in cost as well, and I'm referring to the time-lag that takes place when your costs go up and they're passed on and costs go down and they're passed on. Do you have any specific numbers on that time-lag factor?

**Mr. From:** — We do all of our rate-setting processes on a calendar year, on a go-forward basis. We look at costs starting in January 1 of each year and make our appropriate rate recommendations for that.

**Mr. Heppner:** — There was a statement or some discussion earlier on about the strengths that you see that SaskEnergy has that you're marketing in the world, which is basically largely a knowledge base sorts of things and information and those sorts of things that you have. What are some of the specifics of that? And I guess we can make that statement . . . are you making that statement based on the request that you had for opportunity to work outside of Saskatchewan, or where does that market study come from?

**Mr. Clark:** — I welcome the question, Madam Chair. I think we don't, even as Canadians but speaking more specifically to this company, is I think we undervalue what it means to operate . . . to do the things we do every day in a developing country.

We have 60,000 kilometres of pipe in the ground. We have the largest distribution system in North America here in Saskatchewan, owned by the people of Saskatchewan. Only as . . . I say by that by 60,000 kilometres, not by 300,000 customers.

We operate when it's 40 below; we operate when it's 35 above. You go to Argentina or to Mexico or to Chile, which are developing economies who are getting gas for the first time. They don't know how to operate this system. They can entice the investment to build the pipelines, but who's going to really give them the operational experience?

And so when we've done some of these benchmarking figures that I've shown you, these are picked up by other companies, by in fact other consulting companies. They make reference to us; they contact us.

We have one of the most sophisticated SCADA (System Control and Data Acquisition) systems in the world. That's SCADA. It's supervisory control and data acquisition. We run our entire system, 13,000 kilometres of high-pressure system, with two people sitting on the 12th floor downtown. We basically close at 5 o'clock. And two people manage that entire system in a very sophisticated way.

When the vice-president of Pemex (Petroleos Mexicanos) was in our office from Mexico, he looked at that and said, I want one of those. So we have technology to sell and we have operating expertise.

It's been very, very good for the company to send our field officials — and I'm not even talking about my senior colleagues here — field officials; a fellow from Maple Creek down in Argentina, paid. And he comes back and he says, those guys aren't as good as we are. And we sell that operational expertise and our technology.

**Mr. Heppner:** — And I think those are probably the sorts of things that aren't going to backfire on the company. Hopefully that if your world ventures increase, it doesn't end up as one of your sister organizations did where they should have known what was involved in a fairly basic operation and fell apart. But they ended up in an area that wasn't just expertise and knowledge and it didn't work out that well.

**The Chair:** — See, luckily we're fortunate that we have a Crown Corporations Committee that can review those significant transactions in the new operating environment, Mr. Heppner, so you'll be able to say I told you so in the future.

**Mr. Heppner:** — And we will, many times.

**A Member:** — So we're not a sham.

**The Chair:** — We are an important part of the accountability mechanism.

**Mr. Heppner:** — I believe last year you handed out some \$200,000 in novelty items, which is rather intriguing when you have a market that really has no option. Like usually these things that are handed out have been involved in business; you hand these things out and hopefully people will see this thing lying on the kitchen table and say, oh that's where I'm going to buy my whatever because I just saw it written on my pen. They don't have those choices with your company. Some explanation of that, please.

**Mr. Clark:** — Madam Chair, I hate this question because it always relates to golf balls and I hate golf. No, seriously, I understand that question.

You can say, well we're a monopoly situation; what do we need to advertise? I want to tell you that I would like to show you any time the letters we get from charities. We used a great bulk of those novelties, as you called them, for charity golf tournaments, Institute for the Blind. And so they're . . . from the point of view of straight marketing, you can question whether they grow market share, but they are invaluable in support of the community in other ways. I don't have any hesitation in defending them.

**Mr. Heppner:** — To the amount that they go to things like charities, I don't think anybody would. Can we be assured that they all go there?

**Mr. Clark:** — Well, Mr. Member, I'm not going to say that they all do. If I have a visiting official from Mexico or Chile, I will give them a T-shirt with . . . a golf shirt with our name on it as a, if you like, as a marketing gesture.

But I can fairly say to the committee members that we use the bulk of those types of things for either charity or, I'm happy to say, the pride in our company is that our company officials and employees buy them — at no subsidy — to wear them because they're quite, I guess, happy to wear them or proud to wear the caps or the T-shirts.

**Hon. Mr. Lautermilch:** — Madam Chair, I think I asked a similar question of the officials. And I think the numbers showed me last year that, of that aggregate figure, about 35 per cent of the purchases were from employees who, you know, certainly must be proud of their corporation; otherwise they wouldn't be wearing the logos.

**Mr. Heppner:** — And the part of being proud of the corporation is probably valid. On the other hand, I guess with the amount that SaskEnergy could buy kind of puts them in an area where a small person on the corner . . . street who wants to go ahead and provide sweaters would be out of the market for cost.

**Hon. Mr. Lautermilch:** — Many of these sweaters are purchased, and many of these items are purchased from Saskatchewan business people — manufactured and purchased — as is evidenced by the fact that we're spending about 80 per cent of our expenditures on Saskatchewan purchases. This is part of it.

**Mr. Heppner:** — Good, if they are that's great.

October '95, there was a ruptured gas line at Maple Creek and there was a reassessment done of, I believe, of the construction standards and safety. I'm wondering what . . . are the results in on that and what's happened with that?

**Mr. Kelln:** — I believe you're referring to the Foothills pipeline incident that occurred in south-west Saskatchewan. One thing that TransGas has been doing, who has high-pressure

pipelines — albeit smaller than Foothills — has been certainly working with the industry. And they've been doing it through an association called CEPA — Canadian Energy Pipelines Association — looking at pipeline integrity of pipelines that have been in the ground for 30 to 40 years and how to best operate them into the future.

**Mr. Clark:** — Mr. Member, that was not our pipeline.

**Mr. Heppner:** — There's been some discussion recently about various activities in the Sand Hills area, which is a very ecologically sensitive area. Is SaskEnergy involved in that area at all in any way, shape or form?

**Mr. Kelln:** — No we are not, in terms of the producers are the ones that build the gathering systems and drill the wells.

**Hon. Mr. Lautermilch:** — Just with respect to the Sand Hills, the Department of Energy and Mines, along with SERM (Saskatchewan Environment and Resource Management), are acutely aware of the production and the development there. So we, you know, as regulatory bodies are working with industry.

**Mr. Heppner:** — A question back to the rural gas lines. Apparently there's a substantial cost to putting lines in that came through in January of '97, I believe. And I guess my question sort of is, what exactly happened for that reduction of cost to sort of come in at that particular time? Was it something that could have been done earlier on or was it from outside SaskEnergy you had no control over?

**Mr. Kelln:** — When the gas distribution program was terminated in 1992, there was felt that there needed to be a commitment to the people who had, in essence, initiated development of the program; that to be fair to them we would continue a minimum \$3,100 fee for a new customer to connect to a system that was developed during the gas distribution program. That was in fairness to the customer. It was also a way for SaskEnergy to try to recoup some initial costs that they had installed.

Five years after the ending of GDP (General Dwelling Protector), a policy was determined that on January 1 that a minimum of \$3,100 would be removed and it would be on a cost basis consistent with our policies before a new customer connects. Customers would be viewed on what facility cost is required to connect them, what SaskEnergy's investment can be, and the remaining would be customer contribution.

**Mr. Heppner:** — That basically takes me to the end of the questions that I had. I'd like to thank the minister and his officials for being here and for the answers they've provided. Some of them quite interesting. We've talked about the fact that rates or profit margins get to be similar to the banks and even a touch higher. And some of those things make some neat comparisons, especially noting where concerns about bank rate profits come from. So there is an interesting material there for further discussion, so thank you again.

**The Chair:** — Thank you, Mr. Heppner. Mr. Trew, you wanted to ask a question?

**Mr. Trew:** — A couple of areas. One that I think is the most important one to me, what's the potential of SaskEnergy running out of gas in a gas line during a winter storm, of a customer or customers actually for instance going out, that sort of thing?

**Mr. Clark:** — I'll start and if I get in trouble I know my vice-president of distribution will help me out. We'd like to think that the potential of probability of that is very rare but there are occasions when we had 21 days of wind chill of minus 60 in January that you get what we call freeze-offs. We had a freeze-off on our Nova connection out of Cold Lake, Alberta which affects what we call line pack, pressure in the system.

And we got a freeze-off in our storage cavern at Prud'homme and it starts to be of some concern to us. We were able to mitigate that, and I think the biggest issue for us that gives us some comfort with respect to security of supply for Saskatchewan consumers that we don't talk very much about publicly or certainly in this committee, is the storage which we own. We own 40 billion cubic feet of storage.

I think it's hard for people, and it was quite frankly for me when I first got into this business, to visualize a mile underground, a cavern, so mined — mined in a literal sense in the potash formation — about a football field high and a football field wide that contains 1 to 2 billion cubic feet of gas.

We put the gas in there at this time of year, inject it at very high pressure and hold it, and so that we virtually have the capacity to serve the Saskatchewan consumer, what, Doug, for about 20 days?

**Mr. Kelln:** — We can feed Saskatoon and Regina for three years with that storage capacity so . . .

**Mr. Clark:** — Okay, but in terms of our entire province. So I guess a shorter answer, Madam Chair, is that we feel pretty good about our capacity to draw on storage even if we had a major freeze-off, a major rupture; depending on where it's located obviously, that we have the capacity to be pretty reliable for our customers.

**Mr. Trew:** — Thank you. That's a very good answer. There's a few things come to mind. You mentioned Prud'homme, a problem there with the storage. And I'm wondering, like it's fine to have the gas in storage, but what if you have a freeze-off? To the best of my knowledge, no residential customers have experienced the problem I'm describing, but I'm just . . . I'm looking for some satisfaction or assurance that that's . . . that we're not stepping closer to that each year as the demands on the SaskEnergy system continue to grow.

**Mr. Clark:** — Well I think, you know, I could defer to Mr. Kelln, but I think that we're not progressively getting into a more delicate or fragile situation in that respect. We just experienced what we hope is the worst winter in, pick a number, 40 years or 50 years, and having grown up here I hope we don't experience it again quite frankly. And we're not interested in making \$73 million just because it's cold. And so we're quite confident. I mean if our system was going to be

stressed, it got stressed in this past late '96, early '97.

And quite frankly, when we got things like a freeze-off and some concern about line pack out of Alberta, our people — I talked about the system basically being closed at 5 o'clock and being run by our SCADA system — our people were all activated. They were on stand-by at our town border stations and were prepared to run the system manually, which gives us even better control and better capacity to serve our . . . serve the citizens. So we had people on stand-by in some delicate areas all night.

**Mr. Trew:** — Yes, good. I do feel somewhat reassured. I'm also reassured by knowing some of the people you spoke of very early in your comments, that is the people that work at SaskEnergy — very, very dedicated to not only SaskEnergy but to Saskatchewan and I know they just go, I mean extra miles hardly says it; they're just really, really good employees that want to see everything go well.

The last question, Madam Chair, is that of pumping stations. I raised this, I think it was two years ago. SaskEnergy has a number of pumping stations, and within the yards there is — I don't know the size of the pipe, 20 inch, 30 inch, I have no idea — the major pipe that you pump through. When the pump is shut down, I believe that gas, I know it used to be, just vented; everything in the yard, you close the valve at both ends and then it's vented. Is that still the situation or is that gas recovered?

**Mr. Clark:** — I know I'm out of my league now so . . .

**Mr. Kelln:** — We do have and refer to, pumping stations, compressor stations, for compressing natural gas. Just to give you a feel of size, the pipelines vary from 6 inch pipelines up to a maximum size of 20 inch pipelines at the stations.

Where you're referring to the venting of gas, within the station's design is emergency shut-down procedure that in the event of a fire or . . . and that could be, let's say from oil around in the unit starting on fire or something — the station will get rid of the natural gas so that it will not propagate any fire any further.

There is . . . when you start up a new station, you have to test that equipment and you will test that shut-down equipment once to ensure everything's in place. We are working right now at seeing, that even during this emergency situation, could we capture the gas rather than venting it. And that's part of certainly the climate change work that we're trying to do, is, you know, having no natural gas vented is certainly better. But we are following the codes for compressor stations in doing that design and ensuring that the safety of the station is there. So that's really the principle what it's based on.

**Mr. Trew:** — I think I heard what you're saying. Are you telling me that in the normal start-up and shut-down of a compressor, that there's no venting.

**Mr. Kelln:** — That's correct.



**Mr. Trew:** — Okay, then . . .

The committee adjourned at 2 p.m.

**Mr. Kelln:** — I should have said that.

**Mr. Trew:** — I accept that. Good. Madam Chair, I'm done.

**The Chair:** — Thank you, Mr. Trew.

**Mr. Kasperski:** — Yes, Madam Chair. I'd like to move:

That the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements of SaskEnergy Incorporated for the year ended December 31, 1996; and the subsidiary statements including the financial statements of SaskEnergy Incorporated and subsidiaries for the year ended December 31, 1996; and for the purchase and sale of share capital agreement between Many Islands Pipe Lines (Canada) Limited and SaskEnergy Incorporated dated September 20, 1996.

I so move.

**The Chair:** — Thank you, Mr. Kasperski. All those in favour, please indicate. Thank you. All those opposed? None, no people opposed. I therefore declare the motion passed. Mr. Minister, you had a closing statement?

**Hon. Mr. Lautermilch:** — Just to say that I would like to thank the members of the committee for their thoughtful and insightful questions. I would like to thank the people from the Provincial Auditor's office and our accountants from Ernst & Young as well as my officials for their support during these deliberations. Thank you.

**The Chair:** — Thank you, Mr. Minister, and your officials. I'm not sure what will happen next year. I guess we'll only have one minister here but we'll have a great change of officials as we proceed through our Crown corporations reviews.

Mr. Hillson referred extensively in his questions to the Crown review process. And committee members will be aware that — or should be aware — that one of the items in that Crown review process refers to the role of the Crown Corporations Committee and specifically the review, our mandated review, of significant transactions.

I would remind you that we will be dealing with that on July 22 and I have . . . had circulated to all committee members yet another copy of the Provincial Auditor's point of view of what might and ought to comprise significant transactions. I would ask all members to review it carefully. And I will be coming to the meeting with a proposed definition, and we can debate that, and then get on with yet one more fairly significant aspect of our work in ensuring that the Crown corporations in this province are publicly accountable.

Having said that, the committee is now adjourned. We will meet again on July 21 to review SaskPower, perhaps with or without a minister. Thank you.