

SaskPower Corporation

The Chair: — Good morning, everyone. The hour now being exactly 10:30 a.m., we will begin our consideration of SaskPower once again. This will be the second time that we've dealt with SaskPower. We are dealing concurrently with SaskPower and SaskPower Commercial and Power Greenhouses for the year ending 1996.

I would at this point welcome the new super-minister, minister responsible for all the Crowns, Mr. Lingenfelter. And congratulations on your new duties, Mr. Minister.

Hon. Mr. Lingenfelter: — Thank you very much, Madam Chairperson. I want to say to my colleagues in the legislature who — it's sort of the first time we get to see each other since the House adjourned — it's good to see you all back and in good spirits. I'm looking forward to a good session today and tomorrow, and hopefully a very productive one for you as well as for us.

I want to start off by saying that these committee meetings, in my mind, are crucially important to the well-being of the Crowns. And I mean that sincerely because, while there are issues obviously in terms of commercial deals where we have to be careful, I truly believe that being as transparent as possible in life in general and in dealing with business dealings is important. And so I think you can expect that from the questions that you ask today.

I have a list of people who are attending, Pat, if I could introduce them?

The Chair: — Sure, yes.

Hon. Mr. Lingenfelter: — Seated with me is John R. Messer, the president and chief executive officer. And as I read out the other names, if you'll just give a wave so the committee will know who you are.

Michael Hogan, I have on the list, is not here. Michael is the president and CEO (chief executive officer) of SaskPower Commercial. We had our friends, the Prime Minister and Minister of Finance from Guyana, in this morning. They're leaving at noon and Michael is doing his duty as CEO, and he will be here on a moment's notice if we need him. And for sure he'll be here right after lunch, but he is not with us at the present time but can be if we need him. So the questioning, we may want to structure in such a way, Madam Chairperson, to await his arrival; however I leave that to the committee.

Ken Christensen, vice-president, finance and information systems, seated behind me; Tony Harras, the vice-president and general manager of systems operation decision support; Bill Hyde, vice-president of human resources, government relations. Bill, you know, is the big-time union boss now become manager . . .

The Chair: — And even bigger.

Hon. Mr. Lingenfelter: — Now that's not fair. Jack Huntington, acting VP (vice-president) and general manager of customer services; Roy Yeske, vice-president and general manager, transmission and distribution; and Judith Fox, executive coordinator at the office of the president.

That's the group we have with us today and with that we turn it back to you.

The Chair: — Okay. Thank you, Mr. Minister. Since we already have begun discussion of SaskPower, we probably don't need an overview statement from you. And we also probably do not need an overview statement from either the representatives from Ernst & Young or from the Provincial Auditor's office.

I would point out that at least one of the auditors has a plane to catch to begin a well-deserved holiday, so I hope that members can structure any questions that they may have of the auditors so that we can deal with them this morning so that they can then leave as their schedule dictates.

As well it would seem to me since the president of SaskPower Commercial is not here this morning, I would encourage members to hold off any questions that you may have about SaskPower Commercial until this afternoon. I think it just makes it a little easier.

A couple of items of business before we get down to reviewing the annual reports. I have received a copy of a letter from Rupert James of Ernst & Young, providing a clarification for a statement he made at the Standing Committee on Crowns on April 17. I'm proposing, just to save time, that rather than have him read it into the record, I will table it with the Clerk and I would ask that it would form part of the official record of the committee.

As well, it's my understanding . . . committee members may or may not recall that at the last meeting when we were discussing SaskPower, the meeting got a little heated. I think it got a little heated over the whole issue of the reconstruction charge. It is my understanding that this matter and the manner of accounting for it has been referred to the national body of auditors. And I'm sorry, I don't even know what that body is called. Perhaps one of you could tell me what that body is? Mr. Strelieff?

Mr. Strelieff: — Madam Chair, members, I have not referred this particular accounting to what's called the Canadian Institute of Chartered Accountants.

The Chair: — Canadian Institute of Chartered Accountants.

Mr. Strelieff: — But I have not referred this particular issue to them. I have recommended to them that they, as a standard-setting body, examine the practices of rate-regulated industries in a general way and particularly those practices outside of Saskatchewan. But I have not referred this particular rate reconstruction charge . . . capital construction charge to that body.

The Chair: — Okay. It was my understanding that either you had or SaskPower had or Ernst & Young had. It's not been referred on?

Mr. Strelloff: — No, it hasn't. But I have asked questions about the general practices of the rate-regulated industry.

The Chair: — Well okay. So that the general issue then is going to be discussed by the national, overseeing body. Is that correct?

Mr. Strelloff: — Madam Chair, members, I have asked the Canadian Institute of Chartered Accountants to consider putting on their list of priorities practices of rate-regulated organizations. Because I found, when looking at the practices outside of Saskatchewan, that similar transactions were being accounted for differently.

I've been advised that one of their standard-setting boards, called the Accounting Standards Board, is considering putting on their list of priorities the general topic of rate-regulated industries and their accounting. I don't know whether that board will actually decide to make it one of their priorities but they are considering it — period.

The Chair: — What is the practice with that body? When something is referred to it, do they deal with it or do they customarily just sort of say, well, we got a nice letter, ho hum, and ignore it? I'm trying to get some idea of whether this actually will be considered by the national body and what the time frame would be.

Mr. Strelloff: — Madam Chair, members, before being the Provincial Auditor, I did work at the Canadian Institute of Chartered Accountants, so I am somewhat familiar with their practices. If they do put rate-regulated accounting on . . . if the Accounting Standards Board decides to put the general practices of the rate-regulated industries on their list of priorities, they may get to begin deliberations on general issues in the next few years.

The Chair: — The next few years. That's what I was afraid you would say. It seems to me that what we have with the reconstruction charge is a disagreement between the Provincial Auditor and Ernst & Young. And I would suggest to committee members that what we probably will have to do while we're waiting for some sort of a response from the Canadian Institute of Chartered Accountants is we will simply have to agree to disagree on this matter.

And it may be that there will be a note in annual reports for some time until we can actually grapple with this issue. But my suggestion right now is that as a committee we would simply note that there is a disagreement between the two auditing firms and move on and deal with the annual report and other items that are in the annual report.

Mr. Bjornerud: — Madam Chair, I have probably only two or three questions that we'd like to finish off where we left off last time on that subject and then go on with something new.

The Chair: — Okay, dealing with the reconstruction charge. Yes, okay. I guess my only concern is that we just recognize that this is a point of disagreement between the Provincial Auditor and Ernst & Young and that we try to focus our attention on other matters of concern to the people of Saskatchewan.

Mr. Bjornerud: — It's a little bigger problem than that but we won't carry this on for the whole day like we did last . . .

The Chair: — All right, good. Okay. Then . . . And, Mr. Heppner, is that agreeable to you?

Mr. Heppner: — Yes.

The Chair: — Okay. Then what we will do is begin with committee members asking questions again. I propose that we'll follow the same format — 15 minutes each for each of the three parties, and continue rotating like that. And I will begin by recognizing Mr. Bjornerud.

Mr. Bjornerud: — Thank you, Madam Chairman. Good morning, Mr. Minister. And, Mr. Minister, welcome to your new responsibilities and we're looking forward to working with you.

I'd like to go back to the 2 per cent reconstruction charge just for a few points that we never got a chance to make, and plus the fact that you're being new here and hoping you've had time to get a chance to know where we're coming from; and the last time we were here what turned into be a bit of an ugly attack on the Provincial Auditor, from our point of view.

And I just wondered if maybe you could give us a bit of an overview of your impression of, will things run that way with you as the new minister or we will be as we were when Mr. Lautermilch was here that other day? I felt it was somewhat degrading to the Provincial Auditor and therefore reflected on us as a committee what went on that day, and I would just like your overview of that.

Hon. Mr. Lingenfelter: — Well I've been around sometimes for longer than I care to think about, 17 years, and I've sat in this room dealing with auditors first of all in government, then in opposition, now back in government. And I think reflecting on the situation — although I wasn't directly involved, but watching it — this tends to happen from time to time.

And I don't say it's healthy in one sense of the word, but the dynamics between opposition, government, and the auditor, I don't think changes a great deal in the 17 years that I've been around here. Opposition wanting the audit to expand the mandate of where they go and where they come from; the government trying to say the status quo is pretty good and it's worked effectively.

And it's funny how the lines change. I remember while we were in government before, the Conservative opposition then wanted the auditor to have powers in all different areas. Then when they got into power, the Conservatives in government thought the auditor had maybe a little too much power, and the

opposition who had been in government thought they should be more. This goes on and on. And I think what we shouldn't get is all excited about and get emotional about this issue because it's not an emotional issue.

And I can well imagine, coming from a background of being an auditor, especially don't particularly like to get into an emotional debate because that's not where the strength of the system lies. And I don't mind at all disagreements, because that too is perfectly normal. And hopefully what we can see coming out of this committee is, on areas where we do disagree — especially when the auditor is concerned — is that there is ability, there's an appreciation, for other points of view.

And I don't say that critically of anyone. I just think that's how it should be. And nor do I fault anyone for the positions being put at the last meeting. And every once in awhile you are going to get into situations where emotions take over from good, clear logic. Only to say that I hope we go forward from here — not agreeing on everything, because that's impossible — and understanding the history, where the opposition wants more openness and the government needs to have certain areas where they see as more defined. But I think the idea of being civil with one another is pretty darn important. And here again, I'm not being critical of anyone because I've had my share on the other side as well.

Mr. Bjornerud: — Thank you, Mr. Minister. You'd made the comment that you've been around longer than you like to think of, and probably in our case you've been around longer than we like to think of many times.

Hon. Mr. Lingenfelter: — I'm sure that's true.

Mr. Bjornerud: — That could be fixed in a hurry.

Hon. Mr. Lingenfelter: — I think you have to put up with it a little while longer.

Mr. Bjornerud: — It isn't going to happen though. I'd like to go into the reconstruction charge and the purpose of, Mr. Minister, in your mind. And if I understand the reconstruction charge right, it's for improvement and capital projects. And would you agree with that statement that it's . . . that's what it's actually . . . its function is for?

Hon. Mr. Lingenfelter: — I'm going to get Mr. Messer to comment on exactly the usage because . . . Well I'll just leave it for . . .

Mr. Messer: — The assumption is correct and the mechanism of its accounting was to give some assurance that it would not be taken into income and expended in other ways. So that the customers could see that this additional charge, as assessed to them, was going to exclusively be expended on the maintenance of the system.

Mr. Bjornerud: — Okay. I'd just like to make a comparison then — and you'll probably disagree with me that this is not a fair comparison but I think in our mind it is — and I would like to bring the Vancouver airport authority into play here.

And it's similar because it's dealing with the public, and the charge that they are doing out there is anywhere from approximately 10 to \$15 per ticket, depending on where your destination is. And what this charge is for is for improvements and capital projects out at the Vancouver airport. So it does have a lot of similarities to what SaskPower is doing.

What they do there — and we've checked their financial statement — and they show that as revenue and I have no idea why you would do anything but. Would you not believe that that is a fair comparison to what we're talking about here and that it should be also shown as a revenue here? We have a hard time understanding why it wouldn't be just straight shown as a revenue and a lot of this hassle wouldn't have to have been . . . come to the forefront.

Hon. Mr. Lingenfelter: — I'm not sure that you're arguing for a charge at the airport here in Regina or not, but the rationale of whether you include it or not, I think the chairperson indicated we're dealing with our auditor, and they're defining it as such. Here again, I'm not arguing with the auditor from the Vancouver airport, who obviously is involved and has recommended something else.

But I think you can clearly understand, if your auditor identifies a proper form of keeping books and we have that in writing or verbally from the auditor and we say, well to heck with our auditor, we're going to do it a different way because we think it's a better way of doing it, then you would realize we'd come back here and everybody says, well look, your auditor said to do it this way and you're doing it some other way.

And I don't know that one is pure and proper or one is wrong. Obviously this is a debate between auditors. And it may become clearer as time goes on and more of these funds are established. But at the present time there doesn't seem to be — at least in my mind — a black and white situation of one being right and one being wrong. You have auditors judging this situation, seemingly, two very different ways.

Mr. Bjornerud: — Okay. But I think we could make a comparison then to the debt reduction tax, which is . . . correct me if I'm wrong — but ends up in general revenue and was designed to do nothing but lower the debt, and in our books that it is not really happening. So I guess that's a policy decision.

So I'm wondering why on one side it's convenient not to do it but yet on the other side it is.

The Chair: — Mr. Minister, before you answer that I think just for clarification's sake, do the representatives from Ernst & Young want to add anything about this? I'm not certain of the history of this, but I think that this was a decision by SaskPower, was it not? And Ernst and Young have indicated in their report to us that it's an acceptable practice, rather than the auditors telling SaskPower how to . . . I think just for clarification that we should indicate that.

Hon. Mr. Lingenfelter: — Yes, that's fair enough. But my point being, is once you establish a process and it's been audited and working, I think, then, it is the prerogative of the

corporation, if it fits within the auditing practices, to be legitimate.

Here again, I'm not saying whether or not the argument isn't a good one that you're making. Obviously there are reasons why that could be the case. My only point is that at this point in time our management is recommending . . . they've got the system in place, it's been endorsed by our auditor — let me put it that way — if there's any clarification needed.

And the management team . . . And I want to make this clear again, this is going to become more and more the case that I will be removed from — not removed — but I'll remove myself from this committee very quickly. But how SaskPower runs will be much more left to the management. And really, we can't have it both ways in this committee. We can't say well, you as a minister should be injecting yourself in there and making . . . and then at the other hand saying, politicians have to get out of the way and let management run the corporation. And so I see in the future there will be more and more of these kind of decisions based on proper business practices being made by management.

And so at this point in time our management is recommending this practice. Their auditor has approved it. I really feel . . . I shouldn't say incompetent, but it's not the proper thing for me to do to inject myself into the management situation and say look, I know better than you folks, and I want you to do it a different way.

So I appreciate your view. I just hope the same appreciation is given as to how this corporation manages. And I say in the future I think it's moving more and more in that direction where management . . . we hire them, but then we really have to give them a fair bit of leeway of how they manage it, work with their auditor and that sort of thing.

Mr. Bjornerud: — Thank you. I still think though that this is more of a policy decision because when the debt reduction tax is put into general revenue, but in this specific case it isn't for one convenience or another. And I would suggest that because of the high profits that you didn't want more profits even shown after raising our rates like they were.

Madam Chairman, would it be kosher here to ask the Provincial Auditor to comment on what I have said this morning? Maybe he doesn't even agree with me this morning, I'm not sure . . . and if it was possible to ask Mr. Strelieff to comment on this?

The Chair: — I'm sorry?

Mr. Bjornerud: — I would like to ask Mr. Strelieff to comment on the situation that I've asked the minister this morning, if that would be fair?

The Chair: — Of course. Anything is fair here.

Mr. Strelieff: — Thank you, Madam Chair, members, guests. At our last meeting I said that I didn't think the issue was that complex. I thought that what a corporation or a business charges for its product is, and should be, recorded as revenue.

And certainly all other Crown corporations do so, as well as other business organizations.

The infrastructure levy called a capital reconstruction charge is part of the amounts SaskPower charges to customers. The charges, I think, should be reported as revenue just as what is done by every other Saskatchewan business or government organization. I couldn't find anyone else not providing a complete accounting of its revenues. And the decision as to whether or not SaskPower should record this as revenue was a choice that the government made to direct SaskPower not to provide a complete accounting. And my worry is that this direction moves SaskPower to a system of accounting that could lead to incomplete and inconsistent and non-comparable financial performance information.

But it is a matter of choice, and the government is not required by anything to provide such direction to SaskPower. I think everyone would agree that when the government approved the utility rates, that it also . . . if it also chose to direct SaskPower to record the reconstruction charge as revenue and thus continue the previous practices of providing everyone with a complete accounting, everyone would agree with that practice.

And certainly all other government organizations are expected to do so. Other government organizations do use part of their revenues to maintain their capital infrastructure and other organizations do report their revenues as revenue. I couldn't find another Saskatchewan government corporation or business that reports only part of their revenues.

At the suggestion of the Chair last meeting, I did look into the practices of the city of Saskatoon. And you're right, Saskatoon does have a similar infrastructure levy as part of their water utility charge. The levy though is shown on the customer bill as a flat rate charge, just like the flat rate charge in SaskPower's bill. However unlike SaskPower, the amounts collected from their customers are recorded as revenue and their auditors there agree that such an accounting is appropriate.

As you might know, the city of Saskatoon also has an electrical utility operation. Some residents of Saskatoon receive their electrical energy directly from the city and some residents receive their electrical energy from SaskPower; however I'm told customers are charged the same amounts. However, the city of Saskatoon records all of their revenue from such charges, whereas of course SaskPower does not.

We also reviewed what Regina does. As you know, Regina also runs a water utility operation and Regina also has a similar flat rate infrastructure levy. However, unlike SaskPower, the city of Regina records their receipts as revenue. And we examined again practices outside of Saskatchewan to determine whether we could find another utility that did not record its revenue from some type of reconstruction or infrastructure charge. We could find none.

Industry practice appears to be to record revenue, and I certainly continue to recommend that the government choose to direct SaskPower to record all of its revenue from the capital reconstruction charge. I don't want to encourage a system in

which similar types of transactions are accounted for differently from corporation to corporation.

And I think it's very important that legislators receive complete, comparable, consistent information about the revenues raised by corporations so you can better assess their performance and whether rates charged and costs incurred are reasonable, and that you can compare the performance from one year to the next and with other Crown corporations.

So I do still have concerns with the approach taken by SaskPower, and if you have any other questions about the contents of my report, I certainly would be happy to answer those questions. As you know, the Assembly has referred my report to the Public Accounts Committee for their review and consideration. Thank you.

Mr. Bjornerud: — Thank you, Mr. Strelloff. The audit that I'm talking about was done by KPMG and you can see in their revenue and expenses for the year of 1996, they have listed the airport improvement fee along with everything else, and I guess that's what we're saying.

I'd like to go on to . . . Unless you want to comment on that.

Hon. Mr. Lingenfelter: — No, I don't. Only one thing. I think if there is any thought that somehow there's something being hidden from the public here, that absolutely nothing could be further from the truth. I mean, as with Saskatoon, this is printed on the bill of every customer, as I understand, the reconstruction charge. It's included in the billing.

If anyone thinks that this is a hidden issue to the public, it's probably got more attention in the press and everywhere else than if it had been done the other way. One could logically then argue that this is much more open and people are certainly aware of it. I mean if the issue is here, and I say this, that somehow the public doesn't know about this and it's being hidden, then it certainly has backfired on whoever thought up that plan. Because it's got way more attention than it ever would have. It's printed on the bill. It's been discussed ad nauseam in the House and here in the committee.

I say again, if this was somebody's devious attempt to keep this a secret, that person should be a little bit embarrassed.

But I mean I'm not taking away from the argument that there isn't another way of accounting this. I totally agree that there is another way. But when our auditor says this is proper and the five other major accounting firms in Canada say this is proper, then I believe it's a matter of choice.

Now we may have chosen wrong and, Bob, your group may be right. I don't know that. But what I have to say is that these are, I believe, two proper ways of accounting — one recommended by our management. It may be different than others but not different than Saskatoon. I think the key is, is that the public is aware of the issue and what they're being charged. And I'll tell you, in Saskatchewan at least, my constituents know exactly what their bill is from SaskPower. Some think it's fair; some think it isn't fair.

I don't think as Crowns we've done a good job of putting together a package of selling how low our utility rates are, and I think that's a detriment to all of us; because I think there is an image around that we have high rates in the province of Saskatchewan. Yet if you put together the bundle of Crown rates — telephone, gas, electricity, auto insurance — you'll find that we're either the lowest in Canada or the second lowest.

And I think this is a challenge for us within the Crowns, to get that message out and to do it properly and in a sensitive way. Because by not doing it, we're actually influencing people coming here to do business. And I think we all have to be cognizant of the fact that every time we say we have high rates and this is a disaster, what we really are doing is hurting the economy of the province.

Now that's a challenge for us and I don't blame the opposition for doing what they're doing. But I just say to myself, we're being legitimate here and worried about the economy of Saskatchewan. I could throw it back to you and you say, do you know, committee members, you're actually hurting the job creation in this province by trying to create an image that we have extremely high rates for power and utilities in this province when in fact that isn't accurate.

And so I think in many ways we're all doing what we think is best. And what I'm being told is that the auditing firms, the six major auditing firms in Canada, say this is proper auditing practice. Is it the only way? I don't think so. I think these same auditing firms, if we asked if we did it the other way, if that was proper, would say that's proper.

Now then it's a matter . . . Well maybe not. I don't know. But it seems to me that this is an issue that you could choose one way or the other. The Provincial Auditor, I think has fairly strong views on this, that it could and maybe should be done the other way. But I'm saying that the auditing firms we're dealt with have said that this is proper and meets accounting standards. And we're sticking with it for the time being.

The Chair: — Thank you, Mr. Minister. Mr. Bjornerud, if you don't mind, I'll now move the questioning over to Mr. Heppner.

Mr. Heppner: — Thank you. Good morning, Mr. Minister, and to your officials. Now that we have this super-ministry, I guess we at times are going to ramble a little bit further away from the particular utility than the one that's at the table.

The Chair: — Well we still have the same Chair of the Crown Corporations Committee so I'm going to try to keep the rambling relatively focused, Mr. Heppner.

Mr. Heppner: — Well we'll see where this goes. With this reconstruction fee now being part of SaskPower, can we see this happening in your other utility that you're responsible for?

Hon. Mr. Lingenfelter: — I haven't had any — that I know of — proposals. Well that's all I can say. I haven't had it proposed from other utilities.

The Chair: — Mr. Heppner, you're dealing with CIC (Crown Investments Corporation of Saskatchewan) tomorrow. You can put the question to the minister tomorrow then.

Mr. Heppner: — We will. In using the reconstruction fee as you're doing it, does this not then show a lower percentage profit for a Crown than if it was under the . . .

A Member: — Exact reverse.

Hon. Mr. Lingenfelter: — We'll answer the questions up here, Lloyd, my friend.

A Member: — That's good because the last time he answered a question he took all day to say very little.

The Chair: — Mr. Johnson, you will appreciate that you don't have the floor now.

Hon. Mr. Lingenfelter: — Yes, I'm going to get Ken to comment on it because it's an accounting procedure that, at the end of the day, all the numbers come in, and I think the key here is whether it's made public or not — which it is. I don't know how much more it could be public. But, Ken, do you want to comment on the profitability of the corporation and what's filed as it would relate to the reconstruction charge?

Mr. Christensen: — Certainly. I think it's important to remember with the reconstruction charge, is all it does is introduce a timing difference. Eventually the reconstruction charge will over time affect the net income of the corporation.

And I hate taking analogies too far, but a worthwhile analogy would be when we purchase a capital asset we don't reduce our net income when we purchase that asset — for example, a generating unit — we depreciate it over, say, 30 years.

That's exactly what's happening with the capital reconstruction charge. It will enter net income; it's merely a timing difference. And over the life of the capital reconstruction charge, as indeed over the life of an asset, it has exactly the same total effect on net income. So all it is is a timing difference, and that timing difference represents when SaskPower has fulfilled its obligations.

Mr. Heppner: — It's a little different from the one we got over there. The other thing is that that happens to give you a very . . . it's a very political decision more than anything else. Because obviously politics is from term to term, so that in the immediate term your percentage profit will appear to be less even though, as you mentioned, in the long term it may be different.

So you basically could come back in the next two, three, five years and say, see on the short term now, our profit is lower and therefore obviously we were running a very efficient kind of a ship and not competing with the banks for high rates of return.

Mr. Christensen: — I can't comment on the political decisions that you're talking about, but our concern was that it be accounted for properly. And we believe that the way the reconstruction charge was approved by cabinet and the advice

we received from Ernst & Young, plus the other five major accounting firms in Canada, all of which have utility practices, we believe we have a correct method of accounting.

And we also went to great pains, the corporation, to make sure that it was disclosed. When we were going through the 45-day rate review process, we were very upfront about it, saying here's what we plan to do with it; it's not going to be income. There's an extensive note in the financial statements on page 41. And there were bill stuffers; there were a couple of press releases.

So there was never any attempt to sort of hide it. We believe that we've got exemplary disclosure on this. And in fact I think probably the corporation went overboard in terms of disclosure because we wanted to make sure people understood that this was for maintaining infrastructure in the province and not being used for some other purpose.

Mr. Heppner: — Mr. Minister, I wasn't questioning at this point whether that was correct or incorrect. I was just discussing the result of it. And that's the part that I haven't had answered yet, which is basically that the main part is a short-term political benefit for that decision, more than anything else, in keeping the short-term profits of the corporation down, as we've just been told it would do.

Hon. Mr. Lingenfelter: — Well I'm not going to get into that debate very deeply because I don't believe the management in the Power Corporation, who do the accounting and numbers and recommend things to us, are political at that level.

But on a fundamental point, if you want to know where I come from, I'm not embarrassed about making a profit in the Crowns. So I . . . so at a political level you can say you win and lose whether you have profits or not, but in fact I will judge the ongoing success of SaskPower if they do three things: if they continue to have low rates; if they continue to make significant profits; and if they continue to employ numbers of people in head offices and around the province, and give good service.

So I, in my mind, I've never sensed that we needed to apologize about profits in the corporation, and especially if you have the lowest rates in Canada in our utilities and are making record profits and have the head office here. I would say that's something more than apologizing about. I'll put that in brochures and say look: record profits; low rates; head office in Saskatchewan — doesn't get any better than that.

Mr. Heppner: — Except the profits come from the people, and I guess that's a slightly different issue than where you have a monopoly and they have no other option. If they had that option . . .

Hon. Mr. Lingenfelter: — That monopoly isn't going to be here very long and so we better be positioned for that. If we can continue to do that, as we are with SaskTel cellular, which has been totally competitive. . . We're making good profits there as well, competing with the best in the world, and that's why not only shouldn't we compete here we should take that product — in my view — export it, create more jobs, more profits in other

parts of the world.

Mr. Heppner: — In your introduction you mentioned part of the fact that you would be trying to, as minister, remove yourself from the control situation of SaskPower. Interesting question comes up then. Who exactly is SaskPower then answerable to?

Hon. Mr. Lingenfelter: — The corporation is answerable to the board of directors, obviously, who are answerable indirectly or as directly as you want it to be, through CIC, to the government, and therefore to the people of the province.

So when I say removing myself from the board of SaskPower, what I'm saying is on a day-to-day basis. But in a very direct and in a general way, on a macro level, obviously these corporations are owned by the people of the province, and so those who say well, somehow government shouldn't have anything to do with the Crowns when they are owned by . . . that doesn't work either.

But on a day-to-day basis in terms of accounting and those kind of things, my explanation was, I have less to do with whether accounting process is legitimate or not . . . in the future sitting here defending it, because when the Crown boards are changed, ministers will not be chairing the boards as the Crown review has directed. Legislation needs to be amended, but that will be done in short order and these people, the management team of SaskPower, will be totally answerable to this committee.

Mr. Heppner: — Okay, so you said you'd be withdrawing yourself especially and you referred to the accounting component of it. Any other areas that you see that your involvement or control would be less besides just the accounting part?

Hon. Mr. Lingenfelter: — Well I think as Chair, I think the big difference is that ministers will no longer chair the boards of the Crowns. That's very significant because the influence there potentially or otherwise is pretty extensive. I think it really frees up the new boards to work, hopefully, in an even more businesslike manner with the management team.

Mr. Heppner: — To ensure that the minister is aware of what's going on, you will still be part of the board and attending all the meetings?

Hon. Mr. Lingenfelter: — When the changes come?

Mr. Heppner: — Yes.

Hon. Mr. Lingenfelter: — I don't know that that will be necessary. There's still some discussion going on. For sure we won't be chairing the boards. Whether or not there's ministerial presence at board meetings is still being discussed. But personally I don't see a great need for ministers to be on the boards.

Mr. Heppner: — Okay, that brings up the situation that I was sort of getting at earlier on, where if we ask the minister a question at that point, the minister isn't going to be nearly as in

touch and involved and aware of what's going on as if the minister was at those particular meetings, which means the information we get is obviously going to be either weaker or further removed.

The Chair: — Mr. Heppner, I think that that probably will not be the case because as you're aware, we did, as a committee some years ago, change our procedures so that officials may now answer directly to the committee rather than whispering words into the minister's ear.

So I think that one of the practical results we will see from the Crown review process will be that this Crown Corporations Committee becomes much more important, and the job that we are doing here will be that much more important and relevant. And we're going to have to really improve our practices.

But I think that the net effect of the Crown review process is to make this all-party committee a much more significant vehicle for examining the practices of the individual Crowns.

Hon. Mr. Lingenfelter: — I think in the day-to-day questioning — let's use as an example the potential investment in Guyana — there will obviously be questions that the opposition will want to ask the minister responsible for that arrangement. My view is, is that the minister of CIC, on days where there are issues of process in that level of involvement, that will have to be answered by the minister if the opposition chooses to go that route, or if the press want to go that route.

But I think what you'll see more and more of is that as we go forward, Michael Hogan, who's the CEO of that corporation, will play a much more active role in answering the technical and economic questions as opposed to the minister responsible. And I think that, in the long run, is very important.

But far from getting less information, I really believe that in the future, opposition and press will get more information as a result of the changes that we're making. Because I really view that making corporations as transparent as possible is truly important to success of corporations.

I don't see only that about Crowns. I think if you watch modern day private sector companies, the companies that are getting themselves in trouble are where things are not open to the public and shareholders. Notice Clayton Woitas of Renaissance having to do *mea culpa* publicly on national TV, saying look, if I would've been more open with my annual report and not been so arrogant, I wouldn't be in this mess.

And so I find that far from keeping things secret . . . now there are always within management, within deals being made, to a certain stage, you can't do it on an open table with all your competitors watching. But at the end of the day, I think historically, companies, both private and public, have been much too secretive about the way they do business in areas where they don't have to be secretive. And then that leads to all sorts of suspicions.

So I know this, we'll have to prove this to the opposition and I don't blame you for being sceptical about it. But the fact of the

matter is, I think information will flow easier in the future. Every year it will get easier as opposed to what it was. And I think that's already true under the management of our Chair of Crown Investments Corporation.

The Chair: — Mr. Heppner, I would now move the questioning to the government side. Are there any members of the government that have questions of the minister or his officials?

Mr. Johnson: — I think that this is one of the strangest things that I've ever ran into as being a member of the Crown Corporations Committee, and it goes back as far as, I believe 1976, where in essence the opposition are supporting and pushing . . . or members of the committee are supporting and pushing for what in essence will, over a longer period of time, be higher power rates for the agricultural community and the residential community.

The issue has been somewhat spun off into an argument related to the accounting of it, but what really takes place as you move a corporation from a monopoly into a commercial organization, is that the accounting in different segments on it will be asked to come up with basically the same type of profit returns, etc., in each of the areas. And there's a number of ways of doing that.

One of them is subsidizing from the treasury, the public purse, if you want to run it that way, or reducing the value of the infrastructure that is serving those segments, such as agriculture and the residential things.

What this accounting does is that it, over time, reduces the value of the infrastructure that is serving the segments where the construction charge is coming from. And quite frankly, that is a reasonable approach in coming to terms with a new environment brought on to the corporations, Crown corporations, in the province of Saskatchewan. Not by political decisions that have occurred in this province, but by political changes that have occurred Canada-wide — Free Trade Agreement and regulatory items that have been impressed from the federal government.

If we want to argue it as to a bookkeeping problem, and auditors back and forth, it can be, but that's not really what the long-term issue is. If you account for the charge like it's being done say at the Vancouver airport, over time you increase the value — at least the book value — of the airport or the corporation. And if you have the same rate of return on this increased value, what happens is that you will end up being able to present to anyone that is regulating that particular organization the rational reasons why you should charge more in those areas.

So where you can say that there is a . . . it appears that there's less money being charged now and in the future it would increase, if you go the opposite way, what takes place is you have high charges now and high charges in the future. And I think that that is the reason why one needs to take and do this type of re-evaluating the organizations and looking at them, is that if you are interested in coming to terms with the new

environment and yet over time maintaining a lower rate for the power for two or three of the segments of the Power Corporation, who they sell power to, one of the ways of doing it is this particular way.

And I'm in full support of it and I find it just absolutely hilarious that opposition members in this committee would be putting forth a policy that over time will have a higher charge to the resident and the farm community. I cannot believe it. Like I mean, I have never been in a committee before where people did that.

What the opposition has always done is said that lower power rates are beneficial. And if you like, I would recommend to the opposition members that they ask somebody to take the corporation through, and using parameters that are identical throughout in going both directions, to find out exactly what would take place. And I can guarantee you what I've said is what's going to take place.

The Chair: — Mr. Johnson, thank you for outlining what you see as the benefits of this particular method of accounting for the reconstruction charge. Did you actually have a question of the officials?

Mr. Johnson: — If anybody wants to comment on it, they can.

Hon. Mr. Lingenfelter: — Madam Chairperson, if I . . . on another topic and not to interrupt the flow of thought, but we're going to . . . if anyone's interested, because we're coming back after lunch, we thought we'd get the members' dining-room and just get some sandwiches brought in. And I say that anyone who cares to join us — opposition or staff — it'll just be sort of pick it up and eat quickly and then we don't have to go out. But the offer is open.

The Chair: — Is this eating away at the exorbitant profits of SaskPower?

Hon. Mr. Lingenfelter: — I don't know who is paying for it. We didn't ask. I thought the committee would pay.

The Chair: — We'll be breaking for lunch at 12:30. Mr. Johnson, did you have any further statements or questions? Preferably questions.

Mr. Johnson: — Questions, not really. I think that this is . . . the only question I have is basically the statement that I think that this issue in getting off as an argument between what . . . between how it is audited for rather than how it is accounted for, and what it generally achieves over time is problematic in the sense that what it achieves over time is the lower rates.

And I for one cannot figure out how an opposition party can recommend higher rates to the agriculture community and to the residential community. That is just right . . . Over a period of time, and I don't say that this occurs significantly in any one year, but over time it does. And if you haven't figured that out, well I would suggest that you take some time and go back and do a little work on it because it will come back and bite you in the future.

The Chair: — Thank you, Mr. Johnson. Mr. Christensen or Mr. Messer, did you wish to comment on that?

Mr. Messer: — That's fine, thank you.

The Chair: — Thank you. Any further questions from the government side? No? I will then recognize the Liberal Party.

Mr. Gantefer: — Thank you, Madam Chairman and committee members. This is my first opportunity to participate in the Crown Committee and I'm very pleased to do so and certainly to take this opportunity to greet Minister Lingenfelter in his new responsibilities. I seem to follow you because if you're the super-minister, then I guess I have to be the super-critic.

But I know the responsibility and there's a lot of new things that we all have to learn and that's always a great challenge. I'd also like to particularly welcome Mr. Messer, particularly since you're in the Melfort-Tisdale constituency or your location is there, and it's always pleasing to have two famous constituents in this committee now.

A Member: — Infamous.

Mr. Gantefer: — Infamous, maybe.

I would like to pick up not so much on this infrastructure in terms of accounting practices, because I think it could make us dizzy if the appropriate way of accounting for this reconstruction fee is to debit and credit liability account, which is what I understand in essence is happening rather than show it as a revenue account, and I'll leave the argument to the philosophical.

I certainly have to think that as a matter of principle, I would like to see it on the revenue side, and certainly that's consistent with a great number of other organizations, the latest of which we gave an example of in the Vancouver airport authority who clearly does it that way.

I also recognize the point that's been made by Mr. Messer in saying that the intent of this was to give the assurance to the people that were paying these bills . . . that this charge was going to construction and not just sort of getting sucked up into the general revenue of the corporation. And I'll skip the temptation to get into the whole debt reduction surcharge and how that happens to get sucked up in general revenue instead of being allocated where it was intended to be.

So I think you have some inconsistencies in your government policy in this regard and I would suggest that you resolve them; because it's different.

I would like to focus on the actual reconstruction and your commitment on the capital side of things. For example, as you're aware, Mr. Messer, in early May, May 2, a Sunday, in the whole north-east we had a major power failure, if you like, and that resulted in particularly communities of Naicam and Kinistino and Melfort being without service for some 10 hours.

And while on a May 2 Sunday, if you had to choose a date to do that, that was probably the best date of the week or time of the year that you could do it. And I know that the service has been very reliable over time and that you can quote, over the last 10 years, that there have been a minimum number of disruptions for a minimum amount of time and it comes to a factor that is sort of infinitesimal almost in terms of service disruption as a fraction of the time that service delivery also occurs.

The problem of course, is that it isn't the averages that make people crazy, it's when it happens and you've got people without service for 10 hours, and they right away start imagining what might happen if that was in a howling blizzard in January or February. Ten hours then is not sort of an inconvenience; it becomes a matter of great concern.

I also understand in reviewing the circumstances that resulted in that, is that over time — and this is where I'm going in this reconstruction — over time the ability of the corporation to provide backup feed directions to communities has been diminished as demand has gone up.

And so that in the event that happened in Melfort, when that went off, it was possible to feed Birch Hills and that area from P.A. (Prince Albert) or from another source very quickly. And it's possible to re-route Tisdale from Nipawin and Hudson Bay, and things of that nature. But the capacity no longer exists as it did a decade ago where you could actually back-feed power to Melfort and Kinistino and Naicam. So that in essence the demand has outpaced the corporation's ability to provide alternative backup systems, if you like.

And I wondered if you would comment, using the Melfort example if you like, as an example, but what the plans are in terms of reconstruction, in terms of being able to provide that backup support to communities in the province.

Hon. Mr. Lingenfelter: — I'm going to get Mr. Messer to comment on sort of the ongoing plan. But I did want to, for the record, establish sort of the circumstances as it appears in a briefing note that I have here.

But for the committee's information, Tisdale, Zenon Park, was out of power, 4,472 customers for three hours; Hudson Bay area, 3,054 customers for six hours; and then the Melfort area which obviously is the bigger concern, 6,261 customers for 10 and 11 hours.

The power outage was caused, the note says, by a stubble fire which destroyed one two-pole structure and damaged two other two-pole structures on the 138,000-volt transmission lines between the Beatty switching station west of Melfort and the Tisdale switching station. And as you mention, the re-routeing is not easy when you have that much need for power supply.

And I guess this is the issue that you referred to as to what is being done and how this is being resolved. And maybe, Mr. Messer, I'll get you to comment if there are ongoing plans and areas that we're working on to try to beef up our re-routeing structures in a general way in the province. Because I think this

is not only this area that would create concern, it would be others as well.

And you may want to comment on lines of generation that are planned within the corporation.

Mr. Messer: — Well, Mr. Minister, I can. Madam Chairperson, we took this as a very serious outage, certainly an unusual outage in respect to the length of time. It was, as the minister has already pointed out, caused by a stubble fire, so that it was an unusual circumstance that took it out — it wasn't an act of God. I think more a case of perhaps negligence.

I think though that we have to focus on whether or not we can have an absolute, total fail-safe system. In other words, you can back feed or double feed every community or every customer in the province. I don't think that that is a realistic or probable circumstance. No other utility has been able to do it.

What we do is put our best efforts forward to have a system that will be as reliable as we can possibly make it within the constraints of available capital to so do. Under that kind of circumstance we prioritize the projects. And obviously one project which has been somewhat lengthy and controversial was the Condie-QE line which, in a sense, is a back-feed, a secondary system, which will provide much higher reliability and economic transmission of power to a much broader area.

And I guess as we start to put the main systems of the province into a higher level of security, we'll continue to look at how we might be able to facilitate and enhance the reliability of communities like Melfort that were out.

But again, I don't think that we as a corporation could give you an assurance that we can have a system that will back up these failures immediately because I think it would be cost-prohibitive.

Mr. Gantefer: — Thank you, Madam Chairman. Mr. Messer, I think the point you make, that it's impossible to build a system that'll back feed instantly all across the province, is a valid one and that also is seasonally more sensitive, I understand. For example, in the wintertime where you might be approaching your main capacity, if a major system goes down, as I understand it, and I'm only a farm-type-based electrician, is that the starting load on restarting systems is three or four times higher than the operating load. So that you not only have a problem of just re-routing, you have the problem of the fact that the starting load is much greater than normal demand. So I understand what you're saying in terms of an instantaneous kind of back-feed.

The problem is is that we've got to come up with systems that don't potentially lead to emergency situations in a lot of communities. I understand if you're at the end of a line, you know, 20 miles from anywhere on a small farm, that if I was at that location I might then choose to see to it that I've got an alternative generating system or things of that nature. And people in a number of industries — livestock, etc. — do that because they recognize the realities.

My concern is is that the more urban parts of Saskatchewan, including the Melforts and Tisdales, the people there have the expectation that within a reasonable length of time that a back-feed is possible so that we don't get into a situation of 10 or 11 hours. And I understand that it's unusual but it indicates that, you know, things do happen.

In a howling blizzard in January the time it took to actually reconstruct the damage that was done may be much longer than 10 hours because of the weather circumstances. And in that event people could be indeed at risk.

And so that's my concern. Not inconvenience, but the fact that this points to that some level of back-feed capacity has to happen, not instantaneously — I accept that — but so that there isn't the element of real risk.

Hon. Mr. Lingenfelter: — Well I think that's obviously important for the corporation to continue to review. This is an unfortunate incident. But I think if you check the record of Power, they do a pretty darn good job and I think the record stacks up positively with other power utilities, even in the rest of Canada, let alone in the rest of the world where the circumstances are in some cases extremely difficult when it comes to distribution of power.

But that's not to say that your points aren't valid, that we should look at, you know, striving all the time. And especially as demographics change and some communities grow and power demands become greater as some factories or some greenhouses, those kind of things, or hog production, are added onto the systems. Or in some areas where you're seeing major draw-downs on power from pumping stations or oil drilling facilities — not the drilling part, but the pumping units — we have to keep reviewing these constantly. So I think your comments at that level are very valid.

I think the CEO's comments as well though, that if we expect sort of a fail-safe system, probably not likely. But obviously we can continue to work away, as we add generation or as we add lines, to try to make sure that those outages are minimized even to a further degree than they already are.

Mr. Gantefer: — Thank you. Mr. Minister, and Mr. Messer, one of the comments that was made earlier about the reconstruction charge was that it is designed so the commitment is made to actual capital construction in the province. I'm interested to know what the process is in terms of determining and prioritizing how this reconstruction fee or whatever is . . . the priorities are made and how you determine how that money is expended.

And secondarily, is that the only capital construction kind of money that is expended — that you've set the \$2 levy and whatever that fund generates is what you're going to use for capital construction — or is that part and parcel of a larger capital plan? And if that is true, how are the priorities and the determinations of what's important . . . I mean if you ask people in Melfort what's important, they'd say that they want to have a heavier line so that this doesn't happen again. But there must be some process and community involvement in terms of

that whole process, and I'd be interested to hear how it works.

Mr. Messer: — Well if I may, the capital reconstruction charge is directed to transmission and distribution expenditure to facilitate the needs of the system. So that there are obviously significant other capital expenditures that the corporation will take from its general revenues.

This was an undertaking, as you've pointed out, to convey to the customers that this part of the charge, increased charge to them at that time, would in no way go to anything other than distribution and transmission, which should give some comfort to the residents of Melfort, given this unfortunate circumstance of outage, that there's going to be a direct contribution from their charges going towards distribution and transmission.

In respect of your question of how we rank the expenditures of capital, we have an internal committee made up from all sectors of the corporation, who sit down to review the requests for capital. And we have a mechanism of awarding points to those requests in order to prioritize the expenditure of capital. So that it is, in my view, an undertaking to try and provide to the various divisions of the corporation an opportunity to participate in a system that ranks in a priority sense the expenditure of capital over a long-term period of time.

Mr. Gantefer: — The requests that you referred to, are they coming from the local managers or people on a regional basis, or how are the requests identified?

Mr. Messer: — Well I mean I think ultimately they do. There will be a system of hierarchy, I guess, where a VP will undertake to have in place some mechanism for those managers and supervisors who are answering to him to propose needed capital expenditure. Some of it may be done at a higher level in regard to longer-term planning. If you're talking about non-utility generation or something, the process that we're going through at this point in time where it's more an executive decision that you need to have some significant expenditure of capital and you devise some process to do it. But as far as the managers throughout the province, they have input in respect of the capital budgeting and the entire budgeting of the corporation.

Mr. Gantefer: — Thank you. When we look at the reconstruction in terms of . . . do you annualize this or is there a longer-term kind of vision that happens. And forgive me, I don't know what the actual amount that's being collected amounts to, but do you end up having a priority to, in essence, spend the annual amount on an annual basis or is there a visioning in a longer term where you say that this year we can spend less but we have this large project like the Condie line, if that was a large one, coming up next year that needs greater amounts of money.

And as well, is this account, is it allowed to go into a deficit position if there would be a large project? So that if there is X number of dollars coming in since this thing was implemented and you have a project or a group of projects that amount to greater than that, is the account actually allowed to go into deficit? Or actual monies received in that account, is that all

that's expended?

Mr. Messer: — I'll let Mr. Christensen elaborate, but I think that it would be impractical for us to undertake an obligation to expend on an annualized basis, the contribution. And as the annual report before you points out, we weren't able to expend all of the contribution that was made in its first year. But over the long haul, the assurance is given that this contribution will go towards distribution and transmission capital expenditures.

And Mr. Christensen can perhaps give you some more elaboration in regard to that.

Mr. Christensen: — It, as Mr. Messer says, it is — and you asked in your question — it is a longer-term planning process. We know, for example, in the upcoming year, which projects we feel are absolutely essential to get done. And then for future years, there is a forecast on which projects we feel will be required in those years.

Of course as time goes forward you may get high or low growth in one area, or a line may deteriorate faster or slower in another area. So it is . . . The intent is not to try and spend exactly the amount collected each year; it's to try and do what makes sense from a reliability and customer service viewpoint.

Hon. Mr. Lingenfelter: — I think the other part of the question though was, if there's a deficit in the fund — let's say you decide to do Shand 2 next year; obviously you wouldn't have enough money to do it — what would the process be then?

Mr. Christensen: — I think we would allow it to run into a deficit, although . . .

Hon. Mr. Lingenfelter: — Borrowing in some other . . .

Mr. Christensen: — Yes, although the specific example, Shand 2, wouldn't apply because it's only for transmission and distribution projects.

The Chair: — Thank you, Mr. Christensen.

Mr. Gantefer: — One final one on this. I just want to potentially wrap this up. When you decided what this surcharge should be, was there a vision of saying over the next 5 or 10 years this is what we imagine is going to be the requirements for the transmission line upgrading and the capital expenditures and therefore this is how much we have to collect? Or was it sort of the goose principle, that you try to get the most amount of feathers with the least amount of hissing happening.

Did the surcharge result — the actual physical amount of the surcharge — result from a long-range plan of what was going to be required or is it the most you thought the market could bear?

Mr. Messer: — If I may, I think that it was obviously a combination of both. I don't think that you can totally exclude the latter in regard to the customer's responsiveness to this. We have, as Mr. Christensen already pointed out, a long-term plan in regard to capital expenditures. And when we looked at the capital reconstruction charges being a mechanism to contribute

to that in respect to transmission, distribution, we related to what we thought our five-year plan was going to be and how this might, on an annualized basis, contribute to meeting those needs.

Mr. Gantefer: — Thank you, Madam Chair.

The Chair: — Okay. Thank you very much, Mr. Gantefer.

Mr. Heppner: — Thank you. We had some discussion earlier on that if this hadn't happened we'd have higher rates now and we'd have higher rates in the future and all this sort of thing, but one last question dealing with the reconstruction fees, and hopefully we won't get into that philosophical mayhem again.

The statement I think that we sort of all agreed with is that the public wasn't overly receptive to what happened. Seems there was a lot of . . . a lot of noise made out there. Do you see that as a result of the size of the rate or, if this had to be done again, would you go through the public relations system differently? Like obviously . . . (inaudible) . . . this flag came down because of it.

Hon. Mr. Lingenfelter: — You're talking about the reconstruction charge?

Mr. Heppner: — Yes.

Hon. Mr. Lingenfelter: — No, I think it's a good system. And I think even though there was a fair bit of debate about it, I think at the end of the day there is a better knowledge and understanding of the need to have reconstruction and where a better understanding that that money has to come from only one place, and that's from the customer.

And as Mr. Gantefer says, let's do some systems so that we can back-fill power when lines go down. Obviously this relates very closely to reconstruction and construction of power lines. Because when we're talking legitimately about doing that, there's no sense pretending that doesn't cost money and isn't part of it.

So I say again, the more debate there is about our Power Corporation, good bad or indifferent, the better off we are at the end of the day. One would always hope that when you're managing the corporation, it was all good news. But I think the reconstruction charge has had a lot of . . . the debate around it has had a lot of benefits to the public of Saskatchewan in that they're more knowledgeable about how reconstruction works, the fact of the extreme cost of reconstruction — it's not inexpensive — but also the jobs that are created and the better power system you have at the end of the day.

And so I guess when we do these kind of projects we always hope that it's all good news, but we know at the end of the day that it isn't. I think the system works and is working well. So would we do it differently? Maybe a nuance, but I don't think in substance we would change very much.

Mr. Heppner: — Okay. As the new minister of this department, I'm looking for a comment from you on a

statement that was made by Mr. Messer, I believe, that rate increases had nothing to do with increased profits. And I'd . . . you know, from your background I'd like to hear your comment on that.

Hon. Mr. Lingenfelter: — Well I think, not to speak for Mr. Messer because he's obviously perfectly capable of defending his own statements, but what I clearly believe is that when the discussion was going on about reconstruction it had to do with reconstruction of the power system. I don't think profits were the initiative or impetus behind the reconstruction charge.

And I think many people are pleased when a fund is set up specifically identified to do a certain thing. And I know the auditor has difficulty with that. And I know that if we were to do it in other areas, he probably would have the same opinion. But in the public's mind, I think there are many of those who appreciate the fact that this money is directed to reconstruction and not used for other endeavours, including used up in other parts of the Power Corporation.

But Mr. Messer may want to comment on his comments and probably he would be the more appropriate person to define what it was he was discussing at that time.

Mr. Heppner: — Okay, I'd like to hear your comments. I didn't think that it related to the reconstruction fee but . . .

Mr. Messer: — No, I think that you were commenting more directly in respect of the rate increase itself. And during the 45-day review process we conveyed to the customers of Saskatchewan that the rate increase was justified and that there was going to be an increase to residential and farm customers and that there would be a decrease to other key accounts and high consumers of energy who had in the past been paying an unreasonably high level for that energy in order to cross-subsidize those customers. And that if we continued to do that we would find ourselves, in the changing, deregulated, more competitive environment, losing those customers, which would ultimately, in our view, increase the rates to farm and residential customers at a greater rate than would be the case if we were to lower it and make them more competitive and less likely, in a deregulated environment, to find other sources of energy, either generate their own or, when the borders open up, which it will, find other sources of power.

So that it was an undertaking to try and narrow, as has been the case in every other jurisdiction, the wide level of cross-subsidization that exists. Having made a move to undertake to do that, Saskatchewan still has a higher level of cross-subsidization of residential and farm customers than I think any other jurisdiction in North America. So that residential and farm customers are still doing better in regard to the benefits of cross-subsidization than other jurisdictions.

Our high consumers of electricity, I believe are supportive of the reduction that has been undertaken in respect of their costs, and because of that we've been able to negotiate with most of our high consumers of power a long-term contract, which will secure them when we do arrive at a more competitive and deregulated environment.

Mr. Heppner: — I'm not sure that I brought cross-subsidization into my question but it seems to become part of the answer, which is, I guess, understandable. But repeating my question, because I didn't get the answer for it. The comment that a rate increase had nothing to do with increased profits which really doesn't relate particularly to cross-subsidization.

Mr. Messer: — Well I think that in a way it does. But I guess if you want a very focused, specific answer to your question, the commitment in respect of the rate increase is that it would be revenue neutral because of the amount of money that we were going to generate from the increased charges to residential and farm customers was going to be offset by reductions to those large users of electrical power that we believe we were charging too much.

Mr. Heppner: — Okay, let's move to the part of your answer that dealt with the revenue neutral aspect of it. I believe extra revenue from other classes amounted to 41 million and the decline in industrial revenue amounted to 10 million. Somehow that doesn't quite come out to revenue neutral unless I don't understand subtracting 10 from 41 equalling zero.

Mr. Messer: — Obviously that's correct. We made it very clear during the 45-day review process that we wouldn't be able to, as with the capital reconstruction charge at the end of every year, have a wash because we had to negotiate with these large users of electricity the amount of reduction and the contractual arrangement.

And by and large we've achieved that, as I've already noted, but it took a significantly longer period of time to complete those negotiations vis-a-vis the increased charge. But in the end result, it will be revenue neutral.

Mr. Heppner: — Okay. End result — what period of time are we looking at?

Mr. Messer: — Well there'll be a significant change during this fiscal year because of the effects of the reduced negotiated reductions to these larger customers. And I can get Mr. Christensen to comment more specifically on that, please.

Mr. Christensen: — Actually if I can get you to turn to page 30 of our annual report. And I wish we would have actually had this more specific in the annual report. We're up to about 25 pages of financial disclosure now, but I guess you can always add more.

If you look at the table in the middle where it says revenue, if you look in the first three columns where it says electric revenue in millions of dollars, you'll see that the per cent change in electric revenue was an increase of 4.1 per cent. So our revenue did indeed go up by 4.1 per cent over 1995. If you look at our energy sales, if you look at the very last column, you'll see that our sales in kilowatt hours, or in this case gigawatt hours, went up 4.3 per cent.

So actually our average selling price over the year '95 to '96 actually dropped slightly. I mean it's roughly the same, but it

dropped slightly from 5.83 cents to 5.82 cents. Our total increase in revenue came from increased sales.

Actually the rate changes were revenue neutral. We received no additional revenue because of overall rate increases. The process was revenue neutral.

So one of the things that indeed did improve SaskPower's profits was increased sales. But there was not an increased overall price because our promise was revenue neutral and we essentially achieved that. In fact we missed it a little bit.

The other things that improved profitability of course were considerably reduced operating and maintenance costs as well as reduced finance charges.

Mr. Heppner: — Okay. How do you explain the fact that of the total revenue increase from other classes by 41 million and industrial down by 10, they still have 31 million. Can you explain that then?

Mr. Christensen: — It's all from energy sales increase. The idea was that it was going to be price neutral, revenue neutral. We had an increase in sales. We sold more kilowatt hours therefore we have more revenue.

Mr. Heppner: — If we have in this following year what we would consider a normal winter . . . I don't know if that ever happens in Saskatchewan.

Mr. Christensen: — Probably not.

Mr. Heppner: — But let's say we have whatever is classified as a normal winter. What kind of estimates do we come up with then? Or do we never discuss normal winters?

Mr. Christensen: — We always try and say there is such a thing but it never works out that way. I think we're probably going to see — and you have to remember our big sales months are November, December, January, so we still have some time to go yet — we're probably going to see about a 3 per cent increase in energy sales, roughly speaking. And I think probably our average price will drop again. We will be charging on average less to all customers than we did in '96, and that's because there's differential growth in different customer classes.

Mr. Heppner: — Okay, could you just expand on the growth aspect we've been talking about. All things considered — let's take for granted this normal thing does exist — what's the increase in power usage on a yearly basis in Saskatchewan, let's say for the last two, three years?

Mr. Christensen: — Well it's about 3 to 4 per cent. We've actually got that in here, in the annual report.

Mr. Heppner: — Where is it in the annual report?

Mr. Christensen: — Page 16. The increase, it's at the very bottom of the page under the five-year operating summary, second line. In '92 it was 5.2 per cent; 8.62 per cent in '93; .52

in '94; etc. So we think it will be 3 to 4 per cent in '97. And I hope you don't hold me to that because a lot of things can happen in the second half of the year.

Mr. Heppner: — We've spent some time this morning discussing transmission lines and those sorts of things. If that rate of increase continues, and I guess we would probably hope it would because obviously that's a sign of a higher population and increased industrial activity, at what point is SaskPower going to be in difficulty as far as being able to supply it and you have to look at something major — new — coming online to go ahead and keep that in place?

Hon. Mr. Lingenfelter: — Well I think the corporation is actively looking at options for power production now. Obviously when we were doing our estimates at the time we moved away from the nuclear reactor. We were projecting out, I guess 1 per cent growth in power to the year 2000, because that's what basically . . . And that was the industry standard. If you look at base and electric for Manitoba Hydro, basically all of these power companies were projecting out 1 per cent growth. We're now seeing 3 and 4 and more per cent growth. So we are going to have to move on some sort of power generation in the not too distant future. But we're not at a point at this time where we can say very much about that, but obviously, with this kind of growth, it's increasing much quicker than we would have predicted three or four years ago.

The Chair: — Thank you, Mr. Heppner. Do you have one final question on this particular topic?

Mr. Heppner: — I've got a few on this one possibly, but we'll leave it.

The Chair: — Okay, so we'll move on then. Do any government members have questions at this point? No? Then I would recognize the members from the Liberal Party again.

Mr. Bjornerud: — Are we adjourning for noon or what are we doing here?

The Chair: — Well what I . . . it's curious that you should ask this. When I sent out the agenda I had put on it 10:30 to 12:30 and 1:30 to 5:00. If members want to adjourn for lunch now we can certainly do that and meet again at 1:30.

Mr. Bjornerud: — It would probably be better for us.

The Chair: — All right. I guess we are all basically creatures of habit aren't we and we like to chow down right at noon; so that's what we will do.

Hon. Mr. Lingenfelter: — You may want to reiterate that there are some snacks over in the members' dining-room.

The Chair: — Yes, and those of you who would wish to join the minister and the SaskPower officials in the private . . . in the members' dining-room, please do so. Otherwise we will be back here at 1:30.

Mr. Messer: — Madam Chair, it's been pointed out that the

cafeteria cannot provide the service until 12:30.

The Chair: — Yes. That gives some chatting time.

Hon. Mr. Lingenfelter: — We can go over there anyway. Is this room secure? Can we leave . . .

The Chair: — This room will be secured.

The committee recessed for a period of time.

The Chair: — The hour now being 1:30 we will again continue our review of SaskPower and concurrent review of SaskPower Commercial and Power greenhouses. And I would note that Mr. Hogan is now present — president of SaskPower Commercial.

When we left I was just at the point of recognizing the Liberals so I will now recognize Mr. Gantefer.

Mr. Gantefer: — Thank you very much, Madam Chairman. I would like to . . . I think it's timely, given the visits over the weekend from the Guyanese delegation, to ask the minister for an update on the proposed — or the proposal — or the Guyana project or whatever way you want to identify it.

Hon. Mr. Lingenfelter: — I'll just say a few words and then I'll get Michael Hogan, who has been working on this deal for some time, to speak on behalf of SaskPower Commercial.

But first off, let me say that during the Crown review there were fairly strong representations from the public of Saskatchewan that there's a belief that we do have the capability, within our Crown corporations, to be competitive at the international level. And that people are very proud of their Crown corporations and overall the majority support the Crowns. And I think the majority believe that they should be looking at becoming more competitive at the international level.

At the end of the day then the question becomes which projects do you look at as being potentially successful in terms of trying to meet that mandate of the Crown corporations of investing at the international level, of taking the expertise that we have here in our Crowns — whether it's power, the transportation of gas, or telecommunications, if it's cellular — into the international market, make good deals and create jobs at home, build the head offices in our technical side of our Crown corporations, and get a commercial return on your investment.

So with that thought in mind, and working under the recommendations of the Crown review, we are continuing on with the negotiations and review of the proposal to purchase a portion of the Guyanese power corporation.

Now I know there's a letter in the *Leader-Post* today that talks about what existed in Guyana in the period from 1987 to '89. This is 10 years ago, and I think what is interesting about comparing developing countries — whether you would look at China or Korea or, I would argue, Guyana 10 years ago — and compare it to today's society and economy, an economy which again gained democracy in 1992 and has been growing

significantly. In fact the most recent studies — and maybe, Michael, when you speak you can quote page and title — but in the Western hemisphere in the last few years, Guyana has had the fastest growing economy of any country. In fact in 1996 growing at 7 per cent GDP (gross domestic product).

This is a country that is extremely rich in natural resources, has huge tracts of very, very fast growth forest of hardwood, all sorts of hardwood, which are underdeveloped. The mining is underdeveloped. But they are very much in the midst of growing their economy very quickly. They are wide open now to investment from the outside world. Companies and money are flowing in from many other parts of the world and the economy is growing very quickly.

One of the restricting factors to the 7 per cent growth is the fact that their power corporation and power company is in need of technical and personnel improvements that make their power company fit into this fast growing economy that they are developing as a result of investment coming from around the world.

In order to meet that need, the Government of Guyana went out and, in a public tendering process, had a large number of companies give letters of interest in rebuilding and reconstructing the power corporation in their country. And SaskPower was seen, as the Minister of Finance explained this morning, as the company that best fit the need of this size country and this size company because of our co-operative Crown background, because of the involvement of the public, and because of the size and demographics and regional look to our Power Corporation.

So today's visit was the Minister of Finance and the Prime Minister coming to Saskatchewan on their due diligence side to say to their public — who are as well concerned about which company they bring in — looking at whether or not SaskPower is a suitable partner if this deal were to go ahead.

So while Michael and his people are in their country doing due diligence; the Prime Minister and Minister of Finance are here with us today looking at our Power Corporation. Yesterday they were in Nipawin looking at the power generation; I believe they were at QE in Saskatoon, and this morning we had an opportunity to have a press conference where they were able to be interviewed by the press.

Because I think again, in terms of openness, if we're going to be investing at the international level this has to be a very, very open process where there's a face to the country that's represented. So that letters like the one that you have in front of you, which, as the minister said today, are 10 years out of date, dealing with facts and figures that are not relevant one ounce to the economy that you're talking about today. . . And I believe in the last paragraph it talks about a bridge that's falling down. He indicates \$11 million were invested in that bridge three years ago, and it's a world-class transportation link.

And so what we have to do is try in some way to get past the rhetoric and the images that people will want to paint on these countries for their own benefit, whatever they are, and try to

deal with reality. Because if we're going to do these kind of international deals then you've got to feel comfortable; I've got to feel comfortable; we have to try to get the majority of the public; and our partners, and Guyana, have to feel comfortable that we're doing this, not solely for the benefit of our people, but also with an interest in the development of their country as well. So that's the premiss around the investment that we're looking at.

Finally, I just want to add that we're still in the process of due diligence. We haven't made a final decision and one won't be made for some weeks, but sometime soon. As they get their process completed and a recommendation comes forward, if in fact it does, we're talking about months now rather than years, as to a decision-making day coming forward.

Michael, do you want to add to that?

Mr. Hogan: — Perhaps what I could do is just expand a little bit on the process. We're in the process today of due diligence on the GEC, that's the Guyana Electricity Corporation, and that's an ongoing process. And in this business of international acquisitions and such, the due diligence doesn't end until the very last minute. So we're using all the opportunities that we can to learn more about it and figure out how we would go about our efforts there if and when we do complete the transaction.

The Government of Guyana is in the process of drafting new legislation which would facilitate the partial ownership of the utility by us and it would also include rate-setting mechanisms and those kinds of things so that we have confidence that the legislation is there to back stop the commercial transactions that we undertake with them.

We're aiming at having the agreements finalized by the end of August and of course these agreements are subject to approval in Guyana by government and of course the approval process and mechanisms here in Saskatchewan. So as we say in this business, the deal isn't a deal until it's a deal. And up until the very last minute we'll be assessing it.

Mr. Gantefer: — Thank you. Some questions in relation . . . and I appreciate the fact that from the individual who was quoted in the newspaper today that there is some time line in behind that.

But over the last 10 years, the comment he made, and I accept the minister's comment that perhaps that information is out of date to some extent, but in the last interval then — from what he quotes, is the entire system is simply wore out — has the Guyanese electrical company or corporation made substantial investments already, and has that all been documented?

Hon. Mr. Lingenfelter: — One of the issues that the minister squarely dealt with was that very issue this morning. And he was, well I suppose irritated to say the least. When you think about a power corporation that is not large by any standards — I think it's at present time 70 megawatts of power — and in the last five years they've added 48 megawatts of power; so to say that somehow this is all worn out and non-functional is simply

not accurate.

That is not to say that there aren't problems with the infrastructure and that there isn't need for upgrading. But of course that could be seen one of two ways. If you have new generators and it's infrastructure and personnel, this can be seen as a perfect opportunity for SaskPower, with those strengths, to come in and work in a system whereby they could, by applying the technologies we have, very quickly change the system and get a commercial return on the investment — which is what at this point in time our officials are struggling with to make sure that the bottom line is that the infrastructure is such that by applying those standards of personnel and equipment and line development, that we could return for Saskatchewan, jobs and a return on our investment.

Initially if we did the deal it would mean 25 technical people, Saskatchewan men and women, moving on site in Guyana to work with and train the staff in their power corporation. And this too in building a corporation, you can imagine the excitement in SaskPower to the ability of being able to say, our men and women who are trained here will now have an opportunity to work in the international field.

And this is, I think, fundamentally important for us to contemplate as to whether or not we sell off these corporations, i.e., privatize them, with the head office going to the company that buys them up — thereby, many would argue, losing many jobs and much of the technology out of the province of Saskatchewan. Or do you build the company so that the men and women who have run a very, very good and efficient operation not only have the chance to stay here in the province, but expand and take their technology outside of the country?

And we've got some . . . I say again we have some good experiences with international investments. The Chunnel project, I don't have to go into that, but young guys from Gull Lake and Kamsack went over and solved a huge problem that literally had brought the Chunnel project to a stall. And at the opening there was great accolades paid to SaskTel and the technology that they brought on site to make that happen.

The Leicester project, we have men and women who went there, put together a project. And the Philippines. And they're not all success stories either. But in doing business at the international level, what you have to weigh — and I urge us not to cherry pick and talk only about those that haven't worked, because I don't think that's fair to our men and women who are involved in this either; we have to look at this if we're going to support and build it as a basket of investments — and at the end of the day the key has to be, are we stronger as an economy, having done international investments, or should we go a different direction. And that's a fair struggle; and here again, I appreciate those who say we should sell them off and let the private sector do it all. It's a fair comment. And many places have done that. But I think in Saskatchewan since '92 we've kept the Crowns intact, we've kept the head office jobs here, we've balanced the budget, we're reducing taxes, and we're creating jobs.

So I would argue once again, the Saskatchewan way of doing

business is working very, very well and we're going to see if we can't do it even better.

Mr. Gantefer: — I heard in that little rhetoric, in the speech, that somewhere in there is that you believe that the Guyana electrical corporation almost doubled their output over the last decade. Is that right? From 45 megawatts or something, it's now at 70? So that's what your . . . that was a question in terms of investment in the structure right now?

Hon. Mr. Lingenfelter: — We'll let Michael answer that, but I think 48 megawatts is what they've added. I don't know . . .

Mr. Hogan: — Actually they've added about 48 megawatts in the last two years and these are modern, what they call medium-speed diesel generating plants. Their total capacity installed now is over a hundred megawatts and they have about 70 megawatts of load.

So interestingly, if you look at it relative to two years ago, they were really struggling with a lot of outages just because of generation shortages. They've overcome a good part of that. There's still more work to do, but they've actually done a good job in terms of getting new generation facilities on. And there's still a lot of work to do on transmission and distribution improvements.

We've had our transmission and distribution engineers and aligned them there to review the facilities and come up with plans about how we could go in and over a period . . . actually, we're projecting over a period of about two years on making the improvement necessary there to turn that utility around and get it on a solid footing.

Mr. Gantefer: — One of the comments that I heard you making, Minister, in terms of the rationale for this and the need of the country to have this extra capacity is the economic improvement to resource, natural resource development and things of that nature. And I can understand that in an emerging country that that is an important factor. However, the other reality is that there has to be a tremendous amount of people, ordinary, probably very poor people, that also need power.

How does the whole issue of cross-subsidization and availability of power to the poor people, how does that square with you trying to maximize your return or having a guaranteed return on the investment that you are going to make? Is it coming from the commercial side? Or is there a downside social cost to the very poor citizens of Guyana for that guaranteed kind of return?

Hon. Mr. Lingenfelter: — Well I think if you look at the rate structure right now and I'm . . . Michael, you'll correct me — but I think right now a kilowatt of power in Guyana costs about 15 cents U.S. (United States). In Saskatchewan, as you know, we're running around 5. And that's largely because of huge efficiencies — inefficiencies — in the system.

We believe that getting a reasonable return on investment and lowering the cost of power are perfectly in tune. It's not a matter of increasing the cost of power to get our return; quite

the opposite. We have to make that company much more efficient and technically efficient and lower prices if you are going to get the kind of commercial development that we think is possible.

I compare this, and I think realistically, with what the federal government has done with CANDU (Canadian deuterium uranium). Have taken huge amount of investment money and put it into an economy of Korea early on. That whole CANDU project is now driving the economy of South Korea. And it basically was the Canadian government through CANDU taking a position that they were going to go out, they were going to use Canadian technology, they were going to go into, at that time, an underdeveloped country, same kind of . . . in many ways, same kind of scenario, and do a number of things — create an economy in the country so that they would better fit into the world context. They were going to create Canadian jobs for young men and women and we all know some of them — Saskatoon being an important part of that.

And it's been truly a great experience and they're now moving that technology and that experience into China. Now that's not to say that CANDU hasn't had a downside of costing the Canadian taxpayers money, but I think if you look at it realistically, it has been good for Canada, has been good for Korea, and I think in the end will be good for China as well.

I think SaskPower, at a very, very different level — because we're talking about tens of millions here, not hundreds of millions, and billions of dollars that the CANDU projects take up — the theory and the concept is very similar.

The Chair: — Thank you, Mr. Minister.

Mr. Heppner: — Thank you. The arrangement, when this is more or less complete, will be that the Guyanese government owns part of it and SaskPower owns part of it. Is that correct?

Hon. Mr. Lingenfelter: — That's the arrangement that's being worked on.

Mr. Heppner: — Okay. And at what percentage? Is it 50/50? The information I have is that it's right around 50 per cent each.

Hon. Mr. Lingenfelter: — It's 50/50.

Mr. Hogan: — That's right.

Mr. Heppner: — Okay. I guess most of us around this table have been involved in some sorts of business ventures from time to time, and any kind of business ventures that have two groups and they are at 50 per cent each are usually headed for disaster. So you must have some justification for that.

Because I have some very serious questions about getting into a situation that allow . . . sort of a situation where suddenly decisions can't be made. And you know that particular government in the past has just sort of taken over other enterprises, which would mean that if they can't get along and there is some sort of impasse, they can just say, well thanks, SaskPower, it's now all ours. They've done it before. How are

you going to work your way through this?

The Chair: — There is a 50/50 relationship that works out though, Mr. Heppner, and that's called marriage.

A Member: — Sometimes.

Hon. Mr. Lingenfelter: — I'm not going to touch that one. I'm not going to touch that one.

The way the deal is being negotiated, and I say negotiated because this is still very much in the discussion stage, but SaskPower, SaskPower Commercial, although we're putting 50 per cent of the . . . we have 50 per cent of the equity, we would have 6 of the 10 board members, and so this is the mechanism that would be used for final decision making. I think it's a credit to SaskPower Commercial to see the kind of rigour that they're putting into the negotiations that would give us that kind of an opportunity and advantage.

Now you say, what would happen if there is some catastrophe in the country politically or economically? I think these are challenging questions but I don't know that it's a great leap from where the Canadian government is when they go into these countries — China, for example, with still a full-fledged communist government — and invest money by the billions of dollars. And I'm not arguing that they shouldn't have. But I think it's incumbent on us to look at these kinds of opportunities for our Crown corporations if they're going to survive and expand and continue to create more jobs for young people in the province.

Mr. Heppner: — Okay. And I think when we go back and look at . . . so what you mentioned that we have, what are there — six and four, the number of people on the board? In the research you did of this project, I would imagine you did a little bit of research on the stability of the country, because that's critical to maintain that sort of relationship. Otherwise they can just come in and say, well we're changing it to five and five or six and four in their favour. What were your findings when you checked the stability of the country politically?

Mr. Hogan: — If you look at Guyana since the full democratic elections in 1992, the government has been very stable and the indications that we're getting, including the indications from the Canadian High Commission in Guyana, is that the government is on a very steady course. And if anything, interestingly, if you look at the political perspective, the opposition parties in Guyana would be advocating a greater than 50 per cent share of interest for SaskPower Commercial if they were to be in power. So the signals that we're getting are very positive in that regard.

If there was a very extreme event, which we think is extremely unlikely, where for instance the government would confiscate, we would be covered under political risk insurance for that eventuality. And that's of course supported by Export Development Corporation, Canadian federal agency.

Mr. Heppner: — So basically there is . . . you've insured that Saskatchewan taxpayers, that if they just take it over, get their

twenty two and a half, or 25 million or whatever it is, back, or whatever your input is.

Mr. Hogan — That's right. And that's common business practice with these kinds of transactions. If you can't get that it's . . .

Hon. Mr. Lingenfelter — This is the same with private sector companies. In fact much of the private sector investment in Third World countries would not occur, simply couldn't occur, if it weren't for that kind of back-stopping that takes place at the federal level.

Mr. Heppner — Okay. If I understand the process correct, you're basically bring in . . . one of the key things you're bringing in is the management team.

Mr. Hogan — Exactly.

Mr. Heppner — And you're taking over their management team as well.

Mr. Hogan — Yes.

Mr. Heppner — Okay. So who's responsible basically for the salaries of their management team component that comes in? And if you people come in and are working there and find out that their management team just doesn't function the way you expect it to get their power company to a level that it's supposed to work at, who has to sort of deal with the settlements and the lay-offs and this sort of thing?

Mr. Messer — I can't really talk about the proposed management contract and the right time of it. It's very precise.

Mr. Hogan — Exactly. In addition to the shareholding and the board arrangement, we're looking at having full management control of the utility through a 15-year management contract. And it's up to us to put in the management team and develop their people over that 15-year period. But part of the arrangements that we've discussed with them certainly gives us the authority to hire and fire people. And if their management don't cut the mustard, then they'll be cut. However, we are very committed to developing Guyanese into long-term management people.

Mr. Heppner — Will their management team that sort of becomes part of this whole management team have the same access to retirement packages and lay-off packages and severance packages that SaskPower people have?

Mr. Hogan — What we intend to do is to follow the practice that's established in the country already in that regard, and they already do have some benefit policies in place for that kind of transaction. So I can't remember the specifics of it but they're considered to be quite fair practices in the country, and this is a utility with a lot of people and we expect that efficiency improvements over the years, we'll be seeing the staff complement in the company being reduced and the government has told us that they fully expect that and support it.

Mr. Heppner — Okay, when you use the term about fair practices in the country, that's always a little bit scary because we know that there are some countries in the world where none of us would want to work, and yet those conditions are considered fair.

You're now going to have employees on the same management team with two very different packages and you're looking for a lot of cooperation, people working together, where one has a great package, which I think most people in Saskatchewan have relative to world standards. And you're going to try and make that a cohesive group.

Mr. Hogan — Yes. And I must say that in Guyana that model exists already in a number of industries. In the sugar industry, there's a British company that has a management contract for a number of facilities. In the gold mining, Omai gold mining facility, which is owned by a Canadian company — \$250 million investment, with a 1,100 employees — is managed by a Canadian management team.

And so I think that what's really important here, what we've seen, when we've gone and talked to these people, they say, come on in here and help us. You know if you can give us the training and give us the tools, we will step up to the plate.

And so I think that where you get into trouble is if you have somebody who's paid up here and they're not adding value compared to the person who's being paid down there. The people there know that they need to be brought up, and our commitment is to bring them up, and as the need for our people diminishes, we will back off on the size of our team.

We're expecting, for instance, that half of our team would leave Guyana after the first two to three years. Because the first two to three years is a very, very intensive training effort.

Mr. Heppner — Okay. The disclosures that their power company had to make to you, I imagine were very detailed.

Mr. Hogan — Yes.

Mr. Heppner — Are they a lot more detailed than the disclosures that SaskPower has to make to Saskatchewan citizens? I guess that'll be your question.

Mr. Hogan — I couldn't come in on that. I'm not that familiar with all the details of what SaskPower provides. But what they have committed to do is to give us access that gives us enough visibility to make proper decisions with full due diligence. And they've been very cooperative in that regard.

Mr. Messer — Well I think it's fair to say that some of this information is confidential to the parties that are involved as well.

Mr. Heppner — I understand there's a rate review structure that's going to be in place over there?

Mr. Hogan — That's part of the new legislation that's being developed.

Mr. Heppner: — Okay. And I'd like the minister to comment on that. They're going to have a rate review structure. Is it going to be more stringent than the one that we deal with in Saskatchewan? And what are the differences, and possibly why the differences?

Hon. Mr. Lingenfelter: — I don't think we can say yet at this point, because both are being developed as we speak. But obviously again the structure that they will have will reflect the needs and concerns in their country. And they may or may not be the same as they are in Saskatchewan.

So we'll continue to work in that area because quite honestly, the rate structure and the rate-setting mechanisms is very important to Michael and his team as they put together their proposal. In fact it's one of the key parts of what we still have left to do, is how rates are structured and how you make application and how that process works.

Mr. Heppner: — And I guess some of the . . . the purpose of some of my questions are dealing with the fact that this government in Saskatchewan is into utilities for philosophical reasons. As far as the people of Saskatchewan are concerned, if they're valid for the people of Saskatchewan, they should be valid for the people of the countries where you're in. And that's why I'm sort of asking why some of those things are there. Are they similar, and how do they differ, and why?

What's the rate of return — and I think Mr. Messer had talked about rate of return a little earlier on — what's the rate of return we're looking for on our investment that we're putting into it?

Hon. Mr. Lingenfelter: — Again there's no resolve of rate of return. But in a general way I can say that it will be commercial rates of return. As I said this morning, this isn't a social program. While obviously I think SaskPower has a social side to it which is attractive to many countries and many entities, we will be expecting a commercial rate of return. But there again that's part of the ongoing negotiations.

Mr. Heppner: — You mentioned this insurance part earlier on, and what's our risk. Is there any differences that come into play there because SaskPower is a Crown corporation?

Hon. Mr. Lingenfelter: — On the risk side?

Mr. Heppner: — Yes.

Hon. Mr. Lingenfelter: — I don't think the fee is any different, is it?

Mr. Hogan: — No, I think it's just a straight commercial package. The rates are really based on their assessments of the Guyanese situation.

Mr. Heppner: — The contract or the tentative situation I believe that you set up also discusses situations such as, what we would call them in Saskatchewan, Crown tendering and this sort of thing. Any comments on the work-union relationships that are going to exist there between that company and us?

Hon. Mr. Lingenfelter: — Well there is a union in place in the Guyanese electric company, but obviously when you say that, it's very different. Contracts would be very different, pay scales, pensions, all of that, and it's very, very difficult for us to compare what would be in existence in a Saskatchewan contract and what would be in their contracts. But needless to say, whatever those contracts are, whatever the legal binding agreement is, obviously the new company would have to live and negotiate and work within the confines of those agreements.

But I think at the present time there are 1,100 people working in the power corporation. This is a company with 100 megawatts of power, and if you translate that to SaskPower you get pretty quickly to the conclusion that for a megawatt of power they would have 3 or 4 or 5 times as many people working per megawatt as we would have. What that means in the long run, I mean is all part of the negotiating process. And I think that is a major reduction from where they were a couple of years ago. I think they had as many as 2,000 people working in this corporation and these are some of the efficiencies.

But I say again, and within the contracts, there will be protection for workers; or not protection for workers but whatever exists, we will have to live with that within the management contract, which as Mr. Messer indicated, goes on for 15 years. And so this will have to be planned and strategized as to how we work that through.

Mr. Heppner: — Are the . . . we're talking about some of the things that come up, like job opportunities for Saskatchewan people. Are the job opportunities that are going to be there for Saskatchewan people only management kinds of things? Are there technical people? And do you have any kind of ballpark figures of how many individuals in Saskatchewan might have work opportunities in Guyana during this time?

Hon. Mr. Lingenfelter: — Well initially it's 25 but that's in the management training area. But one could also see some hybrid kind of cross-pollination that might go on with Saskatchewan companies that do contracting, for example; procurement, for example. I mean oftentimes when companies invest in other parts of the world there are a chain of events that happen where other contractors have benefited to a degree that is greater than the initial investment.

For example, with telcos, with Bell, or some of the big international companies that invest in Asia, some of the suppliers of product and procurement, a lot of that might come from the United States as well. So we expect that when you start getting into these international arrangements, that companies from Saskatchewan or companies from Canada will be very interested in the needs and services that they may provide that SaskPower Commercial isn't providing. So there could easily be spin-offs that would accrue to other Saskatchewan companies.

The Chair: — Thank you, Mr. Minister. I will now check to see if any members of the government side have questions. No? Then I'll recognize the Liberals again.

Mr. Gantefer: — Thank you, Madam Chairman. From the comments that you've been making, it strikes me is that you're investing 21 million U.S., or whatever it is, for 50 per cent, and that largely you're at this stage talking about providing that management expertise to get the project working. It would also seem to me though and from what your comments were, is that there's a great deal of infrastructure that needs improving in order to make this work.

And my question is, have sources of capital for that infrastructure improvement, transmission lines, network, or whatever — a comment in the paper is there's two different cycle systems and whatever all in place, that it would strike me is that there has to be some significant investment in the infrastructure — and have those capital sources and things of that nature been identified in your process?

Mr. Hogan: — Actually in this acquisition it's a little bit unique. The twenty-two and a half million dollars that we're investing stays in the company to fund the expansion program. And so the Government of Guyana isn't taking that money and putting it into general revenue. It stays in the company. It's our stake in the future development of the company.

And then we see, as we go forward, as we need funding beyond that, there's really two sources that are being addressed at this point. In about five years the government wishes to have an IPO (initial public offering) for 20 per cent share-holding in the company and that would be done at a time when the company is operating stably and when the valuation of shares under that IPO can follow North American practices. So that will be a way to raise some capital as well.

Further though, we see a raising of debt for the company and, because of our involvement in it and our equity stake, we've been approached already by several international banks who have indicated that they would very much like to contribute debt resources to the GEC whenever we're ready.

So we're positioning the company from the start with the right management and technical capabilities and the right stake in terms of the investments, so that we can move forward in that way. And we're quite confident that we'll be able to do the fund-raising that's necessary.

Mr. Gantefer: — Surely, it strikes me from your description, if we're 21 million U.S. or 30 million Canadian or whatever — and you talked initially about 25 management jobs and that would diminish by half in a couple years — surely there has to be more motivation to get into what people would say is a fair bit of risk compared to what you're familiar with, for a long-term future, for a half a dozen jobs or a dozen jobs.

Do you see this as a stepping-stone for other opportunities or is this the tip of the iceberg or . . . Because it seems to me to be strange that you're just looking to invest \$30 million at commercial rates somewhere; you might be able to get them in projects that are an awful lot safer. It seems to me that the higher the risk is generally the higher return that's expected, and if that's what you mean by commercial rates . . .

And for the people that get the 25 jobs, that might be a chance of a lifetime, but you also said to me, or to us, in two years down the road that that would be cut by half as the Guyanese people get trained. So is this just the tip of the iceberg in the first step of SaskPower Commercial? One could get into these kinds of ventures on a bigger scale?

Hon. Mr. Lingenfelter: — Well the potential is pretty significant because part of this going out — if we are going to do international ventures within SaskPower Commercial — is getting started. And this in fact is getting started. We've done a lot of technical training contracts and work in other parts of the world through SaskPower Commercial, and for that matter in TransGas and through our gas company.

The next stage is, of course, is to move into actual equity positions and starting to do investments. And if you follow the track of other successful companies that have gone this route, you first of all select some areas of the world, because you can't do it all, and you start looking for good arrangement and good business transactions.

For example, at the meeting this morning over breakfast, while we had believed that the telecommunication system in Guyana had been let for contract to another private company from another part of the world, what they indicated to us is that the cellular portion hasn't been awarded and that they would invite a proposal if Sask Mobility were interested in a mobility component to their telecommunication.

So not unlike other entities that go into the international market, this is one piece of what hopefully, and I believe is certainly possible, will become part of the bigger picture or of a bigger puzzle.

And I don't know how you can evaluate that at the front end. But watching successful companies, they use their strength within their corporation to take into the international market — they make a profit; they create jobs; they supply service. And at the end of the day I think that's exactly what the public, when they say you've got to take these corporations and grow them, are talking about. So we're trying to meet that mandate and need, and we're very optimistic that this is one of those deals that will bear fruit for us.

Mr. Gantefer: — It strikes me that unless there is some . . . or there has been some evaluation of that longer-term picture, that it seems that for the long-term Saskatchewan jobs created, we're talking 12 or 15 jobs for an investment of \$30 million in a third-world country whose situation may have improved over the last decade — I accept that — or since '92 when there was an elected government. Do the people there also understand that in order to do this — I think you said that they're running about three times as many employees as they should have — that potentially for the 12 jobs it'd create for Saskatchewan people, we're likely going to cost them 700 Guyanese jobs as you get that done to an effective job per kilowatt, or whatever you used as a measuring stick? Do they understand all of that, the people there understand that, or are you getting yourself into a potential social hornets' nest?

Hon. Mr. Lingenfelter: — Well I think they're very advanced when it comes to understanding the need to make their power company more efficient so that the 15 cents per kilowatt hour comes down to something that's more competitive. Not so they can create more jobs in their power company, but so the mines and forest development and other areas who use power can be competitive in the world level and not pay power rates that are 3 or 400 per cent higher than the going rate in the rest of South America.

And I think what they're very willing to and quite clearly are explaining to us that while they may have to . . . and they're not saying that they will have to give up jobs, because they see a doubling and tripling of their power capacity over a short term if they continue their growth rate of 7 or 8 per cent or even 5 per cent; that they may not have to downsize the power company very much in the medium and long term. But if they can get their power rates down from 15 cents or 20 cents Canadian to 5 cents, what that would mean to investment on the other side and job creation on the other side would be quite spectacular. And so I think they've got a plan here that's well thought out.

I'm extremely impressed with the education level of the cabinet ministers and I'm not quite sure we want to stack ours up against the universities and schooling that this newly elected cabinet in Guyana has. But it would be well worth the committee's while to take a close look at this country.

And doing international travel, I know there are a lot of misgivings about what we easily call third-world countries, until you go there. Places like South Africa that I know many people have an image of burning and looting and all that, you go there, it's like being in California — four-lane highways everywhere, skyscrapers, and a highly, highly developed economy even though it was isolated and embargoed for many, many years. Korea, China, Indonesia, all of these places where the per capita income in many of the cities ranks right up there with cities in Canada.

And I think we really should take the time to study what is happening with this economy because I think it does a grave disservice to them to somehow paint them as a backward, backwater country with no opportunity to make it. Because quite honestly with the regime they have in place, that's democratically elected, highly educated from top to bottom, this is the kind of a country that I think we should be investing in for all the right reasons.

Mr. Gantefer: — One final question, and I have to say that I very much appreciate the candour today in terms of this whole information on Guyana. Up to this point in time that's been less than forthcoming, and if this is a result of your new direction, Minister, I very much have to indicate appreciation of it, and to your officials.

I also, Madam Chairman, and it's leading away a bit but you'll see where I'm saying, is that as I would understand in the proposed due diligence or the review process that we're going to talk about tomorrow in terms of disclosure, this conversation wouldn't necessarily happen prior to the final making of a deal.

And I think that's what the people of the province are very much interested in, where there is a proposed deal of this magnitude — and I don't want to get into if it's the right percentage or not — but that there is as much as possible a discussion of the issues and concerns and the parameters of the deal before the money is finally committed. Because after it's done, I mean we're talking history then and we have no input in terms of saying have you thought about this, have you looked at this issue, and maybe they are legitimate points of view that could be raised that would actually strengthen and enhance the deal if there could be this kind of discussion occurring before the final agreement while it is in the discussion stage or in the memorandum of undertaking, rather than after all the money has exchanged hands and it's simply reporting process.

So I think it more appropriate that we should talk about it tomorrow but I want to raise that in the context of the kind of conversation we've had this afternoon in terms of some of the issues that people have been expressing misgivings and concerns about in terms of this Guyanese deal. And I think many of them have been addressed and . . .

Hon. Mr. Lingenfelter: — Well I . . . in some ways I couldn't agree more. I guess it boils down to time and how much time the committee wants to spend. But the other reason that I would want to discuss it is simply not to exclude people from the excitement and potential of what Saskatchewan has the potential of accomplishing over the next five or ten years, because I think there are examples of countries like Norway that have just taken a different approach to economic development and haven't privatized.

And I'm not arguing here philosophically but I think in the New World, you have to look at where success is and see how you're structured and see whether or not you can make a go of it. But they've done international investing and are getting huge returns for the people of their country. There are other places in the world where Crown corporations were an abject disaster and should have been privatized.

So I don't think it's one way or the other and that anything is automatic or in black and white. I think it's only by having wide-open discussions and looking at these issues from every side that good business decisions are made. And so if the committee can come up with ideas or concepts that show us to be wrong, why wouldn't we want those pointed out before we go into the arrangement?

On the other hand, you may find areas where you have ideas to strengthen the deal. To say, look, have you considered this, or have you thought of that.

And so from my point of view, I mean I've got to explain this deal anyway. What better way than to come here and have at least a good, solid, preliminary discussion before we go ahead with it? All the time understanding that we have to be less than totally open because there will be deals of the contract and that that we simply can't make public and I'm sure the members of the committee would understand that part of it.

Mr. Gantefer: — I very much, you know, understand that but

I think when you're talking about, and I don't want to get off in this cause . . . we are going to talk about it tomorrow, but the proposal for the reporting of significant transactions.

The only role for the committee is to, within 90 days, say you guys really did a good job or you really messed up. But virtually the province is committed because by the definition that is proposed, it's after substantial money has exchanged hands and really the deal is closed.

What we have here is where there is a memorandum of understanding or undertaking and it's in development, as you've explained to us, where it hasn't been finalized and we recognize there might be some particulars of the deal that can't be disclosed at this stage, but certainly a great number of the issues that people have had communicated to us in terms of their concerns about the pitfalls potentially of this deal. To a large measure I think you've been able to address many of them and certainly the fact that it's an insured project and things of that nature, I mean is important for people to understand that beforehand. So that's the context that I raised that in in terms of . . .

Hon. Mr. Lingenfelter: — Let's talk about that . . .

Mr. Gantefer: — Let's talk about that tomorrow as well and say is there some way that at least this committee can be involved in some way before it's too late? Because what's proposed now is really just closing the gate after the horse is out.

The Chair: — Mr. Heppner, do you have questions?

Mr. Heppner: — Yes.

The Chair: — We're still on Sask/Guyana.

Mr. Heppner: — Really?

The Chair: — Yes, surprisingly.

Mr. Heppner: — There's a company I believe, called JKA (Jerry Kaehne & Associates Ltd.) that's involved in this whole system?

Mr. Hogan: — Yes, they are our technical partner.

Mr. Heppner: — Okay, could you explain exactly who they are and what they are doing for you?

Mr. Hogan: — Certainly. JKA is Jerry Kaehne & Associates. It's an engineering firm out of Vancouver and is a company that's been involved in Guyana for five or six years now, has been quite involved in a development of new generation in the country, and specifically with the Omai Gold Mine that I referred to earlier — the \$250 million investment — they're . . . Kaehne & Associates are the ones who built the generating plant at the site of the gold mine.

They have a good reputation in Guyana; have worked in the country; have worked all over the world but have done quite a

bit of work in the Latin Caribbean region, and have been working with us to help us specifically with gaining a better understanding of what it takes to work in Guyana; and secondly a better understanding of the specific technology of medium-speed diesel generation, which is an area that we want to get ourselves genned up on.

Mr. Heppner: — So this is a company that was sort of responsible for looking for the individuals or countries that might want to get involved in it? It was sort of the realtor in a way?

Mr. Hogan: — No, no. No, no. No, the government used, as their advisers for this whole process, Price Waterhouse out of Toronto as their advisers and a law firm out of Washington, who represent the government on a number of matters. That's how the process, including the international bidding, is managed. We and Kaehne & Associates met, and they brought to our attention the opportunities in Guyana. At the same time we were hearing about those opportunities from other sources. We decided to go with Kaehne & Associates and put a bid together on the project.

Mr. Heppner: — So they definitely have an advantage or a desire for someone to be in there because they want the power for the mines and things. Is there any kind of a finder's fee that goes to them for putting this together?

Mr. Hogan: — I'm sorry. What was the first part that you said?

Mr. Heppner: — Okay. I just mentioned that the feeling I get is they're involved in other ventures in Guyana and so they would like to see the need for electricity be met. But is there any sort of a finder's fee they get from SaskPower for putting this together because they seem to be doing some of the legwork?

Mr. Hogan: — Actually, Kaehne & Associates has been working with us on development of the bid. And in the long term, we expect to have a technical partnership with them, between them and the new Guyana Electricity Corporation, in which they would be providing ongoing technical services to the GEC. And that's really what's been in it for them all along, is a chance to work with another Canadian company and help grow . . . because this is a country that needs, will need, quite a bit of new generation over the next 10 years.

Mr. Messer: — The short answer to your question is there is no finder fee.

Mr. Heppner: — Okay, that was my next question. Thank you. I believe according to the tentative agreement that's being set up, SaskPower Canada, at some particular point in time, has to be bought out of this . . .

Mr. Hogan: — Oh, by the Government of Guyana.

Mr. Heppner: — Yes.

Mr. Hogan: — Well let me say that you're getting me into a situation where there are details of the letter of intent which

have been released by parties in Guyana, but I'm bound by confidentiality not to discuss the details. And I feel I'm beginning now . . . I'm getting to the edge where I'm beginning to feel that I'm starting to contravene my obligations under the letter of intent in terms of confidentiality. So that's a specific clause which I really don't feel I should get into discussing.

Mr. Heppner: — Okay.

Mr. Hogan: — I'm sorry.

Mr. Heppner: — I'll probably just make up a statement on that specific clause then, is that it's a little scary to get SaskPower involved in something where you can ask to be bought out by a country that isn't in the greatest financial straits situation. And the question then is, how are they going to be able to pay you out your investment — which is obviously going to go up over time instead of down over time — when they can't afford to put their initial investment in now?

And so my comment just is, it ends up leaving us in a bit of a scary situation if you do wish to get out of it at some particular point because that option would not allow you to address your insurance on the situation where the deal would have gone sour. So I think Saskatchewan people, on that one, could be left in a little bit of an embarrassing situation.

GEC at present isn't in the best financial straits — or situation, pardon me — and has probably quite a long list of creditors. Now if anything goes wrong, where does SaskPower line up with all those creditors? Because there's usually an order that you line up in.

Mr. Hogan: — Yes, but be clear that in our situation we're taking a 50 per cent ownership of the company, and part of our due diligence process is to gain an understanding of all of those creditors and to go through those scenarios of what could go wrong.

So that's just part of the due diligence process. And as we assess those things, then we will also assess if changes to the purchase price should be made. That's all part of the whole negotiation of what price do you pay and what kinds of returns do you expect.

Hon. Mr. Lingenfelter: — So that's being factored in?

Mr. Hogan: — Absolutely.

Hon. Mr. Lingenfelter: — The list of potential liabilities.

Mr. Hogan: — Yes, absolutely.

Mr. Heppner: — So your feeling is that the price that Saskatchewan is going to have to pay for that is taking that risk factor into account?

Mr. Hogan: — Yes, yes. And the return, the return of the whole commercial transaction.

Mr. Heppner: — Okay, that return component, I asked that

question before and I'm sort of going to come back to that one again. Surely when we go into this we must be looking for some amount of return. And I asked that before and I didn't quite get a very clear answer on that, and I'd like an answer that's substantially clearer than that. I think any time you go into a business venture, you say this should return 5 or 10 or 25 per cent.

Hon. Mr. Lingenfelter: — Except farming, eh?

Mr. Heppner: — Except farming. Well you just farm till you're broke. And I hope that the agricultural background of some of the people in here isn't coming to the fore.

Hon. Mr. Lingenfelter: — Mike, do you want to comment on that?

Mr. Hogan: — Well . . .

Mr. Messer: — Michael, maybe I can comment.

Mr. Hogan: — Sure, please.

Mr. Messer: — I mean obviously we can't disclose the precise return, but it's going to be significantly higher than an investment here in Saskatchewan or in Canada.

In addition to that, I think the point has been made — but I'd like to reiterate it — that we believe there is tremendous, tremendous economic potential once you get the utility at a reliable level of operation for not only resource but industry as well, including agriculture. And this means tremendous growth of the electric utility and opportunity not only for SaskPower but for a lot of what we believe entities that exist in Saskatchewan to help facilitate that.

And it can do nothing but improve our bottom line in respect of this. So without breaching the confidentiality, I can assure you that the return is going to be significantly higher than . . . (inaudible) . . . undertaking to achieve if it was an investment here in Saskatchewan. And we're very comfortable that if the two parties agree to that, that it will be accepted as a very reasonable rate by any business-minded person in this province.

Mr. Heppner: — I believe you have to put — what is it? — 25 per cent of profits have to go back into, into building up the business?

A Member: — No.

Mr. Heppner: — No? Okay.

The contract that's there has an environmental reserve that you have to set up, I believe. Is that correct?

Mr. Messer: — Well again I think it was pointed out that there are confidentiality's that have to be respected at this particular point in time. To the extent that we can be candid, we have been and will continue to be.

I think it would be fair to assume that both we and the

Government of Guyana would want to have some kind of assurances in respect of the environment, but I don't believe that we can comment beyond that at this point in time.

Mr. Heppner: — Okay. Earlier on we talked briefly about the 10-member board — six from Saskatchewan and four from over there. How will those 10 arrive at their positions — strictly appointed by the minister, by Mr. Messer? How are they going to get there?

Hon. Mr. Lingenfelter: — I'm not sure in the case of Guyana how theirs will be selected, but I would expect that they will be appointed through a cabinet process.

My understanding here is that on the recommendation of SaskPower and SaskPower Commercial, that we'll work out some arrangement of having people who have the expertise to carry out the duties of a board member; that there'll be a similar kind of selection and appointment.

Mr. Messer: — If I may add to that. I think the process has to be one that's going to be acceptable not only to the Government of Canada but to the people of Guyana. But the bottom line will still be that we will influence the appointment of six of the members of the board so that we have control of the board of directors.

Hon. Mr. Lingenfelter: — But here again this is all part of the process because . . . and it's not completed, I want to make this absolutely clear. This morning people were saying, well is this the signing of the deal. The deal isn't signed and we're not ready for that. But in board appointments there has to be a comfort zone both on our part of how that process takes place and vice versa, which we're still . . . I mean that's still part of the negotiation process.

Mr. Heppner: — When you sort of talked about this comfort zone, we had a discussion right at the start, I believe, about the fact that people of Saskatchewan aren't totally opposed to our Crown corporations investing internationally at some point. However on this one I believe Saskatchewan citizens aren't very much in favour of it just because they sense this as being a scary deal. Like we've gone into the States and lost substantial amounts of money sometimes, and made some money. So we know that some of those cancel off. But I think this is one where the population out in our province isn't very supportive. And I'm wondering what kind of allowances you make when you make your decisions to the fact that the public isn't very supportive of this particular one?

Hon. Mr. Lingenfelter: — Well I don't know that to be the case. I know that . . . all right, I understand that your caucus office and leader were commenting on a poll that you had done. I don't know what your question was or how it was framed in order to get the response you got. And I'm not much concerned about that, about the exact poll. But what I do know is that if we're going to build a comfort zone in the public, then I think today's press conference where the Minister of Finance and the Prime Minister come to Saskatchewan, people can see a face and get to know them and find out what their education level is, what the democratic process, who the opposition members are,

how their whole economy is growing or not growing, I think that's how you convince shareholders, which the taxpayers of the province are, that this is a good or not a good deal.

And so what we're trying to do is to include the public, at least in part, in this whole system of due diligence, to let them feel and flavour some of the things that we're going through as we look at this arrangement. Because until you do, it's very difficult for the public to make up their mind based on a cartoon in the *Leader-Post* that has a picture of three old windmills under and a caption that this is the power system in Guyana.

And so I think this is the challenge for the corporation. And I say for the corporation more than for the politicians, because this corporation is very much going to have to put forward the deal as being positive if in fact they are going to sell it to the public.

So I think it's a communication challenge, but more than that it's education. And the fact is if we are going to go into the international world and compete, this will be an ongoing challenge for the corporations.

Mr. Heppner: — That takes care of Guyana for me.

The Chair: — Thank you. I now have an indication that a member on the government side would like to ask questions.

Mr. Trew: — Thank you, Madam Chair. Minister, earlier today we heard that energy use, power use in Saskatchewan has been growing — the words were over 4 per cent, but I see from page 16 of the annual report it averages just over four and a half per cent per year over the last five years. Of course it's not linear because of the vagaries of weather and that sort of thing in Saskatchewan. I'm pretty sure I heard you saying that the forecasts from about '92 were that we were going to grow at 1 per cent per year, not the four and a half. And I know at that time, you know, four, five years ago we thought that new generation . . . new generating capacity was something we could put off at least 10 years into the future. And I think I was getting some early soft-side signals that certainly we're nearing the point of having to make some choices, nearing the need for new generating capacity. I'm wondering what's your preferred option for new generating capacity at this point in time?

Hon. Mr. Lingenfelter: — Well the way the process will work is management, you can bet your bottom dollar, are studying and analysing this situation right now. Because obviously the growth projections when it comes to, for example, the drilling of oil wells or new hog barn construction or even housing starts in Saskatoon and Regina and the rest of the province, are very much higher than what we might have thought even two years ago and it continues to bump up.

So the Power management will be considering the alternatives and I guess if you look in a broad way, the three alternatives are more power sharing with our neighbours, mainly Basin Electric to the south in North Dakota, where Basin Electric I think at the present time has about 6 or 700 megawatts of excess power that they're interested in selling. Manitoba Hydro has excess power.

Now when you think about that, that gives us some cushion or comfort in rushing out to build power. If our neighbours were short of power as well, we would be in a very different position. But when you have that situation existing to the south and to the east, you have a little bit of a cushion on the side of expanding.

Then you might consider that we have a system at Shand that was actually in the initial stages set up for another generator to be built there. Some of the technology I believe, Mr. Messer, in Shand 1 actually included some monies that were spent for a second generator that would obviously be an option that they would look at.

And then of course when you look at . . . and I thought our colleague in the Liberal caucus was accurate when he says, how do you position power so that you don't have as many blackouts? One might assume that power production in the central part of the province, or to be more specific on the north-west side of Lake Diefenbaker where it's more difficult to get power and farther from the source of the south-east in the Lloydminster/North Battleford/Meadow Lake area, that a co-generation project might make sense there or in P.A.

Though no one's told me this, but I'm just sort of saying if I were looking at the options that we have in front of us those would sort of be the three. My colleagues from the Conservative caucus may say, well are you going to crank back up the CANDU option which is there as well. You might put in brackets a fourth option. It's not one we're looking at now but those who have creative minds might look at that as an option as well.

And then of course any systems of energy efficiency that might save you the kind of numbers that you would need. Although I think that is probably one that has less attraction because so many things have been done to the system already to conserve energy that your margins are getting much smaller in that area. Jack, do you want to comment on that?

Mr. Messer: — Well I believe that members will know that it is currently a request for proposal for enhanced generation and it is the intention of the corporation to make a decision sometime this year in respect to whether its life extension of our existing facilities and/or an arrangement between a non-utility generator or a co-generator of power. It's too early at this point in time to indicate what option might clearly be in the best interest of Saskatchewan consumers.

Hon. Mr. Lingenfelter: — Now just off the top, if it were to be a life extension, QE is probably the most logical place for that to take place.

Mr. Trew: — Thanks for that answer. The Saskatchewan Energy Conservation Authority has been wound down so I'm wondering what is . . . I mean you've outlined the start of the process, but is that sort of the start and the be-all and end-all? Is it going to be SaskPower management looking at a list of options and choosing, and that's the way it is? Or can you lead me through the process from . . . Certainly SaskPower management has to look at options and put forward their list at

some point, and then what?

Hon. Mr. Lingenfelter: — For this kind of arrangement the process — and I started and then didn't complete — but the process would be the management or staff within the Power Corporation would recommend to management. Management would then recommend to the board, and I suppose, depending on the ultimate cost, if it was over a certain amount or depending on what the criteria was, it may or may not have to go to CIC. And so those would be the steps that would take place.

But I think Mr. Messer clearly indicates that this is not something that we're thinking about years down the road. This is something that is months away, I would expect, as opposed to years away, which we were thinking about. If you would have asked us even two years ago, we would have said well, some years down the road. We're now talking about months down the road.

Mr. Trew: — When you say months, you mean in a relatively short number of months we will be funnelled down a specific tunnel, or that we will be more exploring the options?

Hon. Mr. Lingenfelter: — No, I think we'll be making some decisions over the next months.

Mr. Trew: — It leads me then to I guess at one point there was going to be a wind energy project that got cancelled — got reduced and then later got cancelled. There's other places in the world that are going in a big way to wind. I'm not saying . . . I don't want anyone to misunderstand and think that we're going to replace, you know, the QE2 with wind. I mean the QE is just far, far too big. But wind has a tremendous benefit in that it is something that just blows. I mean a very renewable resource, unlike coal which has CO₂ and other more noxious by-products. And I'm not going to go through the list. I mean there's problems with virtually everything. And certainly one of the problems with wind is birds flying into the windmills and that sort of thing. But are you looking seriously at renewing that wind option?

Hon. Mr. Lingenfelter: — Well our problem with wind, quite honestly, has a lot to do with not whether the technology is sound or not sound. And in fact we're, in some areas of the world, although I think almost all of them are subsidized in one way or another . . . but the problem for Saskatchewan is that our peak demand for power, as indicated earlier, is November, December, and January. And usually the shortest day of the year, if you pick December 21, in that period to January 21, oftentimes are the coldest days of the years, and oftentimes there is no wind.

Now if you think about that for a moment, on those days when there are no wind, you have to have a system that's built on the peak day that will have to be built to exclude the wind. So now you've built a system, whatever it is, whether it's hydro or coal generation or gas generation, it's big enough to handle a calm day on the shortest day of the year.

So then you say to yourself, now I'm building windmills, over

and above, at a very expensive rate, for the fact that on the days when it's windy out, they can supplement and I can shut down my other generators.

And so the economics are . . . And believe me, when I started out in this business, I was a big proponent of wind. But the economics of it just . . . you can't bring yourself around that one restricting factor: that you have to build your system big enough to take care of a week of absolutely calm weather on the coldest and shortest days of the year. And once you've built that system, then you have to believe the windmills are being built and that extra capital is over and above that you don't really need. And that you have to shut down other power in order to use them.

Mr. Trew: — Yes, I hear you. All of the reading I've ever done shows that to build a megawatt of . . . (inaudible) . . . costs less than to build a megawatt of coal or to build a megawatt of hydro.

My counter argument is simply that my experience — having grown up on a farm not that distant from Swift Current where practically, when I moved away from home, I had to learn how to walk again because I kept falling over when the wind wasn't sort of holding me up — my experience, as I recollect hearing the radio announcements of SaskPower again achieving a record rate of use, was always it was in a blizzard and I've never experienced a blizzard in Saskatchewan where the wind wasn't blowing.

And I mean I'm dead serious when I say that. I hear your argument and I trust you looked very hard at it. It's just there's a different perspective of it, I guess.

Hon. Mr. Lingenfelter: — I just have been convinced, Kim, that on those days and that period in January, there are many, many days when we need close to peak capacity, that the wind isn't turning your big wind generators.

Now on the other hand if you think we've got problems here, I have a note that says an unhappy SGI (Saskatchewan Government Insurance) claimant has just chained herself to the Saskatoon SGI office and demands to talk to the minister. So you think you've got problems.

But I've been . . . Believe me, in that south-west corner where the wind blows incessantly, I come to this position with the idea that somehow we can get wind to this point. I haven't been able to convince myself that it's economic.

Mr. Trew: — No, and fair enough. I guess what I'm really urging is look, have somebody do a real look at wind again because the prices keep coming down . . .

Hon. Mr. Lingenfelter: — And that's true. At some point there could be technology that would just bust out on wind that would make it possible.

Mr. Trew: — And the other thing I would very much urge, and here's a bit of a circle that we have difficulty squaring, and that's with energy conservation. Because by definition,

SaskPower generates its revenue source on what? — selling electricity, not on convincing Mr. Heppner how he can reduce his home energy use and still have his lights on and still have, you know, the electric clocks and all that sort of thing.

But I hope that somebody is able to square that energy conservation circle because we haven't even seriously begun to tap the potential of energy conservation in Saskatchewan.

The Chair: — Thanks, Mr. Trew, for that. I will now move to Mr. Bjornerud.

Mr. Bjornerud: — Thank you, Madam Chairman. Mr. Minister, I've only been elected for a couple of years but you didn't have to reassure me that you're a proponent of wind. I already . . . (inaudible) . . . I was starting to become sold on that.

I only have three or four . . .

Mr. Messer: — Some people say if you wouldn't recess the Legislative Assembly you wouldn't have a problem with it.

Mr. Bjornerud: — I only have three or four questions and the one follows up on what Mr. Trew had talked about here before. And I'd like to back to the co-generation proposal from the Melville area, and I'm sure Mr. Messer is familiar with this. And this project, I think, was going to create 120 jobs in our area . . .

Hon. Mr. Lingenfelter: — What is that?

Mr. Bjornerud: — In Melville . . .

Hon. Mr. Lingenfelter: — But what is it?

Mr. Bjornerud: — The co-generation project where they were going to recycle garbage and stuff like that out there and create power. I think the hang-up was that they needed a contract to sell the power — correct me if I'm wrong, Mr. Messer — at a certain price and so on.

Anyway for our area it was a great venture if it had've come to be. It was money from outside, if we understood it right, and a lot of work had gone into this. Would that project be more apt to fly now if it was at this time than at, you know, I think it would go back — what? — two years probably since that or three years maybe since that proposal was on the table?

Mr. Messer: — I think that in all, the answer is no. Given the information that we have in regard to the respondents to the request for proposal for alternate source of power, they clearly come in significantly, very significantly, lower than anything Melville was able to propose at that time. And we see no real probability that they've been able to lessen their costs of operation.

And I think it's correct to say, Tony, that we haven't heard anything from them in recent times; that I think even the proponents have come to the conclusion that the project is probably not going to be competitive given the kind of

technologies that exist today.

Mr. Bjornerud: — Okay. Then it really boiled down to all the costs they needed for the power they were supplying?

Mr. Messer: — There were a lot of other problems as well. I think primarily their source of fuel was going to be tires. They were going to be importing them from places like Chicago and the like of that. I think one first had to ask themselves, if it is economically feasible why isn't it happening at the site where all of these tires are being available? And how could it be that it would be more competitive to be located in a place like Saskatchewan after significant shipping costs and other circumstances?

There are also some environmental considerations I don't think that were adequately addressed in respect of the kind of equipment that you might have to put on to ensure that you're not significantly contributing to polluting the environment.

Mr. Bjornerud: — Okay, thank you.

A completely different subject, but a concern has been brought to us from a young farm family that are moving from point A to point B and starting a new yard site. And the estimate they had received from SaskPower to start with was \$5,000. Then they got a little farther into it and this estimate jumped to 7,000. And we're talking about 900 metres here, from the yard they used to be in to where they are setting up now. Now as they get down to where they were going to do it and thought it was 7, it's jumped to 9,000.

How does SaskPower decide what it's going to cost for a new yard site or, you know, a spot like this? Is it so much per distance? Or how do you work that out now?

Mr. Messer: — We have had some change in respect of the policy. And the acting VP of customer services, I think Jack can perhaps respond to that more specifically for you. In case that you have like this a specific circumstance, we'd be more than happy to go into more detail after the meeting. But I think we can give you the general policy in regard to the question that you raise.

Mr. Huntington: — The general policy as of effective April 1 is that we invest \$1,300 per farm site, and that is a standard amount that we provide across the province. So any particular farming establishment that would like to get started we would provide their first \$1,300.

We do do a detailed cost estimate on each application that does come forward. And as Mr. Messer has indicated, if there are some particular details to this particular site, we'd be more than prepared to provide the details on the cost estimate — work through those with you. We do the cost estimate up and then we minus the \$1,300 off, and then the \$1,300 then is provided to the farmer at that time and then we invoice the appropriate amount at the end of construction.

Mr. Bjornerud: — Okay. Would a private contractor be allowed to get in on this then and supply the same service that

SaskPower is being asked to supply for the 9,000, if they could get it cheaper?

Mr. Huntington: — At the present time that is not provided. We provide the estimate and we do the calculations and there are a number of standards that we must meet in terms of both the Canadian electrical code and some of the standards we provide. So at the present time those, SaskPower's forces provide all of that and the engineering that go with it.

Mr. Bjornerud: — Okay, you say at the present time, but are you considering maybe some . . .

Mr. Huntington: — Not at the present time, we have not been.

Mr. Bjornerud: — I kind of wonder about that because maybe competition wouldn't be such a bad thing at this point out there. We're talking a young farm family out there who is struggling to get off the ground and get going. And they thought it was 5, then it went to 7, now it's 9, and the price just keeps going up. And I think we're penalizing the people that we can least afford to penalize out in rural Saskatchewan.

Hon. Mr. Lingenfelter: — Bob, would you mind, and I don't want to . . .

Mr. Bjornerud: — I can give you the name after. Sure. There's nothing secretive . . .

Hon. Mr. Lingenfelter: — But if you would work with us on that, we'll see if there's any margin for . . .

Mr. Bjornerud: — I believe they lived in there with their . . . in their father's yard, or their father-in-law's yard, and then now they're starting their own yard site. I'm not sure if they've brought this to the attention of Mr. Messer or anybody.

Mr. Huntington: — It would appear to me there'd be some special circumstances there. But at the same time, you provide the details, be more than pleased to provide the information.

Mr. Bjornerud: — Okay. Be glad to.

I guess I've asked this before, but the RUD (rural underground distribution) program — and I always felt this was a great program — created jobs, but it did a real service for us as farmers out there. Now that SaskPower has made a very good amount of money this year, is there any chance that program would be reinstated?

Hon. Mr. Lingenfelter: — The program is inactive at the present time. There's, I guess where there are some key spots where we're still doing a little bit of it, but at this point in time it's not something that's right up there on the radar screen.

Mr. Bjornerud: — Okay. I just want to get the point across that every person that lives in rural Saskatchewan and farms thought that was a great program. It created jobs. And if there's any way we could ever get back into that, it would be . . .

Mr. Messer: — If I may just add to that, we were expecting

something in the neighbourhood of \$30 million a year. If we were to continue that, we couldn't generate enough revenue to pay off the debt. So I mean it was a very costly program. We analysed the distribution system to farms and found that a lot of them were being replaced well in advance of their lifetime.

And so we have made the commitment to continue the high level of reliability, but with overhead lines. But at the point in time that they reach the need to be reconstructed, it is in all probability going to be done with an underground system. But it'll be over a much lengthier period of time than was the case in the recent past.

Mr. Bjornerud: — Okay. Thank you. Last question, and it kind of falls back to what that other question was about the family, but this comes from Marion Lake, I believe, where there's cottages. And the cottage owner — I think there's 15 empty lots and happened to buy the last cottage on the line — and what he has been told from our understanding is that he will pick up the whole tab of installing the power to that point, and down the road as the cottages are sold, he will be reimbursed.

And I guess the question he doesn't seem to be able to find out, reimbursed from who? SaskPower, the new cottage owners, or who? Because I think the feeling of this person was it was very expensive to get installed, and now how does he get his money out of the other cottage owners? And I think he doesn't seem to be able to get this answered at this time.

Mr. Messer: — I don't know either, but I think Jack knows. I hope he does.

Mr. Huntington: — The cottage owner will be reimbursed by SaskPower. There is a special shared cost of shared line and there's a rebate program that's in place. We provide the cheques back to the customer.

Mr. Bjornerud: — Okay, so I think that would maybe satisfy him, because I think what he wasn't . . . he wants the power hooked up so he'll get it, but he wasn't sure how that process was going to work.

Mr. Huntington: — Again, if you want to provide me with the particular details, I would provide the information back to you.

Mr. Bjornerud: — Okay, thank you. That was all I had, Madam Chair.

The Chair: — Mr. Renaud, did you have a motion you wish to put?

Mr. Renaud: — I sure do:

That the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements of the Saskatchewan Power Corporation for the year ended December 31, 1996; and subsidiary statements including the financial statements of SaskPower Commercial Inc. for the year ending December 31, 1996; and the financial statements of Power Greenhouses Inc. for

the year ending December 31, 1996.

So moved.

The Chair: — Okay. You've heard the motion. All those in agreement, please indicate. Okay. Those opposed? Okay. Then that, Mr. Minister, and Mr. Messer, concludes our review for 1996 SaskPower annual statements. I thank you very much for your answers.

Committee members, we will meet again tomorrow at 9, at which point we will be considering a definition for significant transactions. I had circulated to you CIC's proposed definition as well as the letter from the Provincial Auditor indicating the kinds of things that he feels that we should be looking at in a definition.

Once we've discussed that and actually have a definition, I'm suggesting that probably Wascana Energy will likely fit any definition we may choose to adopt with respect to significant transactions; so we will discuss Wascana Energy after that. And then in the afternoon, we'll deal with the 1996 CIC report.

Could I have a motion to adjourn, please.

Mr. Gantefer: — Madam Chairman, before you do, I have a question on . . . I recognize I have the copy of the CIC proposal for the significant transactions. In light of the discussions that we had in terms of the process that we went through with Guyana, is it appropriate for us to suggest amendments or further suggestions for consideration to at least consider a methodology whereby this kind of a discussion could happen before the final deal is inked? Or do we have to just discuss the CIC proposal?

The Chair: — We can have discussions about that, Mr. Gantefer, but any change in the committee's mandate would have to be taken to the legislature. So tomorrow we will not be finalizing any decision with respect to anything other than the reporting of significant transactions, but we can certainly commence discussions along the lines that you had indicated.

Mr. Gantefer: — Well I think that it would follow that potentially it depends on how you define the significant transactions, because there was a component of a strict percentage of net worth of the entity. But then there were also other considerations that would bring it to the fore and I'm wondering if there could not be an amendment to that made that this committee could potentially discuss and hopefully support that would not change our mandate but would bring some of these things forward earlier than the 90 days after the fact, point of view.

The Chair: — It's just that right now the committee's mandate as passed by the legislature says that we are to have significant transactions reported on within 90 days. And it's an after the fact thing rather than before the fact. So I understand what you're getting at and I don't disagree that we can have the discussion, but I think that right now we would simply be dealing with significant transactions after the fact rather than before the fact because that's our mandate.

Hon. Mr. Lingenfelter: — We can discuss it tomorrow.

The Chair: — Okay. Any other questions or concerns before I have the motion for adjournment? Okay. Mr. Trew moves that we adjourn. Thank you very much. See you here tomorrow at 9 a.m.

The committee adjourned at 3:05 p.m.