



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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Channel Lake Petroleum Ltd.

The Chair: — If committee members will take their places please, we will reconvene the Channel Lake hearings. We have two witnesses on the schedule today. First of all, the former minister, Doug Anguish; and then following him, current Minister of Energy and Mines, Eldon Lautermilch.

Mr. Anguish, welcome back to Regina.

Mr. Anguish: — Thank you.

The Chair: — I trust that your move from Yellowknife to Calgary went smoothly.

Mr. Anguish: — Very smooth.

The Chair: — Good. And thank you very much for accommodating us and changing your schedule to come here today.

I don't know if you've been following the proceedings at all . . .

Mr. Anguish: — I've tried not to.

The Chair: — Well I think that sets a certain tone, doesn't it?

Mr. Anguish, the Crown Corporations Committee is charged with a dual responsibility. The first one being to enquire into the circumstances of the purchase, acquisition, and sale of Channel Lake Petroleum Ltd., and the second term of reference is to inquire into the payment of severance to Mr. John R. Messer at the time that he ceased being CEO (chief executive officer) and president of SaskPower.

We have structured the proceedings whereby we accord each witness the opportunity to make an opening statement and then a closing statement. Either a closing statement at the time you finish your testimony today or else a written closing statement which I would like to have in the hands of the Clerk by no later than noon of July 6.

We then begin, after the opening statement, we begin with questioning from the various political parties, starting with the Saskatchewan Party, moving to the Liberal Party, and then finally the New Democratic Party. If an independent member is present, he or she may question each witness for up to 15 minutes. The other parties question for 30 minute blocks and we continue the rotation.

Before I swear you in as a witness, Mr. Anguish, there is a customary statement that I read to all witnesses, which is as follows:

Witnesses should be aware that when appearing before a legislative committee your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as a subject of a civil action.

In addition, I wish to advise you that you are protected by section 13 of the Canadian Charter of Rights and Freedoms

which provides that:

A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put by the committee. You are advised that you may be recalled to appear again before this committee at a later date if the committee so decides. You are reminded to please address all comments through the Chair. Thank you.

Mr. Anguish, did you wish to swear or to affirm?

Mr. Anguish: — Swear.

The Chair: — All right. Would you stand up please. Put your hand on the Bible.

Do you swear that the evidence you shall give on this examination shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Anguish: — I do.

The Chair: — Thank you.

Mr. Anguish, you have an opening statement to read?

Mr. Anguish: — Yes, Madam Chair.

The Chair: — And before you begin, do you have copies to distribute? Thank you. Proceed.

Mr. Anguish: — Yes. Thank you, Madam Chair.

I was Chair of the SaskPower board of directors from March 17, 1993 until February 3, 1995.

I've not followed the proceedings before this committee in any detail, but I do want to address myself to three subjects which I believe have interested the committee.

First, the Channel Lake's mandate was established by the board of directors when I was the Chair. The SaskPower board minute of April 22, 1993 reads in part as follows:

The Board received a report from Management concerning the purchase of the assets of Dynex Petroleum Ltd. (Dynex). On March 8, 1993 SaskPower submitted a non-binding offer for the assets of Dynex which was approved on April 8, 1993. It was stressed by Management that the Corporation does not intend to manage the assets. The Board does not want SaskPower to enter the gas business beyond activities necessary to provide security of supply and predictability of price. Therefore, the Board agreed that the Corporation should dispose of any excess Dynex assets with deliberate haste.

We did not want SaskPower — directly or through a subsidiary

— to become a competitor or an active player in the natural gas business.

There was a very clear public policy reason for this. The government was committed to promoting private sector investment in Saskatchewan's oil and gas industry. A pro-development policy had been communicated with dedication and commitment. The policy was receiving a good degree of success, showing record activity and revenues for the province. We did not want to send a confusing message to the industry having a Crown corporation appear to be in direct competition.

Therefore, I told SaskPower not to engage in any activity that could be construed as entering the oil and gas business.

At my request the board of directors of SaskPower established this as corporate policy in the minute.

The board of directors revisited this matter once under my chairmanship at its February 23, 1994 meeting. At that meeting we reviewed a topic summary prepared by Mr. Portugal, and in this report management told us the following:

In order to minimize the average cost of natural gas SaskPower sells, exchanges and trades surplus natural gas. If natural gas usage is less than forecast during the winter months, SaskPower may have natural gas surplus to its short-term generating needs at a time when natural gas prices may be high and supply tight. These sales, exchanges and trades then create space in the storage for SaskPower to purchase additional natural gas supply during the lower cost higher supply summer months, thus enabling SaskPower to minimize both its average cost of natural gas and its storage costs.

Based on this recommendation from SaskPower management the board passed a minute which reads as follows:

It was duly moved, seconded and resolved that approval be granted for:

(1) SaskPower's prior and future disposal of natural gas by sale, exchange or trade in circumstances where such natural gas is surplus to SaskPower's short-term generation requirements and where such disposals provide a return to SaskPower of above the average cost of acquisition of the natural gas then in storage combined with related carrying costs, including administration, provided the price of any single sale, exchange or trade transaction does not exceed \$1,000,000.

This decision provided SaskPower with the ability to manage their inventory. Neither the original mandate nor this minute envisaged an entry into the gas arbitrage business, unrelated to SaskPower's own gas supply requirements and the prudent management of that gas supply.

I would not have approved of such a venture for public policy reasons I've outlined. I certainly did not know that arbitrage trading was being contemplated or conducted until I learned of it through the media.

The next subject I'd like to speak to you about is the 1994 evaluation of Mr. Messer by the board of directors. In 1994, Crown Investments Corporation asked the SaskPower board to conduct an evaluation of our president and CEO. I believe all Crown boards were asked to evaluate their CEOs at this time.

The board concluded it was uncomfortable with Mr. Messer's management style, and wished to explore termination of the president and CEO. This was of significant concern to me, and I raised it directly with the Premier. Upon hearing me express the board's concerns, the Premier and I discussed the strong performance of SaskPower and concluded that there seemed to be a conflict of personalities. It was decided that I would return to the board and try to work out a better relationship between Mr. Messer and the board.

I did return to the board and told them that in my view we should try to work out our differences with Mr. Messer.

That led to discussions about the board's concerns with Mr. Messer. Mr. Messer committed himself to a better relationship with the board. I therefore considered the matter resolved and it did not resurface during the remainder of my tenure.

I'd like to conclude by speaking to you briefly about the process of ministerial briefings. In my experience as a cabinet minister, the primary role in briefing ministers is played by the chief executive officers of Crown corporations and the deputy ministers of departments.

When I took over a new department, I was first provided with fairly voluminous written briefing books which I read through and took to be complete surveys of the current issues facing my new portfolio.

I would then hold discussions with my new deputy or chief executive officer to learn more about the specific issues.

Eldon Lautermilch became SaskPower minister when I left the portfolio in February of 1995.

My recollection is that I had some discussions with him in that general time frame about some SaskPower files that I'd been working on at the time.

I did not discuss Channel Lake or any issue of Mr. Messer's employment with Mr. Lautermilch because they were not current issues for me at the time.

With that, Madam Chair, I conclude my opening statement and would be happy to answer any questions that the members of the committee may have.

The Chair: — I'm sure that committee members will have questions. We will move directly to Mr. Gantfoer from the Saskatchewan Party for approximately half an hour, till about 10 to 3.

Mr. Gantfoer: — Thank you, Madam Chair. And welcome back to the legislature Mr. Anguish.

I would like to follow your opening statement. I think it pretty well summarizes the general areas of interest that I certainly

had. And rather than sticking to a rigid set of questions, I would like to follow up by asking for clarification on some of the issues that you raise in your opening statement.

First of all, the issue of Channel Lake's mandate. I think that you've outlined a very clear direction and intent when the Dynex properties were purchased by SaskPower in terms of where you wanted this initiative to go.

Were you very clear in terms of the decision of yourself and of the board that you not engage in anything beyond supplying a regular supply of natural gas at a stable price? Were those your two mandates and those were the only two mandates?

Mr. Anguish: — Well more than a mandate. I consider those as caveats which not only I discussed but the board members discussed as well. And we found it to be an area that we wanted to confine — the natural gas to supply requirements and to stability of price for generation of electricity at SaskPower.

Mr. Gantefer: — And you seemed in your statement to be very, very determined about your decision and the board's decision not to engage in any gas business that could be construed as competing in the market-place?

Mr. Anguish: — That's correct.

Mr. Gantefer: — In the February 23 meeting, do I take it that SaskPower management came to you and expressed concerns where they perhaps were having difficulty staying within the terms of that mandate in terms of having surplus gas and things of that nature? Were they making a case for some latitude in terms of your original decision?

Mr. Anguish: — They made a case for some latitude. They felt that the original decision constrained them to the extent they couldn't manage the resource, manage the assets to the best of the ability that they had to manage those assets.

And there were situations where it may be advantageous to move some gas out of storage, not to go into competition but to sell gas at a higher price and be able to gather it again at a lower price. That's one example I mentioned in my opening statement.

So yes, they were asking for a degree of flexibility within their mandate.

Mr. Gantefer: — In terms of your determination to not allow SaskPower to get into this competitive position over and above what you put on, or the minute puts on, as a limit of a million dollars of trading, which seemed to be fairly restrictive, were all the board members on side with this position?

Mr. Anguish: — To my knowledge all of the board members were on side with that decision.

Mr. Gantefer: — Was Mr. Mintz on the board at this time?

Mr. Anguish: — No.

Mr. Gantefer: — He came later than when this decision was made?

Mr. Anguish: — Yes. Well no. I'm sorry, I don't know that. I don't know the timing of Mintz arriving. I assume that he was not but I do not know that definitively.

Mr. Gantefer: — Okay, I guess we could check the date exactly.

The Chair: — Mr. Anguish, did you want to take a moment and check the records and read it into the record.

Mr. Anguish: — What date are you asking if he was on the board?

Mr. Gantefer: — On the February 23, '94 minutes.

Mr. Anguish: — On February 23, '94, Mr. Mintz was not there. My first answer was correct.

Mr. Gantefer: — Thank you. In establishing the million dollar guideline, was SaskPower management comfortable with the fact that that would be sufficient for them to deal with the issue of supply and surpluses that they had outlined and asked for some latitude?

Mr. Anguish: — There was no indication of that at that time.

Mr. Gantefer: — That that wouldn't be sufficient?

Mr. Anguish: — Well the million dollar . . . no, that statement that you make is not correct. I don't know if there was concern about the million dollar limit as it applied to that particular minute. I know that SaskPower, in terms of other issues that they had before them, were uncomfortable with a million dollar limit that was there as well. SaskPower at various times wanted the \$1 million increased but it had nothing to do with this particular minute.

Mr. Gantefer: — So in terms of dealing with the trading of natural gas, management did not express a concern that they couldn't live within the directives of this minute?

Mr. Anguish: — Not that I recall.

Mr. Gantefer: — Now when did you find out that Channel Lake had engaged in trading activities that far exceeded this directive?

Mr. Anguish: — When a former staff member of mine faxed to me newspaper clippings in Yellowknife.

Mr. Gantefer: — So it was only after you had actually left the province that you were aware that they had gone beyond this mandate.

Mr. Anguish: — Yes.

Mr. Gantefer: — In terms of the responsibility for making sure that this direction of the board was followed, you obviously were not aware that it was not being followed.

Mr. Anguish: — That's correct.

Mr. Gantefer: — Who had you assigned that responsibility

to?

Mr. Anguish: — Well I don't know how that transpired. I wasn't there at the time so I don't know who would be assigned that responsibility. Certainly the checks and balances are many within a Crown corporation to protect the public interest but in terms of your specific question, I can't answer that.

Mr. Gantefoer: — Would it be fair to say when you structured the Channel Lake company as a subsidiary that you placed on the board of directors essentially senior SaskPower management individuals? Would you have assumed that they would then be knowledgeable of the direction given to them by SaskPower through its board minute and would faithfully see to it that it would be adhered to?

Mr. Anguish: — Well I viewed the employees as professionals so I would have to assume that they were aware of the desires of the board.

Mr. Gantefoer: — And it would be their responsibility, in your opinion, to see to it that they stayed within the directives of the board?

Mr. Anguish: — Well they should stay within the general policy area. It's ill-advised, I think, for any politician or a board to feel they're running the day-to-day business of a Crown corporation or any particular private sector business. So I would say that the employee should carry out the policy directive of the shareholder and of the board. But the day-to-day activities — they should be respected as professionals to allow the people who run the day-to-day business to make those decisions.

Mr. Gantefoer: — In your opinion, there would be no ability for the CEO, Mr. Messer, to misinterpret the policy direction that you very clearly outlined for us here this morning that there was no room for him to misinterpret your general intent as well as the spirit of the board minutes?

Mr. Anguish: — It was discussed at board meetings and it was discussed outside of board meetings on at least a couple of occasions, and I think I was very clear that we did not in any way want the acquisition of the Dynex properties to be misconstrued within the oil and gas industry as the government or Crown corporation or a subsidiary of a Crown entering the natural gas business. So I think that one would have trouble misconstruing what my intentions were at the time.

Mr. Gantefoer: — In terms of Mr. Portigal who you said that a topic summary was prepared, did Mr. Portigal participate in the discussion for the board on that February 23 meeting where they asked for a little greater flexibility in terms of the trading?

Mr. Anguish: — There were two people that came in to do the presentation to the SaskPower board. They were not in the board meeting prior to the presentation and when the discussion was over they left the board meeting. Mr. Portigal and I believe a Mr. Mickleborough were the two people who made the presentation. They were asked some questions but they did not, in my view, participate in the discussions.

Mr. Gantefoer: — Did they remove themselves from the meeting when the discussions happened or would they have

been party to hearing when this minute was adopted?

Mr. Anguish: — I do not believe, in my recollection, that they would have been in the room when the minute was actually adopted. It was customary that once all members had asked their question to ask the presenters to leave the room. There would then likely be some following discussion and eventually the passage or rejection of the minute that was before the board.

Mr. Gantefoer: — Would Mr. Messer have remained with the board during the discussion and the passing of the resolution?

Mr. Anguish: — Yes.

Mr. Gantefoer: — So there certainly would have been no misunderstanding of the intent of the board by Mr. Messer because he wasn't part of the discussion. He would certainly have been at least witness to all of it.

Mr. Anguish: — Yes, on both the original mandate and the second minute of February 23, 1994.

Mr. Gantefoer: — In terms of your appreciation of some of the events — and I can appreciate your willingness to not follow this on a daily basis from Yellowknife — but I'm sure that you have now been aware of the fact that arbitrage trading did indeed occur and escalate up to the point where the Channel Lake board at least retroactively approved a ceiling of \$100 million, and that trading account had grown to some \$80 million in violation really of a clear direction from your board for a million dollar ceiling.

In your mind, would you say that the engagement in this arbitrage trading clearly violated both the intent and the spirit of the directives that you laid out when you were in charge?

Mr. Anguish: — Certainly anything I laid out when I was chairman of the board at SaskPower, that would have been a violation. I would have been displeased, to put it mildly, if I had found out that the corporation was involved in arbitrage while I was there as Chair. I was made very clear during the original mandate and I believe alluded to in the February 23 minute that is there.

If there had been any misconstruing it could have been in the February 23 wordings. But certainly it could not have been misconstrued during the original mandate, and that's the position that I held to during the tenure of my chairmanship at the board.

Mr. Gantefoer: — Would the fact that Mr. Messer, as the CEO and also as a board member of the Channel Lake subsidiary, condoned and allowed this trading to occur, would that be a direct repudiation of the board and your authority?

Mr. Anguish: — While I was there it would have been, yes.

Mr. Gantefoer: — In 1994 you indicated, and the Premier confirmed in the House that there was some concerns raised by the board in regard to Mr. Messer's tenure and that the board was uncomfortable with Mr. Messer's management style.

Was the discomfort level similar to what would indicate where

the CEO was really operating without due respect for the authority of the board and yourself as the Chair?

Mr. Anguish: — Well I can't answer that with any level of comfort that what I would say is correct because you would be wanting me to project myself into the, into the mindset of Mr. Messer.

Mr. Messer is a very strong and capable manager. And I never saw a situation that I would consider to be disrespectful of myself or the board. Certainly some of the things that he would do in terms of his management style frustrated myself and frustrated the board, and it came to a head during the CEO evaluation.

Mr. Gantefoer: — I guess what I was leading to is the type of style that led to the board expressing concern about Mr. Messer's style in 1994. Is that the same type of style that may explain why Mr. Messer felt he could allow and authorize Channel Lake moving into gas arbitrage trading in a massive way, in direct violation of the directives that you had established and the board had established?

Mr. Anguish: — Well I don't know that. I don't know what decision was made or where it was made to finally have the Channel Lake subsidiary be involved in gas arbitrage. I know that it was clear from myself and the board, during my tenure, that that was a business that we should not be participating in for reasons that I've already outlined.

Mr. Gantefoer: — In terms of . . . You know, it seems that the decision was made at the Channel Lake level. And you have just indicated this morning that you were not made aware of that decision, which would have been a clear departure from the policy that you and the board had established. Is there a responsibility for someone to make you aware of that?

Mr. Anguish: — Well it would be a responsibility, if it in fact occurred during my tenure, for someone to make me aware of that and the reporting system that was in place was for the president and CEO to report to me. And we met on many occasions. I have no evidence that Mr. Messer or other managers at the SaskPower ever withheld information from me.

Mr. Gantefoer: — Can you tell me to what level, in retrospect, that the trading was occurring during your mandate?

Mr. Anguish: — I do not know that. I was not aware that arbitrage trading was going on during my mandate. Depending on how you define arbitrage from the little I know — and please appreciate, I haven't followed this closely — the arbitrage, what is actually considered to be arbitrage trades in natural gas may have occurred as late as some five or six months after my departure as chairman of the board.

Mr. Gantefoer: — Thank you. Was there ever . . . when you raised the concerns about Mr. Messer's tenure, it strikes me from your wording that it was more than concern that the board had, because in your statement you say "wished to explore termination." Now that seems to indicate to me at least a fairly significant level of concern on behalf of the board. Would that be a fair statement?

Mr. Anguish: — Yes.

Mr. Gantefoer: — Was it related to any single incident, or was it something that was building up pretty dramatically over some period of time? Would you please give us a little more detail of how a board would get to that kind of a point.

Mr. Anguish: — There was no single issue. It would be more described, in your words, a build up of events that had taken place on a number of different issues over a period a time.

And you need to appreciate that Mr. Messer is quite a capable manager. He has very strong opinions about how an entity should run. He viewed the Crown corporation as a business and should be run as a business.

And I believe he was frustrated with the board and myself as the chairman at some points in time because of the relative slowness that government makes. And I don't say that in any partisan way, but the slowness in which government makes decisions and the checks and the balances and the whistles that are there as opposed to the private sector business where once you feel you have all the information decisions can be made very rapidly.

And I'm of the view that Messer became frustrated with us because of the lack of timely decision making, and on our part we became frustrated with Mr. Messer because he pushed too hard to make those decisions too quickly.

And again it was not so much a matter of withholding information, as some have described it, but more a frustration level in the decision, the day-to-day processes, the management style that Mr. Messer had as opposed to a more laid back style of the board.

Mr. Gantefoer: — Was there — with the board moving towards this type of a decision of wishing to explore termination — was there an appreciation of the board, of Mr. Messer's lineage or his history and his relationship with the government and with the Premier?

Mr. Anguish: — What is your question?

Mr. Gantefoer: — Did they appreciate Mr. Messer's background, his historical relationship with the governing party, and with the Premier in particular?

Mr. Anguish: — Well I have to assume the board was aware of that. Most people in Saskatchewan are. And I think the board was a good cross-section of the Saskatchewan society. So yes, I'm sure they were aware of Mr. Messer's background.

Mr. Gantefoer: — When you took this to the Premier and discussed the board's wishes, you indicate that the Premier and I discussed it, and conclude it was a conflict of personalities. Did the Premier express modest, mild, strong support for Mr. Messer in his role as the CEO?

Mr. Anguish: — The discussion centred around, first off, the concerns that the board had discussed in the evaluation process. The discussion then went to the many positive aspects that had happened at SaskPower under Mr. Messer's leadership. And

between the Premier and myself, I think that he had mild agreement that I went back and asked the board and Mr. Messer if we couldn't sit down and try and maturely work out the differences between the board and Mr. Messer.

Mr. Gantefer: — So you had the direction or the sense from the Premier that he wanted the board to find a way of reaching accommodation with Mr. Messer?

Mr. Anguish: — Yes, the Premier is a accommodating person and likes to arrive at things by consensus and it was no different in this case. And we went back and were able to work out a better working relationship with Mr. Messer.

Mr. Gantefer: — Did it become a situation where you were so frustrated with the situation that . . . Were you the follower of the board or were you the person experiencing some of the greatest frustration in trying to deal with Mr. Messer?

Mr. Anguish: — Neither. I think that the board had a very good working relationship together, and it wasn't a matter of the board leading me somewhere or me leading the board somewhere on the issue of Mr. Messer. It was an all-out discussion — many, many topics, many events were discussed, and that was the position that they had arrived at at that time.

Mr. Gantefer: — How long then after this discussion were you removed from your responsibilities with SaskPower?

Mr. Anguish: — Several months, maybe as much as a year, Mr. Gantefer. I don't know the exact time.

Mr. Gantefer: — Did it end up being a situation where the board was told they couldn't fire Mr. Messer because Roy Romanow said you couldn't?

Mr. Anguish: — I don't believe it got to be that. I had the feeling when I left the Premier's office that day that if I would have absolutely insisted, and the board had insisted that it was Mr. Messer or us, Mr. Messer would have gone.

Mr. Gantefer: — What level of assistance or insistence would there have to be in order to directly countermand a direction from the Premier?

Mr. Anguish: — I always viewed the Premier as the boss. He's the Premier of the province and I would hope that cabinet ministers when they have important decisions to make, especially if it's not in the normal day-to-day events that unfold, that they would have a discussion with the Premier. He's the Chair of the board who's the chief shareholder of the corporation.

Mr. Gantefer: — Would there be the opportunity for Mr. Messer to interpret the support he had from the Premier over this management style issue? Would he have any latitude of interpreting that support from the Premier such that he would feel the authority to go ahead and to directly countermand the board's policy and authorize the gas arbitrage trading that happened shortly after you left?

Mr. Anguish: — I don't believe that to be the case.

Mr. Gantefer: — Is there any way that you can explain where Mr. Messer would feel he received the authority and had the protection in order to authorize activities that clearly were in violation of not only your philosophical and general policy direction, but also in clear violation of stated board policy as expressed in their minutes?

Mr. Anguish: — No. I can't answer that. I don't know. I wasn't there.

Mr. Gantefer: — But would you agree that he clearly did authorize the engagement in those activities from the record?

Mr. Anguish: — During my tenure as chairman of the board at SaskPower there was never any indication by myself or the board, or any oral or written communication, that would give any SaskPower management the authority to do arbitrage dealings in natural gas.

Mr. Gantefer: — And to do so would be clearly in violation of everything that you and the board stood for at that time?

Mr. Anguish: — At that time. That's correct.

Mr. Gantefer: — In your tenure as chairman of the board, you indicated that your relationship with the board was . . . it was a very close board, or tight knit, worked well together. Did you have an audit and finance committee during your term as Chair?

Mr. Anguish: — Yes we did.

Mr. Gantefer: — What was the responsibility of that committee in a general sense?

Mr. Anguish: — Well I believe it was to review the financial transactions, the statements, financial statements of the Crown corporation, and to look at those in some detail to save the entire board of going through word by word, number by number in financial dealings of the Crown corporation or its subsidiaries. The audit finance committee was always, if not on the agenda, were given the opportunity to bring any matters they thought required board discussion to the full board of SaskPower.

Mr. Gantefer: — And their responsibility would be to delve in more depth with the financial affairs of the corporation on behalf of the board. Would that be correct?

Mr. Anguish: — Yes, that's the way I viewed it.

Mr. Gantefer: — Would that responsibility include any of the operations that occurred within subsidiaries if they were created?

Mr. Anguish: — In my view they would present information to the board that had been presented to them. I would not view it as the job of the audit and finance committee to go in and do an audit, for example, of the Channel Lakes or the northern enterprise fund. There were separate boards set up that should be accountable for that. What the audit and finance committee would review is the information that would have been given to them by a subsidiary.

Mr. Gantfoer: — Would it be fair to them to ask a question, given the clearness of direction of the minutes that you've outlined today, on an ongoing basis, what gas trading activities are you engaging in; can you give us a summary of those gas trading activities — that type of a general question in regard to the financial affairs of Channel Lake. Would that be the kind of questions that you would expect them to ask?

Mr. Anguish: — Yes it would be fair to say that, that they would have the ability to ask questions if there were issues not only financial, but of a policy nature if they felt it was beyond the authority given to them by the board or other bodies that they could ask those questions, to get full clarification as to what was happening in a subsidiary.

Mr. Gantfoer: — So the general board members would rely on that committee to be the watchdog, if you like, or be the eyes and ears and potentially raise flags if they found anything that might be occurring that was outside of the policy and direction of the overall board.

Mr. Anguish: — That's the way I viewed it.

Mr. Gantfoer: — And that would include making inquiries of subsidiaries.

Mr. Anguish: — Yes.

Mr. Gantfoer: — In terms of ministerial briefings, you indicate that it would be your experience that at the change of responsibility — and let's focus primarily on SaskPower since that's the matter before us, and not departmental turnovers — it would be your experience that the chief executive officers and the senior management would prepare briefing documents for the incoming minister.

The minister would review those documents and would expect that those documents would include a summary at least of all of the issues in front of the corporation at that time. And that after that opportunity to review the documents, then the minister would conduct the meetings with the senior management people and discuss more issues that might be of interest and detail. Would that be a pretty normal process?

Mr. Anguish: — I believe so. That was my experience.

Mr. Gantfoer: — So if you were the minister that was coming in, you would expect the management to talk about all of the issues, including those issues that were occurring within subsidiaries?

Mr. Anguish: — Yes.

Mr. Gantfoer: — So if — and I realize this wasn't occurring — if you were the incoming minister and that things like gas arbitrage were occurring within the subsidiary, you would expect senior management to brief you on the fact that those activities were occurring and a summary of the magnitude of them and the dollars involved?

Mr. Anguish: — Yes. You can't be an effective minister unless you understand everything that's happening in your area of responsibility.

Mr. Gantfoer: — If that briefing does not happen, or that material is not given to the minister, who has neglected their responsibility and the chain of authority?

Mr. Anguish: — Well it's a bit of a hypothetical question. I believe that it's standard practice that ministers when they come into new responsibilities get a briefing book.

Mr. Gantfoer: — If, for example, the fact that subsidiary was engaged in arbitrage trading, clearly we've agreed that it was in violation of the policy direction and the minutes that you've outlined of the board of the corporation that forms the subsidiary. And if that information was not included in briefing books, who would be responsible for that oversight?

Mr. Anguish: — Well whoever prepared the briefing books would be ultimately responsible for that. I don't know what the issue was at that particular time. As I've said previously, arbitrage was not an issue for us at the time because it was either not occurring or we did not know it was occurring. And there's the other possibility that we have to be careful in committees such as this, that someone may have thought they did have authority to do whatever was being done.

I don't think that there was any malicious attempt by anyone who's a professional and an employee of a Crown or the Government of Saskatchewan to do wrong for the shareholders and the people of the province.

Mr. Gantfoer: — I'm sorry. I wasn't suggesting that. I guess what I am trying to get to is the levels of authority and accountability and responsibility, if you like. I accept the premiss ultimately that if the minister is ultimately the individual that has to take the authority to cabinet and ultimately to the legislature and the people of the province, you would have to expect that you would have absolute candour and forthrightness of the people that are going to brief you.

Mr. Anguish: — That's correct.

Mr. Gantfoer: — And if that does not happen, then what recourse do you have as a minister or if you're . . . if later is found that that did not happen?

Mr. Anguish: — Well you usually wait until an opposition MLA (Member of the Legislative Assembly) asks you an embarrassing question in the House and then you look into it a little deeper.

Mr. Gantfoer: — Only after you ducked the answer of course.

The Chair: — With that comment and counter-comment on the political process and what occurs in the Legislative Assembly, I would remind committee members Mr. Gantfoer has used his 30 minutes. I would ask committee members at this time, do you want to carry on with the 30-minute rotation or do you wish to move to 45? Thirty-minute rotation? Fine. Then I will recognise Mr. Hillson from the Liberal Party.

Mr. Hillson: — Thank you, Madam Chair, Mr. Anguish. Mr. Anguish, in your opening statement you of course made reference to the February 23, 1994 minute that makes it clear that the acquisition of Channel Lake gas was to supply

SaskPower, and that was really basically the only purpose. But if they had short-term excess, that could be sold off.

Were you aware while you were minister in charge that in fact Channel Lake never did supply its own gas to SaskPower?

Mr. Anguish: — Their own gas is an interesting way of describing it. I don't know the details, the minute details of the transactions, but there was always a need for natural gas at SaskPower, particularly in their three gas turbines that they have at Success and Landis and Meadow Lake. There's also requirements at the other generating stations as well, but to a lesser and not ongoing degree.

It does not surprise me that the exact molecule of natural gas would go from the field that was previously owned by Dynex, then Channel Lakes, to actually end up that same molecule being burnt in a generating station.

If that's your question, that does not surprise me because the gas that goes into a pipeline system, there is ownership of the gas but it doesn't necessarily mean that that exact molecule ends up at the exact destination; it may end up elsewhere.

Mr. Hillson: — But were you aware that in fact the Dynex or Channel Lake gas was not going to SaskPower at any time?

Mr. Anguish: — No, I can't say that I was aware of that. I just knew that the Dynex properties had been acquired. There was a substantial amount of gas there that could supply a good deal of the need. There were supply contracts in place that other gas was coming from as well for SaskPower, and if you're saying that the Dynex gas never actually got to a generating station of SaskPower's ownership, then no, I wasn't aware of that in those terms.

Mr. Hillson: — Okay.

Now you say that at no time were you ever made aware that arbitrage or gas trading in excess of SaskPower's requirements was taking place. You were never informed of that?

Mr. Anguish: — No.

Mr. Hillson: — And who specifically do you think should have kept you advised of such developments?

Mr. Anguish: — Well the management of the corporation, if not through the informal or formal briefings that were set up on a regular basis, at least as a report to the board of SaskPower.

Mr. Hillson: — Who do you mean by the management?

Mr. Anguish: — Well the management team. Ultimately the president and chief executive officer is the person in charge, and I think that Mr. Messer would accept that that is his responsibility, to make sure that the minister or ministers are adequately informed about the events and the activities within the Crown corporation and its subsidiaries.

Mr. Hillson: — And you say that the first you became aware that arbitrage activities were taking place were long after you had in fact left the portfolio.

Mr. Anguish: — That's correct.

Mr. Hillson: — Through news articles.

Mr. Anguish: — I'd like, Mr. Hillson, to make a small differentiation between trading and arbitrage.

Mr. Hillson: — Yes, I realize they're two different concepts. Yes, carry on.

Mr. Anguish: — I would not have been surprised if some trades of natural gas had occurred. For example, if someone had some natural gas in the area of the Success generating station for example, and they were willing to allow us to use that gas, and we had some gas in the Medicine Hat area that some other company was short on supply a contract, it may well be that they would trade the gas near Success for the gas near Moose Jaw.

And in both cases the Crown corporation's subsidiary and the natural gas company would save the toll charges on transporting the natural gas. It would make good business sense to do that. If that happens in small volumes and outside of a planned basis, to me that's trading, and trading is acceptable.

Arbitrage is when you get into longer term contracts and you really have a great deal of risk out there where you have to not only supply contracts, you have to make sure that you have other contracts supplying you with the natural gas so that you can get that gas through to the ultimate customer.

Those are the arbitrage deals where you buy low, sell high, try and make money in between. But there's certainly a significant risk in doing that. That puts whoever is in that into the natural gas business, and it was never my intention, or the intention of the board while I was there, to allow the arbitrage to happen.

So there are situations though where there may have been trades in natural gas that aren't considered to be arbitrage that may have happened, and that wouldn't surprise me.

Mr. Hillson: — Right. But even the gas trades that you are describing would still none the less be directly related to meeting the needs of SaskPower as opposed to some independent activity of the company?

Mr. Anguish: — That's correct.

Mr. Hillson: — And gas trading again independent of SaskPower's needs was not something you ever envisaged or were aware of?

Mr. Anguish: — No. And I was always very painfully aware of that being the direction in which myself and the board were very firm on. Because at the same time, appreciate I was minister of Energy and Mines and went to Calgary on a fairly regular basis. Oil and gas companies would come from Calgary to visit me in my office in the Legislative Building here in Regina.

And I didn't want to have to explain to them two different messages, one being that the government is not going to be involved; there's not going to be another Saskoil who were active

players in the oil and gas business. On the other hand though, whoops, but over here we are trading and doing a bit of arbitrage.

I mean you can't square that in the oil and gas industry. And most important to the government of the time and to myself was our integrity on providing a consistent message to the oil and gas business.

And during that time it was successful. We had record land sales, record production of oil and gas, record revenues for the province. And we in no way wanted to jeopardize that by having a subsidiary of a Crown corporation in any way be viewed as being involved in the oil and gas business.

So for self-preservation interest and keeping integrity with the oil and gas industry, I would have never condoned arbitrage within the Government of Saskatchewan or one of its Crowns.

Mr. Hillson: — So you're saying the message you were giving out at that time on behalf of the Government of Saskatchewan is that the government had no intention of getting involved in gas trading or in arbitrage?

Mr. Anguish: — That's correct.

Mr. Hillson: — If you had known that such activities were going on and you were not being kept informed of them, what would have been your attitude towards the management of Channel Lake and Saskatchewan Power?

Mr. Anguish: — There would have been quite a discussion, and an argument would have likely ensued.

Mr. Hillson: — So in other words, that was not part of the dispute then in 1994 when questions were raised about Mr. Messer continuing at the helm.

Mr. Anguish: — What, Channel Lake or the arbitrage?

Mr. Hillson: — Yes.

Mr. Anguish: — Channel Lake wasn't, and of course arbitrage wasn't, because we had no knowledge of any arbitrage that was contemplated or occurring.

Mr. Hillson: — So what specifically were the difficulties that led to these 1994 discussions about the possibility of terminating Mr. Messer?

Mr. Anguish: — The issue centred around his personality as a manager. He's a very aggressive manager. He manages more akin to those who that work solely in the private sector than those that work in the Crown and public sector.

He would be frustrated by the lack of speed with which decisions were made. He found it cumbersome to deal in the many bells and whistles that governments and Crown corporations place on their employees in the name of protecting the public person, the interests of the people of Saskatchewan.

And the board, at the same time, became frustrated with him in pushing that type of management style and not being more in

tune with the way in which Crown corporations and government operate.

Mr. Hillson: — Okay. Now, as you say you've already told us that you had no knowledge of this gas trading and arbitrage. Did you suspect in 1994 that there were other areas as well that you were being kept in the dark about?

Mr. Anguish: — Well as I say, I'm not sure I was kept in the dark. I don't want to go on the record definitively saying I was kept in the dark on the arbitrage, because I'm not sure that actual arbitrage trading was occurring until after I had left. So I don't know that for sure.

There were times when the board felt they had to drag information out of the management at SaskPower. Whether that's right or wrong, I don't know, but certainly the feeling was there.

One of the issues, for example, was non-utility generation. That was an issue at that time.

Mr. Hillson: — Yes, and there was the initial announcement that SaskPower was interested in non-utility generation and then subsequently it said it was not. And you say this was one of the issues with Mr. Messer?

Mr. Anguish: — That was a very big issue and it didn't happen quite as simply as you describe it — that it was on, it was off.

There many, many discussions over many, many months at the board level, at the management level, with board and management together. And it was a long and frustrating experience. And that would have been one of the issues, Mr. Hillson, at that time that was discussed, as an example, during the evaluation of the chief executive officer.

Mr. Hillson: — Now if I can go back though to the 1994 discussions over the possibility of terminating Mr. Messer, would it be correct to say that they were several in-camera meetings of the SaskPower board at that time? I guess I don't want to take you by surprise here, Mr. Messer, this is taken from a statement by the Premier.

Mr. Trew: — I think you meant you didn't want to take Mr. Anguish by surprise.

Mr. Hillson: — Is that not what I said?

A Member: — I heard Messer.

Mr. Anguish: — Yes, I'm Anguish. The other guy's Messer.

Mr. Hillson: — Okay, my apologies. Yes, Mr. Chairman, I am reading from a statement by the Premier and this one's dated March 30, 1998:

I'm informed that the SaskPower board held several in camera meetings and that many members of the board concluded they had serious issues with the personality and the management style of Mr. Messer. In July of 1994 this was told to me by Doug Anguish when he was minister in charge and wanted to report and ask for my advice on this.

Now my question is this. Is that correct that there were several in camera meetings of the board at that time concerning Mr. Messer's position as CEO?

Mr. Anguish: — I don't know your definition of many, or the Premier's definition of many meetings. There were some in camera meetings.

Mr. Hillson: — I'm sorry, several in camera meetings. That's the quote.

Mr. Anguish: — Well there were a few meetings. I wouldn't describe it as several necessarily. It could be described as one meeting that was particularly longer than the others. There were several hours of in camera meetings, but I wouldn't describe it necessarily as several meetings. But there were more than a few meetings, yes.

Mr. Hillson: — Several hours were spent on this subject?

Mr. Anguish: — Yes.

Mr. Hillson: — Did it result in votes being taken?

Mr. Anguish: — I don't recall. I asked Mr. McKillop in terms of the minutes, and there's no vote recorded. I don't recall a vote. But I know from sitting in the room, chairing the meeting, having directors express their views, that there was a strong desire at that time. I might go so far as to say as a . . . certainly a major view of the board — that they wanted to explore the possibility of terminating Mr. Messer at that time.

Mr. Hillson: — Okay. So is it a case of a consensus having emerged as opposed to a motion being moved and seconded and voted upon?

Mr. Anguish: — Oh yes. There may have even been wordings of a motion but no one came there with a motion in hand and read it out. I did not. I don't know of any member of the board that came there with a written motion in hand. It was a discussion over a period of time, and there was not any one moment where everyone jumped up and said let's fire Messer.

It took place over a long period of time. Some members of the board expressed their opinions in stronger terms than others; others were more reserved. But in the final analysis I believe that there was at least a majority view of the board that they wished to terminate Mr. Messer.

Mr. Hillson: — Okay. So you believe it was more in the nature of a consensus as opposed to a vote.

Mr. Anguish: — Yes.

Mr. Hillson: — Did anything in fact get into the minutes? And you may consult with Mr. McKillop and consult the records in this regard.

Mr. Anguish: — Not the search that I've requested . . . has turned up nothing in the minutes as to the actual vote or motion. No.

Mr. Hillson: — Okay. So we won't find anything in the

minutes that records this having happened, but you say there were at least a few meetings and at least one of them lasted several hours.

Mr. Anguish: — That's correct.

Mr. Hillson: — Can you be more specific when you say management style or personality differences? Can you be more specific as to what was concerning the board at that time?

Mr. Anguish: — Well I don't know how I can be any more specific, Mr. Hillson, than I have been already. The management style of Mr. Messer is an aggressive one — it's more akin to the private sector than it is to the public sector — and it was frustrating for both the board and Mr. Messer. And the view of the board after many hours of discussion was to explore the possibility of terminating Mr. Messer.

Mr. Hillson: — And in what month would this decision have been taken to explore the possibility of terminating Mr. Messer?

Mr. Anguish: — Mr. Hillson, I can't be absolutely clear on that. It seems to me it was in July. Mr. McKillop is looking up in his trusty book there. If he can find something, we will state a more exact date for you.

Mr. Hillson: — And again actually, not to catch you unaware, the Premier identifies July as when you spoke to him.

Mr. Anguish: — Well I spoke to the Premier during one of the days that the board was meeting in camera. So I would think that you're on a good basis of information; if you take what the Premier has said and what my recollection gives me, then it was likely July.

Mr. Hillson: — And that was actually one of the days you say the board was discussing this issue?

Mr. Anguish: — Yes. I called a coffee break and came from the board meeting to the Premier's office.

Mr. Hillson: — Now who introduced this subject at the board — was it board members or yourself?

Mr. Anguish: — It wasn't a matter of anyone introducing; it was a matter of a process in which we had been asked to do an evaluation of the chief executive officer, as I believe all Crowns were asked to do at the time. And there was no format — was the initial thing — provided to do a CEO evaluation.

As it worked out, no one in the room had actually participated in the evaluation of a chief executive officer before. And so the first order of hand, or order of business, was to find out what measuring sticks do we use? What criteria do we use? What do we compare the performance to? Do we compare it to the private sector? Do we look at the public sector? Or both?

And so the initial meetings were more of one of . . . what kind of format do we use, what measuring sticks, what tools do we use to do the evaluation of the chief executive officer? And over the period of time there were some tools that were determined. And in terms of any management criteria, the president and chief executive officer, Mr. Messer, measured fairly high.

So I go back again, it was more of a management style — personality conflicts between that management style and the board — which caused the barrier or the uncomfortable position that the board and the management felt they were in in dealing with the relationship.

Mr. Hillson: — So was a personnel review on Mr. Messer ultimately completed that year then, and if so, who would have done it?

Mr. Anguish: — There was a committee that was set up of the board, and I do not recall whether it was the audit and finance committee or whether it was a special committee just for the purpose of doing the evaluation. But I recall, or seem to recall a committee of three people of the board being set up to do the evaluation.

I believe that they conducted the evaluation during that particular year. And the evaluation at a later date was brought to the board and given the approval of the board, and to the best of my knowledge it was completed within that same year.

Mr. Hillson: — Okay. You can consult with Mr. McKillop if there is some documentation on that.

Mr. Anguish: — Mr. McKillop informs me that he believes that there is some record of that, and that he is searching for it right now. And we'll table it if it has not in fact already been tabled during the previous proceedings of the committee.

The Chair: — Thank you, Mr. Anguish. I'm sure it probably has been tabled. What we're looking for is the number of the document.

Mr. Anguish: — I understand the tabling was fairly thick, wasn't it?

The Chair: — I'm not going to make an editorial comment on that.

Mr. Hillson: — Now are you aware that the lawyer consulted on the issue of whether or not there was just cause for termination said that, from his examination of the record, the only evaluations done on Mr. Messer were glowing? And therefore no deficiencies in his performance had ever been brought to his attention or documented in any way. So it was largely on that basis, as I understand it, that the lawyer was saying there wouldn't be any grounds now to complain about deficient performance.

Mr. Anguish: — Well don't get me wrong. Mr. Messer is quite a capable manager — was, and I believe in many respects still is. It's his management style that seems to irritate people a whole lot. In terms of being successful, any measure that you would want to take — return on investment, getting the debt/equity ratio lower, providing reliable service to the people of the province — you compare that to any other utility across Canada, and Mr. Messer is a very good manager.

So it's not his inability as a manager that was ever questioned. It was the personality conflict. And I mean that, and I repeat it again, the personality conflict that caused the problem between the board and Mr. Messer, and vice versa.

Mr. Hillson: — And you seem to be saying that his concern was in pursuing the bottom line as opposed to pursuing public policy goals.

Mr. Anguish: — Or a better melding of both.

Mr. Hillson: — Okay. You're being referred to something there?

Mr. Anguish: — Yes. If you'd just give me a moment. There is a document here from the SaskPower audit and finance committee to SaskPower board of directors dated . . .

The Chair: — There might be a number on it at the front, Mr. Anguish. We'll depart from procedure just for a second. Mr. McKillop, do you have the number of the document?

Mr. Anguish: — 1347. There's lots of numbers on this document. How long have you people been here?

The Chair: — Mind you, we ask the questions.

Mr. McKillop: — Madam Chair, I don't have a number of the sort the committee has come to use. It was filed with a small package of documents that I provided to the Clerk by memo of April 15, 1998. I think that's the only reference that I can quickly give to you.

The Chair: — Thank you. Carry on, Mr. Anguish.

Mr. Anguish: — This memo from the audit and finance committee of SaskPower to SaskPower board of directors concerning the SaskPower CEO evaluation of one John R. Messer and it's dated March 14, 1995. It's fairly long. I don't know whether you want me to read this into the record or I assume it's already part of the . . . part of the record.

Mr. Hillson: — Is there a summary paragraph there, Mr. Anguish?

Mr. Anguish: — No. In terms of . . . it breaks it down into five categories and I quote:

Discussions at the board level determined that the following criteria would be used for the evaluation and they were subsequently approved at the board meeting held on February 23, 1994: (1) leadership; (2) human resources; (3) organizational effectiveness; (4) corporate objectives/strategic direction; and (5) financial results.

And then they go on to give descriptions in each of those five areas. So one of the things I point out is that this CEO evaluation took place over a long period of time and the board struggled with completing the evaluation. And that you'll note the criteria was approved by the board on February 23 of 1994, and this memo came from audit and finance committee to the board for their discussions and disposition on March 14, 1995, over a year later.

Mr. Hillson: — Is there anything in that document that indicates a significant level of dissatisfaction on the part of the board?

The Chair: — And just for committee's future reference if you want to go and read the original documentation you'll probably find it numbered CCC 68/25 or 68/23 or CCC 69/23. We're checking both of those to find it.

Mr. Anguish: — I suppose one thing — the most negative — that I can find off here just doing a quick perusal of the document, Mr. Hillson, is under relationship with the shareholder, and I quote:

The relationship between CIC and SaskPower has been seen by the board of directors as somewhat strained in the past. This relationship has improved over the last six months and is attributed to a refreshing new attitude in working relationship.

So what that reflects is the period from February of 1994 when this criteria was adopted to the famous meeting in July of 1994 to the point where this was written, there was a period there where the relationship . . . the board, and the audit and finance committee who wrote this, feel or felt that the relationship had improved quite significantly.

Mr. Hillson: — And do you concur with that assessment that after the July meeting with the Premier that relations with Mr. Messer did improve and . . .

Mr. Anguish: — Oh it took a while. It didn't happen all of a sudden. I would like to think that I was very firm in terms of what I believed. Mr. Messer was very firm in what he believed. And there were what I would describe as anywhere from heated discussions to strong arguments as to where we could find common ground to work together for the betterment of the Crown corporation and the sanity of both the chairman of the board and the president.

Mr. Hillson: — Was there backsliding after that report? Or did relations continue to warm and become harmonious?

Mr. Anguish: — Between who?

Mr. Hillson: — The board and Mr. Messer. And kindly ignore any chirping in the background. I'm sure it's not worth listening to any of it.

Mr. Anguish: — I don't believe there was backsliding. There is a sincere effort on both parties to improve the relationship because the relationship was not a good one in the beginning. And I think it progressively built to becoming a stronger and a better relationship.

Mr. Hillson: — These meetings occurred, and I take it we're talking June, July '94, when the board was discussing the possibility of seeking Mr. Messer's termination. Was Mr. Mintz part of those meetings?

Mr. Anguish: — No.

Mr. Hillson: — No.

The Chair: — Mr. Hillson, would you like to conclude your line of questioning and then the committee will take a short break.

Mr. Hillson: — I guess the next question I had would really go into a different area so . . .

The Chair: — All right. That's what I thought. If you don't have any questions specifically on this topic then your time is concluded. The committee will take a break till 3:30 — a 10-minute break.

The committee recessed for a period of time.

The Chair: — If members will please take their places, we will resume our hearings.

It is now the turn of the New Democratic Party to question the witness. Afterwards I do have an indication from Mr. Goohsen that he wishes to put 15 minutes of questioning and then we'll begin the rotation again.

I'm wondering — perhaps after the New Democratic Party finishes their questioning — if committee members could give me some indication about how much longer you feel you will be with this witness. I have been informed that Mr. Lautermilch is available, is in the building, and is prepared to come to the committee at any point that we're ready for him. So that can either be this afternoon or this evening.

And again it may be that committee members would want to just continue sitting, and for the sake of their figures, dispense with the supper break . . . (inaudible interjection) . . . Mr. Thomson, you weren't recognized. I do however recognize Mr. Shillington, from the NDP (New Democratic Party).

Hon. Mr. Shillington: — Speaking just for myself, I tend to agree with Mr. Thomson, actually. I'm not sure that we do our best thinking and I'm not sure we provide the public with the best service running that long without a break. And I think a two-hour break, Madam Chair, might be bring us back refreshed and I think better able to discharge our duties as committee members.

The Chair: — The only thing I'm trying to do is to make sure that we can have the testimony from the witnesses in the most expeditious manner possible. And I'm not sure that we are well served by questioning Mr. Lautermilch for half an hour and then breaking for two hours, so we are going to have to play it by ear in terms of when we call Mr. Lautermilch.

Hon. Mr. Shillington: — If I could just add to that, I agree with that. And I think we might just play it by ear and see when we finish off with Mr. Anguish. We might have time for a round each and then have a perhaps a shorter supper break. Perhaps that might work.

The Chair: — This is really what I'm looking for, is a bit of flexibility in terms of management of the time and allowing the witnesses to be able to make their testimony properly. It now being 3:35, I will recognize Mr. Trew from the NDP for questioning until about 4:05.

Mr. Trew: — Thank you, Madam Chair. I can assure you I won't be questioning you, Mr. Anguish, until 4:05; 20 to 4 might be a better estimate.

I wanted to compliment you on your opening statement which I thought clearly outlined the things germane to this investigation. And I want to also compliment both opposition parties on their questions. I thought they were far-reaching and thorough and interesting — believe it or not — as were the answers.

The one question that I have not heard yet was respecting Channel Lake. Was there ever a time or an issue that you recall, Mr. Anguish, where Mr. Messer acted against the wishes of the SaskPower board during your chairmanship?

Mr. Anguish: — I don't recall.

Mr. Trew: — Yes. It wasn't meant as a . . .

Mr. Anguish: — There's nothing that stands out in my mind.

Mr. Trew: — Thank you. It wasn't intended to be a trick question but I'm pleased that you cast your mind back. And that's what I anticipated the answer would be. And yet that was the most far-reaching question I could think to ask you.

Madam Chair, I'm concluded with my question.

The Chair: — Thank you, Mr. Trew.

Hon. Mr. Shillington: — Thank you, Madam Chair. I was interested in your description of Mr. Messer as a CEO. I might summarize it — and if I'm not doing justice please correct me — I might summarize it by saying that you felt Mr. Messer provided good management insofar as meeting SaskPower's corporate and financial objectives, but that he had trouble mustering the patience to deal with the complexity of the democratic process.

I thought it might be interesting for you: (a) to comment on that if you feel appropriate; and (b) since you've now had an opportunity to spend some time in the private sector — and indeed I think met and got to know some of the heads of the energy companies when you were minister of Energy and Mines — I thought it might be interesting to ask you if you'd feel comfortable in comparing Mr. Messer to CEOs from other energy companies, which you've met both before and since.

Mr. Anguish: — First on your summary of how I described Mr. Messer, I believe that that's an accurate summary of my description of Mr. Messer. Comparing Mr. Messer to the management styles of the private sector, Mr. Messer is more in tune with the decision-making process in the private sector than he is in the public sector. I don't know that I can give you specific examples that look at other utilities across Canada, because I've never sat at the board table or management level of any of the other utilities.

In terms of the industry in which I'm now employed, one of the greatest adjustments that I have to make personally is the speed with which major decisions are made. If the management team or the executive of a company in the oil and gas business have the background information they need and the time has come to make a decision, the decision is made very rapidly. With all the vigour and all the dedication that can be put behind it — the decision is launched.

If I look at my own new occupation, if you might call it that, it amazed me . . . at the time in which the company I now work for, launched an acquisition of another company called Pinnacle Resources, which is a deal amounting in debt and equities of more than a billion dollars. And that decision was made quicker than any decision that I was ever involved in sitting around a cabinet table or Crown corporation board table, or the entities of government. It's just a different function of the management style.

And it's also functioned to be diligent about protecting the public interest and being providers of good public policy and safeguarding the public purse. By nature of that, the public sector decision-making process is slower, and to some people, more frustrating.

Hon. Mr. Shillington: — It struck me, when I heard you describing him, it struck me he might have been better suited to the private sector than the public sector in his management style.

Mr. Anguish: — I think Mr. Messer would be a valued employee of many firms in the private sector which would appreciate his management style. People in government become frustrated by that type of management style because it's not suited nearly so well in the public sector because of those items of the public interest and the public purse that you as politicians need to ensure is watched over carefully. You have an interest in protecting the public.

Hon. Mr. Shillington: — Thanks. That was my only question, Madam Chair.

Mr. Tchorzewski: — Thank you, Madam Chair. I only have one question, Mr. Anguish, because members who have spoken before me have pretty well covered a few . . . but something that was raised earlier which I thought maybe the committee would find useful for clarification with regard to the audit and finance committee's role.

I realize, having held similar positions to where you were, that it does overview the financial statements of the Crown corporation. But there has been, in the committee, some discussion or some thought that somehow the audit and finance committee also had a mandate to be . . . and a responsibility for the operations of Channel Lake. I assume that's not the case, but could you clarify that for us?

Mr. Anguish: — I wouldn't want it to be construed by anything I have said that I would expect an audit and finance committee to be responsible for the day-to-day operations or the overall operations of a subsidiary. We did though — and it was more a style of our board than general practice I believe — in that whenever the audit and finance committee or the environment committee of SaskPower, when they came across the policy items that were of interest or could be controversial, we asked that they report those to the board. That may not happen under different structures of other Crown corporation boards or in fact even that board after I had departed.

Mr. Tchorzewski: — Thank you. That's all the questions I have.

The Chair: — Are there any other government members that have questions of Mr. Anguish? All right. We will then move to Mr. Goohsen, the independent member, till approximately 4 o'clock.

Mr. Goohsen: — Thank you, Madam Chair. Welcome to the legislature once again.

Mr. Anguish: — Thank you very much.

Mr. Goohsen: — Good to see you after so many years away and recalling all of the . . . (inaudible) . . . times that we had, I'm sure this one won't be as much fun for either of us than some of the ones we had in the past. But I wondered if you'd take your mind back to the days of the purchase of Dynex. Now in that process were you pretty much involved with the actual purchase of Dynex and the timing of taking over those assets?

Mr. Anguish: — I was involved to the extent that I was chairman of the board during the time that the Dynex assets were acquired — I believe through a trusteeship or it might have been a foreclosure through the Bank of Montreal. I did not get involved in any direct dealings with Dynex or its principals or the trustee or the Bank of Montreal.

Mr. Goohsen: — At that time would you have done some researching roles that would be have been reported back to you about Dynex? For example, the principals that were involved with the ownership as well as the fact of course . . . you've just alluded to the fact that the bank had taken over some of the transactions. Would you have done background research?

Mr. Anguish: — I would not have done the background research personally. There was certainly background research and background papers that were provided to the SaskPower board and myself describing the lands which were held by Dynex: their production capacity both in oil and natural gas, what the history of the company had been, and how those assets would complement the security and pricing of the gas supply for SaskPower.

Mr. Goohsen: — When you take over a company that's in foreclosure, to use your words, would you expect to get somewhat of what we might class as a bit of a hot deal, a better price, maybe, you know, more assets than what you're actually paying for in order to sort of get the bank off the hook of ownership?

Mr. Anguish: — Not in the nature of the oil and gas business particularly. Depends on how heated the industry is at that particular time. If it's competitive there may be a premium dollar paid for those types of assets. We feel that we got the company for a little better than fair market value is my recollection at the time, and part of it was because the bank wanted off the hook. They'd made their decision that they were going to dispose of the assets of Dynex, and we were successful in our bid.

Mr. Goohsen: — So in your recollection you feel like you got a pretty good deal for the people of Saskatchewan.

Mr. Anguish: — That was my recollection at the time, yes.

Mr. Goohsen: — Now you mentioned earlier that you did not want to appear to be getting into the gas industry from a production point of view. So how did you envision that you were going to dispose of the wellhead assets?

Mr. Anguish: — Well the initial mandate was that they be used in the actual requirements of SaskPower for their gas supply.

You said something called the fuel supply task force, I believe it was called. And it was the fuel supply task force I think that initially came up with the idea of acquiring a asset such as Dynex. And Dynex came along as an opportunity and it was purchased with the intent of using that natural gas, maybe not necessarily molecule for molecule, but using that natural gas to give security of supply and stability of price for the fuel — in this case natural gas — that was required by the gas generating stations that are owned by SaskPower.

Mr. Goohsen: — So how did you square with the gas industry the fact that you now owned gas wells when you said that you were trying to give the impression that you weren't involving yourself in what other people might call government ownership of a private industry?

Mr. Anguish: — I had spoken with the industry about what we were doing. They were prepared . . . If there's one thing that the private sector doesn't like is big surprises from government. We had a no-surprise policy during my tenure as Minister of Energy and Mines and I advised some of the industry leaders that I knew, and I believe members of the Canadian Association of Petroleum Producers were also advised, that SaskPower, through a subsidiary called Channel Lake, would be purchasing the assets of Dynex Petroleum and that the properties that weren't considered core areas — and certainly the oil properties — would be sold off from the company. And it seemed that the industry accepted that. It did not cause us a problem at that time with the industry as far as I know.

Mr. Goohsen: — So you really didn't have an original plan to buy the company, split the assets, sell the wellheads, keep the rest of the thing, or anything like that. If arbitrage hadn't gotten involved in it, you probably would see that Channel Lake would still be operating as an entity of SaskPower?

Mr. Anguish: — I suppose that that's quite possible. Over time the Dynex properties would be depleted. As the gas wells pressure down, you would have at some point no natural gas left to produce and therefore you wouldn't have any to supply, so you'd have to look at some other form or some other combination of forms for securing the natural gas for electrical generation.

Mr. Goohsen: — Well we're quite hopeful that something is rotting under the ground to reproduce that gas and you won't have to worry about that.

So I want to ask you though in your opinion, having been a minister and having run the affairs of the SaskPower Corporation from that point of view, would it have been possible for Mr. Portugal to get involved in the arbitrage process of dealing without anyone else knowing about it?

Mr. Anguish: — I would believe that possibility could exist.

Whether it did or not, I don't know that.

Mr. Goohsen: — Yes. We don't know either but the possibility in your mind could exist. And so of course except that in the end through the financial statements I suppose if you started to lose money or even make money it would show up, would it not, at some point? Or could this be camouflaged in the records?

Mr. Anguish: — Oh I don't think it could be camouflaged in the records. I'm not an accounting . . . and you know as well as anyone I don't have any kind of an accounting background so I don't know how detailed the financial statements of a subsidiary like that would be. But I would suspect if arbitrage deals were going on it would eventually show up in financial records, yes.

Mr. Goohsen: — Well I know if it was my business and it showed a loss I'd probably find it. If it showed a profit I wouldn't be too worried about it.

Mr. Anguish: — I think overall on Channel Lake's, if I'm not mistaken — I would stand to be corrected — I believe that there was a net gain in the overall disposition of the company from when it was purchased through the arbitrage deals that are now apparent to us. In the final sale there was a profit, a net profit through the consolidated dealings of Channel Lake. So it was not a loss and it was a minor gain, but nevertheless it was a net gain for SaskPower.

Mr. Goohsen: — Well that's an opinion that obviously some people will agree with and some won't, but it just depends on what time you take the assets and measure them. And obviously the auditor found some red flag or we wouldn't be here.

Would you say though that if Mr. Portugal were doing this arbitrage dealing that in the very least he would not have been doing due diligence in terms of his mandate by going ahead with that?

Mr. Anguish: — Well in any experiences I had, I did not feel that there was authority there to do arbitrage. And certainly they were told the direction was not to become involved in arbitrage deals for the reasons I've already outlined.

If Mr. Portugal or anyone else thought they had the authority to do arbitrage through me, they would be mistaken at that. If they felt they had authority from somewhere else or some motion or because of the structure of the board, I can't answer that; I don't know. But certainly there was no . . . no one could misconstrue where I stood on the issue of becoming involved in the gas business.

Mr. Goohsen: — Well from your testimony given today I have gleaned in my mind that you have expressed the opinion that no one gave permission that had authority to give permission. So what consequences should there be for those that did this kind of dealing without authority?

Mr. Anguish: — Well that's not my role to hand down punishment. I don't even know if a crime has been committed, let alone to sit as judgement and pronounce the sentence on someone. That's not my role to do that.

Mr. Goohsen: — I think that's why I used the term "due diligence." Because that doesn't necessarily mean that you've committed a crime, you may just not have done as good a professional job as you should have.

As the minister in charge, if you had found out this were going on while you were there, would you have at least fired this individual?

Mr. Anguish: — Well if I would have known this was going on while I was there — first off, in answer to one of the other questions, what I've stated, I still stand by — there would have likely been a very big argument between Mr. Messer and myself. And it would have sorted out and it either would have ceased to exist or one of us would no longer have been there.

Mr. Goohsen: — In hindsight as again having looked at all of this, if you were to give a recipe to prevent a disaster in the future, what would you say we'd have to do to prevent this from happening again?

Mr. Anguish: — Well the pause certainly seems long because I'm searching as to whether or not I would want to respond to a hypothetical situation. It depends on what it is you're asking should not happen again. Should it be that arbitrage deals are always left outside of the government domain or does the government have the right to do that? Or is it the authority that is given to perform such acts on behalf of the government?

What is it that you don't want to happen again? I don't know what you're asking me.

Mr. Goohsen: — Very good. What I would rather not have happen again is for the auditor to find things sufficiently unusual to require that we would be here at this type of hearing.

Mr. Anguish: — Well the auditor does report every year. During my time as a Member of Parliament and also as a member of this legislature, I sat on the Public Accounts Committee and the Provincial Auditor's report is always something that's looked forward to and there are always items in there that are reported on by the Provincial Auditor and before that by the Auditor General in Ottawa. I don't think that there is anything you can do that wasn't done to prevent the auditor on reporting on items from time to time that are, in his opinion, in the public interest to in fact report upon those.

And you know as well as I do, Mr. Goohsen, that some years the auditor's report is very voluminous whether it's from the administration that's in Saskatchewan now to the administration before that or going back to the years when Mr. Thatcher was premier of the province. There is always a role for the Provincial Auditor.

Mr. Goohsen: — Well that wasn't quite exactly what I was getting at but that will do.

I've got about two minutes left and I think you realize as a former politician that perception in the public is probably as important to political people as reality. And the perception in the community is that you may have been involved in this in some way. I think I want to ask a question that gives you the opportunity to clear your reputation a bit. And I would say:

were you asked to leave the cabinet by the Premier as a result of activities surrounding Channel Lake?

Mr. Anguish: — Well thank you for the opportunity to clear my reputation. No, I was never asked by the Premier to leave cabinet. In fact once he had finally appointed me to cabinet, he thought of me as a pleasant surprise, and I assumed that the Premier was happy with my work as a cabinet minister. I continued to enjoy my role in cabinet until one day I found that I wanted to put politics behind me and not to be in the fishbowl that you all live in.

And I left of my own free will after discussion with my family, and the Premier, and many of my colleagues — granted on the government side of the House is where most of the discussions occurred. I never consulted with any of you on the other side of the House. Sorry Mr. Osika

No, the Premier never at any time asked me to leave cabinet.

Mr. Goohsen: — That's all my questions, Madam Chair.

The Chair: — Thank you, Mr. Goohsen. We will now move to Mr. Gantefoer.

Mr. Gantefoer: — I have nothing further, Madam Chair.

The Chair: — No further questions. All right.

Mr. Hillson: — Yes, first of all, to finish up the other area I want to just confirm if I have this right. In 1994 there were a few or several meetings, some lasting several hours, on the issue of the board seeking Mr. Messer's termination. You then called a coffee break. During the coffee break you spoke with the Premier. That is the end of the attempts to seek Mr. Messer's termination, and eight months later there is a positive appraisal report prepared into Mr. Messer as CEO.

Is that a fair summary of what unfolded?

Mr. Anguish: — Yes.

Mr. Hillson: — So the several hours of discussions into seeking Mr. Messer's termination ended with the coffee break?

Mr. Anguish: — Mr. Hillson, the several hours over an extended number of meetings did not all deal with Mr. Messer's termination. The initial meetings dealt with the request and the tools that we needed to put in place to measure the performance of Mr. Messer.

So only part of that time that you describe was . . . actually dealt with the termination. The termination, in fact, could be viewed as a very short part of what was a longer evaluation period.

Mr. Hillson: — Now I realize you can't be specific because . . . and these were in camera meetings and apparently no minutes kept, but can you give us any approximate idea as to the number of meetings and the number of hours expended on this issue?

Mr. Anguish: — This is at best a guesstimate, Mr. Hillson, but I would think that the board itself likely had three or four in camera meetings. Two or three of those would have been rather

short and dealt primarily with how the evaluation should be conducted. The one meeting was a longer meeting that took place for several hours that started off talking about the evaluation, ended talking about the termination.

In addition to this, and I think back to the question you asked me earlier about the Premier's words that there were several meetings — that may be correct when you look at the meetings that the committee that was set up of the board, the three members of the board, would have had other meetings in addition to the board meeting.

I can't put a number on that for you as to how many times they met. I would think that they met several times, several times more than what the board would have met; the board being three or four times that they went in camera to discuss the evaluation of the CEO; the one longer meeting that discussed the termination of the chief executive officer and president.

The other meetings — I'm sorry I can't answer that for you, because there were committee meetings and I don't have a number on it.

Mr. Hillson: — Sure, okay.

Now a completely different area. I want to talk for a few minutes about the initial decision to set up Channel Lake. You had also been associated with SaskEnergy.

Mr. Anguish: — Yes.

Mr. Hillson: — Did you have any concerns that SaskEnergy ought to be the purchasing arm for natural gas, the supply arm for natural gas for SaskPower? Did you see the need for setting up a separate and independent Crown corporation subsidiary in order to do this job when we already had SaskEnergy.

Mr. Anguish: — The comparison isn't totally fair in terms of setting up a separate subsidiary to compete with SaskEnergy. If you look at the fuel supply task force that SaskPower had, they would look at many avenues of supplying fuel. Channel Lake, the Dynex properties, was only one of those avenues of supplying the overall fuel requirement for SaskPower.

The overall fuel requirement for SaskPower was not exclusively natural gas. In fact the largest part of it is coal, so they deal with coal as well. SaskEnergy is not in the coal business whatsoever. SaskEnergy is strictly in the transmission, distribution of natural gas.

The climate that SaskPower was going through at the time dictated that SaskPower had to compete with an emerging deregulated market for electricity — something that does not happen easily and over a very short period of time. So the board and myself felt that SaskPower had to go to where they were best served to meet their needs, in turn meeting the new demands that were placed on Crown corporations, in this particular case, SaskPower, because of the deregulated market that was coming for electricity.

And the board and I again took the position that SaskPower management had to make that decision where their needs were best served. The needs obviously, in some cases, were not best

served through SaskEnergy if they could get a better deal elsewhere. I think you'll find that SaskPower still looked at services that were provided by SaskEnergy if those services made sense to them — i.e. storage capacity, where the storage might be more located to supply the needs.

And so the business environment dictated that SaskPower had to make business decisions to prepare them for the deregulated electrical market.

Mr. Hillson: — Then, sir, would you say it is fair to suggest that Channel Lake was set up, at least in part, because the two Crown corporations were disagreeing with each other and unable to get along — SaskPower and SaskEnergy.

Mr. Anguish: — I don't know whether or not getting along was the issue. I know that there were certainly discussions where the two Crown corporations disagreed with each other. But that's all right.

Mr. Hillson: — But did that lead to the decision to set up Channel Lake, because the two Crown corporations were having these discussions?

Mr. Anguish: — I don't believe that that was a major factor. Again I go back to the fuel supply task force that looked at many options for supplying the fuel requirements for generating electricity by SaskPower. And by the time it got to the board level, the recommendation for one of the components of supplying fuel was the purchase of the Dynex assets under Channel Lake's.

Mr. Hillson: — And finally, did the Premier ever express to you orally or in writing that he was not happy that Mr. Portigal was on the payroll?

Mr. Anguish: — I don't ever recall the Premier expressing that to me at any time, in either writing or verbally.

Mr. Hillson: — Did that information at any time come to you? Mr. Messer did not use your name, but he said that he seems to recall that he did see some documentation to that effect.

Mr. Anguish: — I've never seen any documentation to that effect.

Mr. Hillson: — I just mention it again. It doesn't link to you, but I seem to recall something last . . . I think it must be related to some of this documentation where somebody, a third party, had made reference to a comment that the Premier might have made. This is in regard to Mr. Portigal. But you're saying you have no information or knowledge about that at all.

Mr. Anguish: — I have no information of the Premier ever making such a verbal or written communication in that regard.

Mr. Hillson: — Thank you, Mr. Anguish. No further questions.

The Chair: — Thank you, Mr. Hillson. Do any other committee members have any further questions of Mr. Anguish? Are there any further questions of Mr. Anguish? Thank you.

Mr. Anguish, did you wish to make a closing statement now or would you like to reserve your right to table a written closing statement with the committee by no later than noon of July 6?

A Member: — Or not at all.

The Chair: — Or not at all.

Mr. Anguish: — I don't anticipate making a closing statement either now or in writing later. I'm happy that you had me back to meet with you one last time — I hope the last time that I'm back to meet. And don't take that personally. I look back on my years in politics with fondness, but I'm happy to have left this realm and on to another chapter of my life.

It was nice being here today, and I hope that I've been able to shed some light on the issue that surrounded what obviously has become a controversial issue in Saskatchewan.

I wish you well with your final report. And if there are ways of preventing whatever it is that Mr. Goohsen wants to prevent from happening again, I hope that you're able to find a report that makes public service better coming out of this than you felt it was going in to it. Because it's important to have good, strong, professional people in the public service — whether it's in executive government jobs or within Crown corporations. So I just wish you well with your work.

The Chair: — Thank you, Mr. Anguish. And I'm sure I speak on behalf of all the committee members when I say we wish you well as well in your current ventures and in the future. And we wish you and your family well.

Mr. Anguish: — Thank you. I'll pass that on to Mona.

The Chair: — Thank you. I would seek guidance from committee members now. Mr. Lautermilch is in the building and is prepared to testify. Would you like to start with him? Mr. Gantefoer.

Mr. Gantefoer: — Can you tell us, Madam Chair, are you aware if Mr. Lautermilch intends to give an opening statement.

The Chair: — I'm not personally aware of it, but I'm going to make the bold assumption that, yes, he would want to make an opening statement.

Mr. Gantefoer: — Would it perhaps be appropriate then if we do the preliminaries in terms of swearing in Mr. Lautermilch, inviting him to make an opening statement, after which we then recess for a supper break, and then proceed with the questioning after supper?

The Chair: — I think that's a reasonable course of action. Mr. Tchorzewski?

Mr. Tchorzewski: — Yes. We concur with that. I assume since everyone else has, I would be surprised if Mr. Lautermilch would not have an opening statement.

So I think in order to expedite the working of the committee, we probably should have him come before the committee now, or soon after Mr. Anguish leaves, hear the opening statement and,

depending on how long it is, we may or may not decide to proceed with the questioning. My guess is probably not, but at least we should hear the opening statement.

The Chair: — All right, we'll have a very brief stretch break while we get Mr. Lautermilch down from the third floor down to the basement. Please don't run away, anyone.

The committee recessed for a period of time.

The Chair: — I'll call the committee back to order again. We have, appearing now before us to give testimony, the Hon. Eldon Lautermilch. Mr. Lautermilch, I'm sure that you have been following the proceedings with rapt attention and so you are likely aware of the procedure that the committee has adopted. You will be able to give an opening statement and I note that the Clerk has distributed copies of your opening statement to all members.

I will first of all, before we begin questioning from the three political parties and the independent, I will read you the customary opening statement and then I will swear you in.

Hon. Mr. Lautermilch: — Okay. Thank you very much, Madam Chair. I want to begin . . .

The Chair: — Well let me make the opening . . . the statement that we make to all witnesses first.

Hon. Mr. Lautermilch: — Oh, I'm sorry.

The Chair: — I realize you're anxious to get on with this but there's certain pro forma procedures we have to follow.

Hon. Mr. Lautermilch: — Okay.

The Chair: — Mr. Lautermilch, witnesses should be aware that when appearing before a legislative committee your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as the subject of a civil action.

In addition, I wish to advise you that you are protected by section 13 of the Canadian Charter of Rights and Freedoms which provides that:

A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put by the committee. You are advised that you may be recalled to appear again before this committee at a later date, if the committee so decides. You are reminded to please address all comments through the Chair. Thank you.

Mr. Lautermilch, did you wish to swear or affirm?

Hon. Mr. Lautermilch: — I'll swear.

The Chair: — Do you swear that the evidence you shall give

on this examination shall be the truth, the whole truth, and nothing but the truth, so help you God?

Hon. Mr. Lautermilch: — I do.

The Chair: — Thank you. Mr. Lautermilch would you now proceed to give us your opening statement.

Hon. Mr. Lautermilch: — Thank you very much, Madam Chair. I want to begin by noting how pleased I am to finally have a chance to speak to this matter in a public forum under oath. The rules of cabinet government have left it to the minister now in charge and responsible for SaskPower, my colleague, the Deputy Premier, to speak about this issue in question period and to the media.

These committee hearings now give me my chance to give a public accounting for my role.

I was minister responsible for SaskPower and the Chair of the SaskPower board of directors from February 3, 1995 to June 27, 1997. During that time, I was also minister responsible for SaskEnergy, Sask Water, the Saskatchewan Research Council, and the Department of Energy and Mines. I have been a member of the Crown Corporations Committee board of directors from February 3, 1995, to present.

Mistakes and errors of judgement were committed during the time SaskPower managed and sold Channel Lake. I am extremely disappointed at how this matter was handled, as is the government as a whole.

The government deserves its share of criticism for letting this happen, and so do I. I believe ministers have the duty to let managers manage and the right to rely on their officials to provide timely and complete information. But knowing what I know now, in hindsight I should have more aggressively challenged what I was being told during some of the meetings I will describe to you today.

I became fully aware of the facts at the same time as my other colleagues on the CIC (Crown Investments Corporation of Saskatchewan) board when we received the Gerrand and Deloitte Touche reports in March of this year. I believe I and the rest of the board acted appropriately as soon as we learned what had happened.

We reviewed the role of the president and CEO of SaskPower, and ultimately decided we wanted a new CEO.

We carefully reviewed our legal opinions regarding the sales agreement with DEML (Direct Energy Marketing Limited) and other matters. You have those opinions.

We fully disclosed all the facts to the legislature and to the public. We made over 1,000 documents available to this committee. And key players including ministers like myself have made themselves available to you.

The CIC board is working to substantially tighten corporate governance within the Crown sector and we're looking forward to your recommendations on how we can do a better job.

Let me now speak to some of the events that you are reviewing.

In my experience when there's a cabinet shuffle, ministers leaving a portfolio do not brief incoming ministers in detail. Instead ministers are briefed by deputy ministers of departments and by CEOs of Crown corporations and that's basically what happened when I came to SaskPower. I discussed a few files with my predecessor, Mr. Anguish. Channel Lake was not one of them.

I received written briefing books from the department and from the Crowns. My staff and I read and reviewed those books and then asked questions that arose from the briefings of the deputy minister and CEOs.

Departmental and Crown officials also raised issues with me as they felt were required and that is what I expected my officials to do on an ongoing basis. I believe the role of the Chair of a Crown corporation board is to introduce and manage policy, not to micromanage the day-to-day operations of the corporation.

And I want to be clear about the following point. I expect management to report to the board in a full, accurate, and timely fashion whenever board decisions are required, or when issues arise that the board, the government, or the legislature ought to know about. From my discussion with Mr. Messer early in my time as SaskPower Chair, I believed that we understood each other in that regard.

At some point early in my tenure as SaskPower Chair I learned that Channel Lake Petroleum Ltd. was a wholly-owned subsidiary of SaskPower, and that it owned natural gas properties. I was told that Channel Lake's role was to provide a secure supply of natural gas at a relatively stable price for SaskPower. I understood that Channel Lake was involved in managing its natural gas inventory. And that meant, as I understood it, selling gas products at it . . . Alberta wells that was not immediately required by SaskPower, and later buying gas when SaskPower required it.

I did not review the SaskPower board minutes of April 23, 1993 and February 23, 1994 until after reading the Deloitte Touche report tabled in the legislature on March 10, 1998. But those minutes clearly and certainly reflect how I understood the situation.

I first heard of arbitrage trading by Channel Lake as a separate profit centre when I read the Provincial Auditor's report in the fall of 1997. Had I known that Channel Lake was engaged in, or wished to be engaged in arbitrage as a separate profit centre, I would have been very concerned.

Natural gas arbitrage as a separate line of business, not directly connected with SaskPower's gas needs, might have antagonized the oil and gas industry. And that would not have been acceptable because our government is working hard — and successfully — to encourage private oil and gas firms to invest in Saskatchewan.

The proposal to sell Channel Lake was first brought to the SaskPower board on January 13, 1997. SaskPower management explained that circumstances had changed, that Channel Lake was no longer needed, and that market conditions seemed right

for its sale. On March 27, 1997, the board met at Mr. Messer's request. We were told that a deal had been struck with DEML, subject to board approval, to sell Channel Lake for \$20.8 million.

The March 27 board meeting took place by conference telephone call because that was the only way to have a board meeting on such short notice. There was no discussion at the board meeting of a need or desire to finalize the sale by March 31. We were certainly not told the sale should be completed by that date in order to have an effect on how trading losses were reported to the legislature.

In fact, I recall no mention at that meeting of trading losses at all, and the documents concerning that meeting that I am aware of contain no such mention. For example, the topic summary we worked from, which is your document 6/24, does not mention trading losses.

However, some time before June 1997, Mr. Messer did advise me that Channel Lake had suffered some trading losses. I understood that these flowed from bankruptcies related to the type of trading I already knew of — trading to manage Channel Lake's inventory.

I received a briefing from Mr. Messer prior to the June 20 board meeting. I have read Mr. Messer's testimony on that briefing. I have also searched the memories and records of myself and my staff. I recall only one telephone contact with Mr. Messer leading up to this meeting and that was at 4:45 on June 18.

Mr. Messer phoned to ask that a board meeting be arranged to ratify the sale of Channel Lake. He verbally outlined the information contained in the topic summary which was presented to the board on June 20, your document 6/25. I don't recall learning any details about the DEML sale other than what's in that topic summary. I agreed that a board meeting would be arranged.

The June 20 board meeting took place by telephone conference call again because that was the only way to have the board meet on such notice. Mr. Messer introduced his topic summary and answered questions about it.

Mr. Mintz, on behalf of the audit and finance committee, told the board that the sale was still a good deal even at the lower sale price. Mr. Messer said that there had been errors made by SaskPower's officials and advised that he had a legal opinion and an internal audit confirming that there was no negligence by those officials. We were told we would probably lose any litigation regarding the enforceability of the signed agreement.

The board was told that the long-term supply agreement was appropriate because SaskPower would continue to need natural gas and the terms of this agreement were within industry standards.

And the board was told that SaskPower management still recommended approval of the sale, because SaskPower received market value for its assets, and realized a profit throughout its experience with Channel Lake. On the basis of those facts and that recommendation, the board decided to ratify the sale.

One week later, I ceased to be the Chair of SaskPower board after a cabinet shuffle. I did not brief my successor, Mr. Lingenfelter, about Channel Lake because as far as I was concerned and I could see, it was no longer an active file.

I want to now briefly address the decision to terminate Mr. Messer's employment. I was a member of the CIC board when it met March 3, March 4, 1998 and considered Mr. Messer's termination.

As you know, we reviewed conflicting legal opinions from Mr. Gerrand and Mr. Bogdasavich on the issue of dismissal with cause. We concluded that we had lost confidence in Mr. Messer and that it was no longer acceptable for him to remain in his job. We came to that conclusion while at the same time recognizing the extremely valuable contributions Mr. Messer had made in that job overall.

The CIC board concluded that in light of legal . . . the conflicting legal opinions, the appropriate thing to do was to give Mr. Messer an opportunity to resign. If he did, the Vice-Chair of the SaskPower board, with appropriate legal guidance, would calculate any pay to Mr. Messer, whatever severance was appropriate, if any.

We also decided that if Mr. Messer declined to resign, his employment would be terminated. Mr. John Wright was directed by the board to carry out those instructions.

It was clearly the intention of the CIC board that it was available to Mr. Fair to conclude that no severance was appropriate, because according to at least one of the legal opinions before us, just cause existed for a dismissal. From what I have seen and read, I believe Mr. Fair understood that mandate and carried it out.

I hope that these comments will be of some help to the committee and I will do my best to answer your questions.

The Chair: — Thank you very much, Mr. Lautermilch. Once again I would seek guidance from the committee. We could entertain a round of questions, or we could adjourn now. Would the committee members please indicate which course of action you'd like to take.

Mr. Gantefer: — Madam Chair, since there's less than a half an hour of time left, I would request that we adjourn and reconvene after the supper break that we had allotted.

The Chair: — All right, 4:30. I believe we'd allocated a two-hour supper break, so that would take us back here at 6:30 this evening. If that's acceptable to all committee members, the committee stands recessed till 6:30 this evening.

A Member: — We may assume that the room is secure?

The Chair: — The room will be secured.

Mr. Lautermilch, thank you very much for coming and giving us your opening statement. I'm sure that all committee members will be digesting it along with their supper in the next two hours. We'll see you back here at 6:30.

The committee recessed for a period of time.

The Chair: — All right, the committee will resume its hearings into the Channel Lake circumstances, with the Hon. Eldon Lautermilch giving testimony. Mr. Lautermilch, you've given us your opening statement. I would now call on Mr. Gantefer from the Saskatchewan Party to question you for 30 minutes.

Mr. Gantefer: — Thank you, Madam Chair; welcome, Mr. Lautermilch. I appreciate your opening statement. And, as has been the case in the past, they have certainly shed some light that make some of the questions we'd have not necessary to ask.

One of the first questions I would like to ask you, were you able to observe the testimony of Mr. Anguish this afternoon?

Hon. Mr. Lautermilch: — Yes, I did.

Mr. Gantefer: — So if we build on some of the comments that were made there in terms of linkage between yourself and himself as SaskPower Chairs, that you would be aware of his testimony.

Hon. Mr. Lautermilch: — With two small portions that your television went off the air for a little while, but for the most part I could see his testimony.

Mr. Gantefer: — Thank you. You indicated that in the discussion that occurred between you and Mr. Anguish, of the files or issues that he briefed you on, Channel Lake was not one of them at all. Is that correct?

Hon. Mr. Lautermilch: — That's correct.

Mr. Gantefer: — Were you briefed at all . . . Then he indicated, and I think it's in keeping with his perception, that the normal course of events would be for, in the case of Crowns, the CEOs and senior management officials to brief the minister or present firstly some briefing documents. You and your staff would review the briefing documents and then initiate conversations with the CEO and main management people subsequently to that. In any of that process, was Channel Lake part of the briefing?

Hon. Mr. Lautermilch: — Not that I recall.

Mr. Gantefer: — So there was no mention made at all about the fact that SaskPower had acquired a subsidiary, Channel Lake, and the discussion of what was occurring within that subsidiary.

Hon. Mr. Lautermilch: — To the best of my recollection, Mr. Gantefer, there was no discussion by myself and management of SaskPower with respect to Channel Lake when I assumed the portfolio.

Mr. Gantefer: — How soon after you assumed the portfolio did anything surrounding Channel Lake come to your attention?

Hon. Mr. Lautermilch: — That's difficult to say with specific accuracy. I think I said, and would want to repeat what I said in my opening statement, that sometime after I was sworn in, I did

become aware of Channel Lake as a subsidiary Crown to SaskPower. But I can say that it was not to my knowledge an issue of discussion on or around that time.

Mr. Gantefoer: — Do you recall who would have made you aware of the Channel Lake subsidiary and who briefed you or who brought it up?

Hon. Mr. Lautermilch: — I can't recall an issue that would have had cause for someone to raise Channel Lake with me. Just generally I was aware that it was a corporation, a subsidiary corporation to SaskPower.

Mr. Gantefoer: — In your statement, and I'm quoting on page two, you said you expected management to report to the board, and I assume to yourself even more directly, in a full, accurate and timely fashion.

And you said that in your discussions with Mr. Messer early on, that you felt he understood that relationship. Would you have felt it would be Mr. Messer's obligation to brief you on Channel Lake?

Hon. Mr. Lautermilch: — If there were questions that arose out of issues surrounding the operations of Channel Lake, yes I would expect that.

Mr. Gantefoer: — You also indicated in your statement that your perception of the role and function of Channel Lake was pretty much in keeping with what the two board minutes indicated about security of supply and protection of price. And also that it was pretty clear in your mind that Channel Lake was not to go into any arbitrage trading activities.

Hon. Mr. Lautermilch: — Well on the first issue you raise, Mr. Gantefoer, I can say that I hadn't seen the board minutes in terms of the operations and the instructions for Channel Lake. But it was my understanding that the corporation was to supply a reasonably priced and secure supply of natural gas for the corporation. That was my understanding of its role.

Mr. Gantefoer: — So from Mr. Anguish's testimony this earlier afternoon and your approach, both of you also being responsible for Energy and Mines, philosophically it sounds to me as if you're very much in union with what you would believe the appropriateness of arbitrage trading being for the subsidiary — given the relationship with the rest of the industry — that it would not be an appropriate activity for a Crown subsidiary to undertake. Is that fair?

Hon. Mr. Lautermilch: — I think it would be fair to say that my desire would have been, had I known, that arbitrage not be an activity that the corporation would be involved in. I understood Channel Lake to be an entity, a subsidiary of the corporation, to supply gas from the gas purchased, and other sources of gas, at a reasonable price and to guarantee the security of supply. That was my understanding of the role of that corporation.

Mr. Gantefoer: — Now would it have been your assumption — given the fact that Mr. Anguish and yourself were very much of the same mind in terms of the role of Channel Lake — would it have been a fair assumption on your part to assume that Mr.

Messer as the chief executive officer would also have clearly understood that that was the direction and desire of the two of you as Chairs of the corporation?

Hon. Mr. Lautermilch: — I would think that would be the case.

Mr. Gantefoer: — Would it, in your opinion, have been his responsibility then to initiate a discussion with you when clearly the Channel Lake corporation was moving into arbitrage activities in a fairly major and massive way under your watch.

Hon. Mr. Lautermilch: — Well I would want to say that — just in helping to clarify — I didn't review SaskPower's board minutes of April 23 and of February '94 until after I read the Deloitte & Touche report that was tabled in the legislature.

My understanding . . . and I have described to you the kind of trading activities and the role of Channel Lake, that I understood it was engaged in. And I think it would be fair to say that activities that were beyond that activity . . . I would have had some difficulty with had I known.

Mr. Gantefoer: — When the level of activities — actually I think it grows to something in the magnitude of \$80 million and the Channel Lake board retroactively gave authorization up to \$100 million — but again, in both instances of 50 million and then up to 100 million, it was retroactive — would you not feel it would be Mr. Messer's responsibility as the chief executive officer and an officer of Channel Lake board to report that kind of a significant event to yourself as the minister responsible?

Hon. Mr. Lautermilch: — Yes.

Mr. Gantefoer: — And he did not, clearly.

Hon. Mr. Lautermilch: — I first became aware of arbitrage trading in the auditor's report that was tabled in the fall of 1997. Prior to that I was unaware that the corporation was involved in arbitrage activities as I then became to know it.

Mr. Gantefoer: — So when you said in your statement that you expected your senior officials to give full, accurate and timely information to you as the minister, in this case clearly it didn't happen?

Hon. Mr. Lautermilch: — I have indicated to you that I was not aware of arbitrage activity until the auditor's report was tabled in the fall of 1997.

Mr. Gantefoer: — And it would be fair to say it's your belief you should have been made aware of that?

Hon. Mr. Lautermilch: — Yes.

Mr. Gantefoer: — In terms of this going on for some time — I believe you said in your statement that it was sometime later that you were advised, in the spring of . . . or January of '97, of the suggestion that Channel Lake be sold. Is that correct?

Hon. Mr. Lautermilch: — The first knowledge that we had, or indication that the board had with respect to a desire to sell the Channel Lake asset was as a result of a topic summary that

came to the board on January 13, 1997. That topic summary recommended the sale through a royalty trust. It was indicated to us at that time that the market conditions were appropriate and that the Channel Lake corporation was no longer required to guarantee a secure supply of natural gas for the corporation, that the markets could look after that.

Mr. Gantefer: — As part of any of that discussion . . . Was it indicated — the fact that Channel Lake stood exposed to have some significant potential losses due to the arbitrage activity and the bankruptcy of a couple of companies?

Hon. Mr. Lautermilch: — There was no mention of that at that meeting as I recall.

Mr. Gantefer: — So at that stage you still were not aware that Channel Lake had engaged in all of this arbitrage activity.

Hon. Mr. Lautermilch: — That's correct.

Mr. Gantefer: — When the discussion happened to go via a royalty trust, was that discussion done in detail and was it the board's feeling that that clearly was the best vehicle to use in order to liquidate the assets?

Hon. Mr. Lautermilch: — I believe that that was the recommendation, that it might be appropriate to attempt to sell it through a royalty trust.

Mr. Gantefer: — Was there any detailed discussion that indicated that royalty trusts were a new vehicle that offered potentially significant premiums on the asset value of these type of properties?

Hon. Mr. Lautermilch: — I can't, Mr. Gantefer, recall the specific discussion in detail. I can suggest to you that that was the main thrust of the topic summary, that being a royalty trust sale as being a vehicle that the management of the corporation was recommending at that time.

The other component, I believe, of that topic summary and the discussion with management regarding that was that the markets had changed significantly. Deregulation had matured, so to speak, and that the management didn't feel at that time they required the ownership of natural gas but that the markets could handle the demands of SaskPower Corporation.

The one component that over the course of time I believed was clear was that there was a difficulty in terms of managing SaskPower's natural gas demands because market . . . It was the weather, and the volatility of the weather meant that it was a very erratic consumption. But that as the markets had matured, there was no longer a need for this corporation to serve the needs of guaranteeing a supply, that the markets would deal with it, and it wouldn't create a difficulty.

Mr. Gantefer: — When it was suggested that the board approve a \$20.8 million sale price, was there any room for misinterpretation as to the fact that that price would be the net — the cheque that SaskPower would receive — was that absolutely clear in your mind and in the board's mind?

Hon. Mr. Lautermilch: — I think, Mr. Gantefer, that was and

would have been the recommendation that came to the board in March. As I recall that meeting, there was no doubt — certainly in my mind — that it was a net of 20.8 million. And I don't believe that the board would have interpreted that recommendation or the topic summary to mean anything else than a net of \$20.8 million.

Mr. Gantefer: — In the presentation of the information as to what the board may anticipate receiving, was Mr. Portigal present at any of those briefings?

Hon. Mr. Lautermilch: — The March 27 meeting was a conference call meeting. I believe Mr. Portigal was present in the office of the president when that meeting took place. I'll just . . . Mr. McKillop has the list of who was present. And the board minutes for March 27 would indicate that Mr. Portigal was there for a part of the meeting. And I'm assuming that would have been the part that he would have been at.

Mr. Gantefer: — Would there have been a complete, frank, open discussion about the \$20.8 million as the net price conducted in the presence, even albeit by conference call, with Mr. Portigal having full access to that conference call?

Hon. Mr. Lautermilch: — I would suggest Mr. Portigal was there. I don't know that for sure because I wasn't physically in Mr. Messer's office. But I would suggest he was there for it. My recall of the discussion . . . and I certainly have had . . . There was no doubt in my mind that the board was approving a net of \$20.8 million, and I don't believe that the rest of the board concluded anything other than we would be receiving a net sale price of 20.8.

Mr. Gantefer: — If that clarity existed in terms of what the \$20.8 million represented was such a clear impression of all of the board members and of yourself, would you not expect Mr. Portigal to raise his hand and say just a minute; that's not exactly how this works?

Hon. Mr. Lautermilch: — I can only say that the recommendation that came to the board left no doubt in my mind, and the discussion around it left no doubt in my mind, that we would receive a net price of \$20.8 million.

Mr. Gantefer: — And Mr. Portigal did nothing to indicate that that was a false impression?

Hon. Mr. Lautermilch: — My recollection of the discussion, Mr. Portigal did not indicate . . . I don't think he spoke to this, if I'm correct.

Mr. Gantefer: — So he didn't address the issue at all. If that impression was so clearly on the table as to the 20.8 being a net price, he didn't say, there is potentially the trading losses that have to be deducted from that figure?

Hon. Mr. Lautermilch: — Mr. Gantefer, I'm just refreshing my memory and I'm looking at the topic summary of the March 27 meeting, which topic summary describes a recommendation that the shares in Channel Lake Petroleum, all of the shares in Channel Lake Petroleum, be sold. And it goes on in the recommendation to say for a total purchase price of \$20.8 million, which purchase price may be allocated between such

shares and the note, which allocation may result in a loss of the note.

In the background, it describes how that money is to be paid to SaskPower. Component A on page 2 indicates that Channel Lake will pay SaskPower and apply against the note the sum of \$11.693 million. Also in part B of that — and you've had access to this; this is one of the documents that were presented to the board — the purchase price of \$20.8 million will be paid by selling the balance owing on the note, approximately \$13.307 million, which note will then have been repaid in full with SaskPower receiving the remainder of approximately \$7.493 million for the share. And the topic summary ends with the second last sentence, if you're looking at this document, is: "The result is that SaskPower in any case receives \$20.8 million."

The topic summary was clear and there was no doubt in my mind at that meeting the board was approving a net price of \$20.8 million. There was no doubt in that at all.

Mr. Gantefoer: — And it's your recollection that Mr. Portugal was registered as being in attendance at this conference call meeting out of Mr. Messer's office, so he would have been party to at least listening to that whole discussion?

Hon. Mr. Lautermilch: — The board minutes indicate that Mr. Portugal was in attendance for part of the meeting. I'm making assumptions that first of all he would have been in Mr. Messer's office or the boardroom, and that secondly he would have been there for the part that pertained to Channel Lake. But I wasn't there, so I can only assume that he was there for that part.

Mr. Gantefoer: — So it'd be reasonable to assume that he was there.

Hon. Mr. Lautermilch: — I would think so.

Mr. Gantefoer: — Thank you. You indicated that you were briefed on some files of SaskPower when you took over the responsibility from Mr. Anguish. Was one of the files the issue of the concern that Mr. Anguish and the board in 1994 had over Mr. Messer's management style, and the fact that they had initiated discussion about terminating Mr. Messer at that time?

Hon. Mr. Lautermilch: — I don't believe that was one of the issues that Mr. Anguish and I discussed.

Mr. Gantefoer: — Was that issue or was that issue ever raised by any individual subsequent to that?

Hon. Mr. Lautermilch: — Maybe you can help me. Do you mean . . .

Mr. Gantefoer: — I mean were you ever made aware of the fact that in 1994 the board, when Mr. Anguish was the Chair, had come to the consensus that Mr. Messer should be terminated?

Hon. Mr. Lautermilch: — I was never privy to those discussions with any degree of focus at all. When I assumed the portfolio I had discussions with Mr. Messer indicating my expectations, and the role that I saw for the Chair and the role

that I saw for management, as with the CEOs in all of that portfolio, whether it be within the Crown sector or with my deputy minister, the deputy of Energy and Mines — it was a discussion that I had very similar to Mr. Messer. It was my hope that we could form a positive working relationship.

But I can say to you that in the briefing or discussions that I had with Mr. Anguish at any time it was just not a topic. When I assumed the role and I assumed that portfolio it was my desire to start on a new page as a new Chair of that board to work in a positive way with my CEOs, whether it be in a Crown sector or a deputy level. And that was my goal and that's what I attempted to do.

Mr. Gantefoer: — Were you made aware by anyone that in 1994 the board of the day had come to the consensus that Mr. Messer should be asked . . . or explore termination of Mr. Messer?

Hon. Mr. Lautermilch: — I had no knowledge of the details of those meetings.

Mr. Gantefoer: — Did you have any general knowledge of the fact that that consensus was arrived at?

Hon. Mr. Lautermilch: — I think I had some general knowledge of concern with respect to Mr. Messer's management style, pretty much confirmed by what Mr. Anguish said. Mr. Messer is a very capable individual. He is very focused on his tasks, that being the operations of the Power Corporation, and I would suggest that his style at some point in time caused some differences of opinion.

Mr. Gantefoer: — Mr. Anguish testified this afternoon that there was some heated discussions between himself and Mr. Messer during his mandate as the Chair, and quite often they were vigorous discussions and various definitions of the relationship.

Were you given any direction in terms of establishing your relationship with the chief executive officer early on when you assumed your mandate? You indicated, I think your words, that you were determined to turn a new page.

Were you made aware of those outstanding issues or concerns between past Chairs and the chief executive officer?

Hon. Mr. Lautermilch: — No. I think it's appropriate, when you assume a portfolio every individual will have their own style of dialoguing with the people they work with. And with Mr. Messer and all of the other people that I worked with I indicated that it was my intention to develop a very positive working relationship — strong, positive working relationship. And that's what I'm referring to in terms of a new page. It has nothing to do with any conversations or any direction from anyone. That is what I hoped to achieve with the people that I worked with, and the people that I work with now.

Mr. Gantefoer: — In Mr. Anguish's discussing the issue, it was said that there was a conflict of personalities between the board of the day and the chief executive officer. When you received your appointment as the minister responsible in the cabinet shuffle, did the Premier indicate any comments in terms

of the operation of SaskPower and the potential conflict of personalities?

Hon. Mr. Lautermilch: — No.

Mr. Gantefer: — There was no direction given to you in terms of establishing direction in your relationship with the chief executive officer?

Hon. Mr. Lautermilch: — None.

Mr. Gantefer: — In your discussion with Mr. Messer you indicate that you felt that you had a very clear understanding about the relationship between himself and yourself. Did that discussion at all indicate that you expected complete and forthright disclosure of all significant events happening within the corporation or its subsidiaries?

Hon. Mr. Lautermilch: — I'm just looking through my notes and my comments with respect to the meeting that I had with Mr. Messer. And I think it's fair to say that I felt it necessary to have full disclosure, and a very information-oriented relationship. And I think that I indicated to you as being the case in my opening statement.

Mr. Gantefer: — In reflection, did Mr. Messer live up to his end of the bargain in regard to the arbitrage activities that were occurring in Channel Lake during this period of time?

Hon. Mr. Lautermilch: — Well I refer you back to my comments, and I think what I would want to do is read into the record again what my expectations were. I said in my statement that I expect management to report to the board in a full, accurate, and timely fashion whenever board decisions are made, or issues arise that the board, the government of the legislature, ought to know about. And I don't think that there was any misunderstanding of my position with respect to that. Anything short of that I would not have been satisfied with.

Mr. Gantefer: — So directly — do you believe Mr. Messer lived up to his part of the arrangement in terms of reporting to you that Channel Lake had gone into significant levels of arbitrage contrary to the authorization of the SaskPower board and contrary to your philosophical approach. Did he or did he not live up to his part of the responsibility of informing you of those significant events?

Hon. Mr. Lautermilch: — Well you know, as I would say, Mr. Gantefer, there were some deficiencies, and clearly this is one of the areas that I in retrospect have as a concern. In hindsight it would appear to me that the board wasn't fully involved in the knowledge of the operations of Channel Lake.

Mr. Gantefer: — So a very easy, yes or no, were you informed appropriately by Mr. Messer about the activities of Channel Lake?

Hon. Mr. Lautermilch: — I don't believe so.

Mr. Gantefer: — I take that as no.

Hon. Mr. Lautermilch: — You can take that as no.

The Chair: — Mr. Gantefer, could you start to wind up of your line of questioning?

Mr. Gantefer: — I was just starting to have fun.

The Chair: — Well again I would ask the committee members, would you like to suspend our regular procedures and move to 45 minutes per party?

Mr. Gantefer: — I have one further line in regard to this area then, Madam Chairman, if I may, and I'll keep it fairly brief.

The Chair: — Excuse me, Mr. Gantefer. Just a moment. It seems to me it might expedite matters if we allowed each party 45 minutes. So why don't you carry on until about 20 after 7.

Mr. Gantefer: — Thank you very much, Madam Chair, and committee members. I would like to move on.

You know clearly . . . I think you've indicated that you had expectations of a standard of disclosure and candor coming from your chief executive officer that Mr. Messer did not live up to. I want to explore a bit how you see the board's responsibility to be proactive in terms of making inquiries of the management, particularly through the audit and finance committee.

Would you give me your expectation of what the role of the audit and finance committee is of the SaskPower board?

Hon. Mr. Lautermilch: — Well the role of the audit and finance committee, as it relates to the time that I was chairman of the board, was to review in more detail the operations of the SaskPower Corporation; to review the financial statements and deal with it in a little more detail I guess than the general board would; and that if any issues that would be brought to them that they would scrutinize. And that's how I saw the role of the board.

Mr. Gantefer: — Of the audit and finance committee.

Hon. Mr. Lautermilch: — Of the audit and finance committee.

Mr. Gantefer: — Thank you. Would that responsibility for scrutiny extend as well to the subsidiaries?

Hon. Mr. Lautermilch: — The subsidiaries were a part of the annual financial statement, and as such that information would come to the audit and finance committee.

Mr. Gantefer: — So the role Mr. Anguish indicated today . . . that he would consider it appropriate for the audit and finance committee to make routine questions of SaskPower management in terms of operations, financial implications, and also would have those inquiries extend down to the subsidiary — in this case Channel Lake.

Hon. Mr. Lautermilch: — I would believe that they would have access to the financial statements that would come from the subsidiaries, yes.

Mr. Gantefer: — Not only have access to, but be responsible for?

Hon. Mr. Lautermilch: — As it relates to Channel Lake, as I understand it now and in hindsight, they had asked for regular updates from Channel Lake management.

Mr. Gantefoer: — In testimony we heard last week, Mr. Mintz, who is the Chair of the audit and finance committee, said that he didn't believe it was his responsibility to look at subsidiaries. Would you take exception to that position?

Hon. Mr. Lautermilch: — I think there are instances where the board had requested the audit and finance committee to deal with specific issues. One would be a board request in terms of Channel Lake, asking that the sale arrangements be brought through to the audit and finance committee, and through the audit and finance committee to the full board.

Mr. Gantefoer: — Were there not also notes to the financial statements that expressed a concern that Channel Lake was getting into these unauthorized gas trading activities?

Hon. Mr. Lautermilch: — That was never raised with the board of . . . the full board of SaskPower.

Mr. Gantefoer: — But wouldn't that not . . . that be the kind of issue that should have been raised with the audit and finance committee?

Hon. Mr. Lautermilch: — I would think that if there were activities outside of the mandate, it would be the responsibility of the management of the subsidiary, Channel Lake in this case, to request an expansion of mandate from the board.

Mr. Gantefoer: — And they never requested that?

Hon. Mr. Lautermilch: — No.

Mr. Gantefoer: — Who would be responsible for that oversight?

Hon. Mr. Lautermilch: — I would say the management of Channel Lake, who are the same management of SaskPower.

Mr. Gantefoer: — So indeed the management group, as you indicate, who are the management group of SaskPower and who sat as the board of Channel Lake, did their own authorization really, without letting anyone know, in order to cover the arbitrage activities. Is that correct?

Hon. Mr. Lautermilch: — I haven't reviewed the testimony in great detail. But I would think it's fair to say from my perspective, that the board, first of all, was not aware of arbitrage activity. Secondly, I don't believe would have agreed that it was an appropriate nature of business for Channel Lake to be involved in.

Others may differ with respect to what they believe their mandate to be, but it's my interpretation of the board minutes that were approved in '93 and '94, that that would not be the case. I can only tell you what I knew, and my interpretation of what I found out to be authority for Channel Lake.

Mr. Gantefoer: — In terms of the board not knowing, would it be fair to say that the board relied almost entirely on the audit

and finance committee to act as their eyes and ears or their watch dog or the people that would raise concerns in their review of the financial affairs of the corporation?

Hon. Mr. Lautermilch: — No, I wouldn't characterize the board as relying entirely on the audit and finance committee. Certainly management of the corporation has a role to play with respect to reporting to the board. And we did rely, certainly, on the audit and finance committee to view the financial documents, financial statements, and to deal with those types of issues. But there's also a responsibility from management to present to the board information.

Mr. Gantefoer: — Both the CIC report and the Deloitte Touche report seemed to indicate, in my reading, that the board very much relied on the audit and finance committee to provide that vital link between the management and the activities that management was engaging in and the board — in terms of being the watch dog if you like, the liaison between the full board and management. Was that not the appropriate role of the audit and finance committee . . . is to, if you like, in a somewhat scrutiny fashion, oversee the operation of the management?

Hon. Mr. Lautermilch: — Mr. Gantefoer, let me answer in this way. I believe that the board of SaskPower had a responsibility to ensure that public policy that is developed, the board policy that's developed, is enacted on by management. And I think that that is an appropriate role for a board to play.

The role of management is to deal with the day-to-day operations of the corporation that it is charged — including the subsidiaries — that it is charged with managing. Certainly the board expected — and I expected as the Chair — to have information put before us to allow us to make appropriate and to make good decisions.

Mr. Gantefoer: — In terms of the responsibility of the board then . . . to ensure that management follows the direction and public policy that the board and yourself, as the Chair, and the liaison through you to the cabinet, is setting out. Would you agree that SaskPower management did not follow the public policy direction that the board had laid out?

Hon. Mr. Lautermilch: — With respect to arbitrage it would be my opinion that they were acting beyond the scope of what the board had authorized.

Mr. Gantefoer: — Would you say that they clearly went beyond when the minute of February, I believe, that Mr. Anguish pointed out this afternoon indicated that there was a limit of \$1 million in order to facilitate some routine trades to make sense for moving gas in an appropriate way. When they had moved that trading up to \$80 million, would you say that they had moved out of that policy level in a very significant way?

Hon. Mr. Lautermilch: — It was certainly beyond the kind of activity . . . that my understanding . . . those two board minutes authorized Channel Lake to be involved in.

Mr. Gantefoer: — And, as a result of the fact that they engaged in those arbitrage activities, they came to a position where they realized they might be at risk of losses anywhere . . .

initially it was pretty uncertain what they might be, but it could be in the magnitude of 8 to \$20 million.

Hon. Mr. Lautermilch: — Your question was?

Mr. Gantefer: — The question is would the arbitrage activities have led to the fact that the corporation would have stood to be at risk for those very significant losses because of the unauthorized arbitrage activities?

Hon. Mr. Lautermilch: — I think I indicated in my opening statements that I would have been very concerned had I known arbitrage as a practice within Channel Lake was taking place and that would have been the reason that I would have been concerned.

Mr. Gantefer: — Would it also have been potentially the reason why management wanted to move to mitigate those losses as expeditiously as possible by getting out of the holding of Channel Lake? And that the board was then told it would be in their advantage to sell Channel Lake for . . . not the real reasons — that said that royalty trusts were a good deal right now.

But how could they possibly have held the information from you that they potentially had put the company at risk for such a significant amount of millions of dollars and simply say it's time to sell. Would that be a severe breach of trust between yourself and senior management?

Hon. Mr. Lautermilch: — Well, Mr. Gantefer, the motivation, as it was shared with the board in the period from January to the final sale on June 20, was one that I think the board believed to be legitimate — that we no longer require the asset to satisfy and to serve the needs of SaskPower in terms of its gas requirements.

Those topic summaries are before you. I think they clearly state the reasons for sale, and that's how the board understood them, and I could only tell you on what basis we made the decisions. And those were based on the fact that we would receive the fair market value that was arrived at by an independent appraisal, that the supply for gas would be available through the market system and through the system of its operations, and that's how we came to the conclusion that the sale would be appropriate.

Mr. Gantefer: — But they withheld from you, sir, the fact that they engaged in arbitrage activities and that those arbitrage activities stood to lose the corporation several tens of millions of dollars, and they withheld that from you and the board. Is that not true?

Hon. Mr. Lautermilch: — I think I indicated in my comments that the first I learned of arbitrage was in the fall of 1997 when the auditor's report was tabled in the provincial legislature.

Mr. Gantefer: — So you're saying that it's true, that they withheld that information for you at the time when you were asked to consider the sale of the property?

Hon. Mr. Lautermilch: — I'm saying that my first knowledge of arbitrage was, as I indicated in my statements, in the fall of 1997 when the auditor's report was tabled in the legislature.

Mr. Gantefer: — So you are saying quite clearly that they had not lived up to their responsibility. Knowing that, was it not your responsibility to take the responsibility for this lack of honesty between yourself and your senior officials?

Hon. Mr. Lautermilch: — I think I was pretty clear, Mr. Gantefer. The first I understood or had knowledge of arbitrage was in the fall of 1997 when the auditor's report was tabled in the legislature. I have to leave this committee and you to draw your own conclusions with respect to . . .

I feel my role, and I think it's important and appropriate, that I share with you the knowledge that I had. This committee is charged with making recommendations to the legislature and will do its job. I'm here to share my knowledge as the time I was Chair of the board.

Mr. Gantefer: — Wouldn't the kind of information that was being withheld from you and the board been critically important in making the decision to sell or not?

Hon. Mr. Lautermilch: — Mr. Gantefer, let me say this. There certainly in my mind were some deficiencies in terms of the knowledge that the board had on the 20th of June. I think we made a reasonable . . . And we acted reasonably based on the information that was before us at that time in accepting the advice of our officials to sell.

But I want to say as well that when I realized — when we realized — there was more to this story, I think myself and the CIC board acted properly in terms of initiating the process that you're now part of and that you're involved with.

I want to as well say, as I said in my statements, that the government deserves its share of criticism, as I indicated I do. In hindsight I think I could have more aggressively pursued questioning at the board level with respect to the activity.

Having said that, I think that we have acted reasonably and appropriately in terms of the process that you're now involved in.

The Chair: — Thank you, Mr. Gantefer. Your time is completed. You will have another opportunity to question again. Mr. Hillson for 45 minutes, please.

Mr. Hillson: — Yes, thank you. Mr. Minister, on May 9, 1997 you made a statement in the House answering a question actually about the proposed investment in Guyana and in your answer you point out that the member "forgets to mention the fact that there was a \$5 million profit made on the sale of Channel Lake Petroleum," pointing that out that not everything the Crowns have done has gone badly. Some things have been success stories, such as the sale of Channel Lake.

Now I accept, sir, at the outset that you made that statement in good faith. But at some point in time you must have realized that that was not the case. When would you have become aware that that was not in fact the case?

Hon. Mr. Lautermilch: — I believe it would have been on June . . . it was just prior to the June 20 meeting. I believe it was June 18.

Mr. Hillson: — And of course another statement in the House on April 10, 1997 also again pointed out the success of the Channel Lake venture and how well SaskPower had done in its “good business decision,” again citing a \$5 million profit. Now although that was made by a private member — that statement — I assume that the government had assisted and vetted in the preparation of that statement. Would that be correct?

Hon. Mr. Lautermilch: — Could you rephrase your question? Or just ask me the question again. I’m not . . .

Mr. Hillson: — Member’s statement, April 10, 1997. I can pass it down to you if you wish. The *Hansard* of April 10. Are you familiar with what I’m referring to?

Hon. Mr. Lautermilch: — Right, okay.

Mr. Hillson: — . . . it was made by a private member. I’m assuming it was a statement prepared and approved of by the government.

Hon. Mr. Lautermilch: — I believe, Mr. Hillson, as I understand it now, the statement was made based on a press release by DEML and SaskPower.

Mr. Hillson: — So you’re actually saying that the member involved drafted the statement?

Hon. Mr. Lautermilch: — I can’t say who drafted the statement, Mr. Hillson.

Mr. Hillson: — At any rate, I don’t mean to make light of it. The point is though, these statements were made in the House. They were never corrected; were they?

Hon. Mr. Lautermilch: — To my knowledge, I don’t believe they were. I think the information would have come to the House as a result of the Deloitte Touche, Gerrand, or CIC report.

Mr. Hillson: — After it all hit the fan.

Hon. Mr. Lautermilch: — In hindsight, as I look at this, by the time that I realized there was a change in the sale price, that the board realized the change in the sale price, I believe the session had adjourned. There was a cabinet shuffle shortly after. And to be honest with you, I never thought of it. I just never gave it any concern.

Certainly there was, from my knowledge, no intention to mislead the legislature. And in hindsight, it could have been corrected and perhaps should have been corrected.

Mr. Hillson: — Okay, I accept that statement then, that you regret that the information wasn’t corrected when you became aware that this was not in fact the correct figure.

Hon. Mr. Lautermilch: — I want to assure you there was certainly no intention to mislead the legislature.

Mr. Hillson: — But what about your cabinet colleagues as well? You’ve told us that there was no briefing when . . . there was a change in ministerial responsibilities which came about

the same time. There was no briefing to the incoming minister about Channel Lake because you considered the file closed.

Did it not occur to you at the time, sir, that the file isn’t exactly closed? It’s on the public record that we sold for a \$5 million profit, and that’s not exactly the way it happened. There’s still something smouldering away in the back room that could just burst into flame on the new minister at any time, and of course did. Did that not occur to you?

Hon. Mr. Lautermilch: — I assumed on June, the sale of the Channel Lake subsidiary had been completed. The corporation was to show over its lifetime a positive cash flow to the corporation. The board had concluded that it was a reasonable decision and that we no longer needed the asset. And from that perspective certainly I assumed that the file was closed.

I think with respect to the briefing process, there’s no doubt that when I assumed the portfolio . . . and I’m assuming that when others assume portfolios, issues of relevance are brought to the attention of the new ministers.

Mr. Hillson: — Now if it didn’t cross your mind, I guess it didn’t. But my question still is though, sir, that in terms of the file being closed, I mean, the problem is that there is out there in the public this report that we sold it for a \$5 million profit. And that leaves a little loose end not tied up that could come back to haunt us — and of course, did come back to haunt us.

Did that not occur to you as something that the incoming minister really should be aware that there’s this minor little detail still out there, namely that we gave out wrong information as to how we came out on this sale?

Hon. Mr. Lautermilch: — Mr. Hillson, I can only say to you that I never thought of it. It didn’t cross my mind; it wasn’t an issue for me at that time.

Mr. Hillson: — And now with the wisdom of hindsight, what would you say about that, sir?

Hon. Mr. Lautermilch: — Well I think in retrospect, the figure could have been clarified — and subsequently was. I think that the time the committee has spent, the documents that were tabled in the legislature, both the Deloitte Touche and the CIC report, have given very much clarity to the situation.

Mr. Hillson: — Well I guess my point, though, is that while obviously you’re right, this smouldering problem did burst into flame, it all became public with great upset and all, but what if it had just stayed quietly on the back burner? Would the information ever have been corrected? Or we would just have gone along our way thinking that Channel Lake had been sold for a \$5 million profit and everyone would say good enough, leave it alone?

Hon. Mr. Lautermilch: — I would assume that financial records would be tabled with respect to the finalization of the sale of Channel Lake and certainly would become public.

Mr. Hillson: — And would you have, at some point in time, told the incoming minister that, you know, we do have a bit of a problem here; we gave out information that will be contradicted

by subsequent disclosures?

Mr. Lautermilch: — I'm assuming that would have happened, yes.

Mr. Hillson: — You have of course told Mr. Gantefer that in terms of the gas trading and the arbitrage that activities that were not authorized were being conducted. Now in terms of ministerial responsibility, would you not agree with me that ministerial responsibility doesn't mean very much if the minister is kept in the dark, does it?

Hon. Mr. Lautermilch: — Well I think, Mr. Hillson, the minister is responsible, certainly, to act in the public interest, reasonably, properly, in a timely fashion. And that has to be done on the basis of the information that is made available to you. And I think that's important. In terms of information, I think it's critical that full information be allowed to be transmitted to the board of directors of the corporation, or to a minister, or to both.

Mr. Hillson: — But where is ministerial responsibility at in our system if the minister's kept in the dark? It's nowhere, isn't it?

Hon. Mr. Lautermilch: — Well, Mr. Hillson, let me speak to the process that we are involved in. Part of the role and responsibility and, I believe, the end result of this committee, will be certainly more positive response to information flow. I think that the work that the Crown Investments Corporation is doing right now, in terms of accountability, in terms of reporting process, is going to have a very positive impact on the operations of government.

I believe that that process will assist us and assist these Crowns in ensuring that there is information flow to the appropriate sources and at the appropriate times. I think one of the lessons that we have learned through this is that that process needs to be enhanced. I think the actions of the CIC board and the officials at CIC are in fact doing that. There have been some, I think, very positive lessons learned.

And let me go through a few of the things that have happened. The board has reviewed the role of the president and the CEO of SaskPower. As I indicated in my statements, ultimately we decided that we wanted a new CEO. We reviewed our legal opinions regarding the sales agreement with DEML — accountability, I think, unparalleled. You've got those opinions. We've fully disclosed all of that to the legislature and to the public. There have been 1,000 documents made available here. Key players who were involved in the operations of Channel Lake made themselves available to you. And the CIC board is working very diligently to tighten up the corporate governance of the Crown sector and the reporting mechanism, and to better define that reporting mechanism for the corporations, for the holding company, CIC, and ultimately for the legislature. So I think that there have been some very positive things that are happening in terms of reporting and are happening in terms of transparency.

I want to say the operations of the Crown Corporations Committee, as I've watched it in the past while, have indicated quite clearly that this administration is determined to ensure a high level of accountability, a high level of information flow,

and if and when that process breaks down, we will move to correct it. And I believe that's what's happening as part of this committee, and that's certainly the direction of this administration.

Mr. Hillson: — Well, I'm not arguing with you, Mr. Minister, but it does seem to me . . . I think we would be in complete agreement that, okay, there was disclosure made once this was a big scandal and then we have this committee etc., etc. But what can we do to ensure that the minister will be properly briefed and the minister in turn will properly brief the legislature and therefore the public of Saskatchewan without going into all this?

Hon. Mr. Lautermilch: — I think that's part of what the Crown Investments Corporation is doing at this point, and part of that will be as a result of recommendations that the Crown Corporations Committee feeds back to CIC, because certainly we're going to use this experience to be able to enhance and improve on the reporting mechanisms.

There may be in the future occasions where information flow breaks down. No one can guarantee that that won't happen. But what we need to do, and what I believe we are doing, is ensuring that we put in place a framework for a process that will ensure, as much as you ever can, there's full and open information flow.

Mr. Hillson: — Are you saying, Mr. Lautermilch, that your view is that simply because of the fact of this inquiry the chances that we will in the future have a Crown corporation that goes off and does its own thing and doesn't tell the minister or anyone else about it, is thereby lessened?

Hon. Mr. Lautermilch: — Well I'm saying that every experience that we go through we learn from, and certainly this is one that I've indicated the government has learned from.

And there will be some changes. I think it's always possible that a system, even if the system isn't flawed, will break down and can break down. But I think that through those experiences we need to learn and improve on what we do.

Mr. Hillson: — When you were appointed minister responsible for Saskatchewan Power did you have any concern that part of your job was to, in effect, be the boss of someone who might have more political pull than yourself? And did that put you in a very precarious position?

Hon. Mr. Lautermilch: — No. I can tell you that that wasn't my thought. I've known Mr. Messer. And what I knew of Mr. Messer when I assumed the portfolio, that he's a very strong individual, but that he's also a very capable individual. And I entered this portfolio assuming that he and I would and could build a positive working relationship. I can tell you that there were no outside influences in terms of putting together the relationship that we would build.

I can say to you that in Mr. Messer's tenure he managed the corporation very well. When I look at other utilities across the country — and I had the opportunity to compare them — and compare what they were doing and how they were adapting to change and to the new market-place, the new deregulated

market-place, when I looked at what Mr. Messer had done internal to the corporation, in terms of restructuring it, positioning the different entities within that corporation to act as separate and individual business units, when I looked at the financial results of his operations, it told me that Mr. Messer was a very capable manager of SaskPower. In terms of . . .

Mr. Hillson: — But that's not my question, sir.

Hon. Mr. Lautermilch: — Well, I'd like to finish by saying that there were no outside influences with respect to my relationship and my discussions, my day-to-day operations, with Mr. Messer.

Mr. Hillson: — Did you have any concerns though that as, on paper Mr. Messer's superior, you were in the difficult position of trying to make demands on a person who might very easily pull rank on you?

Hon. Mr. Lautermilch: — No.

Mr. Hillson: — That was not a concern with you?

Hon. Mr. Lautermilch: — No.

Mr. Hillson: — Now, you have repeated several times a quote from your opening statement that you expect management to report to the board in a full, accurate, and timely fashion. Do you believe that happened in the case of SaskPower?

Hon. Mr. Lautermilch: — Are you asking on general terms or specifically to one particular instance?

Mr. Hillson: — Well, let's first start off specifically with the Channel Lake experience.

Hon. Mr. Lautermilch: — I believe there was a deficiency in terms of the information that came to the board.

Mr. Hillson: — Do you have reason to believe that this may not have been the only occasion in which reporting was not on a full, accurate, and timely basis?

Hon. Mr. Lautermilch: — No, I don't.

Mr. Hillson: — So you think this is the only case in which you were not kept fully and completely informed?

Hon. Mr. Lautermilch: — I can only tell you that this is the only circumstance that I can indicate to the committee that those were my feelings.

Mr. Hillson: — In your own mind, the failure to keep yourself and the board informed as to what was going on in Channel Lake, does that in your mind have a bearing on the issue of severance?

Hon. Mr. Lautermilch: — Well I think, Mr. Hillson, what I will say, and I will answer it in this fashion, severance to me is a matter of law. It's a matter of what's fair and what is appropriate by law.

Mr. Hillson: — So you're saying you'll defer to the lawyers on

that question.

Hon. Mr. Lautermilch: — What I am saying is that in terms of severance, as you will know, there was differing legal opinions.

Mr. Hillson: — Yes. I was speaking of how you feel about paying severance to someone you say did not keep you properly informed.

Hon. Mr. Lautermilch: — Well let me say this about severance. It would have been politically expedient to offer no severance and allow a lawsuit, but I think the appropriate thing to do was to look at the issue, as was done by the Crown Investments Corporation board. And based on that, we involved ourselves in a process where Mr. Fair would deal with this issue based on legal advice that he would receive. I think it would have been inappropriate for the CIC board to become directly involved. I don't think it would be appropriate to politicize someone's employment rights. The decision needed to be based on law, and ultimately was.

Mr. Hillson: — Now you say on page 3 of your opening statement that:

. . . arbitrage as a separate line of business . . . might have antagonized the oil and gas industry. That would not have been acceptable because our government is working hard . . . to encourage private oil and gas firms to invest.

You seem to suggest there that arbitrage and gas trading not connected to SaskPower's needs would run contrary to basic government energy policy.

Hon. Mr. Lautermilch: — I think what I'm saying is that it has been the position of this government since we assumed power in 1991 that we wanted to, and desired to, build a very strong and positive working relationship with industry — not only the natural gas industry, but the oil and gas industry, the potash industry, the retail sector, the manufacturing sector. And that's been a very strong goal that we have been trying to achieve.

Now having said that, we need to ensure and needed to ensure that SaskPower has an adequate supply of natural gas to fuel the gas turbines that provide something in the neighbourhood of 3 per cent of the electrical energy of the province. And I think it's fair to say that it's our responsibility, was our responsibility, to ensure that that supply of natural gas be reasonably priced and that it be secure.

Mr. Hillson: — Pardon me for interrupting. I don't think we're talking at all about those activities related to supplying SaskPower's needs. We're talking about those activities that were separate.

Hon. Mr. Lautermilch: — Which is why I take the position, and indicated in my statement, that we would not have nor would I want to see Channel Lake involved in activity that was not directly involved in assisting it to supply gas and to manage its natural gas supply. If it's a matter of managing natural gas supply, I would see that to be reasonable activity. In terms of arbitrage, that is a separate profit centre within Channel Lake that I can say I would have not supported activity in.

Mr. Hillson: — And you seem to be saying that arbitrage as a separate activity would run very contrary to basic government energy policy.

Hon. Mr. Lautermilch: — I believe that basic government energy policy is that we create an environment, taxation, regulatory regime, and a relationship with industry that allows it to invest and that allows it to develop our resource base, create jobs in the province. That's the policy.

Mr. Hillson: — So are you agreeing with me then?

Hon. Mr. Lautermilch: — If you're saying that . . .

Mr. Hillson: — I'll repeat it if you'd like.

Hon. Mr. Lautermilch: — Go ahead.

Mr. Hillson: — Arbitrage as a separate activity would run contrary to government energy policy.

Hon. Mr. Lautermilch: — I believe that to be the case.

Mr. Hillson: — So again we have then Channel Lake and the head of SaskPower pursuing policies that you say are contrary to government policy. I mean where does that leave us in terms of the basic issue of Crown corporations having a public accountability — Crown corporations being under the minister, the legislature, and ultimately the people of Saskatchewan?

Hon. Mr. Lautermilch: — Well as I indicated I think there were some deficiencies, and this is one of the areas, when we learned that arbitrage activities in fact were taking place in the auditor's report, I indicated to you earlier that was when my first knowledge of arbitrage as a separate business. I was made aware of . . . that was in, as I recall, December of 1997. We then, as a government, the Minister responsible for CIC, put in place a process whereby we would be doing an analysis of the Channel Lake corporation subsidiary and to try and make very clear, working with CIC, what its activities were during its lifetime.

Subsequent to that, this information and I guess over 1,000 documents have been provided. There's stacks of them behind all of us here . . . have been made available to the general public so that they can become aware and that process took place.

Mr. Hillson: — Okay, yes, so we have a scandal and a full-blown inquiry. But I don't think we want that in our Crowns, sir, to happen very often, if at all. So my question still comes back. What do we have in place today to ensure that we won't have a Crown corporation pursuing activities contrary to government policy without authorization and without telling anybody? What do we have in place to ensure that won't happen again? Is there anything different, or are you just saying you have faith and confidence that it's not likely to happen again?

Hon. Mr. Lautermilch: — I'm saying in this case the process clearly broke down. I'm also suggesting to you that there is a large degree of awareness in terms of the expectations of this government in terms of accountability and information flow, and I think that has permeated through the Crown corporations

sector. And I believe that certainly the CEOs of the corporation understand the need for sharing of information, and I think that that process will be much enhanced.

Mr. Hillson: — Now you make reference to the March 27 board meeting that was a conference telephone call.

Hon. Mr. Lautermilch: — That's right.

Mr. Hillson: — And we have been told that at that meeting someone asked a question whether Mr. Portugal had a personal interest in the sale transaction. Do you recall that question being asked?

Hon. Mr. Lautermilch: — No, I don't recall that question being asked.

Mr. Hillson: — Were you at that full meeting?

Hon. Mr. Lautermilch: — I was . . . I believe I was in my office. I stand to be corrected, but I think I was in my office at that time. Yes, it was a telephone conference call meeting.

Mr. Hillson: — And you were present at the whole meeting?

Hon. Mr. Lautermilch: — Yes. I'm looking at the board minutes, and I was present at the meeting.

Mr. Hillson: — But you don't recall that question being asked?

Hon. Mr. Lautermilch: — No, I don't specifically recall that question.

Mr. Hillson: — You mention that on June 18, Mr. Messer requested a board meeting to ratify the sale of Channel Lake.

Hon. Mr. Lautermilch: — What was the date, Mr. Hillson, you referred to?

Mr. Hillson: — June 18. And this on page 4, top of page 4 in your statement, sir.

Now my question there though is that you use the phrase a "Board meeting be arranged to ratify the sale of Channel Lake." Now . . .

Hon. Mr. Lautermilch: — If I could just stop you, Mr. Hillson. You were saying page 4 of my statement?

Mr. Hillson: — Yes.

Hon. Mr. Lautermilch: — And which paragraph are you referring to because . . .

Mr. Hillson: — Quite near the top:

I recall only one telephone contact with Mr. Messer leading up to this meeting, and that was at 4:45 p.m., on June 18th.

Mr. Messer phoned to ask that a Board meeting be arranged to ratify the sale of Channel Lake.

Hon. Mr. Lautermilch: — I'm sorry Mr. Hillson you're

reading from . . . my pages are different than yours, so I'm just having a little bit of difficulty finding where you are. But I think you're on the third paragraph?

Mr. Hillson: — Yes, paragraphs 3 and 4; they're each one line.

Hon. Mr. Lautermilch: — Okay, yes. Okay, fair enough, I'm with you now.

Mr. Hillson: — Is that just a choice of words? Was the meeting to decide whether or not to ratify the sale, or was it a mere formality to ratify the sale?

Hon. Mr. Lautermilch: — I think Mr. Messer indicated to me at that meeting that they had concluded documentation with DEML and that he asked that I put together a board meeting to ratify the sale, as I've indicated in my statement to you.

Mr. Hillson: — So what was your view of the June 20 meeting? Was it to get together and to hear the background and discuss it and decide whether or not to ratify the sale, or was it to call the board together and go through the formality of ratifying the sale?

Hon. Mr. Lautermilch: — I think that the June 20 meeting was to deal with a recommendation that came from Mr. Messer dealing with the finalization of the sales agreement to the Channel Lake subsidiary assets.

Mr. Hillson: — Do you think the meeting could have gone either way, or was it a foregone conclusion the meeting would ratify?

Hon. Mr. Lautermilch: — I had no knowledge of what the board would do on the 20th. The recommendation was before the board and I assumed the board would, as it would do on any topic summary and recommendation, would review the recommendation, review its merits, discuss the details surrounding the issue, determine whether the sale would be in the public interest, whether it would be a good deal for the shareholder, and based on that discussion, would then determine whether to accept or reject the agreement — or the recommendation, let me rephrase that.

Mr. Hillson: — Okay, I was just wondering from the use of the phrase, was convened to ratify the sale, sounds like a formality.

Hon. Mr. Lautermilch: — I think the board had the opportunity to either accept or reject the recommendation.

Mr. Hillson: — Okay. And of course in the topic summary there is the information contained therein that SaskPower officials, and specifically Mr. Portigal, are mentioned as there have been no negligence in regard to them. And I assume you're aware that on April 16 Mr. Messer testified at this inquiry that the reason he said there was no negligence on the part of Mr. Portigal was that "Mr. Portigal was beyond negligence. In my view, there was something more here."

My question for you is that what the meeting was told on June 20, that when he said that Mr. Portigal wasn't guilty of negligence, he meant that there was something more here than negligence?

Hon. Mr. Lautermilch: — I'm attempting to recall the meeting of the 20th with respect to your question, and as I recall that meeting, it was indicated, and I think it's pretty much in the summary, that because . . . and I don't recall him using those words at that meeting. Rather the comments would have been along the line that he had sought legal opinion, which legal opinion would lead him to recommend that because we sold, the corporation would be sold at a fair market value, that there was no recourse. And that's how I understand how Mr. Messer described that for us at the June 20 meeting.

Mr. Hillson: — But I'm wanting to talk specifically about the issue that Mr. Portigal wasn't negligent. You recall receiving that information that there was no negligence on the part of Mr. Portigal?

Hon. Mr. Lautermilch: — It's in the topic summary . . .

Mr. Hillson: — Yes, well was it explained to you . . . was it explained to you or the board members that what was meant by saying there was no negligence is that there was something more here than negligence?

Hon. Mr. Lautermilch: — No, it was never described, as I recall it, that way in the June 20 board meeting.

Mr. Hillson: — So simply there was no negligence period.

Hon. Mr. Lautermilch: — As I've indicated that market value had been received for the asset, that there had been an internal audit and legal opinion that . . . And I'm just trying to find the quote here and perhaps Mr. McKillop can help me with that.

I'll quote the topic summary: "Although additional checks and balances could have been put in place and will be in the future, the reviews (and he's referring to, I believe, MacPherson Leslie Tyerman legal opinion and the internal auditor's opinion) found no negligence on the part of SaskPower officials or Mr. Portigal."

And I believe that was the tone of the discussion on June 20, and I don't recall Mr. Messer embellishing on that or . . .

Mr. Hillson: — Elaborating on that?

Hon. Mr. Lautermilch: — Elaborating on that.

Mr. Hillson: — And in being told that we had received value for the asset, was there any discussion of the 10-year supply contract, and what if any value should be assigned to that supply contract?

Hon. Mr. Lautermilch: — I think the conversation, as I recall it, around the 10-year supply contract was that we needed, you know, we needed a source. We needed a supply, that it was within market range, and that it was a reasonable deal, the 10-year market agreement.

Mr. Hillson: — Now in the 1996 annual report for SaskPower, and that's CLP 11/4, I believe the only reference to Channel Lake contained therein is:

Drawing on market expertise, Channel Lake Petroleum

continues to purchase natural gas at the lowest possible price for SaskPower's gas powered facilities.

That's page 21. My question is, do you consider that adequate public disclosure, or can we anticipate more disclosure of the subsidiaries in future years?

Hon. Mr. Lautermilch: — I would want to say to the member, to Mr. Hillson, that the process that we're embarked upon that I described a little earlier, in terms of reporting, one of the areas that I believe we can enhance is — and I believe CIC is taking a very serious look at — how we are able to report the activities of the subsidiaries in a more transparent way. I think that that is a reasonable approach, and I certainly support that.

Mr. Hillson: — Okay, and then in 1995 it says:

The finance group also took several steps to deliver more reliable, relevant, and timely information to the corporation. These included development of Channel Lake Petroleum financial reporting and systems, the subsidiary of SaskPower's sole supplier of natural gas.

Was that in response to the Ernst & Young report that that statement was there? I'm sorry, page 13, and this is CLP 11/3.

Have you found that, Mr. Lautermilch?

Hon. Mr. Lautermilch: — I think I found it. Is it the two last paragraphs on the left-hand side that you're referring to?

Mr. Hillson: — Yes. Correct.

Hon. Mr. Lautermilch: — And your question was?

Mr. Hillson: — Was that a response to the Ernst & Young report, that there were no procedures or rules in place for gas trading and arbitrage activities?

Hon. Mr. Lautermilch: — I can't give you an answer on that. I don't know what it was in response to, Mr. Hillson.

Mr. Hillson: — And we were told that actually some draft procedures were prepared but in fact they were never adopted. Were you aware of that?

Hon. Mr. Lautermilch: — They were never brought to the board as I recall.

Mr. Hillson: — But you are recalling that Ernst & Young had said this was a serious deficiency that had to be addressed.

Hon. Mr. Lautermilch: — They could have. I have not seen that . . . (inaudible) . . . in the testimony.

Mr. Hillson: — You don't recall that.

Hon. Mr. Lautermilch: — No, I don't recall that.

Mr. Hillson: — Do you believe removing ministers from the boards of our Crown corporations will strengthen or weaken the accountability of our Crowns to the public?

Hon. Mr. Lautermilch: — I would say that the removal of ministers from the roles as Chairs of the Crowns should not in any way weaken the accounting. This committee has direct access to the boards of directors; they report here. They are scrutinized here by an all-party member of the Legislative Assembly. I would see and I would have no reason to believe that accountability should be diminished because ministers are no longer Chairs of the boards.

I think what's important is the way the financial statements are put together and the fact that they do come here. That is important.

And the fact that members of the legislature have the access to the — not only to the chairman of the board — but they have access to all of the officials. One of the areas of enhancement for accountability that has happened in the last few years is that officials, members of the legislature, have the opportunity to question directly officials.

So in terms of the enhancement of accountability, I don't believe that should make any difference at all.

Mr. Hillson: — Well maybe not, in view of the fact even with ministers on the board, we still have the situation of activities being done contrary to government policy and without authorization, without telling the minister. But my question is, is there anything you can tell us that would suggest that that's going to get better rather than worse by not having ministers on the board?

Hon. Mr. Lautermilch: — Well I think I indicated to you that you have and this committee has direct access to both the chairman and the CEO of these corporations. So I believe that the accountability and your access to questioning of these people is there and certainly will be used by this all-party committee of the legislature.

Mr. Hillson: — That completes that line of questioning, I don't think I should start anything now.

The Chair: — Okay, technically you did have about five minutes left of questioning.

I think I would like to test the committee now. I'm not certain how long the New Democrats plan to question. And I don't know, Mr. Gantefer, how much questioning you have left to do?

Mr. Gantefer: — Some.

The Chair: — Some. Half hour or more?

Mr. Gantefer: — Probably less than half an hour.

The Chair: — Less than half an hour. Mr. Hillson, about how much questioning do you think you would have with this witness?

Mr. Hillson: — I think Mr. Osika's going to do a . . .

Mr. Osika: — About 15 minutes.

The Chair: — About 15 minutes. Then it seems to me what's most reasonable is to call a short recess now and resume at around 20 after 8. And then that may take us till about 9:30 this evening which is well within the time frame that I'd allocated for the hearings this evening.

The committee is now recessed until 8:20.

The committee recessed for a period of time.

The Chair: — We will resume hearing testimony from Mr. Lautermilch with the government members leading the questioning now.

Ms. Hamilton: — Thank you. Good evening, Minister Lautermilch. I think that our members opposite have been doing a good job of asking a number of questions and I don't have much to add. But there are just a few areas I wanted to clarify from presentations of a few people who were here before us earlier.

And one is Rupert James from the private auditing firm. He's appeared at the committee a number of times before. And what he told us was that the rush to a March 31 time frame, people had speculated, might be to somehow change the practices of reporting and be able to consolidate and thereby perhaps hide something in that way. He basically stated to us, I think quite forcefully, that no, there's an acceptable accounting practice that they must follow to report to their own auditor, but also to his firm to be able to do their practices and that wouldn't be the case no matter what.

Do you agree with that statement?

Hon. Mr. Lautermilch: — I agree with what Mr. James has reported to the committee, certainly.

Ms. Hamilton: — You are also a minister of the Crown corporations board. Mr. Wright was here and he mentions that your board is working on a number of changes to the governance of the Crowns or perhaps a tightening up. Can you elaborate on those that would have an impact on the kinds of things that we've heard throughout the testimony here?

Hon. Mr. Lautermilch: — I think, Ms. Hamilton, I've indicated a number of areas where the accountability will be enhanced as part of the Crown Investments Corporation board. And I think it's fair to say that my colleagues on that board feel very strongly that the reporting procedures be clearly defined and be transparent in terms of the operations of the assets that are owned by the people of Saskatchewan through their Crown corporations.

I think that that will assist both the Public Accounts and the Crown Corporations Committees of the legislature to be comfortable in terms of the operations of the Crowns and of their subsidiaries.

That process is not complete, and I think that it will be an ongoing process. In areas where deficiencies will be determined, we're going to have to work to improve and to enhance in those areas. And I think that's an ongoing process that all members of the provincial legislature will want to be

and should be involved in.

Ms. Hamilton: — Okay. My final question to you is that SaskPower is a corporation, about a \$3 billion corporation, and what we've learned is that Channel Lake was about 1 per cent of the operation of the corporation. In your view of the management of SaskPower as a whole, what would you say your impression is of the management of the whole corporation during that time?

Hon. Mr. Lautermilch: — I think earlier this evening I indicated that I felt that Mr. Messer was doing a capable job. There are some areas in terms of the broader aspects of the whole power, the whole electrical systems, the corporations that are providing electrical service across Canada, across North America, are facing some very, very dramatic changes.

One of the first impressions I had when I assumed responsibility for SaskPower that Mr. Messer had a very good handle and a very good understanding of those changes. And he had a good understanding of the internal pressures within SaskPower Corporation — the pressures that would be created on that corporation.

He had a very difficult task in that change is never easy. SaskPower was a corporation that had been operating as a monopoly for 50 years. There was a corporate mentality within that corporation that the status quo, frankly, was acceptable because there was no competition. Very, very difficult to change the mentality, the corporate mentality of a structure of the magnitude that SaskPower is.

You indicated that Channel Lake was about 1 per cent of the assets — less than 1 per cent of the assets of the corporation. We were talking a purchase price in the neighbourhood of 25 million when it was first purchased and a sale price of 20.8 less trading losses. Quite clearly if you . . . to anyone, \$25 million, \$20 million, is an awful lot of money. And the fact that it's a 1 per cent component of the parent company of SaskPower gives you I think an idea of the expanse of the job, of the management and managing that asset.

So I say just in closing that Mr. Messer I think was a very capable manager. He was able to deliver a good bottom line. I've indicated that I thought there were some deficiencies, as there is with all of us. But overall I would have to say that I thought Mr. Messer was a very capable manager in terms of the financial operations and positioning that corporation for competition.

Ms. Hamilton: — Thank you, Madam Chair.

The Chair: — Any further questions, Mr. Tchorzewski?

Mr. Tchorzewski: — We have no further questions, Madam Chair.

The Chair: — There are no further questions on the government side? If not then I'll move to Mr. Gantefoer.

Mr. Gantefoer: — Thank you very much, Madam Chair. Mr. Lautermilch, I'd like to return to the whole issue of the disclosure of the SaskPower management to particularly

yourself about the issues surrounding the arbitrage trading of Channel Lake. Because I think quite clearly there is reason to expect that SaskPower management understood the directives of the board as expressed in their minutes, understood the philosophical direction of the government through Mr. Anguish, and understood that you supported that same direction of public policy as chairman of SaskPower.

Mr. Lautermilch, how do you reconcile the fact that under your watch senior SaskPower officials withheld significant information from you?

Hon. Mr. Lautermilch: — Mr. Gantfoer, let me answer that in this way. I have and I do accept ministerial responsibility. I also believe that I and the board of SaskPower acted reasonably and responsibly based on the information that was put before us as we were making our decisions.

On the basis of the information that was put before us in June of last year, I believe that we acted reasonably in accepting that advice. But also when we realized or when I realized in December that there was more to this story, I and my colleagues on the CIC board acted properly in investigating this matter and in drawing the appropriate conclusions.

A minister is responsible to act in the public interest, reasonably and properly and in a timely fashion, and you need to do that on the basis of the information that's available. And I believe I did so on June 20 when the information was put to us, and based on that information I think that we acted reasonably in accepting that advice. And as I indicated, when we found out there was more to that story in December, I believe we acted responsibly at that time as well.

So what happened? We launched an investigation. Deloitte Touche was asked to do an audit of the operations of Channel Lake from its beginning to the end. The Crown Investments Corporation did an investigation. And those investigations resulted in two documents that were presented to the legislature and to the people of Saskatchewan. And I think that was an appropriate process; they were appropriate decisions. And what are we doing now? We're working to enhance accountability. We're working to tighten up processes and procedures. And that's what we should be doing.

Mr. Gantfoer: — How do you reconcile that under your watch senior SaskPower officials deliberately withheld information that was critically important to your ability to function as a minister, to make the type of decisions in the public policy good. You've indicated that if you knew this information you would be very concerned about it, and I imply that you'd have taken action to stop it. You had your very most senior official and officials withholding this information from you on your watch. How do you reconcile that that happened under your mandate and not accept the ministerial responsibility of saying, I let this happen and I should tender my resignation?

Hon. Mr. Lautermilch: — What is ministerial responsibility, Mr. Gantfoer? Ministerial responsibility I think is quite clear — it's to act in the public interest, reasonably, properly, as I've indicated before. It's got to be done on the basis of the information that's made available to you. And I believe I did that.

So your question in terms of whether or not I assumed and acted responsibly, the answer is I believe I did. On the basis of the information that came to us at the board meetings that we have discussed, I believe I and the board of SaskPower acted reasonably in accepting that advice. As I indicated to you, subsequent to that we understood and learned that there was more to the story. Following that we watched investigations, tabled those in the legislature — the results of them — for everyone to read, everyone to see. Subsequent to that this committee was structured to go through the process that we're going through now so that all of this information, all of the ministers, all of the officials, would be available for your questions.

And based on that I believe I acted responsibly and I believe that I did properly and proper ministerial responsibility.

Mr. Gantfoer: — Who is responsible for the fact that you allowed your most senior officials to deliberately mislead you and withhold critical information from you? Who's responsible for that serious breach of public policy which went contrary to what was the stated objectives of the corporation, the stated objectives of your government, the stated objectives of your predecessor as Chair, and the stated objective of yourself as Chair? Who's responsible for the fact that you allowed those senior officials to mislead you?

Hon. Mr. Lautermilch: — Madam Chair, and Mr. Gantfoer, I've said earlier today, tonight, that I'm extremely disappointed in how this matter was handled and the government is as a whole. And I deserve my share of criticism. The government deserves its share of criticism. But I believe it's the duty to have managers manage. And I also believe that boards and ministers have the right to rely on their officials providing timely and complete information.

I've also indicated to this committee tonight, that in hindsight I could have been much more aggressive in challenging the information that was put to us. Having said that, based on the information that was put to us on June 20, I believe that the board and I acted reasonably and responsibly. When we found out there was more to the story, the process that I shared with you and that you're part of, was introduced and is acted upon.

Mr. Gantfoer: — But you, sir, are ducking the responsibility of the fact that under your watch the very most senior officials of the corporation you were responsible for deliberately, and in a very significant manner ... This isn't the day-to-day decisions of management. This is a very serious breach of the direction of public policy set down by your predecessor and yourself, set down by the board through minute, documented minutes, that under your watch, the most senior officials of your corporation deliberately misled you. And through you, the public was misled. Who's responsible for that?

Hon. Mr. Lautermilch: — Mr. Gantfoer, I'm saying to you that based on the information that was brought to us, we acted as a board, and I acted as chairman of the board reasonably.

Mr. Gantfoer: — But the information by your own admittance, I believe, earlier this evening, was very incomplete.

Hon. Mr. Lautermilch: — Well and as you will know, the CIC

board has met subsequent to the December report of the Provincial Auditor. It's understood that there was more to the story. We delved into the issue, and we found out through the Deloitte Touche and the Gerrand report what had transpired from the beginning to the end of Channel Lake. That information came to you. And I think that that is a responsible approach that was taken by the minister of CIC, the Deputy Premier. I support that position, and I support that process.

Mr. Gantefoer: — When CIC demanded Mr. Messer's resignation, and when the announcement came by Minister Lingenfelter that Mr. Messer had resigned, it was indicated in that press release that the reasons for his resignation had to do with Channel Lake and also Guyana.

Given the fact that Mr. Messer seriously misled you and the board in regard to Channel Lake, how has he misled you in regard to the Guyanese issue, and why was that a part of the reason for his dismissal?

Hon. Mr. Lautermilch: — I'm not familiar with that press release, and perhaps you could table it with the committee. I would like to see the drafting and wording of it.

Mr. Gantefoer: — I believe it's part of the documents. I don't have reference to it, Madam Chair.

The Chair: — Just wait a moment, Mr. Gantefoer. We'll check and get the document numbers.

Mr. Gantefoer, while we search for the document so that Mr. Lingenfelter can refresh his memory as to the contents, do you think you could go on and pursue a different line of questioning, and then we will get the document and we can deal with that question?

Mr. Gantefoer: — Thank you. I think I can do that.

Mr. Lautermilch, turning to another area then in the interval, I would like to again try to ascertain who was responsible. We have here senior public officials of a Crown corporation acting in a way clearly outside of the public policy set by yourself and the board.

And at the end of the day, the dismissal of Mr. Messer is handled through the CIC board, and the issue of severance is dumped into the lap of Mr. Milt Fair. It is Mr. Fair's testimony the other day that he actually was called from an orientation seminar in order to be in attendance with Mr. Wright in Mr. Messer's office to discuss this whole issue.

Do you feel that it was being at all fair to Mr. Fair in terms of asking him to deal with this issue, being very new to the board of SaskPower?

Hon. Mr. Lautermilch: — Yes.

Mr. Gantefoer: — In terms of Mr. Fair having the understanding that Mr. Messer had clearly misled the board and yourself, was that information fully and completely — and the implications of that — clearly understood by Mr. Fair when he made his recommendation about severance?

Hon. Mr. Lautermilch: — I can't tell you what might have been or might not have been knowledge that Mr. Fair had other than to say that you're correct in that Mr. Wright was asked to speak to Mr. Fair. And I guess Mr. Fair would then, based on that comment with Mr. Wright, speak to Mr. Messer, and the appropriate action would be taken based on legal counsel. But I can't speak to what knowledge Mr. Fair had or didn't have.

Mr. Gantefoer: — If you as the minister who was almost openly defied and withheld information from by Mr. Messer and the senior SaskPower management, how could you possibly have agreed to a severance package in light of that very serious breach of the confidence of senior officials in regard to public policy?

Hon. Mr. Lautermilch: — Mr. Gantefoer, let me describe it to you in this way. There were some deficiencies with respect to the operations of the conclusion of the Channel Lake sale. Documents were signed and were not read. There was \$80 million of arbitrage trading and the results of Deloitte Touche, Gerrand, the CIC report, would tell us that the SaskPower board wasn't fully informed. And I think those are all facts that are established.

With respect to the CIC discussions, I think it's fair to say that the members of the CIC board were no longer comfortable with Mr. Messer's management style. They were aware of the fact that information provided to the board didn't fully involve the board in the decision-making process, that the members of the CIC board had lost confidence, wanted a new style of leadership, and wanted a new chief executive officer. Now those are some of the facts, and those are what I would want to share with you.

In terms of the process by which Mr. Messer was informed of this, you were right. The board asked Mr. Wright to speak to Mr. Messer, which he did. And the reason that we wanted Mr. Fair as the Vice-Chair, and in essence the acting Chair of SaskPower board, was because we felt it was inappropriate for members of the CIC board to become directly involved in the process and that it was appropriate to delegate to Mr. Fair. We felt that we didn't want to politicize anyone's employment rights and that whatever decision was arrived at, it needed to be, it had to be based on law.

And that's how that process happened, and that's why that process happened as it did. And I can't speak for Mr. Fair, but I can only assume that he would view this as being part of his responsibility as the Vice-Chair of the board of SaskPower. If Mr. Fair would have felt that it wasn't his role, I would have assumed that he would've relayed that to Mr. Wright, but that didn't happen. So I can only conclude that Mr. Fair felt that it was a reasonable request to ask him to conclude the matter.

Mr. Gantefoer: — You indicate some phrases like "some deficiencies" as if someone forgot some minute organizational detail.

You indicate that the board was not fully informed. I submit to you that it's an awful lot more serious than that. You had a situation where the senior SaskPower management was clearly informed about the direction and the wishes of the ministers responsible and the board as to the direction, and they openly

defied that direction under your, under your watch.

They openly defied public policy and went on and engaged in not an insignificant activity, they engaged in arbitrage trading that you just indicated amounted to \$80 million of money of the corporation. They put the corporation at risk from that arbitrage trading when the bankruptcies occurred in the orders of several millions of dollars — at the time an unknown amount.

They indicated to you, from what your testimony is, is that they simply suggested suddenly, at a coincidental time when they had refused to tell you this information, that it would be in the best interests of the corporation to now liquidate this company. That surely goes beyond just some deficiencies. This is a deliberate attempt by senior management to cover their tracks and to keep you misinformed or underinformed.

Where is your responsibility to see to it that they're held accountable for that in a way other than agreeing to pay Jack Messer \$300,000 to go?

Hon. Mr. Lautermilch: — Madam Chair, let me answer Mr. Gantefer in this way. He will know that the CIC board was dealing with conflicting legal opinions with respect to the issue of dismissal with cause. Mr. Gerrand had tendered an opinion and Mr. Bogdasavich had tendered an opinion.

As I indicated earlier, we concluded that we had lost confidence and it was no longer acceptable for him to remain at his job. But at the same time, we felt that Mr. Messer had contributed very positively to the corporation over the time that he had been there.

In light of the conflicting legal opinion, we felt that it was appropriate to give Mr. Messer an opportunity to resign, as I indicated early. And if he did that, that the Vice-Chair of the SaskPower board, Mr. Fair, with appropriate legal guidance, would calculate and pay to Mr. Messer whatever severance would be appropriate, if any. We also decided that if Mr. Messer declined to resign, his employment would be terminated. Mr. Wright was directed to carry out these instructions, which he did.

Mr. Fair had the option to conclude, based on recommendations that he would receive, professional recommendations that no severance was appropriate. I remind you that at least one of the legal opinions indicated just cause for dismissal.

I think Mr. Fair understood that mandate and he carried it out. He carried it out without politicizing it. He carried it out because he had legal opinion, and based on law that that was the appropriate course of action to take.

Now I don't want to be argumentative and I won't be, but I want to leave you with this. Politically, Madam Chair, members of the CIC board understood the politics of severance and no severance. But we wanted to act professionally, we wanted to act fairly, and we wanted to act in the public interest.

So what was the course of action? We didn't politicize it. We asked Mr. Wright to involve Mr. Fair, and that Mr. Fair had options, and that he should seek advice as to the appropriate action with respect to severance if any.

And I think that's a reasonable ministerial approach. And I think it's a responsible approach to take. And that's ultimately what the decision of the CIC board was and I believe that to be the right decision.

Mr. Gantefer: — In terms of the opinion that Mr. Messer could not be dismissed for cause, in light of it being quite clear to us, at least at this juncture, that he very significantly withheld very critical information from yourself and from the board. If the decision by Mr. Fair and the legal advice he received that that was not cause for dismissal, does that not then put the ball right back into your lap in terms of ministerial responsibility for not seeing to it that that information was given to you?

Hon. Mr. Lautermilch: — Mr. Gantefer, I will answer it in this way. This committee has spent weeks now reviewing thousands of documents. CIC made available to every member of this committee rows and rows of binders, and I must admit that I haven't read them all myself. I can't speak for other members of this committee, but I would be very surprised if all of you have read them. And maybe I underestimate you and maybe that's unfair. Maybe you have read them all.

But there's an awful lot of information before us. You will complete this process at which point you will review all of the information and all of the testimony that has been given to you by the witnesses and shared with you by the witnesses that you've called.

After you have concluded those discussions, I'm assuming that you will reach some conclusions. And once you've reached your conclusions you will make those public. I'm not going to prejudge what those conclusions will be or should be, but they should be based on, from my understanding and my belief, is they need to be based on the full gamut of information.

With respect to the process of Mr. Messer's dismissal or resignation, or severance or no severance, I believe that I as a minister and a member of the CIC board acted most appropriately in delegating the message to Mr. Wright, the responsibility to Mr. Fair, and that is my opinion.

With respect to ministerial responsibility, as I've told you before, I acted and the board acted on the basis of the information that we received. I think we acted reasonably and accept acting on the advice received by our officials at that time. As I indicated to you, when we realized there was more to the story, the Deloitte Touche, Gerrand process took place. And I think that is assuming ministerial responsibility. You may disagree with me but I believe that to be the responsible approach to take.

Mr. Gantefer: — So you would not feel it's part of ministerial responsibility to ensure that the officials who are reporting directly to you give you complete and full information.

Hon. Mr. Lautermilch: — That is clearly expected, Madam Chair, that the information that ministers and boards are receiving is all of the information. That's expected. I indicated that in my statement.

Mr. Gantefer: — And when that doesn't happen, where is the

ministerial responsibility in that event?

Hon. Mr. Lautermilch: — Ministerial responsibility is to deal with issues based on the information that you have, in a reasonable time frame and appropriately. I believe we did that. When there was discovered there was more to the story — arbitrage — as a result of the auditor's report that was tabled in December, the next step to that was the Deputy Premier, as minister of CIC, initiated Deloitte Touche, initiated an internal review at CIC. Based on those, decisions were made that you're well aware of. And I think that is clearly assuming ministerial responsibility.

Mr. Gantefoer: — And the fact that Mr. Messer, who breached the most fundamental principle of disclosure to his minister, is awarded a \$300,000 severance package, leaves a real message in terms of ministerial responsibility.

Hon. Mr. Lautermilch: — Mr. Gantefoer, I think I've answered that. And I've answered that in the way the CIC board responded to information.

Mr. Gantefoer: — Madam Chair, one last thing if I may, and it may help Mr. Lautermilch answer the question in regard to the role of Guyana. I'll reword it so that we don't have to wait for the document.

The Chair: — Mr. Gantefoer, in terms of waiting for the document, we've pulled the news release of March 5, 1998 off the Internet: "SaskPower president and chief executive officer resigns." There is no reference in that news release to Guyana. We've checked our documents.

The only thing that we can find is a document that actually doesn't have a committee number because it was released as a sessional paper in the House, and that's the ministerial statement of March 10 in the House. And on page 11, which is the third last paragraph, there is one reference to Guyana wherein the minister said:

There have since been requests for SaskPower's internal costs and those of CIC as well. I am tabling an accounting of all costs associated with the proposed Guyana investment today.

Mr. Gantefoer: — I will word the question hopefully so that Mr. Lautermilch can answer it. I believe in Milt Fair's speaking notes there was reference made to this.

I'll word it this way. Was there anything in the briefings or the information that you received subsequent to these events that would indicate that there was the same kind of lack of proper information of the minister from SaskPower officials that occurred in the Channel Lake issue, was there at any time, any sense that the same kind of lack of information existed in regard to the information you received about the Guyana transaction?

Hon. Mr. Lautermilch: — Mr. Gantefoer, I am no longer responsible for SaskPower. I have read, to the best of my knowledge, and seen, to the best of my knowledge, no documents in terms of Guyana.

Mr. Gantefoer: — So there was nothing that would lead you to

believe that you didn't receive the full and complete information that you would expect from the senior SaskPower officials in regard to the proposed Guyana transaction?

Hon. Mr. Lautermilch: — Madam Chairman, the responsibility for the SaskPower Corporation was assumed by Mr. Lingenfelter on June 27. I was no longer responsible for that file.

With respect to documentation that may have come to cabinet, I can't and won't comment on that. I can only say, to my recollection I have seen or read no documentation with respect to Guyana.

Mr. Gantefoer: — Okay. Thank you.

The Chair: — Have you completed your line of questioning at this time, Mr. Gantefoer?

Mr. Gantefoer: — I have.

The Chair: — Thank you.

Mr. Osika: — Thank you, Madam Chairman. Mr. Minister, just to clarify a couple of things. Could you tell us if there was in fact an initial cabinet meeting, if there was a briefing at the initial closing on April 2, 1997 that would have essentially been good news that Channel Lake had been sold for a profit of \$5 million?

Hon. Mr. Lautermilch: — You'll have to repeat that.

Mr. Osika: — Was there an initial cabinet briefing around the closing deal?

Hon. Mr. Lautermilch: — No.

Mr. Osika: — There was none. And was there any subsequent cabinet briefing when it was learned that the sale was less than the amount was expected, that the \$5 million was not in fact a profit?

Hon. Mr. Lautermilch: — No.

Mr. Osika: — Thank you.

On December 17, 1997 in answer to a question from Mr. Hillson about Mr. Portigal's conflict of interest, Mr. Lingenfelter responded, and I'd just like to quote from *Hansard*:

But I want to say to the member opposite that Mr. Portigal in working for Channel Lake, did work on the negotiations. The company was sold. Mr. Portigal was then without work and a new company hired him. That's about as devious as the plot . . . (gets).

Now you should have known that this was false because Mr. Messer had reported to the board that Portigal had been fired. Is that correct?

Hon. Mr. Lautermilch: — Mr. Messer reported to the board, and I'll look at my notes, on June 20. Okay, this I guess could

best be described in the context of the topic summary and under action taken. Mr. Messer indicates in his memo that Lawrie Portugal's contract was immediately terminated, and he goes on to say that the reviews found no negligence on the part of SaskPower officials or Mr. Portugal. And as I recall his conversation and I have testified earlier that this evening, that was based on legal opinion from Mr. Kenny of MacPherson, Leslie & Tyerman and an internal audit review by Ernst & Young.

Mr. Osika: — So Mr. Lingenfelter would have been aware of this prior to his answering the question that was asked.

Hon. Mr. Lautermilch: — I can't answer that.

Mr. Osika: — You did not personally convey any of that to Mr. Lingenfelter?

Hon. Mr. Lautermilch: — No.

Mr. Osika: — Should you have, do you feel you should have?

Hon. Mr. Lautermilch: — I'm sorry?

Mr. Osika: — Do you feel you should have informed Mr. Lingenfelter of that?

Hon. Mr. Lautermilch: — I think I indicated earlier that in hindsight there are a number of things that could have been done differently, and that might have been one of the areas that I could have dealt with.

It was my opinion that the file was concluded; the sale had been concluded. The Power Corporation would net somewhere in the neighbourhood of \$2 million of profit over the lifetime of the corporation. There were some internal problems — documents weren't read — but that that would be looked after and that would be dealt with appropriately.

Shortly after, I was no longer the Chair of the board because of the cabinet shuffle. And I concluded and I guess it was my thought that the file was essentially closed.

Mr. Osika: — Would you concede that perhaps Mr. Messer's glowing performance evaluation reports in the fall of 1997 were in fact based on false information insofar as the Channel Lake situation was concerned?

Hon. Mr. Lautermilch: — I could conclude that the board would review their knowledge of his performance and, based on that, would draw conclusions and fill out a performance evaluation. And that's really the only conclusion I can draw in terms of the performance evaluation.

I've indicated on a number of occasions this evening that it was my opinion, and I think the opinion of the board, that Mr. Messer was a very strong manager; had delivered a very fiscally responsible administration, had cut internal costs — the debt of the corporation had decreased substantially. The debt of SaskPower is very much a large part of the reduction of the total provincial debt.

The bottom line profits that were returned to the people of

Saskatchewan through the Consolidated Fund were substantial and had increased.

And so I think those are all things that members who were working on the CEO evaluation would have taken into account when they did that performance evaluation.

Mr. Osika: — Mr. Minister, Madam Chair, I've sat and I've listened with respect to a great deal of evidence, testimony, and comments made with respect to oversights and mistakes. I'll refer to your statement where you said, "We reviewed the role of the President and CEO of SaskPower, and ultimately decided we wanted a new CEO."

Other comments with respect to, again, from your . . . on page 2 towards the bottom. "From my discussions with Mr. Messer early in my time as SaskPower chair, I believed that we understood each other in that regard." As far as being kept informed on various management issues.

You were appointed in February, I believe, of 1997. And again at the bottom of page 3 you say, "However, sometime before June 1997 Mr. Messer did advise me that Channel Lake suffered some trading losses."

Does that not seem unusual? Why would he have waited that long? Sometime just before June or before June. Was it in March? Was it in April? Was it in May?

Why the delay when earlier you said you felt that you and he understood one another; that you wanted to know what was going on. Obviously he did not conform to your wishes in that respect. Any comments in that regard?

Hon. Mr. Lautermilch: — I think, Madam Chair, that I've indicated that there were deficiencies, and certainly one of them is the information that was presented to the board.

Mr. Osika: — I'll just go on to the last page of your statement:

I was a member of the CIC Board when it met March 3 and 4, 1998 and considered Mr. Messer's termination.

. . . we reviewed conflicting legal opinions from Mr. Gerrand and Mr. Bogdasavich on the issue of dismissal with cause.

We concluded that we had lost confidence in Mr. Messer, and that it was no longer acceptable for him to remain in his job. We came to that conclusion while at the same time recognizing . . . (his) valuable contributions . . .

The CIC Board concluded that in light of the conflicting legal opinions, the appropriate thing to do was to give Mr. Messer an opportunity to resign.

And it goes on.

The point I'm making is when I think back to a number of career professional civil servants, during your government's term in office, that were released or forced to leave without any opportunities and having to take legal action to recover severance, monies that were rightfully theirs as a result of their

valuable contributions to this great province over the years that they've spent, and here we have a CEO who is under a negative aura, under a cloud for failing to bring certain issues to your attention, other concerns that the board has had, I guess I have to ask how do you rationalize to the career civil servants and to the people of this province that you would reward a CEO, in whom you've lost confidence and the board wanted to replace, with such a lucrative, farewell gift? Allowing him those kind of opportunities when in fact other career professional civil servants were not even given the slightest consideration?

Hon. Mr. Lautermilch: — Madam Chair, I've answered this question, but I'll answer it again.

We made the decision to proceed because we felt the decision needed to be based on law. Now I'm not a lawyer. There are a few around, but I'm not one. There were conflicting legal opinions. As I indicated earlier, the politically expedient thing to do would have been not to offer severance or not to have that option offered.

But we chose to have Mr. Fair consult with people who could offer legal opinion to allow him to make the appropriate decision. That opinion was rendered. Mr. Fair made his decision, and the matter ended.

If you ask me if I were to be part of a body and had the opportunity to make that decision again, would I change my thoughts? The answer is no. And I think that if we do anything in this government, it's our intention to re-professionalize the civil service because without a professional and a capable and a quality civil service, the people of this province suffer.

So, Madam Chair, I can only say that the members of the CIC board made the decision to use the process that we did because we wanted to depoliticize the situation. We didn't feel it appropriate to politicize somebody's employment rights, anybody's employment rights. And that's why that was passed to Mr. Fair through Mr. Wright.

Mr. Osika: — Thank you, Mr. Minister. But it still, in this case, seems like it's a selective process. Those civil servants who you wish to remove, you merely reorganize your departments. Those that you wish to give some lucrative packages to, you make that decision, and proceed without putting them in a position having to justify the severance packages that you say have been legally suggested or advised.

I guess that's where I've been having a little bit of difficulty here. That the career professional civil servants that are not afforded the same kind of an opportunity because they've either become employed rather than appointed, and perhaps are held in favour.

Hon. Mr. Lautermilch: — Madam Chair, I can only, and again I don't want to be argumentative, but I can honestly say to the member that I cannot recall a circumstance where downsizing or a termination of positions has resulted in an unreasonable separation of the ways. I can't recall of an area where without cause, termination or severance wasn't offered just by the rule of law. And I may be wrong on this, but I believe that to be the case.

Mr. Osika: — Thank you, Madam Chairman.

The Chair: — Thank you. You've concluded your questioning, Mr. Osika? Mr. Hillson, do you have any further follow-up questions? You don't have to.

Mr. Hillson: — Just one question.

Hon. Mr. Lautermilch: — Don't feel obligated.

Mr. Hillson: — At the June 20 meeting where the decision was made to ratify the Channel Lake sale agreement, was there discussion that to take legal action and attempt to cancel the agreement would lead to unfavourable publicity for the corporation, and was that a consideration of yours and the board's in ratifying the sale — to prevent unfavourable publicity?

Hon. Mr. Lautermilch: — Mr. Hillson, I believe, and as I recall the discussion around January 20 . . .

Mr. Hillson: — June 20.

Hon. Mr. Lautermilch: — Or June 20. It's getting late, but we can continue on; that's not a problem. The discussion focused on a number of issues. Were we getting fair market value for the asset even at the change of the sale price from a net to . . . from a gross to a net. Were we getting a reasonable amount of money for our asset?

The topic was basically around and the discussion was basically around the issues that were provided in the topic summary. I believe there was a question as to whether or not if the board decided that we didn't want to proceed with the sale, would we have an option.

As I recall, we were told that the chances of us succeeding in that kind of litigation would be not very good because we were getting fair market value. And that was, as I recall it, and to the best of my recollection, a legal opinion offered by Mr. Kenny.

Mr. Hillson: — Madam Chair, I think we would probably be able to quit a lot sooner if, with all due respect, the minister would answer the question. I don't think he's on task right now, with all due respect.

Hon. Mr. Lautermilch: — Well I'm certainly trying to. Mr. Hillson, if you want to re-ask your question I can . . . I'll move directly to it to the best of my ability. I was trying to answer.

Mr. Hillson: — My question is, was one of the considerations of the June 20 meeting, that to attempt to cancel the sale agreement would lead to unfavourable publicity?

Hon. Mr. Lautermilch: — I certainly think that was a consideration because I don't believe that anyone would want to be involved in a lawsuit and in particular if your chances of winning wouldn't be reasonable.

Mr. Hillson: — And was the feeling, Mr. Minister, that negative publicity for the botched history of Channel Lake would be ill-timed in terms of the Guyana proposed investment?

Hon. Mr. Lautermilch: — I don't believe that that was a discussion, Mr. Hillson, that took place around that board meeting.

The committee adjourned at 9:22 p.m.

Mr. Hillson: — Okay, but the negative publicity that would surround the whole story coming out was one factor that came up at the June 20 meeting.

Hon. Mr. Lautermilch: — I think no one would want to become involved in litigation that you had little chance of winning. Clearly any court action is public, but certainly that was no rationale for the decision. The decision was, are we getting fair market value? Is this the best we can do? Do we need it? We didn't. And based on that, we made the decision to sell.

Mr. Hillson: — But negative publicity was an issue raised?

Hon. Mr. Lautermilch: — I think in any of these discussions or decisions there isn't any corporation, whether it be a Crown corporation or a private corporation, that wants to be exposed to media attention in particular if the chance of you losing litigation would be there.

Mr. Hillson: — Thank you, Madam Chair.

The Chair: — Thank you, Mr. Hillson. I take it that concludes your line of questioning.

Mr. Hillson: — Yes, it does.

The Chair: — Do members of the government have any further questions of Mr. Lautermilch? Does the Saskatchewan Party have any further questions?

A Member: — No, Madam Chair.

The Chair: — Okay. Mr. Lautermilch, no one has further questions of you. I would like to know if you would like to make a closing statement at this time or if you want to reserve your right to possibly table a written closing statement with the Clerk by no later than July 6, noon.

Hon. Mr. Lautermilch: — Madam Chair, I have no written closing statement, and I don't wish to make a verbal statement, only to thank all of the members of this committee for the work that they've put into their deliberations. I have some understanding of the hours that you've spent, trying to keep somewhat abreast of this. And I know you're all tired. But just want to thank you for your diligence on this matter. Thank you.

The Chair: — Thank you very much, Mr. Lautermilch. And since you did bring up the subject of tiredness — though I'm sure that none of us are tired and we all sat with rapt attention on your every word — I would like to ask committee members . . . I have scheduled the meeting to start at 9 a.m. tomorrow. Is that acceptable, or did you want to start at 10? Nine a.m. then? Okay, the committee now stands adjourned . . .

Oh no. I'm sorry. It's only 9:21. I need a motion of adjournment. From Mr. Tchorzewski I have a motion of adjournment. We will reconvene tomorrow morning at 9 a.m. Thank you.