



# **Standing Committee on Crown Corporations**

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**STANDING COMMITTEE ON CROWN CORPORATIONS  
1998**

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**Crown Investments Corporation Of Saskatchewan**

**The Chair:** — Can I ask committee members and people appearing before the committee to please take their places. We will convene on a regular meeting of the Crown Corporations Committee. Even though the Crown Corporations Committee has been meeting at almost unseemly regular intervals during the session and over the summer, this is actually the first regular committee meeting that we will be having. And I assume that everyone received a copy of the agenda.

I apologize to committee members who have had to . . . The agenda? I can have it distributed to you right away. I apologize to committee members who may have had to rearrange their schedules. I was trying to juggle the availability of opposition members, the ministers and officials, and these two weeks seemed to be the best for everyone concerned.

As committee members will know we're going to deal with CIC (Crown Investments Corporation) today. I've also scheduled CIC to appear before the committee again next week on Thursday, December 3 from 1 to 5.

We are dealing primarily with 1997 annual reports for this round of Crown Corporations Committee meetings. It is my hope that at the end of these two weeks of hearings that we will be able to prepare a report to go to the House as soon as it reconvenes in the spring. So I would expect that today we will be primarily focusing on questions with CIC, and then we will have an opportunity next Thursday, if committee members so desire, to vote on the 1997 report for CIC.

In the meantime though, as is our custom, we will ask the minister to introduce his officials and for the minister or his officials to give a brief overview statement about CIC and to set the stage for committee members to let us know what is happening on the Crown sector side.

I would like to at this point welcome some new committee members: Mr. Boyd from the Saskatchewan Party. I believe this is your first time as an official regular member of the Crown Corporations Committee. And Mr. McPherson from the Liberal Party of course is returning after a . . . I think you were off the committee for about a year were you not, Grant?

As has become our custom, what we will do after the minister or the officials have their overview statements, we will move into a round of questioning by the committee members.

I think the procedure that has worked very well for us is to work in 15-minute blocks of time beginning with the official opposition questioning for 15 minutes or until they finish a particular line of questioning, and then moving into the Third Party and having them question for 15 minutes, and then the government members, and continuing on the rotational basis like that.

We will have a break at 3:15 and reconvene at 3:30, at which point I will be tabling a full report. Is that satisfactory to all committee members? The procedures I've outlined?

**A Member:** — Agreed.

**The Chair:** — Thank you. Then Mr. Lingenfelter . . .

**Hon. Mr. Lingenfelter:** — Yes, thank you very much, Madam Chairperson. And I too want to say hello and greetings to our staff who look after the operation of the committee and also to the committee members — both the government and opposition — on the committee, and just say to you that I welcome the opportunity to be here before the committee to be part of a brief opening statement and answering questions. And also, probably even more importantly, our CEO (chief executive officer), Mr. Wright, who will be giving brief statements as well as answering probably the majority of the questions.

But to that end I will introduce our staff. Seated to my immediate right is Mr. John Wright, president of CIC; Sheldon Schwartz, who is vice-president of finance and administration. Sheldon, just give a wave so that people know where you're at. Mike Shaw, vice-president of Crown Corporations division; Patti Beatch, VP of investments, seated to my left; and Ted Boyle, executive director of communications. Ted is seated at the end of the table to the left. Off to my right and seated a little bit behind me is Blair Swystun, the executive director of finance; and of course, John Amundson, director and the corporate controller.

These are the staff that we have with us here today, but of course they are the management team and represent all of the other people who work in the corporations.

If I could, Madam Chairperson, I just would like to make a few remarks from the perspective of the corporation and where we see it at the present time — a bit of a snapshot — and especially coming out of the Crown review.

I want to say that in 1997, of course, this was a very important year for CIC because it's the year we celebrated our 50th anniversary. And I think whether or not each of us has the same appreciation of the Crowns and history of the Crowns in the province of Saskatchewan, I think there aren't any of us who don't understand and realize that whether philosophically you agree or disagree, the fact of the matter is that the Crowns are here and play a huge role in the economy of Saskatchewan.

I will talk to you for a moment about the percentage of GDP (gross domestic product) and how important that role is a little later. But only to say at this point that in a really human way there would be very few of our families or communities that aren't directly touched by the Crowns every day, every hour. And whether that's the delivery of service at a very reasonable cost or whether it's a family member who actually earns their living in one of the Crowns, I think the fact of the matter is that over the 50 years that CIC has been around — and the Crowns have been around much longer than that, going back all the way to the period 1901 when the first hail insurance company was started — that all us have felt and are feeling the impact of our Crown Corporations.

Madam Chairman, just — Chairperson — just backing up to the Crown review of 1996, we learned a lot about the history of the enterprise and we also got a solid understanding of that evolution. And in 1997 we began the steps needed to preserve and strengthen the public enterprise in the province of

Saskatchewan. These steps fall into three main areas: first of all, governance, the operation and governance of the Crowns; accountability; and third, the financial management.

And with regards to governance, we began by strengthening the boards of the Crown Corporations by appointing board members who in large part have industry specific expertise; by developing and implementing training programs for those particular board members with evaluation programs for boards; and amending legislation so cabinet ministers will be removed from the Crown boards, and of course that legislation was passed in 1998.

The other thing you may notice if you read the *Globe and Mail* today is a fairly significant story about boards and the representation of women on boards. And I think it's fair to say that in United States, 11 per cent of the top company boards are represented by women. In Canada in general it's about 9 per cent, and in Japan the number is significantly less than that at .2 per cent of board members being women.

I think we should be proud of our ability in this organization to have, at the present time I think, John, about 40 to 45 per cent of our board members women. And also each of our boards of the large Crowns now has representatives from first nations people. So I think this committee and the people who manage should be proud of the kind of changes and structures that in fact have taken place.

Developing a new governance model which gives Crown boards strength and responsibility for designing and implementing the corporation's business and strategic plans and of course setting operating goals and objectives . . . and I think this is an interesting balance between what the public perceive and want, which is less politics in the Crown. But of course being the elected representatives of the people we need to keep that overall balance and overall guidance to the Crowns. And I think in large part, although not perfect, we have moved a great deal to achieve that.

As well, we're developing a performance management process called balanced scorecard which will link the strategies and expectations of the government with the individual Crown corporations' business strategies and plans. And it will establish a balanced set of targets, financial performance, as well as customer satisfaction and public policy objectives, while at the same time evaluate . . . and the progress of each of the Crown corporations in meeting these targets.

Madam Chairperson, with regard to accountability, we began by improving the timeliness, amount, and quality of information about how CIC and its holdings operate by including more detailed management discussion and analysis sections in the annual reports of CIC — and you'll see that — and its subsidiary Crowns by introducing a semi-annual financial report from CIC which reports on the first six months of calendar year issued in '97 and again in '98 and by introducing a publication called *Public Enterprise in Saskatchewan*.

And finally with regard to financial management we begin by implementing new policies to determine dividends to CIC from its four major commercial Crowns and from CIC to the General Revenue Fund, and these policies will help the Crowns meet

their targets for growth and debt reduction while allowing CIC to pay higher dividends to the GRF (general revenue fund).

Madam Chairperson, we also initiated these measures in 1997, have made significant progress since then, and of course the deliberations that we have today and over the next days will help us move that forward.

I would like now to make just a few comments on CIC's financial position at the end of 1997 and my officials will go on in much greater detail on those numbers. But I'd like to note that we significantly improved the financial position of the Crown sector in '97 and we did that by continuing to tackle our debt aggressively and managing our subsidiary Crown corporations and holdings wisely.

In 1997, CIC reduced its consolidated debt by close to \$600 million and that's more than half a billion dollars in just one year alone, lowering the debt to \$3.6 billion. And what does this mean to the corporation? It means that in 1997, CIC was able to declare a regular dividend of \$50 million to the GRF for the third year in a row.

We also lowered the debt, and lowered interest payments on the debt which will allow us to double our regular dividend to \$100 million in 1998 and that will benefit all of the people of this province by providing more money for such things as health care, education, and highways.

I'd like to conclude my remarks by saying that overall the Crown sector is in good shape both financially and in terms of the steps that we have taken as a result of Crown review to strengthen the Crown sector. Our subsidiary Crown corporations are continuing to fulfil their public policy objective of providing universal quality and reliable service at reasonable rates, and the Crowns and our publicly owned investments are providing Saskatchewan people with a good return on their investment.

Madam Chairperson, just before I turn the mike over to Mr. Wright, I did want to take a moment to look at this handout because it very graphically demonstrates where we are at in terms of the role of the Crowns within our economy.

On the first slide you see that in terms of jobs, CIC and the holdings represent about 9 per cent of the total number of jobs in the province of Saskatchewan and one might also be noticeably impressed with the fact that 62 per cent of the jobs in our province are in the service sector and this is common across North America where by far the fastest growing sector in most economies are in fact in the service industry.

If you flip to the second chart you see that in terms of GDP, CIC holdings represent about 17 per cent of the GDP in the province and that is significant when compared to any other sectors of the economy. In terms of the economic impact, the 7.5 billion in assets is made up in large part of 6.4 billion alone in the four major Crowns, revenues of about \$2.8 billion annually, again 17 per cent of the GDP and 9 per cent of the employment in the province.

In terms of jobs the overall number of jobs in the four major Crowns is 8,550 and 5,600 of those outside of Regina or the

head office is spread to every corner of the province, 2,500 at the five major public investments and 32,500 at other Crowns. Now these won't be exactly precise because they change on a regular basis up and down but these are in general the numbers.

And I think probably the most impressive numbers in '97 are from the four major Crowns which account for \$1.2 billion in local purchase: 417 in employee earnings; 384 million in capital expenditures; and about 3 million worth of local charities.

And just in closing I want to say this that whether you believe in Crowns or don't, if you were by magic were able to dispose of the Crowns tomorrow — and realize that \$1.2 billion of local purchases which is a big target of our Crowns, between 80 and 90 per cent of all the procurement of our Crowns occur in province — one really has to struggle with the concept that if these were privatized and sold off to companies in the United States or eastern Canada or Calgary, that this commitment to local purchase that supports hundreds if not thousands of small business, that this procurement we often go by very quickly and the effect that it would have on our economy if the Crowns weren't present in our economy . . .

That's not saying we couldn't live without the Crowns but what we have to realize is the shock to the system if we were to move this much procurement and largely downsize the head offices. One should not underestimate the change that would occur to the economy of the province immediately.

So John, I'm going to turn it over to you and thank you very much to the committee.

**The Chair:** — Thank you, Mr. Minister. I would just say . . . (inaudible) . . . I apologize that I'm going to have to leave you at one . . . (inaudible) . . . Mr. McPherson is ill . . . (inaudible) . . . He's also indicated to us that he may have questions. He is not able to return today. He may have questions on the next Thursday either to the minister or to the officials.

**Hon. Mr. Lingenfelter:** — Madam Chairperson, to that end, if he were not able, if he were to provide us a list of questions as well we would undertake to answer them as detailed as we could for him.

**Mr. Wright:** — Madam Chair, thank you for the opportunity to be here today. We have two short presentations with your leave, and that of the leave of the members of this committee. The first is on the financial overview of 1997 results and I believe that's been distributed to committee members. And the second with your permission, Madam Chair, we'll distribute is the small paper on governance and performance management.

So again with your permission I would like Mr. Schwartz to take you through the financial overview, and Mr. Shaw following from there on the governance and performance management paper if that's acceptable to you. And I turn it over to Mr. Schwartz then please.

**Mr. Schwartz:** — The first presentation is on . . .

**The Chair:** — Would you wait. We have to make sure that we capture every pearl of wisdom of this, okay, so make sure you have a microphone in front of you when you talk.

**Mr. Schwartz:** — The first presentation we have is the circulation on 1997 financial results and I'll take you through that page by page. The first page talks about CIC's primary lines of business . . . (inaudible) . . . in the management discussion and analysis section on pages 9 to 31 of the CIC annual report of business lines, of the identity of the investments and the type of investments in terms of business lines and is part of . . . (inaudible) . . . utilities, insurance, commodity based investments, economic growth, and transportation.

The next page talks about the financial statements reporting structure. There's three sets of financial statements in the annual report. And this shows you how it's organized. CIC consolidated financial statements that we are . . . (inaudible) . . . and shows CIC's results consolidated with in fact those of its subsidiaries.

The process in blue called CIC's non-consolidated annual statements focuses on the results of the holding company itself. And the last set is CIC industrial interest and corporate . . . (inaudible) . . . economic consolidated financial statements and those focus on results factoring international CICs, subsidiary CICs . . . (inaudible) . . . industrial interest or CICIII as it's often referred to.

The next stage we supposed to meet . . . (inaudible) . . . for CIC consolidated interests for 1997. And also there's three graphs at the top which give you a bit of a historical perspective on consolidated earnings, debt ratio, and dividends paid by CIC to the General Revenue Fund.

The major highlights were that we earned \$277 million from ongoing operations, that is operations including non-recurring items which are those building bars at the top of the chart. We sold our investment in Wascana Energy for a gain of almost \$73 million. On a consolidated basis, debt reduction was nearly \$600 million, and over three quarters of a billion since 1993 which enabled, on a consolidated basis, CIC to lower its debt ratio from nearly 70 percent in 1993 to 56 per cent in 1997. Of that 13 percentage point decline almost half of that occurred last year.

We declared a regular dividend of \$50 million to the General Revenue Fund for the third consecutive year, and we're forecasting a regular dividend of \$100 million for 1998. And our ability to do that is a direct result of debt reduction and lower interest costs.

We also developed new policies for dividends to the General Revenue Fund from CIC and from the CIC subsidiaries . . . (inaudible) . . . the enhanced presentation and content of the 1997 annual report. And for the first time ever in August of 1997 we released the inter-financial results of CIC and its subsidiaries in the form of a semi-annual financial report.

And as John mentioned, we are developing and began to implement governance changes in response to the Crown review, and began to develop a balanced scorecard approach to performance management at CIC and the Crown sector.

Focusing in on the financial results on the next page, page 4, overall earnings for the year, if you look at the top left graph,

were \$294 million. That's comprised of \$277 million of ongoing earnings and \$17 million on non-referring items. The net \$17 million dollars was . . . (inaudible) . . . composed of two factors: a \$73 million gain on the sale of Wascana Energy plus a \$56 million provision taken by SaskTel for the value of certain local service assets as part of an industry-wide phenomenon that occurred in 1997.

Focusing on ongoing operations, those start between the bars at the bottom of the chart, those were up \$51 million to \$277 million in 1997 as compared to \$226 million in 1996. That is largely due to an increase in interest and operating expenses.

Let's not forget, though, consolidated debts fell by almost \$600 million last year from around \$4.2 billion to \$3.6 billion dollars. Major factors in that reduction were the application of sale proceeds of Wascana Energy and Cameco in the CIC sectors as well as debt reduction in SaskPower and SaskEnergy.

Focusing in on CIC itself, the non-consolidated debt was reduced 50 per cent to around \$429 million from \$861 million in 1996 to a level of \$442 million at the end of 1997.

The next slide shows the variance of four major commercial Crowns. Going in order of the far left one shows us SaskPower, the earnings fell \$7 million to \$132 million in 1997, and the explanation was it's partly due to higher operating costs to meet some demand room, charges for future assets removal and site restoration that were partially offset by higher revenues and lower interest expenses.

For SaskTel, the reduction in overall earnings was about \$43 million and it's entirely attributable to the \$56 million write down for local service assets. Had it not been for that, SaskTel certainly would have actually gone up about \$13 million on ongoing operations.

For SaskEnergy, a \$34 million decline in earnings in 1997 as compared to '96, weather related, the weather in 1997 was about 2 per cent warmer than the 30-year average and that came after an extraordinarily colder than normal year in 1996 when the weather was 16 per cent colder than the 30-year average.

For SGI (Saskatchewan Government Insurance), . . . (inaudible) . . . similar to the year before, up \$2 million; that the growth in the business and some good experience on lower storm and crime related.

The next slide focuses on year end earnings of CIC Canadian investments. I'd like to specify that these are CIC shares of these investments earnings. These aren't the stand alone number . . . (inaudible) . . . For the two operators, Bi-Provincial and New Grade, had very good performance in 1997 as compared to '96 on the basis of higher heavy light oil price differentials, in particular Bi-Provincial's earnings; our share rose \$23 million to 25 million for 1997. Bi-Provincial also paid two \$20 million in advances to each of CIC and Husky. And as you know it was sold in February of this year.

For New Grade, also have a very good year in '97 compared to '96. Our share of its earnings rose \$12 million to \$16 million and New Grade also, we paid about \$49 million in long-term debt and did not require any operating . . . (inaudible) . . . to

support CIC last year.

For Saskferco, commodity prices were the factor and the \$12 million decline . . . (inaudible) . . . from 31 million in '96 down to 19 million in 1997. A drop in ammonia and urea prices were the factors that were behind that.

For SaskFor MacMillan, also low . . . (inaudible) . . . prices, its earnings . . . (inaudible) . . . share in those fell \$5 million to 3 million for 1997. Low oriented strandboard prices throughout the year and falling lumber and plywood prices for the end.

MLPLP (Meadow Lake Pulp Limited Partnership) had another disappointing year. Prices are not sufficient for it to break even and problems with Asian economies which contributed to the currency depreciation in those countries also negatively affected MLPLP and other pulp producers.

And that is the end of our overview.

**Mr. Wright:** — If I could ask Mr. Shaw who is the VP (vice-president) of the Crown corps division of CIC. He's handed out to you, Madam Chair, and through you to members of the committee a short presentation as well. This is on governance and performance management in the Crowns which was truly launched last year as a result of the Crown review. With that in mind, Michael?

**Mr. Shaw:** — Thank you. Yes, good afternoon, Madam Chair, and committee members. The minister stated that CIC took away from the Crown review three areas of responsibility to improve on. One is in the area of financial management and Sheldon has covered that. The other areas are accountability and governance. I want to speak about those today.

I just draw your attention to page 2. There's a quote here from the Conference Board of Canada which makes a statement about the challenges of putting an effective governance framework into place to manage public enterprises. The Conference Board of Canada does leading edge work in the area of governance in Canada, and in fact in North America, and the Crown Investments Corporation is an active member in the Conference Board in this particular undertaking.

I draw your attention to page 3 — a very short definition of governance. Very simply it's "the act, process or power of directing and controlling the affairs of a corporate entity." The keys to success that are listed there are in fact my own, but I think they can be shared by many people. Obviously you start with a clear definition of roles and responsibilities.

What we are attempting and are achieving at CIC is an atmosphere of mutual commitment and trust between the CIC, the CIC board, and the individual boards of the individual Crown corporations. It's also important to establish very effective communications multilaterally across the Crowns and across the sector. And I think most particularly to have an effective governance mechanism, you have to have a sense of confidence by the public in that mechanism.

Page 4, there's a description of roles and responsibilities which starts with a description of what CIC's legislative responsibility is and you can turn to page 5 which gives a very succinct — it's

rather busy, but a succinct — matrix of a very specific definition of roles and responsibilities as they are divided between cabinet, between the board of Crown Investments Corporation, the individual Crown corporation boards, and the management of Crown corporations.

This table was released in a slightly different form with the Crown review document in about July, or June or July 1997. And you might have seen this also in the report that the minister for CIC made to this committee during the Channel Lake review. This is the very essence of the governance framework — a very clear definition of roles and responsibilities.

If you turn to page 6, this is our own report card on our progress in implementing the recommendations and directions of the Crown review. I won't spend a great deal of time on it except to say that my own assessment is for making a very, very, very significant progress.

We have most of the fundamental pieces in place and those that aren't in place are in planning for 1999. And if there are any questions about this, I'd be glad to come back to it. I'll just draw to your attention to the fact that a number of them are shown as ongoing.

Page 7 is a fundamental piece for us, and it was developed in the spring of 1998 and developed in consultation with senior management of individual Crown corporations. It was reviewed and, I think, generally agreed to by the Provincial Auditor, although I don't want to characterize his view of this, although my sense from our staff was that there was satisfaction with what is here.

They are eight principles of governance which we expect to be in place to guide our own directions, decisions, and other Crown corporations. And we can come back and speak to those in any detail that you wish.

Drawing your attention to page 8, I'd like to move on to the issue of performance management. Performance management is not a new concept. It's a very standard management process that has been well known for many, many years. The issue is whether or not it has been well done over those years, and I think our finding is that it's been well done in some organizations and not so well in others.

But very simply, it is a management process that connects strategy with execution. And you can see that there are . . . Very fundamentally it assigns responsibilities for certain activities and there's a description there of what are considered to be key success factors for a well-functioning performance management process.

On page 9, we lay out very clearly here where responsibilities lie in Saskatchewan in the Crown sector for an effective performance management process. We also talk about the balanced scorecard, which is a particular type of performance management methodology which has gained favour very widely in both the public and private sector in North America, and which we introduced in the Crown sector last year, in 1997.

Page 10, there is a description of what the balanced scorecard is, what are the critical features, and another definition of

success with respect to implementation of the scorecard.

And on page 11, a concept of the scorecard itself showing that its function is to connect strategy, what an organization wishes to see be achieved, and execution or performance, what is actually achieved. You should know that not all of these measures are equal and emphasis can change from time to time.

Why we picked the balanced scorecard as a performance management methodology in the Crown sector is that it is perfectly suited to a public enterprise or a Crown corporation environment, where achieving financial goals and targets is not the only outcome that is required and is desired. There are other views and perspectives that have to be taken into account and have to be satisfied as well.

And of course for Crown corporations, one of those primary ones is public policy and also satisfaction of the customers of the services that Crown corporations provide, and a very particular focus on innovation and growth to ensure that Crown corporations continue to provide high-value service to the province.

Just turning to page 12, a little more information on what a balanced perspective might look like in a Crown corporation sector. These are some of the measures and some of the targets that you might see in the balance scorecard of any particular Crown corporation. And just a note at the bottom that this particular page is just representative only and that you will find that the scorecards of individual Crown corporations generally develop around this theme.

I've talked about what we did in 1997. In 1998, our focus has been on what, on page 13, is described as procedural and process improvements. And for 1999, we're very much looking at improving the quality of the work that's being done. There's evidence that introducing and coming to a point where you have a very effective performance management methodology based on a balanced scorecard approach takes about four or five years. You have to go through a period of experimentation; you have to try a number of measures and try on a number of different targets. Gradually over time, experience shows that you work your way down to measures and targets that are the essence of your operation or describe the essence of your operation and that takes a period of time.

So in 1999 what we're focusing on is trying to determine what are the key strategic measurements that need to be in place and looking more towards a standardization of outcome measurement. We're not looking for a template to put on top of the Crown corporations' operations but we think there is room for standardization that would be beneficial to all.

So that is the program for 1999. Thank you, Madam Chair.

**The Chair:** — Thank you very much. Before we hear from the Provincial Auditor, do committee members have any questions to direct to the officials about their overview?

All right then, as discussed we will now have a statement from the Provincial Auditor and there is a report to be handed out as well. The Clerk will distribute it.

**Mr. Atkinson:** — Thank you, Madam Chair. Yes, as you indicated, there is a report being handed out and it's in response to a question we had from one of the members at our meeting on March 17, 1998. The member inquired about our history of reporting practices at Crown corporations and what I've handed out is a brief history of those reporting practices. If you have any questions about that, I'd be pleased to talk to you later.

Anyway joining me here today is Ed Montgomery who is the executive director and responsible for the audit of CIC, and assisting him is Andrew Martens who is also with our office. They are both chartered accountants with numerous years of experience in legislative auditing. And Ed will be making the comments . . . (inaudible) . . . Thank you.

**Mr. Montgomery:** — Thank you, Brian. Madam Chair, members of the committee, I have several comments regarding our audit of the Crown Investments Corporation for the 1997 year. I've organized my comments to cover the following four topics: audit objectives, audit results, CIC's annual report, and other matters.

Our objectives for the audit of the CIC, are to form several opinions and report the results to the Legislative Assembly. First we form an opinion on the reliability of the financial statements included in the CIC's annual report.

Second, we form an opinion on the rules and procedures used by CIC to safeguard and control its assets. And third we form an opinion on CIC's compliance with legislative authorities.

We limit our audit to authorities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing activities.

Our results: CIC's annual report contains three separate financial statements . . . (inaudible) . . . and just explain what it would mean to each set of financial statements. We are pleased to report to you that all three of these financial statements are reliable. CIC's annual report includes our audit reports on these financial statements on pages 41, 71, and 87.

We're also pleased to report that for the year ended December 31, 1997, in our opinion, CIC has adequate rules and procedures to safeguard and control its assets. And CIC complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

We reported these things to the Legislative Assembly in chapter 8 of the Provincial Auditor's *1998 Spring Report*. Tomorrow morning we meet with the Standing Committee on Public Accounts to go through the matters reported in chapter 8.

I've not covered all the matters to be discussed with the Public Accounts Committee in my opening comments here today, but I am prepared to discuss those matters if you request me to do so.

With regard to the annual report, we believe that to assess performance of Crown agencies, MLAs (Member of the Legislative Assembly) and the public, we've added a summary information about the plans of those agencies and about the achievements of those plans. We think all public sector

agencies should provide their vision, long-range goals, the specific objectives, key performance targets, and the main strategies for achieving those targets. And they should also report on the extent to which they achieve those plans and targets.

Over the past several years CIC has improved the quality of its annual report. In addition, they now provide semi-annual reports. In its 1997 annual report, CIC includes its vision; mission; its values and principles; it provides its objectives for 1998; and its objectives and accomplishments for 1997.

CIC continues to improve its performance reporting through the implementation of a balanced scorecard performance management system. And we support those improvements.

One final matter, we're also pleased to report that we have a good working relationship with the staff at CIC and we received their full co-operation during our 1997 audit.

That concludes my opening comments and I'd be prepared to answer any questions the committee can come up with.

**The Chair:** — Do committee members have any questions specifically of the provincial auditors. No? No questions of the auditors? Fine, you can relax gentlemen. And you may stay here if you wish for the balance of the afternoon, or you may go back and ferret into some other corporation, as you choose.

If committee members would then turn their attention to the reports, we will be considering two for the time being: one is CIC Mineral Interests Corporation 1997 annual report; and the other one is CIC 1997 annual report. And I gave members two extra copies of those reports. I will have them circulated.

. . . present at the Channel Lake in the fall . . . (inaudible) . . . I'm sure we'll hit our stride in a few moments . . . (inaudible) . . . in a couple of minutes and then we will begin questioning with the opposition party.

Mr. Boyd, do you wish to . . . (inaudible) . . . Mr. Toth?

**Mr. Toth:** — No. I see that. Thank you, Madam Chair, and committee members and representatives from the CIC here with us today.

Just a couple of opening comments in regards to the CIC. This is the first time I have to say that . . . (inaudible) . . . sitting in on a corporate, on a Crown Corporations Committee meeting, where CIC has had the lead off. As I see CIC — and if I'm wrong you can correct me — I see CIC as basically being a parent figurehead of all the Crown corporations. Is that true? And I believe all the subsidiaries like SaskPower, SaskTel . . . directives come from CIC. Is that how we're supposed to be operating or functioning? Or where are we going here?

And the reason I ask that question is because some of the questions we may get into may be directly related to specific Crowns. And where do we go when we look at whether it's SaskPower or SaskTel? Are we going to be limited in the responses we're getting? I have a feeling we probably will because we may not be all that familiar with the working of specific Crowns. So I need a clarification in that . . . that regard.



**Mr. Wright:** — Madam Chair, if I may. I would not only use the word parent necessarily, that implies a degree of discipline, and you don't always know where your kids are. I would prefer the phrase holding company for the government's commercially viable investments, including not only the subsidiary Crown corporations, SaskTel, SaskPower, and so on, but also the very large investment portfolio that we have.

We are not really here in a position to speak to certain of the activities, the day-to-day operational activities, of SaskTel, SaskPower. We would prefer that committee members refer those questions to those individual Crowns when they're before you. We'd rather speak on the very large or macro basis about the current direction — I think that's more than acceptable — and about our specific investments.

With respect to directives, CIC certainly does have the ability pursuant to its Act to issue directives. I've been the president and CEO of CIC for a little over, or almost two and a half years. I don't believe we've ever issued a directive. So with that in mind, we'll do our darn best to answer committee members' questions. But, quite frankly, if it gets too specific on some of the Crowns, we'll just have to refer and defer that for their appearance here before this committee.

**Mr. Toth:** — Thank you, Mr. Wright. I take it then, referring to yourself, CIC as a holding company rather than a parent, you don't really want to be responsible for the actions of the Crowns if they happen to take a directive that may not really reflect where CIC wanted them to be there.

**Mr. Wright:** — We do take responsibility for that, that is our job. Sometimes, sometimes . . . I notice we're both smiling.

**Mr. Toth:** — Provide corrective measures. So when it comes to, I guess . . . I'm looking here, and I look at the, this is one document here. There were some sales, some subsidiaries, in the year '97 — Wascana Energy for example of 72.6 million — I believe there was another one as well, I just don't have it right in front of me — but Wascana Energy up . . . Bi-Provincial — that was in '98, I believe.

**Mr. Wright:** — That's correct. Madam Minister, in the last two years we've had — very quickly if I may — three very large asset sales, one being Wascana which closed in 1997. In 1998 was the Bi-Provincial Upgrader. And as well, although not yet closed, was Crown Life in 1998.

**Mr. Toth:** — So with the sale of these assets then who handles . . . does CIC as a holding company basically handled, looked after . . . it wasn't the subsidiaries themselves?

**Mr. Wright:** — No. These were the assets that are directly held within CICI, CIC Industrial Interests Inc, which is the subsidiary of CIC. I'm also the president of CICI and so on. So we handled all of those divestitures directly ourselves and can answer virtually any question on it.

**Mr. Toth:** — So when those divestitures were made or sales were made, and Wascana Energy for example, \$72.6 million, were did the funds then go directly? Do they go into a pool and of that pool then you determine so much will be paid down on debt, so much will go into a — I'm going to refer to it as a rainy

day fund — say a fund?

I noticed CIC does pay dividends or can have dividends called by General Revenue Fund. What happens to all of the funds specifically or have you made a decision prior to sale where the funds will be going?

**Mr. Wright:** — Madam Chair, in the case of Wascana, we are holding the shares and I'm just going to use round figures if I may — the shares on our books, CIC, at approximately \$10 per share and we ended up selling them at slightly over \$20. That generated two flows: one a cash flow of about 130 million as I recall; and a capital gain of around 70 million . . . 120 million and a capital gain of around 70 million.

Now pursuant to The Balanced Budget Act, which was introduced I believe in 1995, proceeds from the divestiture of significant Crown assets must go to pay down the debt. And you'll notice, Madam Chair, that in the material that we handed out you can see the debt reduction that's been incurred in CIC. Hence no rainy day fund.

To the extent that we can't pay off debt, at that point in time it goes into something called the sinking fund which is used as a temporary holding facility until such time as debt comes due and we can pay down that debt. So that's where the proceeds go, is to pay down debt pursuant to the Act.

**Mr. Toth:** — Sinking almost has another connotation, you know, like disappearing.

**Mr. Wright:** — If we can just explain sinking funds. I'll call Mr. Schwartz just to touch on that.

**Mr. Schwartz:** — Sinking fund is basically just an asset, a holding account that is used for the orderly retirement of the debt. So if you had say a hundred million dollar debt and you couldn't actually go back and repurchase the debt and retire it, what you do — and you got say \$50 million proceeds — you'd establish a \$50 million sinking fund. So that in essence your net debt, which is the gross amount of the 100 million minus the 50 amount of the sinking fund, would be \$50 million.

When the debt matures, the sinking fund would be applied to help pay down the principal at maturity.

**Mr. Toth:** — So what you're basically saying then is even though if you have the funds, you would wait till maturity to pay it down. Am I taking then that there's a penalty if you pay in advance?

**Mr. Schwartz:** — Certain debt is not marketable or very difficult to acquire. So it can be retired in the market; it is acquired in the market. If it's difficult to acquire, then a sinking fund is established.

**Mr. Toth:** — I'm looking at some of the major highlights you had here. And you show earnings for the year, consolidated earnings. And I think you explained, and I believe the first graph we have is from the period of '93 to '97. We have two different figures on that, and we call them ongoing operations, non-reoccurring.

So the bottom line which is your . . . I believe that's . . . the green is hard to tell sometimes, whether it's one side or the other. I'm taking the bottom line as being the heavier green, the ongoing. That would be what you're paying on ongoing debt, and what's the top line? Can I get that explained just a little better please?

**Mr. Wright:** — Sure. Madam Chair, it's a different concept. This isn't what we're paying on ongoing debt. This is just how much . . . Look at it this way. How much profits were there? This is a profit statement. So the bottom one is the profits collectively, of the consolidated earnings, everybody thrown together. What were the total profits of all the major Crowns, all the Crowns and subsidiary Crown corporations and our investments. That's the bottom one, ongoing operations.

The top, the light shade, refers to special one-time events. And in 1997 there were two. One was the sale of the Wascana shares, netting about \$73 million. And there was a special provision taken because of changes in the accounting rules endorsed by the Provincial Auditor's office, I believe at the end of the day of about 57 million for a net of 17.

Those were two very special one-time events. So that's an earnings picture, ongoing, and then one time.

**Mr. Toth:** — You said that was in '97. And yet we have a figure of 17 . . .

**Mr. Wright:** — 73 million for Wascana positive, less 57 or 56 negative for SaskTel because of a change in accounting.

**Mr. Toth:** — Oh I see. That's the next page over.

**Mr. Wright:** — So those are one-time occurrences.

**Mr. Toth:** — And then of course '96 is showing the major sale of Cameco.

**Mr. Wright:** — That's correct.

**Mr. Toth:** — Then you have the graph showing the debt reduction. And that would be the consolidated debt ratio basically just showing how you've slowly been working at cutting . . . When we're talking debt here, we're talking total Crown debt. Is that correct?

**Mr. Wright:** — That is correct.

**Mr. Toth:** — And you've reduced that basically from 69 to 56. Of that reduction over that period of time, would it be fair to say that the significant reduction has come as a result of assets sold where you've made . . . like the Cameco shares, the Wascana Energy, that specifically have played a major role in the reduction of that debt?

**Mr. Wright:** — Madam Chair, reduction of the debt has been attributable to two instances. The hon. member is absolutely correct; asset sales have contributed in a significant way.

Equally so, with each of the Crown corporations, for example SaskPower, SaskEnergy, SaskTel, each of those corporations have also been reducing their debt.

So it's twofold. Asset sales, yes; and also ongoing debt reduction in each of the Crown corporations including CIC as well.

**Mr. Toth:** — Now when you talk about ongoing debt reduction in the Crowns, part of that ongoing debt reduction could be attributed to increased rates that the consumer is paying or asked to, whether it's a householder or a business, and in that case maybe that's an area that Crowns decide themselves where the specific Crowns . . . Or is that something that CIC has any involvement in when it comes to rates?

**Mr. Wright:** — Well indeed we do have an involvement in rates, Madam Chair. Rates are generated . . . requests by the boards of the individual Crowns. And pursuant to the division of responsibilities, roles, and responsibilities, they then must look through CIC and ultimately onto the cabinet for approval. So CIC does have an involvement in the rate process.

Equally so though, rates may have cause . . . or resulted in debt reduction. But also I'm sure efficiency measures have also contributed to debt reduction within the Crowns.

**Mr. Toth:** — Thank you. I think when we look at rates, and certainly that's an area that probably every one of us as MLAs hear about in the room. The question is why do we see significant rate increases such as SaskEnergy's most recent rate increase when the corporation itself had — I wouldn't say sufficient, but more than — adequate profits for the last fiscal year?

And I guess the question I would have to ask is: what process is really followed? How can you justify, how can CIC even justify accepting a proposal for a rate increase from SaskEnergy and then going to cabinet with it when there's . . . a major profit has been made in the past fiscal year by SaskEnergy?

**Mr. Wright:** — Well I think in some ways, Madam Chair, what you have to do for each of the Crowns is to step back for two seconds and say, the people of this province, be it SaskEnergy or SaskPower or SaskTel, have made a significant investment — tax dollars, equity dollars — into each of these Crown corporations. And as the investors and shareholders in a sense on the one side, they expect a return on their investment. An adequate return to cover the costs of borrowing that money, as the case may be, to invest in it. And also to cover the risks associated with that industry, be it Tel again or Energy.

So on one side the shareholders, which are the people of this province, expect a return on their money. On the other side, what they expect is fair and reasonable and balanced rates.

In the case of SaskEnergy which we were referring to, what this is is a commodity price increase. There are no other increases in SaskEnergy's forthcoming . . . not forthcoming . . . November 1 rate increase. It is merely a pass-along of increases in energy prices, which is to say natural gas prices have risen substantially.

So in a sense, Madam Chair, there are many different competing objectives within the Crowns — adequate returns, reasonable, fair rates, universal access, universal supply — and many of these are laid out in our public policy goals and

objectives that we've articulated in our annual report. So it's a balancing act in many ways.

**Mr. Toth:** — Thank you, Mr. Wright. Your comment about the shareholders wanting a fair return on their investment. I guess I would have to suggest, as you indicated, probably would reflect as well, the shareholders would be the people of Saskatchewan. It's a publicly owned corporation. However, the people of Saskatchewan did not have the choice of whether they invested or didn't invest in the corporation.

And when it comes to a major company or any time you can buy shares in a company, yes, you want to see that company making . . . and it doesn't matter what the profits are as long as it's not affecting you on the bottom line in some ways. You don't mind seeing a company doing very well because it means that your shares, instead of maybe being \$10, may be at \$12 or whatever. It's a solid investment.

However when it comes to Crown corporations, I'm not exactly sure the public see it exactly that way. We can talk about shares all we want, but how do the public really see the benefit of the shares or those investments or the return on investment from a Crown corporation that they don't have a lot of input or involvement in.

I know the government likes to brag about their 45-day review. Well it would seem to me before we talk about a rate review, maybe if we're talking to shareholders we should be talking to them prior to and why, rather than announcing an increase is coming and then deciding we're going to go talk to the shareholders.

So I guess that's the concern I have. And the question I would raise right up front is when we're looking at shareholders I would suggest the shareholders, if you will, or the public of Saskatchewan would feel more comfortable with access to services at a, if they own the company, at a, not a reduced rate, but at a fair market rate. And if what you're telling me today is a fair market rate is what everybody else is giving, I'm not exactly sure that's fair market rate.

I guess that's the question I have, is why are we making 50 or \$70 million out of the corporation and then finding a rate increase. We can argue all we want about the fact that the market is saying this is the way we have to go, therefore we're going to do a rate increase.

**Mr. Wright:** — Madam Chair, I'm certainly not a politician and, you know, we'll try to deal with these questions in a what I'll call . . . (inaudible) . . . in a technical way.

First off with respect to SaskEnergy, because that's where we began, let us remember that there is \$255 million worth of equity in SaskEnergy put in there by the individuals in this province as a flow-through from the General Revenue Fund through CIC and on to SaskEnergy.

Now in terms of the rate increase that went through, again, that deals with commodity price increase. And I do want to emphasize there that SaskEnergy has passed this forward — no profit, no gain to SaskEnergy.

The hon. committee member asked, well, what is the benefit that people get from Crown corporations? There are many — certainly. And what are the risk returns?

Well there's not only a financial return, which is to say profits earned and some of those profits go to pay a dividend to CIC, who in turn passes that on to the General Revenue Fund — as the minister mentioned, \$50 million in several years. And this year, 1998-99, we're projecting on a regular basis to be showing a hundred million dollar dividend. These are used for a variety of things — highways, health care, and so on.

Benefits also come in different ways. Benefits in terms of the local employment. For example, SaskEnergy again almost has a thousand people; I believe around 900 people employed in the corporation. These people live here in Saskatchewan. They buy their purchases here in Saskatchewan, not just in Regina but throughout the province. So there's benefit from the employment side of the equation.

There's also local purchases that the corporations make. There's contributions to charitable organizations and so on. So these some may say are compelling reasons, some may say not so. Equally so on the financial side. Some may say ensuring an adequate return on your investment is great.

Let me just come to a final point here, and I hope I'm trying to answer your question. And the final point is, well what if you didn't turn any profit? What if you didn't and you just broke even? Well certainly you'd run into difficult straits in no short time. If the choice was, well let's not pass on, and I don't think the member's suggesting this, but let's not pass on that rate increase.

Well surely what would happen is the corporation would be paying for this and its profit position would erode, not only possibly from a positive position, not returning a return on the dollars invested, perhaps into a negative position resulting in the deterioration of the corporation.

I think in some cases, Manitoba Tel for example, was run on certain principles that didn't adhere to a full profitability, an adequate return on the shareholders' basis. As a result when MTS (Manitoba Telephone System) or Manitoba Tel was recently privatized, the government had to take back a lot of the dead-weight debt.

Long and short, there are many competing alternatives in here and issues surrounding each of the Crown corporations.

**The Chair:** — Mr. Toth, do you want to pursue this line of questioning?

**Mr. Toth:** — Just a closing comment. Mr. Wright made the comment that he really wasn't a politician but I think he gave a pretty good political answer.

**Mr. Wright:** — It was meant to be a technical answer, Madam Chair.

**The Chair:** — I think it is probably from his many years in the civil service and now the Crown sector side of things . . . (inaudible) . . . by all of us.

**Mr. Toth:** — I can pursue this later then.

**The Chair:** — We will, in the absence of the third party, then we'll move to the government members for 15 minutes and then the opposition.

**Mr. Trew:** — Thank you, Madam Chair. Mr. Wright, I very much appreciated the presentation that the minister and yourself and your co-workers made to us. I thought it was very thorough.

It's interesting to me to observe how the annual report has thickened and includes many, many things that were not there a very few, short years ago. I'll get some questions to that hopefully time permitting but I wanted to talk a bit about the dividends first because that seems to me to be a very important area.

My recollection, Mr. Wright, is that in the early '90s we were, for whatever reason, either unable or unwilling to take a dividend from CIC. In fact I think the taxpayers in fact flowed some money into CIC in 1992, maybe '93. And I'm wondering, I guess I'm wanting to reconfirm my history. That's not a bad starting point.

**Mr. Wright:** — Madam Chair, if I may, a brief history of Crown dividends. And I'm just going to jump way back when I was a young rascal and was footloose and fancy free back in the late '70s, early '80s. At that time, SaskTel and SaskPower paid 50 per cent of their net income to what was then known as the Consolidated Fund of the government. During the 1980s that continued, and depending upon the profitability, in certain years I recall more dividends were paid.

Towards the latter part of the 1980s, very large dividends were paid into the Consolidated Fund of the government. In 1991 no dividend was paid; 1992 no dividend was paid, and in fact the General Revenue Fund of the province had to pay \$4.9 million into Crown Investments Corporation to keep its . . . to retained earnings from being negative overall, to keep them to being balanced.

In 1993 it wasn't a bad year; there was \$35.4 million worth of dividends paid. In 1994, because of a large number of writedowns associated with certain assets, dividends couldn't be paid, and in fact \$13.9 million I believe was paid from the General Revenue Fund.

Since then in 1995, 50 million; 1996, 415.7 million attributable to the Cameco in a regular ongoing \$50 million dividend; 1997, \$50 million; and this year \$200 million, 1998, which will be 100 million of the regular amount and 100 million attributable to the sale of the Bi-Provincial asset, or Bi-Provincial Upgrader asset.

So that's the history.

**Mr. Trew:** — Thank you for that. That brought me right up to speed. And I had forgotten about the reason for 1992's some few million dollars coming from the General Revenue Fund into CIC. And I appreciate what you were saying about allowing the . . . if I understood you right, the assets and the liabilities then were able to be in balance and otherwise not.

**Mr. Wright:** — If I may, we . . . at the time I was in the Department of Finance and we undertook a very significant restructuring of the Crown corporations. I believe that included the return . . . not return, the absorption of \$875 million worth of debt from Crown Investments Corporation into the General Revenue Fund of the province. We were trying to stabilize and solidify the overall position of the Crown sector.

**Mr. Trew:** — Yes, thank you. Now to the dividend which is obviously growing, and I appreciate the questions of Mr. Toth and your response about return on investment and so on that taxpayers could be expected to reasonably get.

But I'm wondering about the sustainability of a hundred million dollar dividend. Because if I heard you and understood you correctly, we're projecting out for the next several years a hundred million dollar dividend to the General Revenue Fund from CIC.

**Mr. Wright:** — Sure. If I may, Madam Chair, one has to remember that the General Revenue Fund of this province is invested approximately \$1.447 billion into the Crown sector, Crown Investments Corporation. \$50 million dividend payment represents a return of approximately 4.5 per cent on that . . . Sorry, it doesn't even represent that. That represents a little over 3 approaching 4 per cent return on that investment.

What has occurred in the Crown sector, as my minister alluded to and I believe Mr. Schwartz alluded to, is a sharp paydown in debt, and again attributable to asset sales. Also attributable to profit performance, efficiency measures, and certainly I believe rates may have contributed to that as well.

As a result, debt has gone down. And one can see, if you look very carefully through the numbers, that the amount of debt reduction, approximately, Sheldon, \$800 million, contributes that 7 per cent to an incremental \$50 million that has been freed up over time, thereby enabling a hundred million dollar payment this year. In addition though, I guess it's my hope and my belief that in fact CIC and the Crown sector can contribute more.

Since that point in time we've also sold our interests, or are on the verge of selling our interest in Crown Life, which will return a hundred and fifty million dollars to us at or about closing. In addition the other \$272 million that are owed to us will be returned over a number of years, thereby again forcing down debt, then again freeing up cash, and then again enabling us to provide higher dividends to the General Revenue Fund.

The hundred million dollars we're providing this year is a little over 7 per cent return to the General Revenue Fund. And we're hopeful that it will get up even higher in the years to come to a reasonable return, given all things considered.

**Mr. Trew:** — Okay, thanks. I want to talk about ROI (return on investment) or ask a question. Because I'm triggering back to again when I was a bit younger, working for the Wheat Pool. And I recall some talk about return of investment, and what the Pool felt it needed was an 18 per cent ROI in those days. I'm wondering if that is still the generally accepted threshold, or how has that changed?

Before you answer, Mr. Wright, I want to acknowledge that I know I'm talking about a co-operative, the Pool, versus a Crown corporation. And if you had some comments on how they might differ I would value that, but not necessary.

**Mr. Wright:** — I'll give you the reader's digest version here which is to say highly condensed. And if we want to talk about this more, Mr. Schwartz can go on and provide you with highly technical answers. He can go on forever.

What is a hurdle rate . . . 18 per cent back then. Generally accepted hurdle rates depend upon the industry that you're in. And a hurdle rate is well, what is that rate of return, ROI, a return on equity that you're prepared to put into this, and return on investment that you find acceptable.

And it differs from industry to industry, sector to sector. And I'm just going to say, in general it's around 15 per cent. If you're going to make an investment into something new, generally you're hopeful, depending upon where you are, to make about 15 per cent, give or take.

Now what does that 15 per cent represent? Well you're out there and you're borrowing money, so it's the cost of your money first and foremost that you've got to cover. Right now 30-year money is approximately 6 per cent, Mr. Schwartz, so you've got to cover that first 6 per cent.

Then you've got to adjust it for a risk. What is the risk in that various sector? Energy sector may be a lot more stable than, for example, and a lot more risk free than a certain high-tech investment where you may have a hurdle rate, an investment rate of 20 or 30 per cent because of the risk.

You also adjust it for profitability in terms of corporate taxation that may be applicable, and other factors. Fifteen per cent, give or take, is really generic, but it depends on the sector.

**Mr. Trew:** — Thank you, Mr. Wright. I want to switch a little bit to subsidiaries. Because in no small measure, part of why this Crown Corporations Committee is meeting here right now and finally — I assume finally — and dealing with Crown Investments Corporation and the various Crowns, is we've just spent a very considerable amount of time dealing with one of the subsidiaries of SaskPower, that is Channel Lake. I was pleased to hear Mr. Shaw's presentation, and I refer you to page 7 of that where at principle 6 he talked — and I'll just quote it because it's fairly short:

The Crown board must determine what constitutes reasonable management information to make board decisions and to monitor the performance of the corporation, its subsidiaries and its major holdings. The Crown board must oversee that management puts in place the necessary systems and controls to provide this information.

I'm curious if you feel that is going to be enough that we can have a proper handle on Crown corporations at the board level. And I'd like to know with some more specificity what it is that has been done with respect to subsidiaries and their accountability?

**Mr. Shaw:** — Yes, thank you. You have mentioned principle 6. I think it would be worthwhile also just to refer you to several of the principles that come before that one. Number 3, for example, states very clearly that for wholly owned subsidiaries we would expect that the boards of Crown corporations institute the same level of authorization, governance, policies, processes, and procedures as they would for themselves.

You can notice principle 4 also talks about delegation of authority to Crown board committees, subsidiary boards and management committees is accompanied by a clear definition of roles, mandate, and scope of authority.

And principle 5 talks about the board's responsibility with respect to ensuring that there is . . . that corporate management is making all efforts to achieve the corporate strategy objectives that the board has in fact set out, and that includes the performance of any subsidiaries. So there is a . . . I think when you look at this issue, Mr. Trew, you need to take into view all of these principles that together describe a governance framework that in many respects was not in place with respect to the Crown corporation you referred to in the subsidiary that you are referring to.

So just in terms of not only the theory but also the practice, we think that we have here a framework and a set of rules and responsibilities that we think addresses the fundamental flaw that was in place with respect, with respect to Channel Lake.

How do we assure ourselves that these good principles are in fact working in progress . . . working in practice? We have I think established, I know we've established an extremely good working relationship with the Crown corporations. We have good communications. We have highly trained corporate secretaries, who are employees of the CIC, who provide corporate secretarial services and other services to the boards of Crown corporations.

And the boards themselves have very seriously taken on the issue of effective governance with respect to their Crown corporation, a result of a number of things, one of which most particularly is the example that Channel Lake provides with respect to what can go wrong when the fundamentals are not in place.

Also the board members who are now on the boards are in every respect highly professional and dedicated people and they come with a view to their work that they want to ensure that the corporation succeeds and they understand fundamentally what needs to be in place to guarantee success, and they've also had training.

So I think that we have . . . this is a long-winded answer I think to a . . . but an important question. We have boards who are dedicated to their work and know what must be done. We know through working with them that they're putting into place all of the structures and processes that are required based on leading practice in this field. And we have people who are dedicated to their work.

So I have a great deal of confidence with respect to the effectiveness of governance in Crown corporations.

**Mr. Trew:** — Thank you, Mr. Shaw. Madam Chairman, I expected I was going to have follow-up questions, but I must compliment Mr. Shaw on anticipating all of the questions. And I also confess that I certainly wanted to slap CIC a little bit over the Channel Lake thing.

I've spent a fair amount of time in Crown Corporations Committee hearings over that little issue, but I'm very pleased with what I'm hearing you report. And of course we all . . . it's in all of our interests, certainly all of CIC but all of the people of Saskatchewan for that to work when the rubber hits the road. And I am confident as I sit here that that is your intention as well. And I wish you good luck in that, and of course we'll be watching. So thanks for that answer.

**The Chair:** — Mr. Wright, did you have anything to add to that?

**Mr. Shaw:** — I haven't seen the final printed Channel Lake report, but I have seen drafts and I know that the committee has found that CIC itself bears some responsibility for the Channel Lake event. And quite clearly we do. And in the areas that the committee has noted there were deficiencies in our work and I want to make a supplementary comment to my previous one about the subsidiary Crown corporations.

CIC itself I believe has learned from the Channel Lake experience and I'd like to put on the record that we accept our responsibility with respect to the extent that you've identified, and we ourselves believe that we have put into place corrective measures to ensure that we're fulfilling our role as well.

**Mr. Trew:** — Thank you, Madam Chair. I think my time has largely lapsed and it's time to pass the baton, so back to you.

**The Chair:** — Okay. We'll move back to the questions for CIC. We will be dealing with the Channel Lake report shortly.

Mr. Toth, and Mr. Boyd, what I would suggest perhaps . . . (inaudible) . . . be able to take a break at 3 o'clock and be prepared to be back here by 3:30.

So, Mr. Boyd, would you like to take the questioning till 3?

**Mr. Boyd:** — Yes, please. Thank you, Madam Chair, and welcome to the CIC officials, Mr. Wright and company. The 1997 noted was the 50th anniversary of the Crown corporations, and it must grate on officials a little bit I suppose that it was a year of fairly significant controversy within the ranks of CIC because of an errant Crown.

How directly involved is CIC in the management of the Crown corporations? You mentioned that you aren't on a day-to-day basis involved certainly in the decisions about what they would do at a micro level, but on a macro level how involved are they?

We've had a very large public concern about the handling of the affairs of one of the most significant Crown corporations — SaskPower. And I think that there is a lot of skepticism out across Saskatchewan about how that happened and how . . . and what steps are being taken to ensure that that type of thing doesn't happen again.

And I wondered if you would care to comment at that point.

**Mr. Wright:** — Thank you, Madam Chair. If I may, indeed 1997 was an extremely busy year for CIC, and Channel Lake was only a small part of our business over the course of the year. If I could mention just a few of the others that we were engaged in.

Ms. Beatch and other members of the CIC team were involved of course in the Wascana share issue, which was very time consuming, very involved. Crown Life transaction was well under way in 1997, consuming an awful lot of time of Patti's and others. Indeed, the Husky sale and Bi-Provincial sale was very time consuming as well for Patti and her team.

On Mike Shaw's side in the Crown corps division, the Crown review, the implementation of the recommendations arising in June 1997 from the Crown review consumed an incredible amount of his time. And Mr. Schwartz's time was involved in trying to improve accountability and responsibility of the Crowns on the financial reporting side including, along with Mr. Boyle, improved annual reports. Busy year, absolutely.

How much do we get involved as CIC? I think Mr. Shaw, when he handed out his documents on governance and performance measurements, handed out a matrix which was on page 5. And that clearly shows you how much CIC does get involved on an approval basis. For example, things that we don't approve any longer as a result are: strategic plans, business plans, operating budgets, operating goals and objectives, and so on from there.

What we do approve though are Crown board performance, performance measures, commercial and financial objectives, dividends, capital budgets, and so on. So we take a very, very macro, very high level review and organization and performance measuring of the Crowns. That's our job as we believe it to be through the Crown review.

On specific issues, yes we do get involved. Yes, where it's necessary not to use the word "parent" but rather the keeper of the assets; the holding company at the end of the day, who do get involved.

Channel Lake, there's no question, we got involved. In part as Mr. Shaw pointed out, and as part as I believe in draft reports the committee has noted, the CIC dropped the football. We accept responsibility in part for that. But we were involved in that or quite extensively. Other things from time to time we get involved in at the request of cabinet, the Crown Corporations Committee, the Public Accounts Committee; or others, we get involved in on an operational basis.

We also have a variety of forums to make sure that we keep in touch with the Crowns on an on-going basis. Those include a monthly Chairs' forum whereby CIC deals with the Chairs of each of the Crown corporations. We have monthly reports from the Chairs that go through to the CIC board. We have monthly meetings of VPs, be they finance or legal counsel or communications. We've significantly enhanced our communication relative to the Crowns on an on-going basis. So that way we know what's going on, the red flags on any issue are . . . come up the most much quicker. I'll leave it at that, Madam Chair.

**Mr. Boyd:** — Mr. Wright, you characterize it as dropping the football. At SaskPower when the football was dropped and there were numerous dismissals and there were severances paid and all of those kinds of things, there were repercussions. Has there been any reassignment of responsibilities within CIC as a result of the dropping of the football?

**Mr. Wright:** — As the president and Chair, or president and CEO of CIC, I accept full responsibility for all the actions of my staff. It was I that was aware, through my testimony at Channel Lake, of the issues, the June board meetings and so on. I believe my testimony is clear in that regard and I'd like to have done more. If there is anybody to accept fault and to be dismissed or anything else, it is myself and I think if the members of this committee see it so fit, I would be pleased to act on their advice and their wisdom and their counsel.

**Mr. Boyd:** — Does CIC have any input into the appointment of the Crown corporation's CEOs?

**Mr. Wright:** — Yes, cabinet as you will note again on the matrix and on the crime review as identified in June of '97, the cabinet reserves the right on the appointment of the Chairs, but we're trying to encourage the boards themselves to move forward in selecting the CEO through a competition process.

**Mr. Boyd:** — Through a competition process.

**Mr. Wright:** — That's what we're trying to encourage. That's correct.

**Mr. Boyd:** — You're going through a competition process currently then with respect to the CEO's position at SaskPower?

**Mr. Wright:** — I believe that to be the case. I believe it's in the very early stages. Early stages meaning perhaps there are going to be consultants, I do not know, but perhaps there are going to be consultants selected to assist in it. Perhaps there won't be. But it's in the very early stages to the best of my knowledge.

**Mr. Boyd:** — Does the CIC determine the dividend levels of the various Crowns?

**Mr. Wright:** — Yes, we do.

**Mr. Boyd:** — And they . . . you also set your own dividend level with respect to a transfer to the General Revenue Fund?

**Mr. Wright:** — No, we do not. That is set by cabinet ultimately at the end of the day through the budget process.

**Mr. Boyd:** — Is there direction from cabinet with respect to CIC about what amount of dividend the various Crowns are expected to provide?

**Mr. Wright:** — No, there is not.

**Mr. Boyd:** — None whatsoever.

**Mr. Wright:** — None that I'm aware of.

**Mr. Boyd:** — There's members on the board.

**Mr. Wright:** — That's correct. My board is responsible for determining through the CIC dividend policy, which is articulated in the annual report, through . . . it's a formula process for the most part as to what each of the Crowns should be paying in terms of a dividend based upon their cash flows, their relative profitability and so on, to CIC.

On that basis then, CIC has available retained earnings and profits that it can provide to the General Revenue Fund. We use and encourage the General Revenue Fund to adopt the same principles, again available cash flow and profitability, to determine the level of the dividend.

However that is set ultimately at the end of the day by cabinet and caucus through the regular budgetary process. We do not say hey, Department of Finance, GRF, we're only going to pay you 20 million or 80 million or 100 million as the case may be. There's an ongoing consultation and dialogue there.

**Mr. Boyd:** — You mentioned, and caucus. What role does caucus have in this?

**Mr. Wright:** — Well I think to the best of my knowledge — I've been in government a little over 21 years — every caucus has an involvement in the budgetary review process, for three successive governments that I'm aware of.

**Mr. Boyd:** — You mentioned that as the parent corporation that you take responsibility for the operations of the various Crown corporations. I guess one would have to speculate a little bit — if CIC and John Wright is the parent, how would one characterize Jack Messer in SaskPower? That's an entirely different issue I suppose.

Do you have any further concerns about the ongoing management ability of the various Crown corporations given the track record of recent . . .

**Mr. Wright:** — Well let me address the first part of that, does CIC have responsibility for "their operations." No, we do not have responsibility on a day-to-day ongoing basis for those operations. As I indicated — strategic plan, business plan, operating budget, operating goals and objectives and so on, day-to-day decision making, absolutely at the individual Crown level.

Do I have any ongoing concerns? If the world was perfect, which I know it isn't, then I would be free of concerns. But the world is not perfect and we can all learn by our mistakes. I believe we have. And we can always make improvements. Even the improvements that I think we've made so far today, we can improve upon those. And that's my goal, that's the goal of CIC, is constant improvement.

And quite frankly, the Provincial Auditor — although sometimes we don't always get along — but relationships aren't all that bad, because we both see improvement as necessary, and you can always make those.

**Mr. Boyd:** — Certainly one would agree with that.

Madam Chair, I'd like to direct a couple of questions towards the Provincial Auditor at this point.

**The Chair:** — Certainly. Certainly. That's part of the reason that they hang around, hoping that somebody will refer questions to them.

**Mr. Boyd:** — I was hoping that to be the case. With respect to the Provincial Auditor, the Provincial Auditor played a very significant role in the uncovering of the whole Channel Lake situation. And I note that you in your comments spoke about the reliability of the statements that have been provided to the Provincial Auditor with respect to the Crown corporations. And do you have any concerns about, further concerns about any of the Crown corporations with respect to things of that nature this year around.

**Mr. Montgomery:** — My comments earlier related specifically to CIC safeguarding and controlling the assets under its control. They do not reflect our comments on SaskPower. We will be providing comments on each of the Crown corporations as they come before you at the committee.

**Mr. Boyd:** — As a general statement though, you would concur with the view that we are not apt to see those same kind of surprises?

**Mr. Montgomery:** — The Channel Lake affair that we . . . with respect to SaskPower, we've been reporting matters of SaskPower for several years, and back to the *Fall Report*, we reported concerns about management of its subsidiary. We will short . . . we at that point had not completed our work for the 1997 year for SaskPower. And we will shortly be reporting on that year end.

**Mr. Boyd:** — So it would be safe to say that you've seen improvements since the . . . and that improvements and his concern, as the Provincial Auditor's concerns have been addressed, with the lack of reporting requirements that some of the Crown subsidiaries have or have had.

**Mr. Montgomery:** — Certainly we're seeing improvements, Mr. Boyd. What I'm saying to you though is that we haven't really got into the audit of SaskPower for the year ended . . . for this year. And before I'd give a reply to say that there's significant improvement at SaskPower, I'd like to see the files on that one first.

**The Chair:** — Technically, Mr. Boyd, we are dealing with the year 1997, though of course it has become the committee's practice that we entertain questions prospectively as well as retrospectively. But I think I can appreciate the discomfort that the Provincial Auditor might have in answering that specific kind of a question.

**Mr. Boyd:** — I understand that. We don't seem to have had any concern about relating back to 1992 or anywhere in that neighbourhood. And I take the comments . . .

**The Chair:** — And you certainly, you can question about what are the plans in CIC and the various Crowns for '98, '99, 2000, and so forth. There's no problem there. I'm just very much aware that the Provincial Auditor will be releasing a *Fall Report* within a couple of weeks. And I think that in the absence of Mr. Strelieff, that Mr. Montgomery and Mr. Atkinson might prefer to hold off for a couple of weeks until we have that

formal report.

**Mr. Boyd:** — Madam Chair, I direct my comments back to the officials with CIC, please.

You mentioned that . . . and in the minister's report of \$7.5 billion in assets that the people of Saskatchewan hold in terms of the operations and assets contained within CIC, and it's very significant and really quite impressive, one might think.

I wonder if you would provide for us . . . We talked about, and the previous member talked a little bit about, the return on investment. And there's various ways of course, as you mentioned, of determining what kind of return on investment would be considered acceptable at different stages, different companies, all of those sort of things, certainly.

And I accept your explanation certainly at face value there, that if it was a high-risk operation, one assumes that you'd be looking for a higher rate of return from that, naturally, to cover off the risk.

And in assessing those return on investments, one would assume that if you have low-risk ventures but significant value tied up in assets, you'd expect a pretty good rate of return. I would think you would have to . . . Yes or no?

**Mr. Wright:** — I hate to say this but it depends . . . (inaudible) . . . use the example low-risk, significant value. Let's use SaskPower, okay, and if I may just give you a few stats on SaskPower.

SaskPower in 1997 — and I recognize that the capital reconstruction charge is not included in these numbers — had profits of \$132 million. Total assets are 3.2 billion. It has equity of 1.1 billion and it has debt of 1.7 billion. Now the rate of return on the profitability measured against that equity is a rate of return of 12.7 per cent. That was in '97. That compares in '96 to 14.1. Actually, in '95, 8.6; '94, 9.4, and so on.

So one could characterize in certain ways low-risk — SaskPower. Significant value — 3.2 billion in assets, therefore high rate of return. Well in this case, no, it's about 12.7.

**Mr. Boyd:** — Disappointing?

**Mr. Wright:** — Balanced very carefully against the need to keep rates as low as is reasonable. Again, as I indicated to the other member, it's a balancing act here between return on equity — okay, 12.7 per cent — and the need to keep rates fair and reasonable and equitable.

**Mr. Boyd:** — As the minister likes to point out very frequently, our rates are not a lot different than anyone else's. Our rates compare fairly favourably with everyone else's, so in that private versus public, our rates really aren't a whole lot different. They may be a little lower in some cases, a little higher in some cases, when you look at them as a basket, not just in an isolation of SaskPower or SaskEnergy or anyone else. But when you look at them in its entirety, we have been told over the years that they're not a whole lot different. We may be a little lower in some areas, we may be a little higher in some areas, but as a whole we're pretty competitive with other



jurisdictions.

Would our return on investment be comparable then to the return on investment that other utilities are getting, given the fact, given the fact that the operations of the Crown corporations in this province operate on a far different level than other provinces?

We have monopolies, largely speaking, in many of the Crown corporations — SaskPower, SaskEnergy to a degree. SaskTel is beginning to see some competition, just beginning. Monopolies, low risk. I think again, perhaps . . . I'm thinking that you might want to concur with that anyways.

Backstop by government, one would assume that that would mean pretty favourable interest rates for the investments into the various Crown corporations that you're going to make.

I look at it, I guess, from a very, very . . . a layman's point of view. If you were walking into the bank and you had very questionable assets at your disposal to put up as collateral, the interest rate goes up fairly significantly. If you're backstopped by government and you walk into the bank, I think they sit up and pay attention. Again low risk, I would assume.

The ability to set your own rates — largely speaking that is the case in Saskatchewan. And there would be people that perhaps may want to dispute that. But I don't recall through any of the rate reviews in recent months where any of the rates have been overturned.

There's been occasions when they've asked . . . SaskEnergy has asked for a reduction. They got it. They've had occasions when they've asked for an increase. They got it. I don't recall a single instance, and perhaps you might be able to help me with this, a single instance where they have not got what they've asked for or very close to what they've asked for.

So again you have low risk. Again you have a very low risk situation where in a competitive world one would assume that the rates are set by the marketplace. In the case of monopolies here in Saskatchewan, the rates are not set in that fashion. They are set as a mechanism to pass on the costs.

I recall SaskEnergy's Ron Clark recent days saying that it's just simply a transfer of costs from what they've had to pay for natural gas to the consumer. A different situation.

When you look at public versus private in the whole area of taxation, you don't pay any taxes — corporate taxes. You do pay corporate taxes?

**Mr. Wright:** — Corporate capital taxes for example, fuel taxes, sales taxes, GST (goods and services tax).

**Mr. Boyd:** — Corporate earnings taxes.

**Mr. Wright:** — Corporate income taxes?

**Mr. Boyd:** — Yes.

**Mr. Wright:** — No.

**Mr. Boyd:** — What would the percentage rate in a comparable company in the private sector be in that whole equation? All of these . . . I guess what I'm attempting to illustrate here is while you may want to be considered similar in nature to private companies, you're far from it. Very far away from it. And to make those direct kind of apples-to-apples comparisons that we've been led to believe are a proper yardstick can't be measured in the same fashion.

We have \$7.5 billion in assets. On that we received a very, very, very minuscule rate of return of \$50 million. I suspect that the CEO of most major corporations had a look at that rate of return on that number of dollars that are sitting at their disposal. They would suggest that it's not that good . . . (inaudible interjection) . . . No. I don't think I said anything even remotely close to that.

**A Member:** — That's exactly what you said.

**The Chair:** — Mr. Johnson, I would like Mr. Wright to address the question and then we will have a break.

**Mr. Wright:** — Sure. Madam Chair, thank you very much. There are at least eight individual items that I've recorded here that the hon. member has raised. If I can very quickly then, and not in any particular order.

With respect to rates that were relatively similar across the country, well I'm just referencing the 1998 budget address to give you a comparison of some of the rates. Overall I believe that we are the lowest in Canada on a bundle of rent — which perhaps one could argue shouldn't be in here — but electricity, telephone, and auto insurance.

Auto insurance rates, for example, through the auto fund are the lowest or the second lowest in the country on almost a universal basis. There might be one or two circumstances in Manitoba or one or two circumstances in B.C. where they may be slightly lower, but SGI consistently delivers the lowest, or among the lowest, auto insurance rates in the country.

With respect to telephone indicated here — and I'm just glancing across the country — I believe SaskTel rates at that point in time were in fact the second lowest in the country in terms of local calls, and long distance competitive — a lot of competitors out there.

Electricity. Now SaskPower clearly is using coal-generated fires — high cost per kilowatt hour to produce. Mother nature did not bless us with the hydroelectric power of Manitoba or the hydroelectric power of la belle province Quebec, or some would argue not the benefits of the nuclear generation at Darlington and others in Toronto that are huge dead-weight losses for them, or the hydroelectric power in B.C.

All said and done though, I think reasonable people would look at these and say, hey, they're within the ballpark; if they're not the best, they're certainly striving to be the best. So on rates we are competitive and lead the country in certain circumstances.

With respect to the Crowns being monopolies. Well, indeed, there is a monopoly within SaskPower — with the exception of course of Saskatoon who purchases wholesale, Swift Current

who purchase wholesale as well.

In the case of SaskEnergy, right at the moment the pipeline, the pipes into the house are a natural monopoly — absolutely right. That's because you don't want three or four sets of pipelines. It's not practical, people trying to build new pipes going into your house to deliver natural gas. However, with the provision of the commodity, you'll recognize on November 1, SaskEnergy opened it up to competition.

In the case of SaskTel it's quite clear what's going on there. There is competition big time in long-distance rates. There is no question about that. SaskTel's been very successful in maintaining its market share in the 90 per cent plus range for long distance because it's been competitive, not only on the price but on the quality of service being provided.

Since over 50 years ago SGI itself, not the auto fund, SGI has been competing, SGI CANADA is competing in the open marketplace with over 100 insurers in the province. Yet it maintains consistently year in and year out, because some could argue the price, some could argue the quality of the service, some could argue other things, but it must be something, a share about 45 percent.

With respect to ROI and other utilities, every utility is different, every utility has certain different perimeters around it. BC Hydro, Crown owned public utility has certain operating perimeters around which it operates. The same with Manitoba Hydro — Manitoba Hydro derives most of its income, if I'm correct, from foreign sales. We don't have that luxury. Most of its internal sales within the province are in fact not returning an adequate return on investment.

We speak of returns, SGI in 1997, 23 percent return on equity, among the highest in the country in terms of SGI CANADA's products, in terms of its product mix, and so on. SaskEnergy, 15.5 percent, indeed comparable to others, reasonable, balanced. SaskTel, indeed a slightly above industry average.

Are they all alike, are they all same? The answer's quite clearly no. You're absolutely right, Madam Chair, that the Crown corporation in Saskatchewan, short of the corporate income tax, don't pay like other corporations.

But that's reflected in the dividend policy. In the dividend policy rates are, in general terms with the exception of SGI, 55 percent of net income. Corporate income tax rates for a large corporation and a mature industry would pay around 40 to perhaps 42, 43 percent, depending upon the jurisdiction, depending upon what have you. Well we automatically capture that, plus we capture more, which is the normal cash flow return.

In the case of SGI CANADA, we take 90 percent based on the dividend policy of their net income — they have no debt, they're not servicing any debt so we . . . because they don't require it, their net risk ratio, which is an industry comparable, is in around 1.5, 1.6 percent, same as the rest of an issue were able to capture that back.

Are they similar to other private sector industries? Absolutely not. No they are not. You're absolutely right. They have public

policy objectives. That's quite clear, that's quite upfront. They have a balancing act that's between rates of return and the provision of universal access. For example, in local teleco in northern Saskatchewan — I suspect, although I'm not sure, I suspect that's not horribly profitable. But that's part of the operating mandate of SaskTel and that's why they are indeed Crown corporations.

In addition, the level of accountability and responsibility expected and demanded — and rightfully so — of our Crown corporations far succeeds that of many private sector organizations. Private sector organizations don't report to a Public Accounts Committee, they don't report to a Crown Corporations Committee, and at the end of the day, they don't report to the legislature.

With respect to low significant rates of return, I think I've tried to address that. Commodity prices, commodity changes, your reference to Mr. Clark, the CEO of SaskEnergy, well you're absolutely right. What Mr. Clark was saying, as I indicated previously, they are passing along the commodity price. The commodity price is risen. This is not driven by any actions whatsoever of SaskEnergy.

In fact, because of the hedging program of SaskEnergy, one could argue, and I would encourage you to ask SaskEnergy, that the prices paid by Saskatchewan residents in many jurisdictions in many ways will be either be the lowest or the second lowest in Canada. How is that possible? That's possible because of effective, efficient management and a good hedging program with good strong people who work here in the province. I hope I've tried to address all . . .

**The Chair:** — Mr. Boyd, you'll have an opportunity to ask further questions of Mr. Wright. I would suggest though now we will take a break until 3:30. I would appreciate your co-operation.

A couple of members of the Public Accounts Committee will be coming to join us for a few moments because we will be releasing the report at 3:30, so we'll take a break now until 3:30 today.

**The committee recessed for a period of time.**

#### **Channel Lake Petroleum Ltd. Report**

**The Chair:** — Please take your place. If committee members would take their places.

I apologize for the delay. I had hoped that there would have been a break scheduled with Public Accounts because, as committee members will be aware, the Crown Corporations Committee has been involved in an extensive review process of the circumstances surrounding the Channel Lake affair.

And we have been meeting from, I believe, early in April through until October to deal with it, and most of the regular committee members did not attend those meetings on a regular basis with the exception of Mr. Trew. And Mr. Trew as the Vice-Chair, I'd like to thank you for your diligence throughout the Channel Lake process.

**Mr. Trew:** — Ever at the service of the people.

**The Chair:** — Thank you. I also would like to single out for special commendation three other members who did sit in on the complete Channel Lake review, and that would be Mr. Rod Gantefer from the Saskatchewan Party, Mr. Jack Hillson from the Liberal Party, and Mr. Ned Shillington from the New Democratic Party. They basically assumed the lead for their particular parties on all of the questions that committee members did have in the Channel Lake inquiry.

As committee members will know, we reviewed over 1,100 documents. We spent some considerable time questioning witnesses. We did establish a lot of precedents. It was a fairly lengthy and detailed public inquiry.

At the end of the day, we have one report that was written, drafted, and then subsequently reviewed by all committee members but written by the New Democratic Party representatives. That is at the start of the report. Then the Saskatchewan Party and the Liberal Party as well provided opinions as well, so those have been included in the report.

I did table the report formally with the Clerk shortly before noon today. Committee members will be aware that we did pass a deeming motion in July, or in June rather, to allow for this report to be deemed to have been tabled with the legislature when I transmitted it to the Clerk. So the report has now formal and public and I would ask the Clerk to distribute copies to committee members.

I want to thank everyone for their co-operation in the report. One question that has been raised and is always on the lips of everyone these days as we try to zealously oversee public funds is what the cost was for the Channel Lake inquiry.

And I would like to inform committee members that effective November 3, the total expenditures for the Crown Corporations Channel Lake inquiry were \$212,412 — two hundred and twelve, four twelve. There will be probably an additional \$2,000 more which will represent the finalized cost for the printing of the document. But at the end of the day, the report will come in at a total cost of under \$215,000. I have a breakdown of those expenses that I will also circulate for committee members for their information.

And at this point I would ask if any committee members had any summary comments that they wish to make, either about the process or about the report itself.

**Mr. Trew:** — Thank you, Madam Chairman. I'm glad you provided this opportunity because I think that the citizens of Saskatchewan, and indeed the Legislative Assembly, owe the committee a debt of gratitude for having heard a huge list of witnesses and having listened for days on end and asked pertinent questions in the most public way possible — that is through televised hearings.

There were some bumps and grinds along the way, as we're all only too familiar with. But I'd have to say, as the longest serving member of Crown Corporations Committee, that I was very, very impressed with all of our colleagues — and I'm including certainly the opposition in this as well as the

government members — for the diligence. I don't think that this means we've heard necessarily the last of Channel Lake from various people, but at least we have a very, very thorough report.

And I want to take this opportunity to just say how pleased I was with your leadership role as chairperson in making it happen. And I know that sometimes it was like pushing a rope uphill — sometimes maybe even a wet rope uphill. But I know that you wanted a very good report, a very thorough report, and for all individuals to have an opportunity to participate in the entire process, as well as to include the public. And I think all of those missions were accomplished.

And my hat goes off to you as chairperson for the job you did in handling that, getting through that.

**The Chair:** — Thank you.

**Mr. Boyd:** — Thank you, Madam Chair. The people of Saskatchewan now have before them the report with respect to the Channel Lake fiasco. The people of Saskatchewan, I think, will have very little confidence in what this report contains because it was conducted in a fashion far different than, I expect, they felt it should have been conducted.

When these kinds of governmental fiascos come along, I think the people expect that there will be an opportunity for them in a public fashion to see that people take responsibility for their actions within government. Even the report itself wasn't compiled in a fashion that was agreed to.

If I recall, and if memory serves, the report was supposed to be an effort of the Crown Corporations Committee, not of individual caucuses, not of a fashion that was how it was handled at all.

The failure in the responsibility in that area falls on you, Madam Chair. That was the intent of the committee and you allowed that will to be subverted. That is something that should not have taken place. And I think the people of Saskatchewan at that point started losing confidence in the work of the committee.

I think the work of the committee, while good in many, many respects, does not have the removal of the taint of politics surrounding it when you have government members adjudicating government's failures in many areas.

Everybody associated with this whole thing in government says they take responsibility. The minister takes responsibility; the board takes responsibility, of SaskPower, they say, for the failures; past minister takes responsibility; current minister of CIC takes responsibility; CIC themselves say that they take responsibility for it.

One has to ask and one has to wonder what kind of tangible responsibility has been taken. None that I can see. There's been a few people over at SaskPower have lost their jobs, the people who are perhaps negligent in many respects. But as far as the overseers, the people who are supposed to be in charge of making sure these things don't take place, while they take responsibility for it, what does it mean? Stand up and say I'm

sorry. That's about what we've got out of this whole thing.

We've seen in recent days — just today in fact, in Ottawa — what taking responsibility is all about. We've seen the Solicitor General, the man in charge of CSIS (Canadian Security Intelligence Service) and in charge of the RCMP (Royal Canadian Mounted Police) take responsibility in a very tangible fashion.

He didn't just stand up and say I'm sorry, this little misunderstanding, and everything's fine; don't worry about it; it won't happen again. He stepped aside from his responsibilities. Minister responsible seems to me in Saskatchewan to have lost all value. I don't think the people of Saskatchewan have much confidence in this report at all, Madam Chair.

It's cost a considerable amount of money for this venture. And really what we have here is \$212,000 that has been spent on something that the people of Saskatchewan I don't think have very much confidence in. They've lost confidence in the ability of the administration to take clear responsibility for their actions in this whole thing. It's very, very, I think as a member of the legislature, disappointing to see that that's what it's come to, but that is exactly where we . . . what stage we've arrived at. Thank you.

**The Chair:** — Thank you, Mr. Boyd. Are there any other committee members that wish to express an opinion on this matter? All right. It is unfortunate that a representative from the Liberal Party was not able to be present but I'm sure that someone from that party will avail themselves of an opportunity probably in the next short while to make a comment on it.

The report has now been tabled with all its warts and wrinkles, and also with, I think, some fairly good recommendations representing the collective diligence of all three political parties. It is my hope that the officials involved, the corporations involved, and the people involved at all levels will have learned something from this very unfortunate circumstance, and that we do have in place recommendations that will allow us to go forward to ensure that something like Channel Lake never does happen again in this province.

I would suggest we will now revert back to our regular order of business and continue questioning the CIC officials with respect to the 1997 reports. When we took a break the representatives from the Saskatchewan Party had just finished questioning Mr. Wright extensively. And unless, Mr. Boyd, you had an immediate follow-up question to that, I would suggest we'll move now to the New Democratic Party for 15 minutes.

#### **Crown Investments Corporation Of Saskatchewan**

**Mr. Trew:** — Thank you, Madam Chair. Mr. Wright, I wanted to ask some questions about rates at the various Crowns and particularly how those rates might impact on dividends or potential dividends. And I recognize there are some differences. For example, SaskEnergy where gas purchase is market driven; SaskTel is probably more competition driven — although I'm perhaps being a bit unfair to SaskEnergy where we've just . . . it's just been opened up to competition as well; and SaskPower. And I'm wondering what impact or what CIC sees happening in terms of rates and how that might impact on dividends to the

province.

**Mr. Wright:** — Thank you very much, Madam Chair. Perhaps I can kick off what I call the "big four" Crowns and speak to each one in very broad-based terms.

With respect to SGI, SGI has in essence two components — the auto fund, and if I can speak to that, rates in the auto fund. As you know, the auto fund has not declared dividends, does not pay dividends, nor does it receive subsidies. It's a non-profit entity that over time, in the fullness of time, is to achieve a balance.

Rates were recently increased — January 1, I believe, of 1998 — by 5 per cent changes to the deductible. They're scheduled for 2 per cent January 1, 1999 and a further 2 per cent January 1, 2000.

In the case of the auto fund, one has to recognize the very, very, very large deficit in the rate stabilization fund, I believe approaching 130 million. I'll stand corrected on that. That accumulated for a variety of reasons, costs of repairs having gone up, the number of collisions having increased, and the cost of the tort run-off files for the system that was in place prior to 1994 which continues today.

This year has been an excellent year for SGI, as reported in our mid-year statement largely because January, February, and March were very favourable. I'm sure, and I have every confidence that SGI will stay to its path and achieve fair, reasonable, and among the lowest if not the lowest rates in Canada.

With respect to SGI CANADA, again that is the rate change is there. For clarity do not proceed to CIC board because they are in full competition again with over 100 insurers. Other insurers in the provinces and every individual has the unfettered right and ability to change their policies from one firm to another.

With respect to SaskTel, indeed there is competition in long distance. It is here and it is very competitive. Again SaskTel has maintained its market share, and I encourage you to ask SaskTel about that and about its rates relative to its competitors. With respect to local competition, indeed it is coming, and coming very rapidly.

There are all sorts of what I'll call industry rumours out there that local competition will be on top of us as residents in the wink of an eye. Price is, I hope, not the only matter in which people make their decisions but it will also be quality service and where the employees live. Your next door neighbour may be a SaskTel employee.

With respect to SaskEnergy, I wanted to correct one small item, which is that for industrial and commercial customers there's been a competitive marketplace since 1988. Approximately 10 years that's been in full competition there.

With respect to residential and what I'll call smaller commercial, again it was opened up. There was one firm that was marketing its services and its commodity. I understand that they've withdrawn from the marketplace and have made null and void all the contracts that they've entered into because, in

their view, they cannot compete successfully with SaskEnergy given the rates that SaskEnergy is providing to its commercial and residential customers. So I'd encourage you to question SaskEnergy at great detail about that.

With respect to SaskPower, SaskPower is in a monopoly position again with the exception of Saskatoon where they purchase wholesale, and again Swift Current where they purchase wholesale as well. Where are we going with rates? Well I believe it was — and I'll stand corrected here — in 1995 was, I believe it was 12 per cent overall on balance rate increase and that has frozen rates for four years. If there is to be a next rate increase it will be in the year 2000, and I'm led to believe . . .

**A Member:** — Earliest.

**Mr. Wright:** — At the earliest. And I'm led to believe that that will also involve rate rebalancing.

As members of the committee are aware certainly, that the costs relative to the revenues for residential and farm are less than equal, which is to say there is an implicit or implied subsidy to the residents of this fair province as well as the farmers of this fair province, whereas others, large industrial users, street lighting, and oil field users pay more than their relative share.

So there'll be . . . I can't speak to whether or not there'll be rate increases, but certainly at this point SaskPower will be examining very carefully the question of balance among its various rate classes and whether or not those should in fact be brought more into balance, relative to the cost of provision.

So I've covered off all four, and that's where we appear to be going.

**Mr. Trew:** — Thank you, Mr. Wright. You covered off all four with respect to rates . . .

**Mr. Wright:** — Oh, and dividends.

**Mr. Trew:** — I had a dividend portion to the question.

**Mr. Wright:** — I do apologize. I forgot that. With respect to dividends, the dividend policy is fairly straightforward. It's based upon the desire to, one, reduce debt over time in an orderly manner. Each of the Crowns has established a debt/equity target.

For example, in the case of SaskEnergy, it's 65 per cent debt; 35 per cent equity. They aren't quite there right at the moment. SaskEnergy has had approximately in 1997, approximately 73 per cent debt. So they have a ways to go.

In the case of just the debt and debt target, SaskPower. Well SaskPower wants to get down to a 50-50 debt/equity ratio. It's currently at 61 per cent. And so on. So we measure the desire and a fair and reasonable time frame in which these Crowns should be getting to it, plus their overall profitability.

As a consequence, what's come out is that SaskPower pays approximately 55 per cent of its net income in dividends to CIC; same with SaskTel; same with SaskEnergy. Whereas SGI,

which is in excellent shape, it doesn't have debt by its very nature of its business, but again its net risk ratio is at industry standards. It pays 90 per cent of its income in dividends to CIC.

If it didn't pay it in dividends, what would they do with it? They would take that money and they would invest it and it would be invested through their investment manager — and they have three of them — and that would provide a rate of return on that.

It's been deemed, though, that the dollars could be used in a better manner than simply investing in bonds or stocks or what have you, and that those dividends could be used to invest in, through the dividend to the General Revenue Fund, things like hospitals, health care, highways, justice, and so on.

**Mr. Trew:** — Through the General Revenue Fund. Thank you.

I want to turn, Mr. Wright, to significant transactions. The chairperson sent out a notice to all Crown Corporations Committee members that we have an opportunity now to review them.

And I want to talk about the Y2K or Year 2000 project and some of the problems there. I think I'll just begin by asking you for an update on what it is that the Crowns, and particularly CIC, are doing to see that in fact we have electricity at midnight, Year 2000; to see that the telephone system is running; to see that the natural gas is flowing to our — particularly our homes, but I guess I'd include businesses in that too.

**Mr. Wright:** — I'll ask Mr. Shaw to speak to that.

**Mr. Shaw:** — Thank you, Madam Chair. I believe this committee was sent a copy of a report compiled by CIC on behalf of the Crown sector. And it's titled Crown Sector Year 2000 report and it's dated October 29. And I believe it was made available to this committee as well as to the Public Accounts Committee.

And just to perhaps summarize what the report says, if you don't have it front of you. I'm just going to be reading from a summary page as to what is the nature of this report and what ground does it cover.

It basically says that our examination of Year 2000 readiness in the Crown sector has been guided by a number of frameworks, and also spring works. One is called *A Call for Action; Report of Task Force Year 2000*; another is *Control and Governance Bulletin; Guidance for Directors — the Millennium Bug*. I think that's a Canadian Institute of Chartered Accountants document. And another one was a document prepared on behalf of the Public Accounts Committee for executive government.

We've used the standard guidelines to organize the information with respect to Year 2000 readiness in the various Crowns. And I would just like to summarize briefly what we find.

We find that each Crown has identified the scope and impact of the Y2K (Year 2000) issue on its business and the effects on its service and its customers. We find that each Crown has examined the key dependencies and relationships necessary for the ongoing success of their operations and how Y2K readiness

impacts on that.

And each Crown has in place a controlling governance process which it is following to ensure that they're able to address the actions necessary for the corporations to achieve an appropriate level of readiness for the Y2K issue. So that's the summary of the report.

This summary of the report says that based on standard references and standard guidelines that are being used by the Provincial Auditor and others in Canada to assess readiness for Y2K, we believe that all the Crown corporations are at quite a high standard. And they have in place identified the issues, they have mechanisms in place to deal with them, and they have appropriate governance and control mechanisms. And they report to us that they will be Y2K ready at the appropriate time.

**Mr. Trew:** — Thank you, Mr. Shaw. From the policy area I want to ask I guess two more specific questions, more to give me a comfort level. One of the things that I'm told repeatedly is you don't want to be on an elevator — you know, a human elevator going up and down floors — at midnight because of computer problems. I would be lying to you if I were to suggest that I totally understand that or even in a cursory manner do. So I'd like some . . . I'd like to have some confidence that elevators are going to run.

And I ask this not because elevators are necessarily the be-all, end-all, but if you can handle elevators, you can probably handle the other. If you can understand and handle that problem, you can probably understand and handle the second problem, which I think is a little bigger. I've been told that pipelines, natural gas pipelines have embedded in them some hard computer chips or instrumentation. And I'm really curious to know how that situation is going to be dealt with so that the natural gas keeps flowing.

**Mr. Shaw:** — I think what I'm able to tell you is what I'm being told by the Crown corporations. So they are, themselves and their responsible officials, they are the source of knowledge and information about specifically what challenges they have in front of them to be Y2K compliant and ready.

We don't have any Crown corporations which operate elevators, but we do have Crown corporations which operate pipelines. And you're quite right that one of the issues they must address is the issue of imbedded technology.

I think if you have an opportunity to read the report that we prepared, it speaks very clearly to the issue of their survey, each Crown's survey of what the challenges are and exactly what needs to be repaired and fixed.

And the specific instance that you raised is covered in the SaskEnergy report. And I think a specific question to a Crown corporation about a guarantee that gas is going to be flowing through a pipeline on January 1, Year 2000, is best put to them in the sense that they can tell you what specifically they are doing to ensure that reality.

What I can do is to tell you that according to general standards that are in place to ensure if a company is on the right track to deal with Y2K, our Crown corporations all measure up. In

terms of the specifics, I think it's best . . . the questions are best put to them.

**Mr. Trew:** — I appreciate that and I appreciate some of the magnitude of this whole problem. I'll tell you quite frankly, in many ways I regret looking forward to January 1, 2000. Anyway, I appreciate it and will ask those follow-up questions of the specific Crowns as they come to us in the next week and a half.

Madam Chair, I'm going to pass the baton to my friend from Regina Sherwood, if I can.

**The Chair:** — Certainly. Well basically the New Democratic Party's time is over. So I think what we will do is we'll move to the Saskatchewan Party for 15 minutes and then when the NDP has the floor again, I'll recognize Mr. Kasperski.

**Mr. Toth:** — Thank you, Madam Chair. Going back to some of the discussion we had just prior to the break, and first of all let me commend Mr. Wright for publicly accepting responsibility for the Guyana affair. I'm not exactly sure if that's what he . . .

**Mr. Wright:** — I'm not sure I accepted responsibility for Guyana.

**Mr. Toth:** — . . . really reflected or really intended to say. That Channel Lake.

But anyway when I look at the Channel Lake process and the debate that took place, and at that time I believe, Mr. Wright, you were already CEO of CIC.

**Mr. Wright:** — That's correct.

**Mr. Toth:** — And I note by the 1997 report, the board of directors is composed of eight cabinet ministers.

**Mr. Wright:** — Six.

**Mr. Toth:** — Two, four, six, eight.

**Mr. Wright:** — There might have been two changes. I believe it's six though.

**Mr. Toth:** — '97. Okay, I'm just going by the last page.

**Mr. Wright:** — It's six or eight. It's six currently.

**Mr. Toth:** — Regardless, it's a majority of cabinet ministers.

But I guess the question I have here is, when we look at that — and mind you this basically reflects the political view too, so I don't expect a major response — but when it comes right down to it I guess the problem I have, and I think my colleague referred to it a little bit in the release of the report earlier on, that we've had a number of people outside the political realm that have actually had to eat crow on this whole debate while cabinet ministers who have been basically responsible have not accepted that responsibility, and I guess that's the only reason I comment on a comment earlier today. We unfortunately haven't seen too many Mr. Scotts in this legislative process to date, or at least they haven't been pointed out very clearly.

But I don't know if . . . and I guess the point I would like to make is what it really comes down to with Crown corporations and even CIC board, I think as individuals who work for CIC or employed by, there is certainly a responsibility there. On the other hand there's a major responsibility by the politicians who are in charge. And in this case we happen to have a board of directors that really is made up of them, the majority being cabinet people.

And so I guess I do have just a bit of a concern that it seems that most of the criticism has been levelled at the individuals or bureaucrats that have been hired versus politicians accepting their responsibility.

And I again, as I say, I'm not asking for a response. I'm just making a comment in this regard, because I feel that bureaucrats in many cases do their best, and we all can overlook things at times. And it's unfortunate that most of the responsibility is levelled at the bureaucratic level. And that's the comment and the point that I just want to make in this regard.

But coming back another comment as well, in regards to SaskEnergy and the gas, and this may be a question that maybe I should be directing directly at SaskEnergy. But I believe it was — I'm just trying to recall now — two or three years ago a number of storage caverns were constructed in the province. I believe the idea was to have these storage facilities available if the price of gas was at a very low level, the opportunity to buy at a very economical level. You could purchase the gas at that level; store the gas so that when the prices rose you would have that as a buffer. And I guess that is where I find right now the argument that we're passing on the current costs to the company, of gas prices.

I guess what I would like to ask and whether or not you could respond to this, if indeed we're kept passing on the increase in the gas prices, why are we not taking advantage, or what's happened to the gas that would have been stored that would have been purchased at that lower level?

**Mr. Wright:** — Mr. Vice-Chair, I'll attempt to answer that, but I believe it really is best to ask SaskEnergy. Storage caverns form an important part of what I'll call overall the hedging program of SaskEnergy. And one could argue that the proof is in the pudding.

As I mentioned earlier, the one firm that was prepared to compete head on with SaskEnergy has now declined that opportunity and has indicated publicly that they cannot compete with SaskEnergy because of its superior hedging program of which the storage caverns are one aspect of it.

So SaskEnergy has been using these storage caverns along with buy and sell arrangements, most appropriately to keep that price of natural gas down to the residential and the commercial users. So it has been part of it and will continue to be, and I encourage you to ask the detailed questions though of SaskEnergy officials.

**Mr. Toth:** — Thank you, Mr. Wright. Some of the questions we'd like to as well get into I think I'm not exactly sure as we debate and . . . Crown Corporation debate over the next period

of days, there will be Crowns that will be before us that very obviously areas that we want to discuss and we'll have to just have a chance to talk to directly. There are some subsidiaries as well that we probably won't have a chance to talk to directly, and I want to raise some questions in that regard.

But first of all, I want to raise a question here in regards to Sask Transportation. And on page 77 — and I don't remember if earlier on, Mr. Wright, the comment had been made in regards to this — but in 1977 CIC forgave a \$26 million short-term notes receivable from STC (Saskatchewan Transportation Company); and I believe on page 30, where we talk of Sask Transport, it says: "STC had no debt at year end (1996 - 20.5 million)."

The question I would have: okay, STC had a debt as I note here from your comments on page 77, CIC forgave 26 million, so basically STC can turn around and say we're not now operating in the black. Realistically they're really not operating in the black. They just had somebody else pick up that debt for them, if I read the document here correctly.

First of all, who would have made the decision to forgive the debt? Would that have been a decision made by CIC board of directors? Was that . . . and that which I would assume it was cabinet, to put a more positive spin? And here this is a question that I guess it would have been nice to have the minister here to respond to.

But I would like to know exactly how the decision to forgive the debt was arrived at. Was this a recommendation from CIC? Was it something that had come via the board of directors asking CIC how do we address this ongoing debt in STC and how do we turn it around? How do we respond to this writedown of debt? Because as you and I know as taxpayers, all it's done is shifted from one plane to another plane.

**Mr. Wright:** — Well I'm going to ask my chief financial officer to go over the details on that. I think just in terms of process, both ourselves and STC recognize that financial restructuring of the corporation was due.

For years STC had run a deficit, which is to say it didn't earn money; it was in the red. And I think we all stepped up to the plate, bellied up to the bar and said, let's call a spade a spade. STC provides a very important social function in the view of many. And let's recognize that it requires a financial restructuring that recognizes and acknowledges that fact, and let's ensure that grants are paid — because that's what they are — indeed, grants for a social policy purpose.

But the details of that, Mr. Schwartz should be able to speak to it quite eloquently.

**Mr. Schwartz:** — Yes, look on page 77 of the CIC non-consolidated statements. There's a reconciliation of what happened. Look at the notes . . . loans and notes receivable at the top of the page.

We had advanced twenty and a half million dollars to STC at the end of '96 and fully provided for it. So it had already been written off CIC's books. In 1997 we advanced another five and a half million, and that was also written off. And that's where,

at the bottom where it says note a), the \$26 million comes from.

So we're basically reflecting on STC's statements something that had already been reflected on CIC's statements. We had already written it off.

**Mr. Toth:** — So what you're saying, CIC has accepted the debt.

**Mr. Wright:** — That's correct. We had provided the debt and we've written it off and we've agreed that STC no longer has to pay it back to us because we needed a financial restructuring to put STC on a solid footing.

If I can, just a little bit more on process, so it was a recognition at the officials' level. The president of STC, myself, our chief financial people, controllers, and others sat around, discussed what viable opportunities there were to restructure properly STC. STC took it to their board, their board approved it. It then goes from there, because it involves CIC, to our board and our board approved it.

**Mr. Schwartz:** — If I could just add one more point. We've moved to a . . . instead of just advancing them money and there was no real prospect of recovering it and writing it off, we've moved to a grant-based funding formula which recognizes the economic reality that a subsidy is required for it to continue providing that level of service.

**Mr. Toth:** — So what you're basically saying is okay you wrote off the debt, the debt of some 26 million — 20.5 in '96 and 5.5 in '97. After writing down that or writing off that debt, accepting that and just writing it off, clearing the books, so that the books have shown a zero rather than reflecting the fact . . . you're just making sure the books balance with what decisions you already made.

Am I hearing you suggesting that on an ongoing basis we continue to give a grant to STC for it to function?

**Mr. Wright:** — That is correct. An operating grant is provided which is equal to the operating deficit that they'll run because of the social policy aspect of this. Sheldon, any further comments?

**Mr. Schwartz:** — No. Just in terms of the comment the hon. member made, the twenty and a half million wasn't all in one year. That was the sum aggregate of all write-offs that CIC had already provided for. So we were advancing the money and writing it off continuously.

**Mr. Toth:** — So now we've got a process basically that allows STC to run in the black marginally through a series of grants that are available on an ongoing basis . . .

**Mr. Wright:** — Well in fact STC has been running deep in the red and what we have been working very hard with STC to do, through financial restructurings, through efficiency measures and other, is to get them to run less deep into the red and it's that less deep amount we now provide them as a grant.

Instead of advancing it to them and hoping and praying that some day they will be able to repay us, we call a spade a spade

and we say it's a grant recognizing the social policy purposes.

**Mr. Toth:** — I guess when it comes to the social policy process . . . and I'll go to another series of questions that deal with initiatives to Crown review. On page 33 I believe there was a Crown review process was implemented, and I'm not sure exactly how long that review process is in place. I understand in February there was a wide-ranging review of major holdings and then a report was released in November of 1996.

Based on the review that was undertaken in that time period and STC's ongoing problems of trying to run in the red, were there any reflections in the review? First of all I should ask, how was the review conducted? Did CIC implement the review and what was the criteria for the review and did it look wholly at all its holdings in this review to determine whether or not CIC or corporations like STC should continue to function as a Crown corporation? I'll ask that first.

**Mr. Wright:** — Okay, thank you very much. Mr. Vice-Chair, the review was initiated in the spring of 1996 and the desire was to review all of the five major Crowns which is to say SaskTel, SaskPower, SaskEnergy, SGI, and STC; to review their one, financial viability, their opportunities and threats, their competitive situation, and other factors that are relevant to them as Crown entities including governance.

Second it was select . . . covers off a bit of the review, a bit of the criteria. Who conducted the review? CIC led the review, hired consultants. These consultants were from the investment banking community, from the accounting community, and in the case of STC involved a private sector consultant who undertook a very massive review.

The results of these reviews were published in two documents, three documents. First the *Talking about Saskatchewan*, a public consultation document which was tabled in the late fall of 1996. A second document by CIC which summarized the findings of the consultants to the various projects which was in early 1997 I believe, and again a document in June of 1997 which was the final results.

What did it review? Again the five major Crowns and the following major investment holdings of CIC: Meadow Lake which is to say MLPLP (Meadow Lake Pulp Limited Partnership), the pulp mill up in the north-west; Saskfor MacMillan, which is the OSB (Oriented Strand Board) lumber plywood mill up in the north-east; Saskferco, the fertilizer; Crown Life; and our two upgraders, both NewGrade and the Bi-Provincial Upgrader.

Other, what I'll call miscellaneous holdings, that CIC has such as our real estate portfolio, or Genex then known as National Pig, or our investment in smaller items were not reviewed. I think that covers all your questions.

**Mr. Toth:** — I guess out of that question . . . Unfortunately I don't have the review in front of me, it just caught my attention as I was going through the report here.

In view of the fact that STC has been an ongoing money loser and the review of that was undertaken, were any initiatives taken to look at alternatives to STC and whether or not it would



and could function, we could provide the transportation services necessary outside of a corporation by maybe involving the private corporate companies that are already providing service in the province of Saskatchewan?

**Mr. Wright:** — Yes is the answer to that, Mr. Vice-Chair. First off, STC has been a money loser on a very consistent basis by just . . . (inaudible) . . . I've got the facts since 1991. So '91, they lost 6.5 million; '92, 5 million; and so on and so on; '96, 1996, 6.2 million. Each year they've been losing money.

As I recall, and I don't have the documents in front of me, the consultant performed a very extensive and exhaustive evaluation of the alternatives. Those ranged from outright sale to maintaining the status quo through to options in between which includes some of the suggestions that the hon. member has made.

These were again summarized . . . I need to be corrected here. They were summarized in a report by CIC in, I believe, it's November 1996 in a document there. And I'd be pleased to provide the member a copy of it.

To be honest with you, it's a long time ago and I just can't remember, so I'm sort of scraping here, but they were reviewed. And there are many different alternatives for STC, but the course of action that was chosen at the end of the day was to restructure the financial affairs to what I'll call right size STC to, where necessary, cut back on some routes and so on.

And as we know, STC is going to enter into a highly deregulated bus world fairly soon where no doubt we'll see competitors out there cherry-picking the highly profitable lines. I won't say highly profitable — the somewhat profitable lines — for example, the Regina-Saskatoon and Saskatoon-P.A. (Prince Albert) corridor, which is used indirectly to subsidize those which are not as profitable. For example, routes from Melville or Moosomin into Regina and so on.

So STC faced challenges back then. We've done what we can in the interim, more needs to be done to financially restructure it, and there will be new challenges on the horizon for STC. So one of the things with the Crown review — it's never over. It's always in motion.

**The Vice-Chair:** — Mr. Toth, it's been roughly 18 minutes. I'm willing to allow you, if you've got a wrap-up question on this line, we'll indulge you otherwise we should pass.

**Mr. Toth:** — Well, just maybe one final comment rather than getting into another series of questions. Thank you, Mr. Deputy Chair.

Just for the representatives from CIC: it would seem to me that . . . And here again, I'll have to go and dig that report out myself because I didn't really have a chance to . . . I recall hearing about the release of the report, not having a chance to go through it that intensively and of course, as I indicated, just going through the '97 report and just seeing this area called initiatives brought that to my attention.

As you've indicated, Mr. Wright, certainly STC is going to be facing some more difficulties on the horizon through

deregulation. That's where, I guess, we may have some. Or I may have some differences of opinion with my colleagues across the floor in the fact that when we come to deregulation, I think SaskTel may be facing some of those problems as well. This is further deregulation.

You begin to ask yourself if it is profitable for the so-called shareholders or the people of Saskatchewan to continue to be investing in corporations that are going to be money losers, have been in the good times and will continue to be even more so as we see deregulation come into place; and if we might not be further ahead to take a serious look at whether or not we continue to just pour money into a — I was going to use the word sinkhole, but we've used that in another forum and I don't want to use it in that — but into a bottomless pit. I'll use that.

And so I think certainly there is going to be an ongoing debate in this area. There's going to be some very difficult questions that will have to be asked in the very near future.

And I think at the end of the day we'll be asking ourselves, is there a way that we can at least save something for the taxpayers of Saskatchewan, maybe by divesting of a corporation like STC, get whatever value there are in the current assets; or if those are some of the potentials if indeed we will be facing competition and bus lines getting into those major corridors.

I'm not exactly sure that we can continue to run STC as we currently run it, even by providing grants. I really don't know. That's a question I don't know, but it's certainly something I think that the public of Saskatchewan would be very interested in.

**The Chair:** — You have the right to comment, but you will realize of course that we do have STC called for next week.

**Mr. Wright:** — If I can, I think this debate is very important from the officials' side of the equation. And it's clearly CIC's job to make sure that — as I mentioned, Crown review is never dead — but to make sure that there's an ongoing evaluation of our Crowns from a whole variety of perspectives, not just financial, not just employment, but social policy, economic policy, and the like.

I would point out that as a result of the Crown review and opportunities, when we talk about divestiture, in fact CIC did divest of two very important assets, I think in a financially positive way recently — the Bi-Provincial Upgrader and Crown Life.

I'm not suggesting by any stretch that we're out there divesting of others, but the point is that we're constantly, I believe, vigilant about the various issues surrounding our assets and that the debate again, Madam Chair, to close off on this, is extremely healthy in our view.

**Mr. Kasperski:** — Thank you, Madam Chair. My questions are for Mr. Wright and his officials. I'd like to zero in a little bit on the 1997 highlights, the debt reduction that took place. And two of my questions will deal with that in the report, which I'll ask for some comment on, and then with the shares . . . (inaudible) . . . you've raised a couple asset distributions that are in process

that I'd like to maybe make an inquiry about.

But I think first of all I'd like to say that I think, in my opinion, CIC's certainly in the last two or three years served us very well with some timely asset sales in this area. And I'd like you to comment just for a sec because, you know, it does bear some reminding. It seems to me that we picked the top in terms of Cameco shares and where those are today and what we've done there.

Secondly, although the timing wasn't of our choice, certainly the disposition of the Wascana shares compared to what's happened in the oil and gas industry in the last year seems to have been, in retrospect, fairly timely.

Those are two sales that I think are now out of the way and part of this review. But also in terms of what has been announced and is in play right now, the Bi-Provincial, which even though there's been problems with the oil and gas market, heavy oil, you know it has been stated, well this again has been turning out to be a fairly timely sale.

And lastly in terms of HARO Crown Life, I know there was some comment or some speculation at the time or questions raised why, you know, CIC was picking the time it did to perhaps divest of itself in the deal with Canada Life. But I seem to recall now just fairly recently now Canada Life, which is very much larger than Crown Life, is now itself in the financial press a subject of some takeover and merger rumours.

So I'd like, Mr. Wright, if you could comment on that because I think this, and again, Madam Chair, I think this points out the important role that CIC does do and also in the area of our asset divestiture and in terms of what we've been getting, I think, in my estimation at least, the corporation seems to be doing a very good job.

I'd like some comment from you on that.

**Mr. Wright:** — Sure, Madam Chair, if I can get Patti Beatch who's the VP investments who's been on the forefront of all of these divestitures to speak to the questions.

**Ms. Beatch:** — Sure. Thank you very much, Madam Chair. With respect to CIC's investment portfolio — that is to say the non-Crown corporations investments, so the upgraders, the Crown Lifes, that kind of thing — we're constantly looking at the retain or divest decision as to whether or not we should hold or sell off.

We do have some criteria that we use with respect to that and those involve things like, if we do divest, is the product and the related economic benefits . . . will they stay in Saskatchewan? Is it the right time to divest from a financial perspective? That is to say, for example, if commodity prices are at the bottom of the cycle, it's probably not the best time to sell in terms of the returns you may get. So we're constantly evaluating our portfolio.

We have had some successes, there's no question about it. Cameco . . . in fact in 1996 we managed to sell at the peak of the market and in fact on the day we sold, that's the highest price Cameco has had since that date in 1996. Wascana, as you

correctly pointed out, was a bit triggered by a takeover on the part of CanOxy but nonetheless we managed the process and achieved our objectives.

With respect to the Bi-Provincial Upgrader, I guess how that officially started was with our partner. Husky approached us, was interested in owning 100 per cent of the asset. They also had a very keen interest in a major expansion of the upgrader. Like any sale process, what we try and do is maximize our returns and to do that you need to get into somewhat of an auction process or if you can, it's preferable to do that.

We attempted to do that with the Husky-CIC upgrader. Husky had a right of first refusal which meant that at the end of the day, no matter what bid we had, they had the right to say we'll take it at that price. So we did . . . we certainly did consult with third parties and at the end of the day sold it to Husky. Husky is now expanding the upgrader without our dollars thereby creating the same economic benefits to the province that would have been there had we stayed and invested. So that was very positive. We recovered the full amount of our cash investment in the Bi-Provincial Upgrader.

Crown Life, as well, a rapidly changing industry. As you pointed out, there are changes coming forward with respect to Canada Life. The industry is consolidating, merging, changing constantly. Crown Life recognized that it was a fairly small, relatively small player and needed to do something in order to ensure its future.

Canada Life actually approached Crown Life. Canada Life spoke with CIC and HARO, being the major shareholder in Crown Life. Negotiations ensued primarily between Crown Life management and Canada Life management, all keeping CIC informed and HARO informed. At the end of the day, the transaction will provide us with our \$150 million investment which was the second investment advanced in 1995. We expect to get that very shortly after closing; that is within a matter of days, or weeks at the latest. And then over time we anticipate, based on the forecast, that we will recover also the balance of our original investment that we provided to HARO who in turn invested in Crown Life.

**Mr. Kasperski:** — Just in a related question to that, Madam Chair. With the take-over rumours or speculation even about Canada Life, does that have any potential of affecting the deal that you're in right now?

**Ms. Beatch:** — No, I don't expect so. And any agreements that we sign with Canada Life will be transferred. There are provisions for those to be transferred to any acquiring company of Canada Life.

**Mr. Kasperski:** — That's fair enough. And just one last question, Madam Chair, and that deals . . . In dealing with the 1997 results and the debt paid out, without going into a terrible long definition on it, could you just clarify for me the difference between consolidated debt and non-consolidated debt?

Now we've talked, as was pointed out in your bullets, there was almost a \$600 million decrease in the consolidated debt of the corporation and half of the non-consolidated. Will you just . . . do you want to just explain that a little bit to me — the

difference between the two? And how does the — and I guess a related question to that is — does the legislation for debt paid out apply to non-consolidated debt or is that just consolidated debt that it applies to? And I just wonder how do you determine how that goes?

**Mr. Wright:** — Mr. Schwartz.

**Mr. Schwartz:** — In answer to your first question, the difference is that the consolidated debt refers to the debt of all of CIC's subsidiaries and investments. Non-consolidated debt focuses on the debt of CIC itself so that when we, say, sold the interest in Cameco, that would have gone straight to reduce CIC's non-consolidated debt. It also reduces the consolidated debt but it works up from the CIC level.

When SaskPower reduces its debt by 145 million, that doesn't reduce CIC's non-consolidated debt but it does reduce the consolidated debt.

And I forgot your second question, I'm sorry . . . (inaudible interjection) . . . Debt legislation.

Again I think you have to focus on the location or the source of where the debt reduction occurred. I don't believe if we gain the benefit of an asset sale then that goes towards reducing debt. But if somebody else reduces the debt but it doesn't come through us, that isn't, I don't think, subject to the legislation.

**Mr. Kasperski:** — Thank you, Madam Chair.

**The Chair:** — Thank you.

**Mr. Johnson:** — Madam Chair, one of the questions previously was a suggestion that the operation . . . that the companies could operate at a zero return and not have an economic return. I found it rather interesting in the sense that, if I understood correctly, '93, '95, it was below zero return at the CIC level. Individual corporate levels, there would still be profits and at corporate segment levels there would be losses.

And so in looking at that, it would be my understanding that the end result, if that was carried right through down to the corporate segment level, would mean substantial increases in power immediately for residential and farm users. Am I evaluating that correctly?

**Mr. Wright:** — Well I think, Madam Chair, in a straightforward manner, if you're not making a profit, you're making a loss. And I'm not aware of any corporation that can stay in business very long with sustained losses.

STC had sustained losses and we had to restructure the corporation to put it back on a reasonable footing. Other corporations, be it the private sector or the public sector, running sustained losses eventually collapse unless somebody steps in to restructure them.

Even on a break-even basis it's very difficult. What you've got to accept is no return on that money that you invested; and that money you invested, you borrow. So on the one hand you're paying, call it 6 or 8 per cent on it; you hope to get that back. And if you don't get that back, somebody's subsidizing that

operation. So if you don't make money you go broke. That's the long and short of it. And I think you've captured it quite nicely.

**Mr. Johnson:** — Thank you. The other aspect of it is that in the situation with Crowns is the corporate tax. What percentage of that, of the corporate tax, would go federally?

**Mr. Wright:** — It's been a while since I've been the deputy minister of Finance but I'll try to remember my numbers here. I believe that of what we call the large corporate rate, not the manufacturing rate which is a reduced rate predominantly to the benefit of Quebec and Ontario at the federal level, and not the small business rate, but rather that for large corporations which would imply in all cases with the exception of STC to the big four, I believe the federal take is 29 per cent of what is defined as taxable income. And the provincial take is 17 per cent of what is defined as taxable income. Combined, that would be 46 per cent.

Now there are, because the way in which taxable income is defined, there's this and there's that, and God bless the accountants to keep us all honest and keep us all straight. I believe the effective net impact on balance is around 40, 42 per cent. But clearly almost two-thirds of that is federal. So if our Crowns were to pay corporate income tax, roughly two-thirds of what they pay would flow to the coffers in Ottawa with one-third remaining here.

**Mr. Johnson:** — Just to extend that a little further, is the provincial tax paid back from the federal government based on where the employees are, of the corporation?

**Mr. Wright:** — Yes. For individual income tax purposes it's where your residence is on December 31 of the year. So for example while a contractor may work on an oil field project — I'm just using an example in the petroleum area — comes in, works in Saskatchewan for nine months of the year, but if he or she is resident in Alberta on December 31, they pay Alberta provincial income taxes, not Saskatchewan.

**Mr. Johnson:** — Actually I was asking where the corporate tax, the provincial corporate tax, if the company was 50 per cent of the people in say Quebec and 50 per cent in Saskatchewan, would the provincial corporate tax be with the head office or divided with where the employees are?

**Mr. Wright:** — Again it's been a little while since I've been in the tax field, but my recollection of this is that it's based on a very simple formula of 50 per cent of permanent employee salaries paid. Or take the salary bill okay, not for what I call consultants, but permanent employees and temporary employees of a non-consultant basis, 50 per cent of that by jurisdiction and 50 per cent of sales by jurisdiction. Which is to say in the case of SaskPower, for example, 100 per cent of the employees are here in the province and 100 per cent of the sales are here in the province. So 100 per cent of the provincial taxes paid would be here in the province.

But let me use a different example. Let me use an example of a petroleum company which is very important to this province, but the nature of it is that their head office is in Alberta so they have an employment bias towards Alberta, and the nature of the sales, though, is in Saskatchewan. So you take 50 per cent again

of the payroll and 50 per cent of where the sales are and you work it all out.

Some would argue that that's why Saskatchewan, on a corporate income tax basis, is disadvantaged because it doesn't have a lot of head offices here. The head offices happen to be located in Alberta or Toronto or Montreal.

So I think that that's still generally the rule. And to make changes, that's by interprovincial agreement, are virtually impossible.

**The Chair:** — Thank you, Mr. Johnson. We'll now move to the official opposition to fill out the remaining time. Again I would remind committee members it's not my intention to call for a vote on the CIC '97 reports today. We will have CIC back before us next Thursday.

So any further questions that committee members may have or did you wish to wait till next week to put the questions?

**Mr. Toth:** — Just a couple of questions I'd just like just for clarification if you don't mind, Madam Minister.

**The Chair:** — Sure.

**Mr. Toth:** — And certainly there are a number of other questions we'd like to get into. But rather than getting into specific areas and going off on different areas, first of all just a question. Does Liquor and Gaming Commission come under CIC?

**Mr. Wright:** — No, it does not, Madam Chair.

**Mr. Toth:** — That's separate, okay. Saved.

In your report here as well, consolidated debt you say is \$3.6 billion, is that correct? That's all the Crown corporation entities in the province is 3.6 billion.

**Mr. Wright:** — That report to CIC, that is correct.

**Mr. Schwartz:** — It is CIC subsidiaries and our share of the debt of the investments.

**Mr. Toth:** — So are there some that don't report to CIC? How many and how large would the debt be there?

**Mr. Wright:** — There are Treasury Board Crown corporations that do not report to CIC. Those would include entities such as SPMC, such as the Liquor Board, and there are certainly others.

**Mr. Boyd:** — The Gaming Corp.

**Mr. Wright:** — The Gaming Corp, absolutely.

**Mr. Boyd:** — Grain Car Corp.

**Mr. Wright:** — Grain Car Corp. I'm pleased that certainly one of the hon. members knows it better than I do. But indeed there are those that don't.

The ones that do report to us — if I can — SaskPower, SaskTel,

SaskEnergy, SGI, Sask Water, STC, Opportunities Corporation, and CIC itself including all of our subsidiary corporations.

**A Member:** — Sask Water.

**Mr. Wright:** — And did I not mention, Sask Water.

**Mr. Toth:** — I guess the reason I raise that is because unfortunately I think the Crowns we tend to deal with basically the five larger ones, but there are so many other subsidiaries that when it comes right down to it as taxpayers, there are still other entities out there that we're not that familiar with that there's still that debt load in the province that's held there.

And I'm not . . . being as they don't report, I don't expect that you would have the figure or know where the Treasury Board Crowns are in regards to debt in the province or whether or not you'd have that. Something we could follow up on.

**Mr. Wright:** — It's well beyond my ability to speak to it, but I do happen to have a copy of the budget speech and I think I can take a look at Treasury Board Crown debt for you.

Well unfortunately it's . . . the way the budgets of the province break it out, it's a Crown corporation debt which does include things like municipal financing, Ag Credit Corporation, and so on. So I'm afraid, Madam Chair, I can't noodle it out here right now. But the Department of Finance is always pleased to provide a glowing report on the debt reduction overall on the Treasury Board Crowns too.

**Mr. Toth:** — Well, I guess we have a reluctance to accept everything the Department of Finance says. We're looking for what CIC . . . (inaudible) . . .

**Mr. Wright:** — I understand since I left. Sorry.

**Mr. Toth:** — And one further question and I'll leave it at that for today. But in regards to the area that you're responsible for, this \$3.6 billion, would the Crown entities that you're responsible for, what's their assets if they were . . . if you were diversified . . . sold up everything you had. What are your assets worth today in cash value?

**Mr. Wright:** — Oh, that's a very complex — unfortunately, it sounds so simple — but that's a very, very complex question because it depends on how you sell them, it depends on who you sell them to, it depends on a whole series of circumstances and situations.

Let me cast it a little bit differently. There's assets of about 7.5 billion and there's debt — Sheldon — of approximately 3.6 billion. But you couldn't sell those assets and get necessarily 7.5 — maybe you could get more; maybe in some circumstances you could get less.

**Mr. Toth:** — Oh, I'm sure you'd lose on STC. Well, maybe not. No, you wouldn't. Maybe not. You might . . . (inaudible) . . .

**Mr. Wright:** — Maybe not. I won't mention the ones that you would make money off of, but in some cases, yeah, we would lose money. And in some cases . . . Meadow Lake, for example,

right now, difficulties up there, and we make no bones about that. It's very, very difficult situation, not caused by management or anything but caused by the commodity price. We'd lose money there.

Alternatively, and I won't mention the assets where we'll make money, but . . . Well, why not? SaskFerco, we could make money there. Cameco shares, we could still make money there.

**Mr. Toth:** — And I guess that was . . . One further question . . . (inaudible) . . . was the fact that earlier on we started talking about some of the divestitures that you've made — in fact Wascana Energy, Cameco, now Crown Life. How many other entities is CIC responsible for that you have in your possession that you would have the ability to liquidate and turn into a cash value to put against debt, such as — and I guess I'm looking at on the basis of where you've got shares that are quite feasible to turn into cash — such as HARO Corporation and Wascana Energy? Are there any other entities that would fit into that category and how many?

**Mr. Wright:** — Indeed, there are a lot of entities that CIC manages. Ignoring our real estate portfolio, which is a value of about 18 million, and scores of parcels of land within that that we're always trying to take a look at opportunities to divestiture. Not only do you have the big ones that we're all familiar with: Meadow Lake, SaskFor, SaskFerco, NewGrade upgrader. You've got Crown Life still, because it hasn't officially gone out. The deal hasn't closed.

We've got a variety of others, from Genex, which is our swine . . . genetics company, sorry, through to interest in Develcon through to interest in Great West Breweries through to interest in Biostar, Bioriginal, through to interest in Western Canada beef, through to interests in Intercontinental Packers in terms of a loan through to . . .

**Ms. Beatch:** — That was a pretty good list Jack.

**Mr. Wright:** — No, no. And there are others. The one thing about the CIC portfolio is it is probably the most complex portfolio of any holding company in Canada, and perhaps North America . . . (inaudible interjection) . . . If you'd like to buy something, we . . .

**Mr. Boyd:** — Which ones are for sale?

**Mr. Wright:** — You can talk to us about the real estate portfolio any time.

**The Chair:** — Mr. Wright, I'm going to excuse you from answering that last question on the grounds that it is definitely political.

I think we've . . . while we have not completed our questioning yet of the CIC officials, and indeed, as you will be aware we like to keep CIC open as a corporation that we review until we've conducted most of our review of the major Crowns. So I would ask you if you would come back again next Thursday. At that point I hope that there will be a Liberal Party representative and I understand that they will have some questions to direct to you.

In the meantime, I thank you very much for your attendance at this committee. And, committee members, we will now stand adjourned until the hour of 9 o'clock tomorrow at which point we will be dealing with SaskTel.

Just if I could just have committee members' attention for just a moment, you will note on the agenda tomorrow that we have 1996 and '97 for SaskTel. Really what we are reviewing is '97, but there was a request by Mr. McLane a year ago last June when we were dealing with SaskTel not to vote if off right at that moment, and then we didn't come back to actually formally voting it off before we started this next session.

So most of the questions about '96 have already been asked. Of course committee members are welcome to ask questions about '96 if you want, but I would ask that you try to direct most of your focus to the '97 reports; then we will vote on the '96 and '97 concurrently. If that's acceptable to committee members.

Are there any questions or last comments before we adjourn? Okay. The committee stands adjourned until 9 o'clock tomorrow morning.

The committee adjourned at 5 p.m.