



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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Andy Renaud
Carrot River Valley

Don Toth
Moosomin

Saskatchewan Power Corporation

The Chair: — If the committee members would take their place I would reconvene the fall meetings of the Crown Corporations Committee. As committee members know, our agenda for today and for tomorrow is to review the 1997 annual report of SaskPower. And we have two subsidiaries: Power Greenhouses Inc. and SaskPower Commercial Inc., and we will consider them all simultaneously.

We are establishing a new tradition in this committee. As committee members are aware, last year the government decided to remove ministers from the boards of the various Crown corporations and instead to create one super ministry with the Hon. Dwain Lingenfelter in charge of CIC (Crown Investments Corporations of Saskatchewan) and to change the board's structure.

It has been customary in this committee to call on the minister first of all to make an opening statement. The minister in charge, Mr. Lingenfelter, did make the opening statement last Monday when we considered CIC, and since that time we've had the board Chairs or Vice-Chairs, I guess . . . Is it still Vice-Chair?

Mr. Fair: — For me, yes.

The Chair: — And because we're in a state of transition, we've had the board Vice-Chairs as well as the president and CEOs (chief executive officer) of the corporations under consideration attending the committee. And today I would call on Mr. Milt Fair, the Vice-Chair of SaskPower to make an opening statement.

Mr. Fair: — Madam Chair, and committee members, I want to thank you for the opportunity to meet with you today and to talk about financial and operating performance of SaskPower. As you have indicated, Madam Chair, this is a new format for these sessions and therefore it is somewhat of a learning process for us. We'd like to break our opening comments into two sections following which we'll be pleased to respond to your questions.

First, I would like to highlight some of the changes we've implemented during 1998 and also some of the accomplishments of 1997. It's recognized that you do have our annual report and most of the facts about '97 that I will refer to are in there but we felt it worthwhile to emphasize some of those key elements. Secondly, I'm going to ask Kelly Staudt to make a few remarks relative to our '98 year and a brief outlook for '99.

So with your agreement, Madam Chair, and committee members, we'll be asking Mr. Staudt and our management to respond to your specific questions and I'll respond to questions around governance type of issues.

I'd like to introduce to you those joining me from SaskPower today. You are aware that some of these folks are serving in acting capacities. First to my right is Kelly Staudt, president and CEO; to my left is Tony Harras, vice-president and general manager of our systems operation and decision support business unit; to my far right is Pat Hall, vice-president, finance and

information systems. Behind me is Bill Hyde, vice-president, human resources, government relations; Brian Curran, president, SaskPower International; Janice Pless, executive coordinator. Other officials are on standby should we require them.

In addition, as you're well aware, Mr. Rupert James from our audit firm, Ernst & Young, is in attendance. I understand it's been your practice to have our external auditor address your committee. And with your agreement, Mr. James could address the group following Mr. Staudt's comments.

Now we're all aware of the controversy that surrounded the corporation over the past year. Through it all our board, our management, and our staff have been working very hard to re-establish an equilibrium that allows the corporation to move forward on a positive basis with first of all our shareholder, the government; with our broader shareholders, the people of Saskatchewan; and with our customers.

I'm well aware that Mr. Shaw in his presentation to you last week provided a good outline of government initiatives. SaskPower, I'm pleased to tell you, is well advanced in meeting the objectives outlined in the paper he provided for you.

Let me refer just to a few. Most of our board completed the training program instituted for Crown board members earlier this year. Our board has developed and approved terms of reference for each of our board committees. And, Madam Chair, there are copies that we have with us that could be available if your committee so desires.

We have made significant progress in development of our balance scorecard against which we will monitor our progress. Our risk management policy and procedures, while still under development, have already documented and implemented the fundamental controls necessary to monitor important trading and financial transactions. And that includes appropriate division of duties.

The SaskPower board now constitutes the board of SaskPower International, our major subsidiary. And the whole question of reporting and disclosure of information has already been clarified.

Now these are developing trends but we believe the corporation has moved well along in addressing many of the recommendations emanating from the various reports over the past year. SaskPower today is focused on the future and our commitment to provide safe, reliable, and value-added service to our Saskatchewan customers at the lowest possible price.

I want to emphasize that the number one business priority for SaskPower in 1999 is our Year 2000 readiness. And Mr. Staudt will be commenting further on that in a few minutes.

I'd like to now turn my comments to the corporation's accomplishments during 1997 and the package of graphics that I provided for you will just highlight some of those for you as I comment to them.

First of all let me speak to the financial highlights. Last year

was the second most profitable year in Saskatchewan Power's 68-year history. Our net income was \$132 million, second only to the record-setting profit of 139 million in 1996.

In addition, SaskPower was able to pay down 145 million of its debt during 1997 and declare a \$72 million dividend for its shareholders — the taxpayers of Saskatchewan.

Well, what contributed to that excellent return? First of all, Saskatchewan's strong and growing economy was a major factor in our solid financial performance. Last year the corporation signed up 3,531 new customers — the largest year-over-year increase in new customers in more than a decade. In total Saskatchewan residents and business purchased 3.6 per cent more power last year than they did in 1996, and our revenues from electricity sales were \$31 million higher. The combination of the growth elements plus a strong emphasis on efficiency contributed to our positive result.

As I said a few moments ago our prime commitment is to provide safe, reliable, and cost-effective power to the residents of Saskatchewan, and to meet that commitment we must continually strive to improve the corporation's financial and operating performance. Saskatchewan residents expect and deserve a power company that is customer focused, financially strong, and efficient.

Let me speak just to a few of our 1997 achievements because so far I've talked about the solid financial results, but let us look at how we use that strength to try to improve our operating performance and customer service, long term.

First we negotiated a 25-year agreement with Husky Oil and TransAlta Energy to provide SaskPower with significant additional supply from natural gas co-generation project at Lloydminster known as Meridian Co-Generation Project. Starting about December '99 this purchase of 210 megawatts annually will be a cost-effective response to increased demands for power — much cheaper than trying to build new generating stations. Because the Meridian Co-Generation Project is natural gas-fired facility it will add power to our system while adding less to Saskatchewan's greenhouse gas emissions, thereby further protecting our environment.

In 1997, 68 per cent of our generation came from coal-burning power plants. Reduced greenhouse gas emissions will be imperative over the next few years, and unless significant technological breakthroughs occur, dependence on coal-burning power plants will need to be supplanted with viable, lower-emission opportunities like that at Lloydminster. And our financial strength gives us the freedom to pursue some of these options.

Of course another way to protect the environment is to improve our pollution controls. And that's why we're committing to spend 66 million over the next five years to put scrubbers on the generating units at Boundary dam power station. That initiative which is reviewed annually is another cost-effective option to reduce particulate emissions.

During 1997 SaskPower commissioned the Condie to Queen E (Elizabeth) power line. The new power line will improve reliability and efficiency of power delivery to Saskatoon and

north-west Saskatchewan. It will reduce transmission system energy losses resulting in less coal-fire generation, and another approach to reducing carbon dioxide emissions.

Each of these steps will improve electrical service, make service more reliable, and increase our power generating capacity while contributing to a healthier environment. Each costs many millions of dollars, and we're able to finance those projects out of cash flow because of SaskPower's strong financial performance, and still reduce the corporation's debt.

Our power production staff continued to renew equipment and improve processes at SaskPower's existing power stations during the past year, pushing to get more and more out of these stations without having to build expensive new generating capacity. Last year their efforts resulted in a 1.9 per cent overall increase in power generation while maintaining the same unit cost. Put in perspective, our power production staff got an extra 320 gigawatt hours out of existing power stations and that's solid performance.

Also in '97, SaskPower was successful at negotiating long-term service contracts with 10 more of our large-volume customers. These long-term contracts will protect revenues, helping us to keep power rates as low as possible for all customers while maintaining our guarantee of a rate freeze for residential and farm customers until the year 2000.

Now there are those who would suggest that we're concentrating too much time on our large industrial and commercial customers. We really don't believe that to be the case. Our residential and farm customers make up 85 per cent of our customer base but they buy less than 25 per cent of power that we sell each year.

On the other hand, our commercial and industrial customers comprise less than 15 per cent of our customer base and they buy more than 65 per cent of the power we sell each year. If we don't keep those large-volume customers on the SaskPower system, everyone is going to suffer especially our farm and residential.

Today, farm customers pay 77 per cent of the actual cost of providing the power service and residential customers pay only 85 per cent. So if we lose our commercial and industrial customers, everyone's rates will be impacted. That's why we're working very diligently to avoid that kind of an outcome.

And as we move towards a competitive, electrical marketplace, we're working hard to make sure that the package of price, value, and service offered by SaskPower can compete with the best in the marketplace.

In '97 we began to introduce some new value-added products and services that will help our customer's business in the future. One example is the SaskPower PowerPoints MasterCard which gives residential and farm customers an opportunity to earn points towards merchandise or a rebate on their power bills. We were the first energy utility in Canada to offer this benefit and more innovations will be introduced in the months ahead.

So these were just some of the '97 accomplishments made possible by the strong financial performance. But even perhaps

a stronger indication of what this corporation means to this province is what we give back to the community. That's because even a bigger reason, but also it's beneficial not only to the corporation but also the province as a whole. That's because we are owned by the community and so much of what we do goes back to the community. For example, \$29 million to 432 Saskatchewan local governments by way of municipal surcharges; 12 million to Saskatchewan local governments in the form of grants in lieu of taxes; 15 million to Energy and Mines for royalties on gas and coal consumed in our power stations; 10 million to Sask Water for water rentals; and 11 million in corporate capital tax.

There are also a number of spinoffs from having one of Canada's largest and most successful corporations headquartered here in the province. In this province, we purchased \$360 million in goods and services and fuel from Saskatchewan companies. The salaries and benefits paid to the Crown's 2,100 employees contributed more than 120 million to the provincial economy. So a profitable Saskatchewan Power is good news for all the people of Saskatchewan. We are a big part of Saskatchewan's economy and a big part of Saskatchewan's future.

In conclusion, Madam Chair, I want to pay tribute to SaskPower employees for their hard work and dedication. Throughout the difficulties the corporation has had in recent months, we've kept an eye on that commitment of serving our Saskatchewan customers with safety, efficiency, and reliability at the best possible price. Our customers and our employees have made possible our strong financial and operating performance. To them goes the credit.

If I may, Madam Chair, I would now like to ask Mr. Staudt to share a few comments on the year 1998 and on the future. Thank you to you and the committee.

The Chair: — Thank you, Mr. Fair. And I recognize that this has been a difficult couple of years for SaskPower.

Mr. Staudt: — Thank you. Madam Chair, committee members, as Mr. Fair has indicated, I will comment on SaskPower's major 1998 initiatives that we've accomplished to date and our plans for 1999.

SaskPower, as Madam Chair has indicated, was a very challenging year in 1998, to say the least. The issues relating to Channel Lake, the executive departures that we've had, Guyana, and the labour dispute with our IBEW (International Brotherhood of Electrical Workers) union have received a lot of public attention and scrutiny. These issues however are not the entire story for 1998 and I would like to touch on some of the accomplishments we've had rather than the negatives that have been reported in the press.

As Mr. Fair has indicated, SaskPower's number one business priority in 1998 has been our Year 2000 issue and it will continue to be our number one business priority in 1999. We are very proud of the progress we have made in 1998 regarding this important issue. We have established a project management office resourced with very skilled SaskPower personnel to address this issue. In addition, we have retained external expertise to advise us as we move down the road on this critical

situation.

We have also embarked on a business process change project that we call the Delta project. This project is essential to SaskPower's future success as it will incorporate best practices that will result in increased corporate efficiencies. It will provide our employees with better information to serve our customers and to maintain our facilities on a more effective basis. It will also eliminate outdated legacy systems that are becoming increasingly expensive to maintain and operate.

Our customer services has formulated a strategic plan to better serve our customers. This has resulted in a renewed commitment to customer service in SaskPower and we have increased our interactions with our customers. IPSCO and SaskPower signed a 10-year supply agreement in 1998 that will ensure IPSCO will continue to play a major role in Saskatchewan's economy during the term of that agreement.

Negotiations for long-term electrical supply agreements with the cities of Saskatoon and Swift Current have been reopened to further attempt to secure our revenue base for the future. Moreover we are still focused on providing reliable, safe, and cost-effective power to all Saskatchewan customers.

We have also improved the lines of communication with our customers, our employees, and our shareholders. And we are focused on keeping people informed so they are aware of our many activities and the benefits we bring to this province.

Our financial performance to October 31, 1998 is ahead of both the 1998 budget and the 1997 actual results. We have accomplished this financial benefit in a year of economic downturn and corporate uncertainty and I would like to thank all SaskPower employees for their contributions to our success.

What do we have planned for 1999? Well besides our Year 2000 business priority, and the Delta project which I've already talked about, both of which will be implemented and completed in 1999, we have many planned initiatives. A corporate strategic plan will be created which will be a blueprint for SaskPower's future. A corporate balanced scorecard will be implemented to create accountability for decision making and allow us to benchmark our progress against our goals.

Our commitment to diversity will be strengthened and new initiatives will be undertaken. Our commitment to the environment will be strengthened with the implementation of ISO (International Standards Organization) 14,000 and other initiatives. We will continue our commitment to reduce our debt structure and improve our financial performance. We have started to change this corporation with initiatives we have undertaken in 1998 and we will continue down that road to make this a better corporation in 1999.

I would now invite the committee to direct any questions to myself or my staff regarding SaskPower and its activities.

The Chair: — Thank you, Mr. Staudt. Before we do that, I will call first of all on the external auditor for SaskPower and then the Provincial Auditor to make a comment.

Mr. James: — Thank you, Madam Chairperson, and members

of the committee. My name is Rupert James. I'm a partner with Ernst & Young here in Regina. I appreciate the opportunity to be here today to comment on the annual financial statements of SaskPower for 1997. You will find our auditor's report on the 1997 consolidated financial statements on page 32 of the 1997 annual report. That is an unqualified auditor's opinion.

There are two items reported in these financial statements that have received much attention and they include the accounting for the disposal of Channel Lake Petroleum and the accounting for the capital reconstruction charge.

I was pleased to provide your committee with our observations and perspective on the operations of Channel Lake when I appeared before you, along with my partner, Barry Munro. I do not have anything to add to those comments today.

With respect to the capital reconstruction charge, we understand that the requirement to use the amounts collected from customers under this charge is to be no longer restricted for the reconstruction of transmission and distribution in the future. And therefore it is our understanding that in 1998 the amounts would be recorded as revenue.

I would be pleased to address the committee's questions at your leisure. Thank you, Madam Chair.

The Chair: — If I may, a summary. You're saying that the capital reconstruction charge issue has been resolved? Okay. Committee members may wish to ask further questions about that of either the provincial auditors or SaskPower officials at the appropriate time.

Mr. Montgomery, are you presenting for the Provincial Auditor?

Mr. Montgomery: — Yes, Madam Chair. Madam Chair and committee members, I have several comments regarding our audit at SaskPower for the year ended December 31, '97.

I have organized my comments to cover four topics: audit results; annual report; other matters; and our future audit plans.

With regard to audit results, we reported part of our audit findings and conclusions for SaskPower in our *1998 Spring Report* to the Legislative Assembly. We plan to report the rest of our audit findings and conclusions to the Legislative Assembly this week in our *1998 Fall Report Volume 2*. We have already provided members of this committee with a copy of our chapter on SaskPower.

In carrying out our work at SaskPower, we worked together with appointed auditors using the framework recommended by the report of the task force on roles, responsibilities, and duties of auditors. Ernest & Young is the appointed auditor for SaskPower, SaskPower Commercial Inc., northern enterprise funding, and the Power corporation's superannuation plan. Matchett Potts & Seipp is the appointed auditor for Power Greenhouses Inc.

In our *1998 Spring Report* we reported SaskPower's consolidated financial statements for the year ended December 31, '97 were reliable except that SaskPower did not record the

revenues received for its capital reconstruction charge in revenue. In its 1997 annual report SaskPower reported consolidated revenue of 915 million and consolidated net income of 132 net income.

In our opinion, SaskPower should have reported consolidated revenue of 930 million and consolidated net income of 147 million. For more information on this issue we encourage committee members to refer to our *1998 Spring Report*.

We also reported that for the year ended December 31, 1997, the financial statements of SaskPower Commercial Inc., Power Greenhouses Inc., northern enterprise funding, and the Power corporation's superannuation plan were reliable.

In addition, we reported that these four organizations had adequate rules and procedures to safeguard and control their assets and that they complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

In our *1998 Spring Report*, we reported that we had not completed all our work regarding SaskPower. We have now completed our audit of SaskPower for the year ended December 31 and have included our audit conclusions and findings in chapter 1 of our *1998 Fall Report Volume 2*.

In completing our audit, we examined the documentation provided to the Channel Lake inquiry, conducted by your committee, and the testimony of witnesses who appeared before the committee. We found significant deficiencies regarding governance, organization structure, and management controls.

The lessons learned from SaskPower's management of its subsidiary Channel Lake Petroleum Ltd. are useful for most organizations. In our opinion, the main lessons learned are: that the role and responsibilities of boards need to be clearly defined; boards need to ensure their views on accountability are established and communicated to management; boards need representation on boards of subsidiary corporations; boards need to review their policies and procedures to ensure their direction is fully and appropriately documented; boards should receive reports and advise whether management is operating in compliance with the board's direction and policies; boards need regular training to enhance board governance; boards should ensure their policies include rules and procedures to safeguard and control assets, and to comply with the law. And internal audit function should report directly to the board.

With respect to the annual report for SaskPower we believe that, to assess the performance of Crown corporations, MLAs (Member of the Legislative Assembly) and the public need adequate summary information about the plans of those agencies and about the achievement of those plans. We think all public sector agencies should provide their vision, long-range goals, specific objectives, key performance targets, and the main strategies for achieving those targets. They should also report on the extent to which they achieve those targets.

We encourage SaskPower to improve its annual report and the annual reports of its subsidiaries and its pension plan. To help MLAs and the public to assess its performance, SaskPower should ensure its annual report and the annual reports of its

subsidiaries and its pension plan include a comparison of planned activities to actual results. One should not have to scrutinize an annual report to try to determine a Crown corporation's vision, long-range goals, specific objectives, and key performance targets. These should be clearly set out in the annual report under appropriate headings. To build shareholder confidence Crown corporations should also report on the extent to which they achieved those plans and targets.

Unlike the Crown Investments Corporation's annual report which we discussed last week, SaskPower's annual report does not include headings and sections describing its vision, mission, values and principles or objectives. Also because its 1996 report did not clearly state its objectives it does not report if those objectives were accomplished. SaskPower does provide some broad objectives in various sections of its annual report and some strategies it pursues to achieve those broad objectives. But except for financial targets there is little in the way of measurable targets and most comparisons are with the previous year rather than what was planned.

With regard to financial indicators we're pleased to report that SaskPower provides measurable targets and actual results for five financial indicators which SaskPower considers key to the corporation's success. SaskPower shows its progress in these key financial indicators over a five-year period. SaskPower has also improved its management discussion and analysis section, and it gives good information on operating statistics. For example, SaskPower shows its electric revenue and energy sales by customer class. We're also pleased to report that SaskPower has established an Internet web site for the corporation providing a significant amount of information.

With respect to other matters our two chapters on SaskPower also include the following additional matters for the attention of the Legislative Assembly. First we draw to the Assembly's attention that unlike many other government organizations SaskPower and other Crown corporations do not publish a list of persons who receive money from them and the amounts the persons received. Second SaskPower does not table the financial statements of the northern enterprise fund. Third we recommend that the government consider strengthening current laws governing the purchase and sale of shares to require Crown corporations to obtain an order in council when selling shares or securities of any corporation.

With respect to our future audit plans, SaskPower's experience with Channel Lake raises many issues and concerns about the governance and operations of SaskPower. Because of the significance of these issues, we plan to be more involved in the audit of SaskPower for the year ended December 31, 1998.

As part of our audit for the year ended December 31, 1998, we intend to ensure the key issues that affect SaskPower are identified and reported to the Assembly. Also we plan to examine SaskPower's process for implementation of its new information systems referred to as the Delta project. Our objective is to determine if SaskPower has good practices to ensure the successful implementation of its Delta project.

In addition, as part of a cross-government audit we intend to ensure SaskPower's international operations are identified and reported to the Assembly. We will report on these matters in a

future report.

Madam Chair, that concludes my opening comments and we'd be pleased to answer any questions you or your committee might have.

The Chair: — Thank you, Mr. Montgomery. I would test the committee members at this point to see whether or not they wish to address questions to the representatives from Ernst & Young and the Provincial Auditors or whether you wish to move into questioning of SaskPower officials and the various auditors simultaneously. Mr. Johnson and then Mr. Boyd.

Mr. Johnson: — To the Provincial Auditor, one of the things that you were asking for was the publishing of monies paid to people for delivering services in the . . . Would that be standard to the power industry?

Mr. Montgomery: — No, I believe other corporations outside Saskatchewan do not provide that information. In Saskatchewan . . .

Mr. Johnson: — The secondary question to it then, would it be standard in the auditing of the books for the province that depreciable assets are accounted for in the general fund?

Mr. Montgomery: — Sorry, I'm not sure I quite understand that question.

The Chair: — Can you elaborate, Mr. Johnson.

Mr. Johnson: — For the departments in that, it would be my understanding that depreciable assets are not accounted for as depreciable assets for each of the departments.

Mr. Montgomery: — Certainly the departments keep track of their individual financial statements. They're not depreciated.

Mr. Johnson: — Yes. They would be depreciated in . . .

Mr. Montgomery: — There's a different accounting for government, that's really what I . . .

Mr. Johnson: — Thank you very much. That's exactly what I was wanting for an answer. Then why would the concept be that if the industry standards are not to ask for that, that you would be asking for it when you said that there's different accounting for government than for . . .

Mr. Montgomery: — In Saskatchewan the significant portion of Saskatchewan's government organizations report that information. So in essence for 60 per cent of the expenditures a list of payments is made.

Mr. Johnson: — Of the four major Crowns?

Mr. Montgomery: — Of the four major Crowns that is not provided.

Mr. Johnson: — Thank you.

The Chair: — Mr. Atkinson, did you wish to add anything directly? You've concluded your questions Mr. Johnson.

Mr. Boyd: — Thank you, Madam Chair. We indeed have a number of questions this afternoon for the Provincial Auditor, and after that for the SaskPower representatives. The SaskPower representatives dealing certainly with the generation capacity, co-gen projects, the reconstruction charges, accountability, certainly Channel Lake. We will want to talk about all of those issues.

For the Provincial Auditor, however, despite months spent by this committee on the Channel Lake fiasco, there seems to be clearly unanswered questions and key concerns. The Provincial Auditor has taken the unusual and welcome step of providing us with his views on Channel Lake in an early report so that we have it in a timely manner and are able to discuss it here today. In fact we'll be basing most of our questions on the auditor's work today.

To the representatives from the Provincial Auditor's office, as this report on Channel Lake you have given us, I also notice that in your office's business and financial plan for the next fiscal year, you've requested an increase in funding in large part to allow more resources to study SaskPower more closely. Certainly not to infringe on the work of the Board of Internal Economy, but I'd like to know what areas you feel there needs to be more study of SaskPower. What are your biggest concerns regarding SaskPower's current reporting and management methods?

Mr. Montgomery: — The additional money that we requested, Mr. Boyd, will be spent trying to identify first of all the key issues facing SaskPower, and SaskPower's management plans to deal with those key issues.

With respect to our concerns on SaskPower's management and current reporting, we have largely addressed those concerns in our chapter that we've provided to you in advance.

Mr. Boyd: — You only, we noticed, have singled out SaskPower as in need of more in-depth study. Does this tell us that SaskPower is far behind the other Crowns and government departments when it comes to management structure or reporting methods?

Mr. Montgomery: — It tells us, just by the volume of matters we've reported on SaskPower in the current chapter on SaskPower and in previous chapters, it tells you that we found more concerns at SaskPower than, for example, SaskTel.

Mr. Boyd: — Can you compare SaskPower to the other Crowns in addressing your concerns? What is happening at the other Crowns that you see as deficient in SaskPower?

Mr. Montgomery: — Mr. Boyd, the difference between the other Crowns and SaskPower as we see it is in the amount of things that are being reported by our office. You'll notice when we produce a chapter on the other Crowns there are less matters being reported. I haven't really any additional matters to report than those included in our chapter.

The Chair: — Mr. Boyd, if I may? In terms of comparison questions, I think I should inform you that apparently Mr. Strelieff will be coming to the committee. The Provincial Auditor will be attending at 2:30. And so perhaps, rather than

asking Mr. Montgomery, whose focus and whose assignment of responsibilities is specifically SaskPower, perhaps instead of asking him comparison questions you may wish to direct that to Mr. Strelieff when he attends.

Mr. Boyd: — Well thank you, Madam Chair, for bringing that to our attention. I wasn't aware of that.

The Chair: — Just trying to be helpful here.

Mr. Boyd: — Well in that case then I will set aside my questions to the Provincial Auditor until he arrives. It might be more useful at that point to ask those types of questions because many of them are of that nature, Madam Chair.

We have gone through months and months of study of the Channel Lake situation and we'll certainly be wanting to ask the auditor's views on the findings of that review process.

I guess I'll just leave my questions until the Provincial Auditor arrives at whatever the appointed hour is.

The Chair: — I'm sure that Mr. Montgomery is more than capable of answering most of these questions. It just seems to me in the interests of fairness, and knowing that Mr. Strelieff does plan to attend, that if there are comparative questions that you want to put, Mr. Strelieff would probably be in a better position to answer them.

I broke with my own procedures when I recognized Mr. Johnson first. Generally there aren't a lot of questions of the auditors and I apologize. I should have asked the opposition party first and then move to the third party and then government. So I would ask the representatives from the third party now if they have any questions of the auditors.

Mr. McPherson: — We'll wait till later.

The Chair: — All right, thank you. Then I'll refer to the government members.

Mr. Kowalsky: — Thank you, Madam Chair. I would have a question of the auditor, Madam Chair. I noticed in your remarks made to the committee there was several paragraphs — several pages indeed — dealing with the policy.

I don't know if you mentioned anything about the bottom line in the report. Perhaps if you did I missed it. But I want to ask you some questions about the bottom line. Does an auditor review the financial statement as was done by the private auditor?

Mr. Montgomery: — Yes and while the appointed auditor signs the financial statements, the auditor's report, we work together with the appointed auditor. Our opinion is expressed to the Assembly through the mechanism of our reports to the Assembly.

Mr. Kowalsky: — Do you confirm, are you able to verbally confirm all of the figures that the auditor has said?

Mr. Montgomery: — Yes, as I indicated in my opening remarks, we consider the financial statements of SaskPower

reliable except for the effects of the reconstruction charge for 1997.

Mr. Kowalsky: — And you would agree with the statement made by Ernst & Young that the financial statements of SaskPower are free of material misstatement?

Mr. Montgomery: — With the exception of the reconstruction charge, yes we would agree with Ernst & Young.

Mr. Kowalsky: — Thank you. Thank you, Madam Chair.

The Chair: — Thank you. If there are no further questions at this time of the auditors, what we will do now is move into direct questions, the questioning of the SaskPower officials. I will recognize the opposition please for approximately 15 minutes.

Mr. Boyd: — Thank you, and to the officials with SaskPower, the first . . . as I mentioned we will want to deal with a number of areas: generation capacity; certainly Channel Lake; the whole issue surrounding the reconstruction charges; and then finally accountability.

Dealing with the generation capacity first, we have seen a growth of power consumption here in the province of Saskatchewan over the last number of years. It hasn't been all that long though since SaskPower projected previously the growth of demand here in Saskatchewan and was significantly in error in those growth projections.

What confidence should the people of Saskatchewan today that your projections for demand for example for this winter are any more in line with your projections for growth in the past.

Mr. Staudt: — Well I'd like to take that in terms of when you do a forecast, that's what it's called, Mr. Boyd, the nature of it is a forecast. It's like a budget, you do your best efforts based on the information that you have.

We get extensive information from our key account customers. We get extensive information from Energy and Mines. We talk to the potash industry. We use economic trends. We do a fair bit of analysis in order to make a forecast. But a forecast is a forecast. It cannot be guaranteed to be accurate within percentages and you're right. We misstated what we thought the growth was going to be over the last number of years but that was because the Saskatchewan economy was a lot stronger than our key account customers and the provincial government and StatsCanada had told us it would be. But we still didn't run out of power, we still have . . . the reserve was there that meant there was no blackouts or brownouts in that period.

1998 has been reported that it would be a challenge. We certainly have met that challenge so far in 1998 and we're very confident that we can make it in 1999 based on the information we have.

We have secured new load, our reserves are above industry average at this time, and unless we have a catastrophic failure in our generating units or an ice storm like they had in Quebec we are very confident that we will not have a problem in 1999 until the Meridian project which Mr. Fair talked about is on line in

the fall of 1999.

Mr. Boyd: — Thank you, Mr. Staudt. So you're confident and you can assure the people of Saskatchewan that your projections for demand and your generation capacity will meet?

Mr. Staudt: — Yes I do, within again I remind you that I made the comment conditional upon catastrophic failures or an ice storm or something that we cannot control.

Mr. Boyd: — And what steps have you taken in order to ensure that? Certainly the co-gen project with Husky Oil would be one of them and other steps that you may have taken in recent days or months.

Mr. Staudt: — Yes, what we have done is we have interruptible contracts with some of our major customers that exist today — IPSCO, Sterling Pulp Chemicals, TransCanada Pipelines, and Enbridge — which means we can interrupt them on a contract basis. They . . . have a contract with them that if we get into a situation where we need their power going to their facilities we can interrupt them.

As well we have talked to some other customers. The Potash Corporation has given us a short-term commitment that they will also be interruptible in December 1998, and we are talking to other key account customers about interruptible contracts this winter.

Mr. Boyd: — Have you contracted for any additional power supplies in recent weeks or months?

Mr. Staudt: — Yes we have. We've secured another 50 megawatts from Basin Electric which is from North Dakota, and we have secured additional supply from Manitoba Hydro for the upcoming winter.

Mr. Boyd: — Are those additional supplies to meet with increased demand or just to give yourself some degree of safety margin?

Mr. Staudt: — I'll let Tony Harras talk to you about what our requirements are in terms of reserve that is common in the industry and he can give you an indication as to where we're at in that regard.

Mr. Harras: — Thank you. The contracts that we have entered into recognize the growth that was forecasted so we have additional contracts with Manitoba Hydro for this coming winter as opposed to last year. We went out and acquired some additional contracts with Basin primarily to handle uncertainty so that was more to handle load forecast uncertainty. And, as Kelly was mentioning earlier, we are talking to a number of customers about the possibilities of having some additional interrupting capacity.

As regards to the kind of reserve margin that we have, typically in the map region which is a utility to the east and south, the criteria is sort of 15 per cent generation capacity of reserve. We are looking at something closer to 20 per cent and that's primarily to handle a couple of things. There's load forecast uncertainty. We also recognize that the low growth has been higher than what was forecasted and consequently the surpluses

are somewhat tighter. So we went out and acquired these supplies ahead of time before the coming winter when we anticipated that supplies would be more difficult to acquire.

Mr. Boyd: — How often do you re-evaluate those projections of demand and generation capacity?

Mr. Harras: — Fundamentally on our long term, we update our long-term requirements on an annual basis, you know fundamentally. But when it comes to the current year and the next year we do it on a, you know, a significantly regular basis, and the reason being is that if you have for example some new planned outages so you have to reassess your maintenance schedules, so you're constantly optimizing your maintenance requirements and what additional supplies you might have — or in fact surpluses. Like last, this past summer, during July and August we had significant surpluses so we were able to market those. So you are always reviewing these to make sure that you have the proper balance between, you know, your low requirements and supplies.

Mr. Boyd: — So when did you sign the contract with Basin Electric?

Mr. Harras: — We have two contracts with Basin. We have . . .

Mr. Boyd: — The most recent one.

Mr. Harras: — Okay. The most recent one would've been within the last month.

Mr. Boyd: — So, prior — just so I get an understanding of this — so prior to that, you felt confident that you had enough capacity. And then I assume you re-evaluated and made the decision at that point that perhaps to deal with the uncertainty that you spoke of, about of demand and your generation capacity, you felt it necessary to go and secure additional supplies.

Mr. Harras: — Well, one of the issues is that there's always the market circumstances that weren't necessarily foreseeable, you know, a couple of years ago. This year there were reported brownouts in Alberta. So even if we contracted some additional capacity there's always the ability to market this elsewhere into Alberta, that's an example. So by looking at the market circumstances you can minimize your risk.

Mr. Boyd: — The contract with Basin I assume is a commercial contract calling for, on the reserves, to meet the demand that you have not projected then.

Mr. Harras: — The contract with Basin Electric which we signed within the last month is for 50 megawatts. It's for purchasing power. They're making available, you know, power for our use. It's actually a 100 per cent capacity factor at a, you know, specified price.

Mr. Boyd: — Is that price higher than your own generation price?

Mr. Harras: — The price that we are paying Basin is less than all up costs for new generation. If you build let's say a new

facility, you have to pay for the energy, which is primarily your fuel, but you also have to pay for the capacity. The rolled-in costs for a one-year purchase — the seasonal purchase that we're doing with Basin — is less than what we would be able to build into our own facilities.

Now if you talk about let's say entering into a contract for let's say five or ten years, and let's say where you would take power year-round and thereby having to adjust your other supplies, you may be able to get a better price. But the significance of this purchase contract we have with Basin is that it's for a short-term basis. We purchased the power for this winter season and then we don't have an obligation beyond this winter season.

So on the long-term cost basis this allows us to save money because come next winter we have Meridian. And to have a purchase contract with Basin and Meridian would not be cost effective.

Mr. Boyd: — My question though was, is it higher . . . Was the cost, is the cost, higher than your own current generation, electrical generation price, not what it might cost you to build in the future but what your cost of providing that capacity today is?

Mr. Harras: — The cost of let's say our coal-burning plants is in the order of one and a half cents for the energy. But those plants are fully utilized; there isn't additional power to be obtained from those.

Mr. Boyd: — No, I understand that.

Mr. Harras: — If you add the costs of the capital, of Shand for example, you'd be in the range of 5 cents per kilowatt hour. And the contract that we're entered with Basin is less than the 5 cents.

Mr. Boyd: — I understand that, but my point is, is that what is the cost then of the . . . if you want to take in all the costs of building new construction and all of those kinds of things, I think it's significantly different than what your current cost is.

Mr. Harras: — Okay, the cost of the Basin contract, the all up costs . . .

Mr. Boyd: — Put it this way. I would assume when you go onto the market in early November, one would think that the market would, generally speaking, you would be entering at a peak time for demand. And because of that peak time you're likely to be paying peak prices. Can we make that assumption?

Mr. Harras: — Certainly the prices that we would pay from, let's say, Basin or Manitoba would be higher than what we would pay for, let's say, in the spring and the fall. Not necessarily in the summer because in the summer the prices in the United States are quite high. But to answer your question, which I think I'm answering, the cost of the Basin purchase is more cost-effective than us building our own facilities and as far as . . .

Mr. Boyd: — Is it more expensive than had you started on those construction projects back when you misread the additional demand?

Mr. Harras: — Okay. I don't think so. The answer . . . The reason why that answer is such is that when we looked at the Basin agreement, we were looking at supplies only for this winter. We're not obliged to take power during the summer from Basin. So it's a short-term commitment.

If you were looking at, let's say, a 5-year or a 20-year contract, if we had built a facility ahead of need, we would have had to end up paying for the capital over the life of those facilities.

Mr. Boyd: — But it's apparent now that it wouldn't have been ahead of need.

Mr. Harras: — Well we have committed though in the meantime to the Meridian project which comes on late, you know, next year. And that fills over 200 megawatts for 25 years.

Mr. Boyd: — As I say, it's apparent now though that the need was there.

Mr. Harras: — The need last winter . . . we were able to get through last winter. We need some supplies for this coming winter and we went out and we acquired those additional ones. But we are not looking at entering into the same contract next winter because Meridian will be on.

Mr. Boyd: — So in essence you can be very confident, outside of a catastrophe, that the generation capacity will meet with the demand this winter.

Mr. Harras: — Yes. What we're doing is consistent with good utility practices. It's not different with other utilities in fact would do under similar circumstances.

Mr. Boyd: — I understand that. I wanted to move to . . .

The Chair: — Before you move to a new question, perhaps we could ask the . . .

Mr. Boyd: — Well it's still dealing with the generation capacity.

The Chair: — Same question. Okay, sure.

Mr. Boyd: — Still dealing with the generation capacity and still dealing with the . . . perhaps a concern, I'm not saying that there is large concern, but the concern that maybe in some people's mind out there. In the situations that Mr. Staudt spoke about catastrophic events you have the interruptibles that you deal with first. What steps do you take after that? I think we would like to know where the priorities are after that.

Mr. Staudt: — After that we make an appeal to our large commercial customers and our key account customers who are not . . . interruptible.

Mr. Boyd: — Are those who are not interruptibles?

Mr. Staudt: — Who are interruptible.

Mr. Boyd: — Okay.

Mr. Staudt: — And we will ask them to curtail their load on an emergency basis. Usually we've had in the past had very good co-operation on that when we ask those customers to co-operate. After that I believe we would go onto emergency appeal to the general public to try to curtail their load, and then the next step after that would be we would have rotating brownouts for every half hour as we move forward.

But certainly when we go to appeal to the large industrials we would be confident, unless again we had a very major failure, that we would be able to deal . . .

Mr. Boyd: — Does SaskPower have a strategy for a very major failure?

Mr. Staudt: — Yes we do. That's just what I described.

Mr. Boyd: — In addition to brownouts where would you go next?

Mr. Staudt: — Tony would we . . . I guess you'd go to blackout situations.

Mr. Harras: — The situation beyond a brownout is if you had major loss of let's say transmission facilities. What we would then do we would dispatch our staff plus we have agreements with our neighbouring utilities to help us reconstruct the transmission lines.

Mr. Boyd: — I would assume following the events in Quebec where there was a catastrophic situation, the utilities all over North America one would think would be looking at that situation and learning from that situation, and perhaps reallocating resources or looking at other ways of trying to deal with that type of catastrophic event. Would that be the case?

Mr. Harras: — There's only a certain amount of things that you can do. I mean you can carry amount of salvage — not salvage — materials on hand. You can have agreements with your neighbouring utilities you know within Canada and the United States to assist you with let's say the reconstruction of transmission facilities.

There really comes a limit as to what is a reasonable amount of equipment and manpower that you should carry for this kind of circumstance. And you know definitely we are aware of what has happened in Quebec. We have you know had discussions with our neighbouring utilities, and we are sharing information as to how you would help them and likewise how they would us.

Mr. Staudt: — Yes. After the Quebec situation we put together a team at SaskPower to come up with a disaster plan in the event that something like that would happen in Saskatchewan. And we've involved the Alberta utilities and the Manitoba utility and our neighbours to the South in that discussion.

Mr. Boyd: — Do you have the ability to provide first service to certain sectors of the economy shall we say? Like I would assume one would look at first priorities as things like hospitals. Have you the ability to do that?

Mr. Staudt: — The intricacies of the grid I don't believe we

could specifically to certain hospitals. We can do it to areas, but hospitals would not be unless they are self-contained and have a single feed coming to them?

Mr. Harras: — Some of the, you know, some of the hospitals will have their own standby generation. But to be able to sort of isolate the hospital, the difficulty you get into is that we have our grid and then we have transmission lines, you know, into let's say the city of Yorkton or whatever. You would have to go a long way, you know, and isolate different feeders. So you can do some of this but it becomes quite difficult, you know, I think just sheer volume in terms of the manpower to actually disconnect specific feeders.

I guess what it comes down to is, you know, at what stage do you say that if I'm down to 50 per cent of my load, you know, is there much percentage in making provision, you know, for being able to isolate even more. It really becomes a judgement call as to when your disaster plan, you know, is fairly reasonable.

If you look at historically what has happened in the province, and I'm not saying that, you know, everything bad that has happened in the province is a reflection of what could happen. But certainly what has happened in the past we feel confident that we could handle these situations in the future. Thank you.

The Chair: — Thank you, Mr. Harras and thank you, Mr. Boyd. I think those were extremely important questions and I know that there are many people in Saskatchewan who are concerned about the situation of power supply for the winter.

I will now recognize representatives from the Liberal Party and then move to the government party and aim to call a break at around quarter to three.

Mr. McPherson: — Thank you, Madam Chair. I assume we'll just stay on a certain theme and share that . . .

The Chair: — Yes, if you could try to keep your questions to approximately 15 minutes so that we can rotate amongst the parties.

Mr. McPherson: — Thank you. With the added contracts that you were talking about, what sort of reserve margins does that give you?

Mr. Harras: — For this coming winter we are looking at a reserve margin in the order of 20 per cent.

Mr. McPherson: — That remains . . . I was just looking at the business line here and you had 20 per cent but even with the new contracts, that's remaining at 20?

Mr. Harras: — That business line was written before we entered into the 50 megawatt purchase with Basin, I think. So that Basin would add some additional, you know, reserve — 50 megawatts is roughly two and a half, three per cent. However on an ongoing basis, there's always things that are happening to equipment and I would like to say that we're roughly at the 20 per cent, you know, at this point in time.

Mr. McPherson: — All right, what about non-utility

generation. Do you have other, smaller projects that could be brought on? And I know, Tony, we went around this one a few years ago quite a bit. But are some of those projects that were brought forward a few years back, are they able to be brought on stream in relatively short period of time?

Mr. Harras: — Yes, the kind of length that, you know, a non-utility generation developer would need would be probably a minimum of a year. I mean there are some that maybe could be brought on a little sooner, but typically it depends on what the technology is. If it's a gas-fired generator, as an example, you could probably get gas-fired generation in place within six months as long as the gas supply is there.

If you were going, for example, with a project which required the utilization of wood waste as an example, you're really talking about two years. So there is a kind of a mixed bag in terms of what the lead times . . . I mean non-utility generators are not the same. I mean they're very dependent on the kind of the fuel that they're using. For this coming winter that's what the question is, could we turn to non-utility generators for additional capacity.

Well first of all, based on good utility practice, I don't think there would be a basis for us do that because we think that based on good utility practice we have sufficient reserves right now. To go out and contract some additional capacity would probably end up costing more and the benefits would be minimal.

The other issue is whether or not any of these could get on stream fast enough. There are some non-utility generation projects that could come on probably in less than six months time and that could be in the oil field. The issue however, is that these tend to be quite small, you know they're in order of a fraction of megawatt. So if you're talking about let's say finding, you know 5 or 10 megawatts of these, although on the individual customer basis it could be significant, in our whole scheme of things they aren't that significant, because you know when we have a load that's approaching 3,000 megawatts, adding 10 megawatts to the system doesn't really add too much to our overall generation reserves.

Mr. McPherson: — Is all the necessary legislation that you would require, has it been changed to allow for a non-utility?

Mr. Harras: — The obligation that we have as far as non-utility generation is that we always have had ability to purchase power so there have been no legislative changes to allow us to purchase power from Meridian. The legislation changes would be required, if let's say if a non-utility generator wanted to generate power and sell power to someone on their own volition. That's where the legislative changes would be required. But for us to buy power there's no legislative changes.

Mr. McPherson: — In fact that legislative change was made to allow that private sell is it not?

Mr. Trew: — Madam Chairman, pardon me, Mr. McPherson, I can't hear everything you're saying. If you could just speak up a little bit, I would certainly appreciate it.

Mr. McPherson: — I was just asking about the legislation that

would be required to allow a generator to sell to private interests. Whether that has been completed?

Mr. Harras: — The legislative changes have not been made to allow let's say private interests to generate the electricity and sell to someone else. In other words, to wield power from, let's say just pick you know a potash mine to an oil field.

Mr. McPherson: — And the reason where I'm going with this Tony is the, I guess if we're looking at the larger customers, that they're the first ones that are going to be asked to cut back in the event of some critical whatever is going to come at this province. How fast could they in fact get something in place to service their own needs or buy it from some neighbouring industry and then would there have to be some fast legislative changes to allow that. And in a sense I guess it isn't affecting you but in a sense it is.

Mr. Harras: — I guess first of all when we negotiate interruptible contracts with our large industrial customers, this is a negotiated thing. We are not forcing customers to enter into an interruptible contract. They look at their circumstance; they look at what the economic benefits are of let's say a different contract on terms and condition, including price, and they make their decision as to whether or not they want to enter into an interruptible contract. So in terms of those kind of contracts I would be surprised that if a customer, as a result of us calling on those contracts, felt that it was reason to try and get legislative changes in the province to allow them to, you know, generate and sell to others. These contracts are negotiated between us and them, and there is a mutual benefit.

Mr. McPherson: — What size of a non-utility generator would SaskPower be prepared to have a contract with? The latest was — what did you say — 200 megawatts?

Mr. Harras: — Yes.

Mr. McPherson: — Some of the projects that we talked of a few years ago were of that one and a half, maybe up to five megawatt. Are you prepared to go and have contracts with them for that size?

Mr. Harras: — There is, you know, very definitely when it comes to sort of adding significant increments of power to the system, you really do want projects that are probably in the 50 megawatts and up. And again whether or not the 50 megawatt or the 100 megawatt would be cost effective depends on the site; it depends on the technology; it depends on, you know, a number of factors.

When it comes to the small projects there are some projects that could be cost, you know, effective. For example, if there's a particular developer that has a fuel that is basically being wasted, you know, for whatever reason, it could be that they could put in a substantively smaller project and still be cost competitive.

But the bottom line is that when it comes to what size of project we would consider entering into a contract with, we certainly would want to make sure that the power that we bought from this particular customer was cost effective and reliable. It really, I was going to say, shouldn't be too small, but it could be

probably down in a fraction of a megawatt. However, we have not had people come to us with cost-competitive projects. Usually when they're this size they're not cost, you know, competitive. However, if there was someone that came to us with, you know, a one or two megawatt and the cost of power to us was cost competitive, I'm sure we would consider it.

Mr. McPherson: — And what kind of numbers are we talking about which would make them cost effective, competitive?

Mr. Harras: — Yes. Again, usually I mean the . . . Not usually. The contract for example that we entered with Meridian is confidential, but the press did report that the first-year costs were going to be in the order of \$50 million. I mean, these are not precise numbers. And everybody also knows that it's 210 megawatts, so you just do some simple arithmetic and you know that the price will be less than 3 cents. I'm not, you know, telling tales out of school here but certainly the specifics of the contracts are confidential. But you can, you know, look at what's reported in the press and know generally what the price is.

Mr. McPherson: — Are there some of these smaller, non-utility generators that are coming forward with something in that five or six? I think that's where a lot of that was shaking down before, and are you considering any of those? Have you been approached by those?

Mr. Harras: — We have been approached by a number of people. I don't know specifically the size, but certainly I know that there are a number of people who have approached us, the approach is below 10 megawatts.

Mr. McPherson: — Then that would be in that 5 cent or a little more, little less?

Mr. Harras: — I don't know whether or not we've actually come to a specific price, that they've actually offered us a specific price, but again as I indicated earlier if, you know, if the price is competitive there is nothing fundamentally that would drive us away from these customers. So if they could be closer to the 3 cents, certainly that would make it more attractive than let's say the 5 cents.

Mr. McPherson: — But if we're signing deals now with Basin and Manitoba Hydro for what was it a 5 cent, roughly 5-cent contract . . .

Mr. Harras: — No I don't think I told you the specific number.

Mr. McPherson: — Well I wrote down 5.

Mr. Harras: — I told you the Shand was in a 5-cent range but these were less. But, you know, the issue here is that the Manitoba and the Basin contract are to deal with a specific season and that once that season's over, we're no longer obliged to take power from them so you can afford to pay a little more to handle a peaking situation. If you now sign, let's say, a 5- or 10-year contract at the same price, you have to take power during times when you could be using your own facility so some of those contracts are no longer competitive so that's why you have to drive the price down toward a Meridian price.

Mr. McPherson: — You don't feel you'd be able to reach a sort of a two-tier contract with a non-utility generator in this province? You know, somebody is paying tax here, supplying jobs here for around that 5 cents and, you know, give them the peak price whatever you're paying to Basin or Manitoba Hydro, just so that they're on par with those others. Then you don't have to be cost competitive with, you know, the one and a half cents that it costs you for your operations here. They really have to be competitive with where you're buying the power from outside of the boundaries.

Mr. Harras: — Certainly when we get an offer that we think would be worthy of consideration by the board and government, we would, you know, pursue those at that time. But you know at this point in time I don't think we even have a proposal in front of us that would be considered to be attractive to us. But certainly there have been inquiries. We have had a number of people approach us as to the specifics, you know, and the specific price. I'm not aware, you know, of the specifics. However at some stage when we have something that's more concrete, we certainly will pursue it with them.

Whether or not it's 5 cents or if it's 4 cents or something closer to 3 cents, I don't know at this time, because one of the things is that depending on the location of the project, there are losses that are, you know, can be considered. Depending on whether or not the project is at the 25 kV (kilovolt) site voltage level, that also provides some benefits. So these things will be all considered and it really comes down to, you know, when we get some specific proposals that would allow us to evaluate these, we will consider these and we'll give them serious consideration.

The Chair: — Thank you, Mr. Harras. Mr. McPherson, could you start to wrap up your line of questioning please?

Mr. McPherson: — All right, thank you, in fact I only have a few more questions on non-utility. But for the non-utility generators that, I guess, were courted by SaskPower in the past, are there legal cases that . . . is there legal action being taken against SaskPower or by SaskPower? Some of the examples I can give you I guess is the wind project. But were there others that we haven't heard of and could you give us a list of those if there are?

Mr. Harras: — There were basically three non-utility generation projects that SaskPower was involved in. One was the 25 megawatt NUG (non-utility generation) demo that was postponed indefinitely. We also had a contract with Northland Power. They were looking at building a power plant in the north-west, north of Meadow Lake, and the wind demo project. Of all those projects, the only legal action was legal action taken by the proponents of the wind demo project.

Mr. McPherson: — And do you have the final costs, legal costs, and any awards — have they all been made public? I'm not sure where that ended at.

Mr. Harras: — The trial just finished early in October and the decision hasn't been rendered.

Mr. McPherson: — All right. Thanks, Tony.

The Chair: — Thank you, Mr. McPherson. I'll now recognize the government members.

Mr. Kowalsky: — Thank you very much. I appreciate the questions that have been asked previously because I think they certainly are questions that are at the top of mind in the public and certainly from residents of Saskatchewan and that is getting reassurance from SaskPower with respect to having lights on through winter.

And I think most of the questions have been asked, but I have just a couple of interpretations here I'd like you to make. When I looked at this graph which you've given us with respect to the customers, the way I interpret this is that large-volume customers use 65 per cent of the generating power whereas farm and residential customers use about 25 per cent. Can you verify that?

Mr. Staudt: — Yes.

Mr. Kowalsky: — Now could you tell of the large-volume customers, I assume that's made up of the city of Saskatoon plus big industries — big industries like whom for example?

Mr. Staudt: — Yes. IPSCO would be one.

Mr. Kowalsky: — Are there any other large-volume residential customers like the city of Saskatoon?

Mr. Staudt: — The city of Swift Current.

Mr. Kowalsky: — Swift Current. What percentage of the power is used by say Saskatoon and Swift Current?

Mr. Harras: — I don't have the precise number in my . . . but the demand of the city of Saskatoon is about 200 megawatts of a peak demand of about 3,000. So what percentage does that come out to? That's 6 per cent? So if you take . . .

A Member: — Six, seven.

Mr. Harras: — Yes. So if you take 6 per cent of our energy consumption of 15,000 gigawatt hours, I'll give you an idea as to what, you know, that comes out to. So that'll be . . .

Mr. Kowalsky: — Okay. I think that gives me what I need. In other words, if we added this city of Saskatoon and the city of Swift Current to our farm and residential customers, it'd probably still be only at about 35 per cent of your capacity to produce power?

Mr. Staudt: — Yes.

Mr. Kowalsky: — So under a worst case scenario of having to stop all industry, you'd still have over double the capacity in order to be able to serve — your generating capacity — in order to serve the residents right now. That's . . .

Mr. Harras: — Okay, you're saying that from a security point of view?

Mr. Kowalsky: — From strictly a security home point of view of what's going to happen in homes other than what ordinarily

happens if there's the occasional two-to-four-hour loss, sometimes particularly if you're in a less-populated area.

Mr. Harras: — In that 60 per cent is included our commercials and industrials.

Mr. Staudt: — Large commercials.

The Chair: — And, Mr. Kowalsky, just for your information, the city of Saskatoon and the city of Swift Current as resalers also sell to commercial and industrial customers. So neither Saskatoon nor Swift Current sell exclusively to residential customers.

Mr. Kowalsky: — I understand. Thank you very much.

I'd like to ask a question about projections beyond a year, two years. We know that you have to . . . it takes two or three or sometimes five years to put a project in line, perhaps sometimes 10 years, depending on whether it's a power dam or other type of generating capacity. What do you project, first of all, to be the need say two to three years from now? Do you expect a straight-line projection; do you expect an increased line projection or decreased?

Mr. Staudt: — Yes, I guess. We've got a scenario; we try to go out between 10 to 30 years to look at our next generation but right now we have determined that we will likely need a new source of generation after the Meridian project in 2001 but that could also be somewhere in between 2001 and 2004, depends on how quickly the Saskatchewan economy continues to grow. Right now it doesn't . . . the farm sector doesn't look very positive but I'm not sure what that's going to do to the rest of the economy.

But again, as I mentioned before, we take a whole bundle of information in order to make our forecast. So right now we're looking at . . . We will need approximately 100 megawatts again in between 2001 and 2004.

Mr. Kowalsky: — And between now and 2001 do you expect any other power-producing entities on stream?

Mr. Staudt: — Well the Meridian project would be the one that's coming on stream in 1999 which is going to add 210 megawatts.

Mr. Kowalsky: — Are there any others on stream that will cause say an industrial reduction or consumption or . . .

Mr. Staudt: — The Weyerhaeuser project is scheduled to come on in the year 2000, I believe, right at the start of the year 2000. And if my memory serves me right, I believe they're going to add about 30 to 40 megawatts of their own load. And we will be reducing from our system but we will be providing them with some capacity as well as backup. And they're doing that purely for environmental reasons because they have a huge environmental problem on their wood chip stockpile that they have to use and that's the reason they're going to self-generation.

Mr. Kowalsky: — So in addition to the environmental problem though, there will be an easing of the load in a sense . . .

Mr. Staudt: — We've taken that into consideration in our forecast based on our needs out till 2001.

Mr. Kowalsky: — Thank you, Madam Chair.

The Chair: — Any further questions at this time from the government members?

Mr. Trew: — Thank you, Madam Chair. Mr. Fair, I appreciated your opening remarks. I'm going to be asking a question or two about the Y2K (Year 2000) project. I gathered from your remarks that SaskPower has been working very diligently and hard on I presume identifying where the potential problems are and then dealing with them.

Could you elaborate a little bit about that? What I'm looking for is a sense of security that at midnight, Y2K . . . I'm sorry I addressed it to you because, Mr. Fair you had . . .

Mr. Fair: — No, that's fine.

Mr. Trew: — You had broached the subject; whoever can answer it.

Mr. Fair: — Sure, I'll turn to somebody who can be much more precise.

Mr. Trew: — But what I want is a feeling that the traffic lights are still going to be working at 12:05 after midnight in the year 2000; and not just traffic lights, I mean it's much, much more than that.

Mr. Staudt: — Yes, I had mentioned in my remarks, Mr. Trew, that we've got a project management office that's set up. And I believe in last week's paper there was an article that quoted Mr. Garner, who is — Garner Mitchell, I should say — Mr. Mitchell, who is our project manager for that project. Garner's been with us for many years and he was, he's the manager in charge of power production.

Where we think we will have the most risk is in our power plants because of the embedded-chip problem. They are working very diligently to have that addressed. We are targeting some time in the fourth quarter of '99 to have all the embedded chips and all the testing done.

The last presentation we had at the board, which was Thursday, they are now targeting into the third quarter of '99 which gives us even more optimism that nothing will go wrong. While we can't guarantee — I think Mr. Ching made the comment before this in the paper, I'm not sure if it was before this committee — but we're looking at mission-critical systems. We're not looking at whether our elevators will work that day, but we're certainly want to make sure that our power plants and our transmission facilities and our transformers are going to be in working order that day.

We are working with SaskEnergy and SaskTel, as well as the cities of Regina and Saskatoon and some of the other cities in the province, to make sure that we have a coordinated effort so that traffic lights will work, hospitals will have power, etc. Telecommunications is as important to our network as our network is important to SaskTel's network. We have to make

sure the power is on so SaskTel's facilities operate.

As well we are working with our neighbouring utilities and the utilities across North America in order to learn what they're doing and co-ordinate our systems so that we learn from what they're finding out and they learn from what we're finding out.

We had an audit done by LGS systems, who are, I mentioned, experts that we have utilized. And they identified out of 11 categories, SaskPower has medium risk in seven and minimal risk in four categories. We find that to be exceptional. We expected that we might have some high-risk categories. But we are at least in step, probably ahead of the rest of the industry in terms of our preparation. And we are very, very proud of what we've accomplished today.

Mr. Trew: — Thank you, Mr. Staudt. So as I heard you say, you're working with other utilities that SaskPower deals with, working with the Crowns and government, identifying and making sure in a coordinated fashion that Y2K doesn't shut everything down.

And I also heard, new to me, that there is some testing that you will be doing — most of it in the final quarter of next year — but there is in fact testing so that you'll have some additional confidence in the system.

Mr. Staudt: — Yes, we will do extensive testing. I might have misled you. Everything will be done by probably the end of the third quarter, end of the fourth quarter. But we will be doing testing on our systems all through 1999.

One of the things that we have is we're going to be scheduling, as we have our scheduled maintenance that you've heard mentioned before, some of that takes place in the spring, some of it takes place in the summer, some of it takes place in the fall. As those units come down for overhaul, we will be doing the testing at that time. So when the system comes . . . or when the generator comes up again after the overhaul we will know that the testing has been completed on the chips. We will be turning the clocks at that time.

Mr. Trew: — Thank you. I wish I knew what technical questions or more detailed questions I could ask but I'm pleased with the diligence that you're . . . and the completeness of the answers, and wish you the best of luck as we keep the systems up. Thanks, Madam Chair.

The Chair: — Thank you, Mr. Trew.

Mr. Fair: — Madam Chair, if I might just add briefly to this, it is the I guess the key question that the board asks every month. All of our, I believe, critical computer systems will be complete by the end of this calendar year and only non-critical systems will move over into '99.

The Chair: — That's the billing system, right?

Mr. Fair: — Pardon? Yes, you got it exactly. And the payroll system. The one thing that we have asked management to do was to continue to push forward those completion dates and that's what Mr. Staudt has just referred to. The identification I believe is 99 per cent complete. The evaluation is, I don't know,

somewhere in the 30, 35 per cent complete or maybe even more than that. Bill, is that about right? And the whole idea of turning clocks forward is very much a part of what's going on in generation plants so, I mean . . .

Mr. Staudt: — We've retested about 10 per cent to date.

Mr. Trew: — Good. Thank you both.

The Chair: — Thank you for that additional information, Mr. Fair. I will now call a break until the hour of 3 o'clock.

The committee recessed for a period of time.

The Chair: — We will resume our examination of the annual reports for SaskPower for 1997. And I would note that Mr. Strelieff is now present; and I would recognize Mr. Boyd, until approximately 3:30, Mr. Boyd.

Mr. Boyd: — Thank you, Madam Chair. To the Provincial Auditor, despite the fact that there were months spent by this committee reviewing the whole Channel Lake situation there are clearly still unanswered questions and concerns. And we note that you have taken the unusual and very welcome step to provide us with your views on Channel Lake in an earlier report so that we can have it in a timely manner and be able to discuss it here. We wanted to ask you a number of questions about that.

As well in addition to the report on Channel Lake that you have given us, I also notice that your office has in its business and financial plan for the next fiscal year requested an increase in funding in large part to allow more resources to study SaskPower more closely.

I'd like to know in what areas you feel there needs to be more study of SaskPower, and what are your biggest concerns regarding SaskPower's current reporting and management methods?

Mr. Strelieff: — Madam Chair, members, and Mr. Boyd and officials, I did provide you a copy of that report in advance of our normal tabling date. We plan to table our *Fall Report, Volume 2* on Wednesday. And when we set that schedule, I found out after that schedule, that this committee was meeting today and tomorrow to discuss SaskPower. So I thought it would be useful to provide you an advanced copy of the chapter that will be in our *Fall Report*, so that it would be of more use to you.

In our business plan, you're right, we have tabled a business plan last week, and in that business plan I set out changes to our plan compared to the last year and I noted that we were requesting extra funds for two reasons.

One has to do with the number of organizations, the new organizations, that government has created over the past year that of course increase our costs in the sense of having to be audited. And the second reason that I put out in the business plan related to the work that we plan to do at SaskPower in this next year. And that work has basically five elements to it.

The first element is to follow up on the recommendations that we have in the report that you have. So as part of our regular

process working with the public accounting firm, we do follow up on issues that have been reported in the past, so that's the first one.

The second one relates to the new information technology that the corporation's putting in place. I think it's called the Delta Project. That's a significant information-technology project that I want my office to have a look at . . . the project management practices in place to make sure that that project is successful. In general we've been doing quite a few of these kinds of system-management projects, searching for best practices and trying to share that information throughout the system. So the second element relates to Delta.

The third element relates to a cross-Crown corporation study that I'm asking my information technology people to have a look at . . . the Year 2000 practices put in place to make sure that as the next year unfolds that as much attention as possible is paid to Year 2000 practices. And of course SaskPower's part of that is very important.

The fourth element of what we plan to do at SaskPower that is different than in prior years, has to do with another Crown or cross-government study, and that is to identify all the international work that various Crown corporations and other organizations of government are doing so that there is a summary of that, of that work provided to you as legislators, either within the reports of individual corporations, or in a summary report that CIC provides, or in chapters of our reports to you.

And the fifth one is something that we've been doing at other organizations, going from one organization to another organization, and that is to make sure that organizations of government are identifying the key issues or challenges or risks that they face that must be managed well to be successful. As you might remember we did this in the Crown corporations sector beginning with the CIC, and we have put that in our, one of our more recent reports. And we plan to examine that area at SaskPower to make sure that management has identified the key challenges or risks that the organization faces; that they're providing that information to the board; and that that information moves into the annual reports that you receive each year on this major corporation so that you can discuss and assess the challenges that individual corporations face, and to make sure that the management has them under control.

So that's the five areas that we're looking at. And the reason for the advance . . . providing you the advanced copy of the report is to facilitate your meetings today and tomorrow.

Mr. Boyd: — Thank you. You only single out SaskPower as in need of a more in-depth study. Does this indicate to us that SaskPower is far behind the other Crowns or government departments when it comes to management structure and recording methods? And what would be the reasons for that?

Mr. Streliaff: — Well, as you know, SaskPower has been under a lot of discussion and debate over the past year or two. This committee itself has raised serious concerns about relationships between management and board, and management and the Crown Investments Corporation.

In my reports in the past couple years there seems to always be more issues related to SaskPower's either management practices or its willingness to disclose information to legislators and so I've asked . . . For those main reasons I've asked my staff, led by Ed Montgomery and Brian Atkinson, to focus more of their effort in this next year on SaskPower, to follow up on the recommendations that we have outstanding, to examine some of the new policies that are being put in place by the Crown Investments Corporation. And also to do that, not only working with Mr. Rupert James at Ernst & Young, but also to make sure that they also directly discuss issues with senior management at SaskPower and also with their internal audit group.

But as responding to in general why more particular effort at SaskPower is planned, it's responding to our previous reports and the one that you have on the table which indicates there's some important issues there and also responding to the sensitivity legislators have over the management practices of SaskPower.

Mr. Boyd: — Can you compare SaskPower to the other Crowns in addressing your concerns and what is happening at other Crowns that you see as deficient at SaskPower?

Mr. Streliaff: — Members, Chair, you've asked, can I compare SaskPower?

Mr. Boyd: — To other Crowns.

Mr. Streliaff: — In the sense of?

Mr. Boyd: — Management structure and reporting methods.

Mr. Streliaff: — And there was a second question.

Mr. Boyd: — And what areas do you see as deficient in SaskPower compared to the other Crowns currently?

Mr. Streliaff: — Pretty important and difficult question.

Mr. Boyd: — That's why I addressed it to you.

Mr. Streliaff: — As I said a little earlier that in our chapters, in our reports to the Assembly there always seems to be more issues related to management practices, financial reporting practices, and disclosure practices at SaskPower compared to other corporations — and leaving STC (Saskatchewan Transportation Company) aside because they face some very basic management issues all along — but they're the major corporations. Let's focus on the major corporations.

It's a hard one to compare the quality of management from one corporation to another corporation. Now one signal is that we bring to your attention more issues at SaskPower than we have recently at SaskTel or SGI (Saskatchewan Government Insurance) or SaskEnergy. I mean there's one signal that something seems more difficult at SaskPower than it is at other corporations. The extent to which disclosure issues surface at one corporation to another. That it seems like over time SaskPower has been more reluctant to disclose information to the Legislative Assembly than other corporations.

I can't give you a clear answer as to whether I think SaskPower's management is in a general way better or worse than other major corporations. They all have very important responsibilities. They take their job seriously and that's all good signals. And just the one other signal that seems to happen with respect with what we bring to your attention is that over the recent years there seems to be more issues at SaskPower than there is at the other corporations and certainly the work of this committee also seems to confirm that. So I haven't given you a very definitive answer on that and I don't know if I can.

Mr. Boyd: — Would other signals that might be indicators, would they be things like management dismissals, reporting failures, large severance payments, significant losses within their areas of responsibility?

Mr. Strelloff: — Yes.

Mr. Boyd: — Thank you. You identified five different areas that you felt there needed to be further work within. The Delta project was one of them. It seems like a little just a bit of an aside, Madam Chair, it seems like a rather obscure name for something to do with SaskPower. It almost makes you think of some sort of sort of KGB spy novel but nevertheless that's the name that's been chosen I guess.

The Chair: — We don't discuss the KGB . . .

Mr. Boyd: — Apparently it was once before.

The Chair: — No more, no, no, no. I just rule your comment out of order, Mr. Boyd.

Mr. Staudt: — . . . Madam Chair, Delta was a change.

Mr. Boyd: — Okay. Well it's an appropriate name given the circumstances. You mentioned that you wanted to ensure that there was proper project management within that type of project. What do you think the area is that the public of Saskatchewan should be looking at to ensure that there is proper management within that project? For example things like meeting cost projections, deadlines in terms of timing, either significant increases or decreases in staffing, things of that area. Is that what we should be looking at as areas of concern?

Mr. Strelloff: — Madam Chair, members, in general the principles of project management are quite similar from managing any type of large-scale project for the information technology. In this report that is coming out on Wednesday, we summarize basic project management principles. I think we do it in a context of the health information network.

The key parts of information technology projects that we've found and others across the country and the world have found that most large projects are risky because they usually cost more than anticipated. They usually are later than what was originally intended, and that they end up not satisfying the users of the information that it was designed to be created to satisfy.

And those three dimensions are common symptoms of project management difficulties. So when we go from one organization to another organization and look at their large information technology projects, we're looking for good, sound project

management practices that will make sure that those three issues don't happen.

And for the Delta project, it's a big project, involves lots of money, it's important to the functioning of SaskPower. And so therefore the success of it is also important to the people of Saskatchewan. By our office asking questions about the project management practices, or the Year 2000 practices, it tends to heighten the awareness. And it makes the project or the issue that we're examining . . . it usually makes it better managed just by asking questions.

So that in terms of focusing on that Delta project, those are the range of reasons why we are doing additional . . . plan to do additional work on it.

Mr. Boyd: — So it speaks to the whole area of accountability then.

Mr. Strelloff: — Well accountability means that the obligation to report on and answer questions about how you fulfil your responsibilities; that's what accountability means. So in the sense that the SaskPower management group is responsible for sound information technology practices, this is part of . . . our audits are part of strengthening that process.

Mr. Boyd: — You also spoke about the Y2K concern. What are the areas again, within a public viewpoint, that we should be looking at to ensure that there is adequate work being done in that area?

Mr. Strelloff: — Members, Madam Chair, one of the key things that you can do is ask questions of senior management officials on a regular basis. Asking them what their preparedness is, have they got the plans in place, and how are they beginning to test their systems to make sure that they're prepared. Recently we've encouraged the Public Accounts Committee to receive reports from the Crown corporations sector as well as various departments and other Crown agencies on the preparedness on each of those organizations as it relates to Year 2000.

And I think that's an important part of helping to make sure that when the year 2000 comes about, that all organizations of government and hopefully the people that they interact with, are more likely to operate successfully.

Mr. Boyd: — Two quick questions. Do you know whether SaskPower has a mission statement?

Mr. Strelloff: — I know in our report to you that we've given you today, we have expressed concerns how with the annual report of SaskPower, in that we thought there would be better clarity in their goals and objectives and performance targets, and using the Crown Investment Corporation as a good role model for performance reporting.

But now you've asked a very specific question. Do I know whether they have a mission statement? I would say yes, because they're a big organization and they must. But I don't know if I could point to where in the annual report they have that.

Mr. Boyd: — With regard to the international work that SaskPower is involved in currently, does it fit within the framework that you know the mission statement to be?

Mr. Streliaff: — I think that's a question better asked of the officials of SaskPower. And it is also a question that you, as legislators who are responsible for the activities of government, that's something that really is in your vein. Is that the right course of action that a major Crown corporation or major organization should pursue in terms of carrying out its mandate of goals and objectives?

Mr. Boyd: — Thank you.

The Chair: — Thank you, Mr. Boyd.

Mr. McPherson: — Thank you. Just one question, maybe two. Mr. Streliaff, you had spoken of the past practices of management decisions and reporting in that they were very poor, and I assume that's at a time period when Mr. Messer was at the head of the corporation. Can you tell us if those problems still exist? Of the reporting processes and any information your office is requesting, have things improved?

Mr. Streliaff: — Madam Chair, and members, and Mr. McPherson. The contents of the report that we've provided you relates to the management practices and compliance with legislative authorities and other reporting practices for SaskPower for the year ended December 31, '97. So we haven't worked on the practices that have been put in place and that are operating for December 31, '98.

And when I said earlier that one of the reasons we're going to take more effort at SaskPower this year is to follow up our recommendations that pertain to December 31, '97, so I can't, because we haven't done the — working with Ernest & Young — haven't done the audit of December 31, '98, I can't say whether practices have changed.

I do know that officials of CIC have indicated to me that there has been significant changes in their relationship with SaskPower, and I think when you ask questions of officials of CIC, they will probably talk about those new practices.

And also I think you should address that question to management as well, in terms of whether they've made changes in this past year in terms of their management practices, and particularly the relationship between the board and management. And that would be — you have the Chair here — that would be a good line of questioning to ask his views of the relationship between his senior management group and the board. What issues did he think that he thought needed strengthening, which ones were sound, and what kind of changes have taken place over this past year. It's been obviously an important year for SaskPower, and a very important year in the context of their relationship with you.

The Chair: — Mr. McPherson, at some point you might wish to ask Mr. Fair what kinds of progress he's making with respect to the Crown Corporations Committee report on Channel Lake. Specifically, recommendations 12, 13, and 16 through 20 deal with management issues.

Mr. McPherson: — Are you leading me?

The Chair: — I'm being ever helpful here. Mr. McPherson, you may . . . Do you have any other questions of the SaskPower officials or shall I . . . I take it you have no further questions of the auditor right now. Okay. Then if that's it for you for the auditor, I'll recognize the government members now for about 10, 15 minutes.

Mr. Kowalsky: — Yes, Madam Chair, I just have one question. In response to Mr. Boyd's question about the Y2K issues, you suggested that questions be asked in Public Accounts about this. Is there any specific reason why you didn't suggest that these questions be asked in Crown Corporations Committee?

Mr. Streliaff: — Madam Chair, members, in my reports . . . my reports go to the Assembly and they're referred to the Public Accounts Committee. So when . . . And we have a couple chapters in our reports on Y2K issues. So when those chapters are discussed at the Public Accounts Committee, I suggested to the Chair and members that when every organization that comes into their meetings, that when they come in, ask them questions on their Year 2000 preparedness. Because I thought by asking those questions it would help ensure that the preparedness strengthens. So the reasons why I asked the Public Accounts Committee to ask those kind of questions is because that's who deals with my reports. And that's where they discuss them and issues surface.

I mean, it's also a good, as I suggested to Mr. McPherson on the management practice changes, it's also a good question that this committee ask the organizations and officials that come before it.

Mr. Kowalsky: — Yes, Madam Chair, it's just a matter of I don't have much problem with duplication except that sometimes it can get a little tedious. And it appears to me that the role of this committee as compared to the Public Accounts Committee is that Public Accounts Committee usually deals with money having been spent, and this committee tends to deal I believe more with a future role and directions taken by Crowns.

I may stand corrected on that but that's why I was asking you the question. And I thank you for your answer because you certainly did not exclude the Crowns in your answer. You said it could also be done here.

Mr. Streliaff: — Well certainly.

The Chair: — And further, Mr. Kowalsky, since at least 1994 when the Crown Corporations Committee did a major review of its mandate and terms of reference, and expanded its scope so that we no longer only looked at retrospective activities but looked at things prospectively, one of the things that was included in that 1994 change in terms of reference, was that this committee and the Public Accounts Committee come to grips with the whole question of overlap and duplication between the two committees.

And I note that Public Accounts Committee has, at least for the last nine months I think, been referring various matters to the Crown Corporations Committee that are raised by the

Provincial Auditor. There still has yet to be developed a mechanism that is satisfactory for both committees to avoid that duplication and overlap. I think, though, having Mr. Strelieff release his report in advance to the Crown Corporations Committee with respect to his review of Channel Lake probably does set a bit of a precedent.

And it would be my hope that the Chair of Public Accounts and myself can meet in the next little while. And perhaps even the two committees could have a joint meeting so that we could iron out some mechanism to finally come to grips with this question of duplication and overlap, and ensure that the concerns raised by the auditor come to the appropriate committee and to ensure that they're dealt with in a timely fashion.

Do you have further questions, Mr. Kowalsky?

Mr. Kowalsky: — Well sometimes . . . No, just a comment. Sometimes when you have two bodies responsible for the same operation, one assumes the other one's doing it. And we want to make sure that it's done fairly somewhere.

The Chair: — Correct.

Mr. Johnson: — Just a question of the auditor. As I understand it, the reconstruction charges, the accounting of it, there's been an agreement so that everybody's agreed to what's going on. And I was just wondering if you could indicate what that is regarding the reconstruction charge.

Mr. Strelieff: — Madam Chair, members, my understanding is that for the year December 31, '98 and the year subsequent to that, the revenues from the reconstruction charge will be recorded as revenue.

Mr. Johnson: — Okay. So that doesn't cover then this report which is '97. Okay.

In the changes that is going to take place then in calling it a revenue would mean then . . . Will it be written off in that year as well?

Mr. Strelieff: — Madam Chair, members, you might want to ask that question of SaskPower, but revenue . . . when you record revenue it . . .

Mr. Johnson: — Madam Chair, the reason I'm asking the auditor is that I understand how SaskPower would have handled it. I want to know how it is now . . . what the change is going to be and what it details from the auditor's perspective.

Mr. Strelieff: — Madam Chair, members, you've asked an accounting question, and when you ask accounting questions my mind gets into a very technical frame of reference. So from now on the revenue received by SaskPower gets recorded as revenue and the assets that they acquire or construct will be recorded and depreciated just like any other Crown corporation in Saskatchewan.

Mr. Johnson: — Okay. That's what I assumed was going to take place.

Mr. Strelieff: — Just like the rest of their other assets.

Mr. Johnson: — Yes. That's what I assumed the change was. In SaskTel in the year for '97, on page 38 but you won't have that, but anyway I'll read it anyway that:

The telecommunications industry in Canada is characterized by rapid technological developments, new service offerings, aggressive pricing practices, (etc.) . . .

In such markets, the Corporation can no longer be assured that prices will be maintained at levels that will recover the net carrying value of its existing local service plant . . . Accordingly, the Corporation recorded a \$55.7 million . . . (write-off).

In the paper that was provided to us today, it says that farm customers pay only 77 per cent of the actual cost of providing the power, and residential customers pay 85 per cent of the cost of power. And I'm asking you if you expect SaskPower, as they move into a non-regulated area where they will be in competition, will be asking for a write-off to cover the non-profitability of their lines?

Mr. Strelieff: — Well, members, each year that SaskPower and every other corporation prepares their financial reports and statements, they look at the value of their assets and decide whether any additional write-offs are warranted. I would like that question to be answered by the management group. I haven't entered into discussions with them.

Mr. Johnson: — Okay.

Mr. Strelieff: — Whether there will be additional write-off for sure.

Mr. Johnson: — I accept that in the future you're going that direction. I ask you if the management was doing that already? In that the reconstruction charge as they were accounting for it was an actual write-off, and so therefore they have already been asking for it, why is it that you didn't want to accept that write-off?

Mr. Strelieff: — Because, Madam Chair, members, I just thought or what I've recommended to the committee in the past and to SaskPower is that all revenues be recorded and that's the main, one of the main issues on the rate reconstruction charge.

Mr. Johnson: — But if in recording it in the sense of where SaskPower is going to be spending that money, because they say in their report that it will be used for construction, it will be used for distribution facilities. And if I'm to take the material provided by SaskPower as correct, they will end up with stranded value because right now they're only collecting 77 per cent of the actual cost to providing that power.

So therefore, their request for the reconstruction charges to be written off in the year that they invested them is a very legitimate request. And in fact, it's doing exactly what SaskTel does, or did, only doing it when they recognize that they had a problem. Do you agree with that?

Mr. Strelieff: — No.

The Chair: — Mr. Johnson . . .

Mr. Johnson: — No further questions.

The Chair: — Yes, it seems to me we've got two different interpretations of . . . we're looking at an elephant from different ends. That may be an issue that — I'm sure that SaskPower officials and the Provincial Auditor and the external auditor have taken note of your comments. It may be that CIC officials may wish to look at this in view of your reading of the SaskTel situation.

Mr. Johnson: — Well, when we move to the officials, I'll ask whether they expect to get a cash flow to cover full cost of construction.

The Chair: — All right. I'm going to move off that issue now, if I may, and ask if any other committee members have other questions of the auditor.

Mr. Boyd: — Yes, thank you. Getting back to the whole area of international work that SaskPower is involved in, I understand and I certainly will ask about the mission statement of SaskPower and whether it fits within their mission statement to be involved in that sort of thing, but I assume that your areas of concern with respect to international efforts would be following on the Channel Lake . . . following on Channel Lake, they would be surrounding the whole issue of proper management and reporting.

Mr. Streliaff: — Madam Chair, members, yes, that's our focus.

Mr. Boyd: — And it is always — has it not always been your view that the reporting of the subsidiary operations of Crown corporations should have the same reporting requirements as every other Crown corporation?

Mr. Streliaff: — Madam Chair, members, yes.

Mr. Boyd: — Has there been, in your view, movement towards that or are we still seeing significant concerns in those areas?

Mr. Streliaff: — Madam Chair, members, there has been significant progress on that issue. I anticipate that I won't have to bring that issue to your attention as frequently as I have in the past.

Mr. Boyd: — We have been, as you know, through months and months of study into the whole Channel Lake matter. Have you, as an auditor, had a chance to review the findings of that review?

Mr. Streliaff: — Madam Chair, members, I have followed the committee's deliberations in the sense of reading most of the verbatims and some of the draft reports. Certainly, my colleague here, Ed Montgomery, has also followed them in more depth including the recent report that you released last week.

Mr. Boyd: — Do you think that the government majority's findings and recommendations found in the Channel Lake report address your main concerns when it comes to the governance of SaskPower?

Mr. Streliaff: — Madam Chair, members, and Mr. Boyd, it's a tough question you asked. Our report that we provided to you focuses on SaskPower and we don't focus on the broader issues that your committee dealt with which is the relationship between SaskPower and CIC, the relationship between SaskPower, CIC and the Legislative Assembly. Our area of focus was SaskPower only so that the nature of our work and reports and responsibilities is more limited or focused — more focused or limited — than the work of your committee.

So I can't say whether the many recommendations in the Crown Corporations Committee's report, whether it's in the government majority section or the two other components of the report, cover all key issues. I just can't provide you that assurance.

Mr. Boyd: — Have you or will you be looking at those?

Mr. Streliaff: — Those?

Mr. Boyd: — The recommendations that have been made.

Mr. Streliaff: — Well certainly we are looking at the recommendations that have been made in your report because it's the thinking of the legislature which we try to keep track of. So we are keeping track of it and looking at it but what more would you suggest?

Mr. Boyd: — Will you consider making a report on the findings and recommendation of Channel Lake?

Mr. Streliaff: — Madam Chair, members, our audits will continue to focus on the management systems and practices in place at SaskPower and other organizations. It's not our role or mandate to assess the recommendations of a legislative committee and that's the best thinking of legislators. And that's not what we do.

Mr. Boyd: — In your view, were the management problems found in SaskPower that led to Channel Lake based on an overall structural problem or personalities within SaskPower operating outside of their mandate?

Mr. Streliaff: — What were the choices again, please?

Mr. Boyd: — There really weren't any actually.

Mr. Streliaff: — What's the third one?

The Chair: — Mr. Boyd, perhaps . . . I think that it's most appropriate that Mr. Streliaff would comment on his recommendations with respect to improvement in management practices. But I don't really think it's appropriate that he would comment on personalities. It's a little unfair to ask him to make a judgment on personalities.

Mr. Boyd: — Well then, in your view, were the management problems found in SaskPower part of an overall, structural problem or within the management of SaskPower?

Mr. Streliaff: — In our report we do raise issues related to governance, organizational structure, and management control practices within SaskPower. In terms of the structure we

recommend that, for example, that the internal audit group report directly to the board of SaskPower. So in our report we do have elements of management controls, organizational structure, roles of boards, and particularly the audit and finance committee. So those are issues at SaskPower.

Mr. Boyd: — You point out that, dealing with another area, that SaskPower's board in their roles and duties are not . . . that they are not clearly spelled out. In your view as an auditor and as a person who's studied SaskPower very closely, does the board of SaskPower operate like boards of directors similar to major companies? Is the authority or even the expertise present that allows the board to function in an adequate job overseeing and making decisions for that type of corporation?

Mr. Strelieff: — Madam Chair, members, Mr. Boyd. In the past practices of boards of Crown corporations I have brought to your attention the importance of making sure that boards of directors know when they are advisory versus decision making. A board of a, I guess a private sector corporation, clearly knows that it is responsible for the major decisions of the day at their organization, and will establish systems and practices with their senior management group to try to make sure everyone understands the protocols that are necessary.

In the Saskatchewan Crown corporation world there are many players that are involved in decision making related to government organizations. And in the past I've recommended a number of times that the government strengthen how it ensures members of boards of directors understand when they are making . . . when they're responsible for the decisions, and when they are providing advice or recommendations to other groups like the board of the Crown Investments Corporation.

In the last few years I think the Crown Investments Corporation has done a better job of setting out decision-making grids that say here are 10 or 15 key decisions that are made within a particular Crown corporation, and here's who's responsible for those decisions — whether it's the senior management group at SaskPower, or the board of directors of SaskPower, or the Crown Investments Corporation, or cabinet. And I think that has been a healthy step forward.

But in general, the responsibilities of boards of directors of Crown corporations are often more complex because of the many players that are involved in decisions that these corporations make. And in general, I always try to recommend that no matter whether you are providing advice or making decisions, that boards should do the best job possible to make sure that they provide the best advice or make the best decisions possible for their corporation and for the people of Saskatchewan.

But the world that boards of directors operate in, in Saskatchewan and in our Crown corporation system, is complex.

Mr. Boyd: — What is the proper role then of the board do you feel for SaskPower? Is it in an advisory capacity or a decision-making capacity?

Mr. Strelieff: — Madam Chair, and members, and Mr. Boyd, both I think is the easy answer. It's an area that has to be

worked out between cabinet and CIC, and CIC and the corporation and its board. That they have to get all the issues on the table and agree on who's making the key decisions on which topics.

And that, as I mentioned before the decision-making grid, I'm sure the decision-making grid that gets put in place from time to time changes depending on the practices or policies of cabinet, of the Crown Investments Corporation, and of the members of the boards of those Crown corporations.

Mr. Boyd: — You mention, in your report on SaskPower, the roles and responsibilities of the board need to be more clearly defined. What do you see them then as?

Mr. Strelieff: — Madam Chair, members, when I said in the report that they need to be more clearly defined, I was particularly concerned about the audit and finance committee of the board. That that committee from what I understand wasn't completely aware of its responsibilities. And so I would expect the board of directors of SaskPower to make sure that those responsibilities are more clearly spelled out in the future.

Mr. Boyd: — You also go on to suggest that the boards need to review their policies and procedures to ensure their direction is fully and appropriately documented. I would take that to understand that that's an area that's been deficient.

Mr. Strelieff: — Madam Chair, in this audit we did find some problems in that area. For example, the extent to which Channel Lake was to go into the arbitrage trading, it seemed to be some people — some of the board members and senior management — didn't realize that there were some limits on that. And apparently it wasn't documented clearly.

The Chair: — Mr. Boyd, do you have many more questions of the auditor?

Mr. Boyd: — Yes.

The Chair: — Could you give me an approximate idea about how much? I'm just wondering if we should . . .

Mr. Boyd: — Actually no, I don't know whether I could give you . . . one question may lead to another.

The Chair: — I'm wondering if we should excuse the SaskPower officials until 9 a.m. tomorrow morning or if you'll be finished before.

Mr. Boyd: — Oh.

The Chair: — I'm putting it squarely on your shoulders, Mr. Boyd.

Mr. Boyd: — I can't say with any certainty whether that would be the case or not. I think it would be all right if we did that, Madam Chair, excused them and I understand they are on the agenda for tomorrow and we could ask further questions at that point. But I can't give you any kind of ironclad guarantee that I have one more hour of questions.

The Chair: — Yes, that's fine.

Mr. McPherson: — Mr. Osika has come to the meeting today to ask questions of the SaskPower board and we were wondering if we could fit a series of questions in?

Mr. Boyd: — I think my time's up anyway.

The Chair: — It is, sir. Then what we'll do is — easy resolution here — we'll move to the third party and I will recognize Mr. Osika. And the floor is yours. You can ask questions of the auditor or SaskPower officials.

Mr. Osika: — Well I thank you, Madam Chair. My questions are primarily for the officials, and I appreciate the opportunity to follow up on some of the discussion that was carried on earlier with respect to the purchase of power. And we touched on perhaps the co-generation aspects and the potential, whether or not they might still exist, for the province for SaskPower to look at some of these co-generation projects to go ahead. Now, I see that the economic spinoffs, Mr. Fair, that you talked about are excellent and it benefits all the people of this province in many ways.

I just, in retrospect, there may have been some of those co-generation proposals a few years back that may have been considered a little more seriously. And I'm wondering if you would recall or you're acquainted with Rich Minerals proposal from Alberta? A co-generation project.

Mr. Staudt: — Neither myself or Mr. Fair were with the corporation back then. Mr. Harras may want to address your question.

Mr. Harras: — Is there a specific question about Rich Minerals? I mean I remember Rich Minerals, yes.

Mr. Osika: — Okay, then you would recall then their proposal to invest the \$80 million U.S. to build a co-generation unit which would also deal with the reduction of waste. The project with the pyrolytic converter would have burnt waste from a 50 or 60 mile radius from within the site.

And just recently reading and hearing about that type of an operation reducing the need for landfill sites by about 90 per cent, at that time was a projection. The opportunity for creating hundreds of jobs and the spinoffs as are reported in your reports here, would have just been next to none. The report here recently, I'm looking at, within 25 years 87 per cent of landfills will be filled to capacity, is a report that was submitted by *Waste Watch* here in Saskatchewan. In retrospect, would that have been a good investment by SaskPower to make?

Mr. Harras: — Okay, the time that Rich Minerals made a proposal is when we were sort of leading up to the 25 megawatt NUG demo. Rich Minerals submitted a report to us. When we went with the 25 megawatt NUG demo, they did not submit a formal proposal.

One of the issues with Rich Minerals' discussions with us is that we never had a proposal that we could quantify. So they did not formally respond to the call for proposals for the 25 megawatt demo. There was a lot of discussion. There was some general discussions, as you had indicated, as to what the socio-economic benefits would be. But when it came down to a

specific proposal that we could evaluate versus other proposals, we were not in that position.

Mr. Osika: — I understand, if I remember correctly, they spent something like several thousands of dollars in doing the research and presenting those proposals in advance of SaskPower's request for a \$10,000 commitment with an additional proposal.

Mr. Harras: — Yes. The thing is that when we went out, you know, when we went out for the 25 megawatt NUG demo, we did get proposals from a number of people. The issue really is that you have to be able to compare one proposal versus the other, including such things as price, terms and conditions, and we weren't able to evaluate the Rich Minerals although they had spent allegedly significant amounts of money.

I mean I don't really know what they spent, but certainly they made representations to us that they had spent considerable time and effort preparing the information that they had passed on. It is my view that if they had spent some additional money and gave us a proposal that we could actually have compared with others, we may have been able to evaluate it.

That notwithstanding, the 25 megawatt NUG demo in fact was postponed. You see the decision was made, rightly or wrongly, but certainly it was made not to proceed with the 25 megawatt NUG demo. And the reason was that it was deemed at the time the additional power wasn't needed and, you know, the additional cost was not justified. So the project was postponed indefinitely and in fact the next project that did come on was the Meridian.

So the only project within the province that SaskPower has committed to since Shand, number one, was a non-utility generation project. So you know SaskPower has not in fact missed the opportunity to pursue non-utility generation because the first project that has come on since Shand is Meridian. The Rich Minerals proposal however we weren't able to evaluate.

Mr. Osika: — Is that proposal still being held on to? Is there an opportunity that SaskPower may now, given the potential that exists with that kind of a project for economic, socio-economic activity in the province with jobs, with the reduction of waste. That project was offering not only to dispose of waste but would also contract for SaskEnergy, use of gas. So it was a combination. But the spinoffs were such that they would benefit a large portion of east-central Saskatchewan.

Mr. Harras: — Yes, certainly it really is up to Rich Minerals to decide at, you know, some time in the future should SaskPower be calling for additional proposals for new generation, it would be really up to them to decide if they want to resubmit that proposal.

Mr. Osika: — But I guess what you're saying is that they would have to resubmit and go through the extensive process once again, and cost, that was associated with their already extensive, extensive study of the plan and submissions.

Mr. Harras: — Notwithstanding that what they had submitted us had a lot of detail, but it wasn't to the detail in the format that would allow us to compare it to other proposals. So I don't

know how much additional work they would have had to do to take what they had actually provided us, to allow us to compare to other proposals. It may not have been a significant amount of additional work. I don't recall offhand.

But they did not in fact make a proposal to us in response to a 25 megawatt NUG call.

Mr. Osika: — Apparently when that final call came for that kind of a proposal, there was also a requirement for an additional \$10,000 to be put up front. And I guess at this point in time, when they'd already spent upwards of perhaps \$100,000, they weren't prepared to go that extra step. And that's the unfortunate thing.

Mr. Harras: — You know, be it a response to a non-utility generation call, or be it in response to a purchase for turbo generators or boilers, people who are in this business do recognize that it does cost money to prepare proposals. And the information that they provided us initially was on their own volition. I mean they, you know, took the initiative to submit a report. The fact that it wasn't consistent with the information that we would have needed to compare to others really was their call.

And it's, you know, I don't really know whether or not it was significant amount of additional work, or if it was only the additional \$10,000 that we had requested proponents to put up to allow us to evaluate and compare to the other proposals. I don't really know what their circumstance was. But they did provide their proposal initially on their own volition, but unfortunately it wasn't consistent with what information we needed.

Mr. Osika: — So the fact of all these other spinoffs was not taken into consideration.

Mr. Harras: — Well when we did the evaluation for the 25 megawatt NUG demo we had indicated that there would be a number of criteria. First and foremost we evaluated the projects on cost. Then we looked at what additional environmental and socio-economic benefits there would be.

So we did look at cost and then, if there were projects that were somewhat comparable in price, we would then give consideration to any environmental and socio-economic benefits that might accrue from those projects.

Mr. Osika: — Is there a possibility that you may be calling for these types of projects in the near future?

Mr. Harras: — In the future as we add additional capacity there's always a possibility that we will be going out through one mechanism or another. Whether or not it will be of, you know, similar to the RFP (request for proposal) process that we have used in the past, or whether or not it will be a somewhat modified process, that option is, you know, the possibility is still there. Now we are finalizing the process that we will be using to the process that Kelly mentioned earlier. We're looking at new supplies between 2001 and 2004.

Mr. Osika: — Okay, we're into this mega project with the Husky Oil upgrader, co-generation. Where are the spinoffs, the

economic benefits to the people, to the workers, to the employees of Saskatchewan? Are there a great number of benefits from that or are they mostly going to Alberta?

Mr. Harras: — The merits of the Rich Minerals project, again I can't really comment because again they submitted their proposal on their volition but inconsistent with the information that we would have needed to adequately, you know, compare the economics of that project versus you know the projects of others.

In the future if there are socio-economic benefits that are significant, one of the issues that SaskPower would in fact have to do, is discuss this with not only, you know, CIC, but it may have to go to additional levels of government because the primary function of SaskPower is to supply, you know, safe, reliable power to our consumers. When it comes to the socio-economic benefits, obviously other levels of government would have to see whether or not this is, you know, there is sufficient benefits to pursue those as well.

But to answer your question, it's really up to Rich Minerals to decide sometimes in the future if they want to respond to whatever process is in place, you know, with a proposal if in fact such a request for proposals will be made.

Mr. Osika: — Well whether it's Rich Minerals or someone else, and somebody mentioned earlier wood chips, whatever, whatever the process for one of these smaller organizations to enter into negotiations with SaskPower that would do — whether it's Rich Minerals or whether its whomever — would that be given some priority? Where was the decision made, the decisions that you're talking about now, where was the decision made for the Meridian project? Was it by cabinet, was it by a SaskPower minister, or the board, or SaskPower management? How did that come about?

Mr. Harras: — Certainly the decision was made by our board but that information was shared with other levels of government as well.

The Chair: — Mr. Osika, do you have much in this line of questioning? Many more questions to ask?

Mr. Osika: — No, just a couple of more if I can finish this.

The Chair: — Yes please do. Just before you resume, are you planning to be here tomorrow, Mr. Osika?

Mr. Osika: — I will be but I have another meeting, the Regulations Committee meeting from 10 o'clock on.

The Chair: — 10 o'clock on. Okay.

Mr. Osika: — So I will be able to . . .

The Chair: — You'll be able to sandwich both in and get all your questioning done.

Mr. Osika: — Hopefully, hopefully.

The Chair: — Okay. Carry on with your respective to this.

Mr. Harras: — If you don't mind I'll just add another comment to the question that you asked earlier. If you look at SaskPower we had a certain mandate. When it comes to broader socio-economic issue, the economic development, that obviously goes beyond SaskPower's mandate and that then becomes a decision of, you know, government not only at the SaskPower level but at CIC or cabinet.

So I guess what I am trying to say is that that vehicle was available in the past, that vehicle will be available in the future. But one of the issues that SaskPower always has to be concerned about is making sure that we provide electric power cost effectively, reliably, and safely. Because in the future, notwithstanding the economic merits of small, non-utility generation projects . . . But let's say small, non-utility generation projects add 2 cents per kilowatt. Instead of getting them at let's say 3 cents, they cost 5 cents, and now for whatever reason the transmission system is opened up to greater competition, the large consumers of this province are not interested in buying power at a 2-cent premium.

So I mean this is . . . I mean these become somewhat, you know, complex issues. And you know, consequently, notwithstanding some of the small projects, certainly will create a lot more jobs. But society in Saskatchewan has to address whether or not those jobs will provide sufficient benefit to society. And if so, how do you, on the other hand, protect the consumers of this province, and provide them, you know, electricity that is not only reliable and safe but cost competitive. Because, you know, the big issue that our consumers tell us, certainly our key account customers, is that they're competing in the international field, and their first priority is to make sure that their products are competitive. And as a result, one of the things that they keep reminding us is that our power today is too expensive.

Mr. Osika: — Getting back to those customers that you would go to in the event of a power shortage supply — you indicated I believe that it was 10-year contracts that you've entered into with some of these larger users — what happens when you keep going back to them? Eventually can you . . . Is there a possibility that they may now look at their own co-generation so that they don't have to put up with this — perhaps we're going to be shut down or asked to reduce our power usage?

Mr. Harras: — Yes. I'll just add one comment and I'll turn it to you, Kelly. But certainly those large customers will be more prone to do their own thing if the power that we supply to them is higher than what they can, you know, do through either self-generation or if the transmission system is opened up, purchasing it elsewhere.

Again, you know, it becomes a delicate societal issue as to how do you ensure that you satisfy your customer needs in one hand with, you know, inexpensive, safe, reliable power, and how do you create additional employment and social benefits by increasing the cost of power?

Mr. Osika: — Okay. So who makes the decisions on that — the board — whether or not these proposals will go ahead or be accepted? I guess the reason I'm asking that is because a lot of people still can't figure out why, when both the Premier and the Finance minister of the day insisted that it was a Finance

minister's dream, there was no government money to be invested, it was all private money being invested to create hundreds of jobs, and to reduce the need for landfill sites in a major portion of east-central Saskatchewan, who would've made that decision to . . .

Mr. Staudt: — If I can interject here. How can you make a decision . . . I'm not trying to be smart here, but how can you make a decision when you don't know the price of the power that they're offering. Surely the Provincial Auditor, I would assume by some of his comments on us going out and making sure we tender things like Channel Lake, would certainly not be very complimentary to SaskPower if we had gone ahead and done a project and signed an agreement with a company that we don't even know what the price of the project is.

Mr. Osika: — There was . . . there were prices discussed . . . in the contracts, and I think it was something like 5 or 6 cents.

Mr. Staudt: — Well when we can buy it for 3 cents from Meridian why would we pay 6? Because then we have to pass that . . . Mr. Harras has stated that. Then we have to pass that cost on to an IPSCO. And IPSCO says, I've got a lot of jobs in this province too; in fact maybe I've got about 500, 600 jobs at that plant in Regina here. Maybe I don't want to expand that plant; maybe I want to close it down because I can get cheaper power in Iowa . . . (inaudible interjection) . . . because now you're trying to sell me 6-cent electricity instead of . . .

Mr. Osika: — But the 1,200 people that would be working in rural Saskatchewan would be paying. There would be more people here instead of less, fewer people who out-migrate from this province because there are no opportunities. That's the point I'm trying to make.

Mr. Staudt: — I guess that's another argument that you can . . . but I'm not just talking about IPSCO. There's also all our other large major industrials who would also not want to expand in this province because the cost of electricity would be too high. You're not just passing it on to one customer, you're passing it on to everybody.

Mr. Osika: — So then those customers, those large customers, get a substantial deal — a good deal — from SaskPower.

Mr. Staudt: — I think we mentioned that the cost . . . Mr. Fair in his comments mentioned that right now our key account customers pay more than the cost of service, where the residential and the farm customers pay less than the cost of service.

Mr. Osika: — Thank you.

The Vice-Chair: — Thank you, Mr. Osika.

Mr. McPherson: — Is that broken down by kilowatt hours? Do you have those rates that you can pass on to us?

Mr. Staudt: — Well some of the rates — we can give you a ballpark on some of our rates for large industrials.

Mr. McPherson: — But for those large customers, are we able to see that?

Mr. Staudt: — That's confidential information between ourselves and IPSCO, for example, in terms of how much . . .

Mr. McPherson: — So any of the larger customers, we can't see those rates?

Mr. Staudt: — When we have confidentiality agreements in our legal agreements, I'm not going to break them, no. But we can give you ballpark figures.

Mr. McPherson: — Okay.

The Vice-Chair: — Thank you, gentlemen. The reason I allowed that in knowing it was going to be very short.

Mr. Johnson: — To the officials from SaskPower: on page 29 in the '97 annual report, under "Outlook for the Future, Competition," it says that "SaskPower is a major asset of the Government of Saskatchewan. Although the Corporation is partially protected in the short-term, it is potentially vulnerable in the event of competition."

How far back would SaskPower have been doing some analysis of the potential of competition?

Mr. Staudt: — I believe we've been identified the need for competition back in 1995, which is why SaskPower undertook a major corporate restructuring back in 1995 in order to break the company into business units that could more focus on our cost structure. And we've been working on it since 1995 in terms of . . . There's been a task force internally. We've been dealing with the Washington Institute. It had been advising us in '96 and '97 on restructuring and we've been talking to the Canadian Electrical Association in terms of what is happening throughout North America in terms of industry restructuring.

As well as we've been working with a group of companies in Saskatchewan who are represented by an organization called SIGPUA which is the Saskatchewan Industrial Gas and Power Users Association. And we've been meeting with them on quite a regular basis throughout '97 and '98 in order to define some terms of reference as to what Saskatchewan's deregulated environment would look like at some point in the future. So we've been getting a lot of industry input into that.

Mr. Johnson: — Okay. So then it's been now almost four years then that you've been dealing fairly significantly with it.

Mr. Staudt: — Aware that it may happen, yes.

Mr. Johnson: — Aware that it may happen. One of — on page 28 you set a target which . . . of 13 per cent return on equity as well as an 11 per cent return on capital. The equity one is the one I think where I . . . that I'm most interested in. The reconstruction charge as it was being accounted — as it's being accounted for in '97 — if I understand it correctly, it would mean that your reinvestment earnings . . . so that you have an equity in the corporation would be accounted for at less than with the change that's being suggested?

Mr. Staudt: — Yes, I guess so. Yes.

Mr. Johnson: — Okay.

Mr. Trew: — Pardon me, the *Hansard* can't pick up nods so . . .

Mr. Johnson: — So when the corporation moves into facing the potential of competition with farm customers paying only 77 per cent of actual cost, and residential customers paying 85 per cent of actual cost, and if I understand correctly from information that's been provided to the committee already today, a majority of costs are actually the capital of the plant. Then you would not be able to generate cash flow in those two areas without an increase in what they are paying or a reduction in the value of the assets that provide that service?

Mr. Staudt: — When we're talking about a \$3 billion company, reconstruction is about \$14 million to us. So it is a very, very small percentage of our overall asset base so it really wouldn't have an impact very much on that. In terms of what we use the reconstruction charge for, we use it to reconstruct or to rebuild aging transmission and distribution facilities, not generating facilities.

Mr. Johnson: — Okay, then as I interpret what would be here is that quite frankly, that you'd be reducing your corporate value by 15 million a year plus depreciation by using the reconstruction charge.

Mr. Staudt: — Yes.

Mr. Johnson: — So we're looking at what — 25, \$30 million cut, reduction in the value of the corporation each and every year?

Mr. Staudt: — I'm not sure what you mean when you say reduction in value.

Mr. Johnson: — Oh. Well the, let's say the equity then where . . . which is the equity advanced and reinvested earnings in the corporation. You'll reduce . . .

Mr. Staudt: — That would assume that you're not building any other facilities that would also increase the value of the corporation.

Mr. Johnson: — Correct. Except that other investment. So over a period of three or four years then, in comparison to SaskTel that went to a \$55.7 million writedown, by going at it with this approach, in four years you'd achieve the same quantity of reduction in the equity of the corporation.

Mr. Staudt: — I'm not sure I can answer that question. I think what we do . . . maybe it's important to talk about the accounting of the reconstruction charge. Maybe that would clarify something.

Mr. Johnson: — Okay, it is in your . . . in the annual report on page 39: "Contributions (customer contributions) are classified as a reduction to property, plant, and equipment . . ." The capital reconstruction charge is classified as a customer contribution and amounts are classified to property, plant, and equipment. And as I interpret that, then the value of the property, plant, and equipment wouldn't be increased by the actual value of construction that was carried on.

Mr. Staudt: — I'm sorry, I can't see it . . .

Mr. Johnson: — Oh, page 39, it's paragraph (i).

Mr. Staudt: — Oh, I'm sorry, I'm on the wrong page.

Ms. Hall: — I'm still slightly confused as to your question.

Mr. Johnson: — Okay, I'll explain what it's about. If the money is counted in as income, and then simply spent on capital projects, those capital projects would become assets to the corporation and depreciated over time. Whereas the way it works right now, they would not become assets of the corporation. The corporation would still own them but their value would be immediately . . . wouldn't be depreciated, it just wouldn't be there.

Ms. Hall: — Well if you look on page 34, when it talks . . . when we have showed the balance sheet, when you see property, plant, and equipment, you'll see the value of the fixed assets of that 4.5 billion. Then we're reducing it by that expended capital reconstruction charge.

A Member: — Reconstruction charge, yes.

Ms. Hall: — Right. And we depreciate that over the same length of life as that fixed asset.

Mr. Staudt: — Maybe the part that's missing here is equipment also goes into the property, plant, and equipment account. It's netted out at zero. It's not just taken out.

Mr. Johnson: — Okay, let's start with the contributions that are classified as customer contributions. Somebody wants power 40 miles from where your line is, it's going to cost you \$150,000 to put it there, and it will never pay for it. You are not going to give . . . build them a line unless he pays for a big chunk of it . . . (inaudible interjection) . . . Yes, it's where it all is, but that's not . . . In calculating your return on equity, do you classify that construction as worth 150,000 or do you classify that construction as worth 1,500 or 2,000, whatever it is, consumption would say that it's worth?

One way or the other here, it makes a difference because, quite frankly, as soon as I get an answer I have . . . I go one direction or the other in asking my questions here.

Ms. Hall: — Well it won't be in net income figure. It would be not considered. It won't be included.

Mr. Johnson: — Agreed. Okay. Now in the asset side of it, it's not included either then?

Mr. Staudt: — Not on a net basis, no.

Mr. Johnson: — Okay. And then your return then was based on what you think you can value it at, as actually getting an income return?

Mr. Staudt: — Yes.

Mr. Johnson: — That's my understanding. Now let's go back to the next statement there which says that — on that page —

which says that the capital reconstruction charge is being treated exactly the same as that.

Mr. Staudt: — Yes, I understand. No. I know where you're coming from.

Mr. Johnson: — So it is not treated as increased value of the corporation for accounts.

Mr. Staudt: — No, it's not.

Mr. Johnson: — Okay, if you bring it in as income, how do you get around not treating it as increase in equity and therefore part of the value of the corporation?

Mr. Staudt: — Well it does get into . . . because it gets into net income, it now becomes into the equity of the corporation as well as it becomes dividendable.

Mr. Johnson: — Okay. So then, as the SaskTel said, and I forget which page that was on now, the reason for their reduction . . .

Mr. Staudt: — And I believe it was obsolescence of plant more than anything.

Mr. Johnson: — Right, it is because of new technologies and everything, but in this particular case, we're not generating a flow that values . . . that can value the plant at what it is. And when you move into competition, then you would have a plant valued at more than what the competition, what you're collecting for, what you're delivering down the lines pays for.

Mr. Staudt: — We get into the . . . I'm not sure if that would be in these. It depends on the circumstances, where the plant is, but in a deregulated environment in the power industry, we'll get into something that we call "stranded assets" potentially. Now whether or not anything associated with reconstruction would be stranded or not, it depends on where the competition is and what assets are no longer useful in a deregulated environment.

Mr. Johnson: — Well, as a category, farm customers pay 77 per cent, residential customers pay 85 per cent. There's 15 per cent stranded assets and 23 per cent the other way?

Mr. Staudt: — Well I guess it just depends on your definition. I would say that we have a plant in the ground and there's a cost of service to serve them off of that plant and we are not recovering the full value of what it has cost us to serve. Now in a deregulated environment, it may be like SaskTel is where the government — or the shareholder I should say — has decided that you will continue to serve at those rates and therefore that becomes a public policy issue versus a profit and loss issue.

Mr. Johnson: — Okay. So in . . .

The Chair: — Mr. Johnson, excuse me. Can you start your wrap-up questions?

Mr. Johnson: — I can wrap . . . So in that case, if you have a very high-valued plant because of the accounting procedures, when you say it's a public policy, then you'd simply change the

return on equity. You'd drop it accordingly to . . .

Mr. Staudt: — You may do that or you may, as you had suggested, you may actually reduce the value of some of the plant that is out there serving some of the customers that do not provide sufficient revenue for the facilities.

Mr. Johnson: — Okay. Well that's what I thought the reconstruction thing was doing in the first place. So it's been something that has sort of disturbed me over the past two or three years that people would want . . . that when you were looking at this happening, and these kind of figures were available, that this was an argument at all. And I thank you for your answers.

Mr. Staudt: — I hope I answered your questions.

Mr. Johnson: — You did.

The Chair: — Thank you, Mr. Johnson. We've got the reconstruction charge all clarified now. Everyone's happy — SaskPower, Ernst & Young, Provincial Auditor?

Mr. Boyd: — Everyone but us.

The Chair: — I wasn't including you guys — was hardly expecting it.

Mr. Boyd: — Thank you. I wanted to follow up with questions with the Provincial Auditor. We see in the information that SaskPower has provided that they make the calculations that various customers pay various amounts of the cost of actual . . . the provision of power to them. Is that an easy calculation to come up with? How do you appropriate the costs so that you can come up with that kind of a percentage of actual costs of supplying power?

Mr. Strelieff: — Madam Chair, members, Mr. Boyd, the calculation wouldn't be easy. And I think you should ask the officials how they do come out with that calculation. We haven't audited that kind of information.

Mr. Boyd: — One would have to assume that you would appropriate all of the expenses of SaskPower towards something. The management salaries would have to be appropriated in a fashion. All of those different kinds of things would have to enter into the calculation, and then you'd have to think that it would get pretty complicated. Extremely complicated? It just doesn't seem like you just divide up the number of customers whether they are an urban customer or a rural customer or an industrial customer by the amount of power and the revenues and expenses of SaskPower, and there you are.

Mr. Strelieff: — Mr. Boyd, the more precise that the corporation would want to be on that allocation the more complex it would get. So I think . . . I mean the logical question could be to ask how they do that calculation.

Mr. Boyd: — Certainly. One could assume that it would be a fairly difficult exercise though.

Mr. Strelieff: — The more precise you want to be, the more

complex it would be.

Mr. Boyd: — Okay. Getting back to your recommendations that you have made in your executive summary, the boards you indicate should receive reports that advise whether management is operating in compliance with the board's direction and policies. Has that been an area that's been deficient to this point?

Mr. Strelieff: — Madam Chair, members, in our report we say boards should receive reports that advise whether management is operating in compliance with the board's directions and policies. And where that came from was that we thought that the reports of the internal auditor should go to the board and that the board can use the internal audit department as a means for making sure this does happen.

Mr. Boyd: — So they haven't been currently — internal audit committee has not provided that information to the board.

Mr. Strelieff: — Mr. Boyd, it is the internal audit group that SaskPower has within its organizations.

Mr. Boyd: — Right.

Mr. Strelieff: — And its previous reporting function has been to report to management, and we thought that a strengthening of the board's ability to oversee management would be if the internal audit reports went directly to the board and then the board referred them to the audit committee.

Mr. Boyd: — Right. You mention that the boards should receive regular training to enhance board governance. What kind of training would you suggest?

Mr. Strelieff: — Members, there has been some training programs that have just been initiated in the past year by CIC through the College of Commerce, which is a good start. To me the objective of the training, a key part of that would be to help the board challenge management. And that's hard, and it requires constant attention by the board in terms of strengthening their knowledge of the organization and strengthening their ability to ask the right questions — to challenge management on their proposals and training is an important part of board governance.

Mr. Boyd: — So following on that, if that recommendation were carried out and you had that kind of training in place, that would alleviate the concern of failures of the past . . . would be avoided by having those types of training programs in place.

Mr. Strelieff: — Stronger board training is an important component to good governance and good management.

Mr. Boyd: — Right. You go on to suggest that the board should ensure their policies should include rules and procedures to safeguard and control assets and to comply with the law. Has there been concerns in that area?

Mr. Strelieff: — Yes, there has been concerns in this past year. And some of the concerns that are in this report relate to the procedures in place to make agreements, like the long-term gas supply agreement, and that the procedures that the board or

corporation put in place when they are negotiating key contracts.

Mr. Boyd: — Concerns that the requirements of the law have not been met?

Mr. Strelieff: — I should perhaps pass some of these questions along to my colleague. The compliance with the laws that we look at when we do our audits also relate to compliance with board directives and decisions made by the boards in their minutes. We would make sure that those kinds of decisions or authorities that boards initiate are also complied with.

And so when we say compliance with the law, it also relates to the board policies in place.

Mr. Boyd: — You raise concerns about the method of sale of Channel Lake, that there wasn't a proper tendering process, and that there was also no tendering process available included in the 10-year gas supply contract. Is it your view that the public tender should always be used in these types of situations?

Mr. Strelieff: — In our report we say that we think public tendering is a good practice. That in my view would be the rule but there will always be exceptions to public tendering. And in our report we suggest that when management is proposing not to go a public tendering process, that it explain clearly to the board what are the advantages of not public tendering and what are the risks that are going to be assumed if you don't public tender and how are they going to manage those risks.

So it's public tendering . . . I think you would start off with that practice. But there would be circumstances where perhaps it wouldn't get the best value for the corporation.

Mr. Boyd: — With respect to Channel Lake it doesn't appear that that happened.

Mr. Strelieff: — There was no public tendering as it relates to Channel Lake.

Mr. Boyd: — Were there concerns surrounding the reasons why there wasn't a public tendering provided to the board though?

Mr. Strelieff: — We couldn't find that . . . those reasons, any evidence that those reasons were provided to the board.

Mr. Boyd: — Is it then generally accepted that the view for publicly owned enterprises in jurisdictions — other jurisdictions — is that publicly tendering contracts and the sale of assets is the accepted route to take?

Mr. Strelieff: — Members, I think it would be good practice in place that should be considered by all organizations, but I couldn't comment on whether that is the practice in place in other jurisdictions.

Mr. Boyd: — Turning my attention now to the reconstruction fee. It was an area that was raised by your office about the accounting procedure employed by SaskPower with regard to this \$2 reconstruction fee. Can you tell us what your concerns were in that issue?

Mr. Strelieff: — In general, the practice that SaskPower was moving to, and actually employed, was not to record all revenue. And the reconstruction charge each year was about 14 or \$15 million. From a starting point I think it's important that legislators and other people know what the total revenues are that are raised by all Crown corporations.

The other concern that was initiated at the time was that in the notes to the financial statements of SaskPower, they signalled that they were following what's called rate — I can't remember it anymore — regulated accounting, rate-regulated accounting. And from my perspective, that move would make it very difficult to compare the financial performance of SaskPower from year to year and compare its performance with other corporations in Saskatchewan that had been following just regular business accounting.

So I reported to you and recommended that the corporation move back to regular business accounting and when they . . . if they did that they would then record all the revenue that they raised in the period that they did raise it. And that's my understanding of what's going to . . . they are going to be recording the revenue in December 31, 1998.

Mr. Boyd: — In other areas of commercial enterprise outside of government, is there any kind of precedent or any kind of example that you can point to where there's a similar accounting procedure?

Mr. Strelieff: — As part of our examination, we did search for examples of similar reconstruction charges. We couldn't find, for a while at least, we couldn't find a similar charge and then we did find examples related to airport improvement or airports and also related to the city of Regina and the city of Saskatoon. But in those cases where they had a similar kind of reconstruction charge, they recorded it as revenue. So we couldn't find an example of a similar reconstruction charge that wasn't recorded.

Mr. Boyd: — In commercial enterprise, though? Commercial enterprise outside of the city of Saskatoon, the city of Regina, and municipally or federally operated airports?

Mr. Strelieff: — In general we could not find a similar example. Most . . .

Mr. Boyd: — Okay. So if there were, for example, after deregulation in the availability of power supplies to the people of Saskatchewan, if there were a competitor to come into that market, what would be their . . . what is apt to happen if they were to want to propose a reconstruction cost and not include it in their calculation of overall revenue? How would they be dealt with by Revenue Canada?

I'm just thinking that if, we'll say, Manitoba Hydro entered into the business here in Saskatchewan and then they decided that they were going to include a two dollar reconstruction fee and not include it into revenue and then they presented their books to the auditors at Revenue Canada, what would apt to happen?

Mr. Strelieff: — I can't speak on behalf of Revenue Canada. I don't know what they would say about almost anything.

Mr. Boyd: — I suppose . . .

The Chair: — You and 23 million others.

Mr. Boyd: — Yes, I suppose that's probably the most accurate answer I've heard in a long time.

I can't think of, outside of other government and Crown entities, any other parallels where you would find that. For example, I can't find examples in the farm sector. I would very much like to be able to call say, 15 or \$20,000 a year of my income reconstruction fees and not include it in income thereby avoiding the tax considerations on that \$15,000. I'm sure that the mining industry would have a similar view. I'm sure that the forestry industry would have a similar view. And almost every other . . . In fact I would be of the view that every other non-governmental institution would love to have that same kind of consideration. And currently it's not available I understand.

Mr. Strelieff: — Well in the regulated industries that exist outside of Saskatchewan — the rate-regulated industries — there is a lot of peculiar accounting practices in my view. And I went . . .

Mr. Boyd: — This would be one of them.

Mr. Strelieff: — When I . . . When SaskPower advised me that they were planning to move to that system called rate-regulated accounting, I was quite concerned, and that's why I brought that to your attention.

Mr. Boyd: — Would your concern be as a result of the fact that those kinds of peculiar activities that government and government entities are involved in is outside of the normal activities that most people would operate within?

Mr. Strelieff: — No. My concern is that I think the financial statements provide important performance measures for you and for other people to look at in assessing a particular corporation. And so if . . . I wanted to make sure that how those performance measures are calculated in the financial statements of Crown corporations like SaskPower are similar to other corporations in Saskatchewan, and are similar to other businesses that operate in Canada and elsewhere.

Mr. Boyd: — Thank you.

The Chair: — Are there any other questions? We've got about three minutes. Can you do it in three minutes?

Mr. Johnson: — Just one question. In setting up the financial reports of the corporation, of SaskPower, one of the things that would not be there in a regular corporation that was built for profit would be the social policies.

And I go back to the statement that farm customers are paying only 77 per cent of the actual cost; residential customers are paying only 85 per cent of the cost. And so if you're wanting to set the corporation up so that it can provide comparables to what a corporation outside of a Crown corporation that's asked to provide the social policy that means that these consumers pay less than the actual cost, one way of doing that is to reduce the actual capital value to an equivalent amount in the corporation.

Would that not be the case?

Mr. Strelieff: — I'm not sure of what exactly the question is, other than to say that when there are social policy dimensions of Crown corporations and other organizations and that they are part of the cost structure of the organization, to me it makes it even more important that the annual reports and other kinds of accountability documents that you receive clearly set out what those costs are and what the reasons are for the social policy, so you can assess whether that's the right course of action.

Now you ask just reduce the cost of the plant, write it down, and that will decrease the cost of . . . Maybe I'll charge less for the rates as long as you maintain a constant return on equity, sort of your . . .

Mr. Johnson: — Correct.

Mr. Strelieff: — Well the writedowns of assets are an important management consideration and it relates to the cash flows that they're able to generate from the plant of SaskPower. And as you know the cash flows that have been generated by SaskPower over the last number of years have been quite significant. So there isn't any obvious reason, at least from a corporate-wide perspective, why significant writedowns would be warranted.

Mr. Johnson: — Okay. If you put the qualifiers in there in that sense, yes. But I'm looking at the people in my constituency who will fit, almost 90 percent of them would fit into one of those categories of either residential customer or a farm customer with a reduced rate on it. And I'm assuming that eventually SaskPower is going to be in competition clearly on everything.

What it means to me is that at some point or other, if the plant is left at a high value, they're going to receive an increase in the cost of their electricity. Quite frankly that's why I've been complaining about the argument that's been going on regarding this ever since it started, is that in reality what you're asking the corporation to do is to account for things in a manner that over time will mean an increase in the cost of electricity to the farm and residential customer and . . . but anyway.

The Chair: — The hour now being 5 o'clock the committee stands adjourned until tomorrow morning at 9 o'clock. At that point I will be recognizing the third party for questions, and we will move in rotation through.

We do have SaskPower scheduled until 5 o'clock tomorrow afternoon, and certainly if committee members have questions that will last the whole day we'll sit the whole day. But if you don't, don't feel compelled to expand your questions to fill the time available. We will now stand adjourned until tomorrow.

Do we have further specific questions that we would want to direct to Mr. Strelieff or will I assume Mr. Montgomery and Mr. Young will — Mr. James — Mr. James will both be here tomorrow. Do we need Mr. Strelieff?

Mr. Boyd: — He's always helpful.

The Chair: — Probably also has other things he could do too to

be helpful with other corporations . . . (inaudible interjection)
. . . Not and have so much fun, Mr. Boyd.

All right, we'll just let Mr. Strelloff use his own discretion as to whether or not he's going to come to committee tomorrow. But I expect to see everybody else here, 9 o'clock tomorrow morning. Thank you.

The committee adjourned at 5:02 p.m.