



# **Standing Committee on Crown Corporations**

## **Hansard Verbatim Report**

**No. 60 – December 2, 1998**



**Legislative Assembly of Saskatchewan**

**Twenty-third Legislature**

**STANDING COMMITTEE ON CROWN CORPORATIONS  
1998**

Pat Lorje, Chair  
Saskatoon Southeast

Kim Trew, Vice-Chair  
Regina Coronation Park

Bill Boyd  
Kindersley

Doreen Hamilton  
Regina Wascana Plains

Lloyd Johnson  
Shellbrook-Spiritwood

Lindy Kasperski  
Regina Sherwood

Myron Kowalsky  
Prince Albert Carlton

Glen McPherson  
Wood River

Andy Renaud  
Carrot River Valley

Don Toth  
Moosomin

**The Chair:** — If committee members would take their places please, I would call the meeting of the Crown Corporations Committee to order. And before we begin to hear from the SaskEnergy officials as is regularly scheduled today, I would like to inform committee members that a subcommittee consisting of Mr. McPherson, Mr. Toth, Mr. Trew, and myself as Chair, met last evening after the regular Crown Corporations Committee adjourned to report on the matter of standardized information that the committee would be receiving.

Members will be aware that from about '94 to '96 we did customarily receive certain bits of information from the various Crowns. In '97 that information was tabled with the committee but it was not discussed. So I think some members perhaps thought they didn't get it, but when we reviewed our files the information clearly had been tabled. But since there was a concern about this what we decided to do was to formalize the request of the Crowns with respect to standardized information above and beyond the financial statements and the annual reports.

We met and decided that it would be appropriate to receive as customary information: out-of-province travel expenses for the minister and ministerial staff undertaken on behalf of the Crown corporation under review for the year in review; honoraria and out-of-province travel expenses for each member of the board of directors; salary and out-of-province travel expenses for senior management and executives; and finally, fees paid to consultants including but not limited to legal and advertising fees totally over \$10,000.

I will be asking Mr. Kowalsky to move that motion after we've had some discussion, but I would just like to inform members that I spent a fair amount of time on the phone yesterday making sure that we could put this into action. And what we will be doing, what government will be doing to coordinate this and to ensure that all committee members have this on a timely basis, is to be handling it through CIC (Crown Investments Corporation of Saskatchewan). So CIC will be tabling an omnibus package of information for all the Crowns that we're considering with the information that's been requested.

Mr. McPherson, do you have comments?

**Mr. McPherson:** — Yes I do. I guess on the last point you made, when will CIC be tabling this?

**The Chair:** — I will try to get it tabled tomorrow, Mr. McPherson. I can't guarantee that because they have to contact the various Crowns.

**Mr. McPherson:** — No. I accept this year's a problem.

**The Chair:** — I know for instance SaskEnergy has it already available but it's gone to CIC for coordination.

**Mr. McPherson:** — Right. But in future years we'll have it at the beginning of the Crown meetings?

**The Chair:** — In future years I will insist that we get it before we start to meet with CIC.

**Mr. McPherson:** — But we're getting this information for the year under review.

**The Chair:** — That's correct.

**Mr. McPherson:** — Albeit it might come in a couple, three weeks, and I think that's acceptable — it is to myself.

**The Chair:** — Yes. And again we're dealing right now with '97; '98 reports have not been tabled yet. They will be tabled in the House — help me out here folks — I believe it's April 30 is the tabling date.

If committee members so wish, we can meet during session and deal with the '98 reports in May and June, but I'm not going to prejudge what committee members might wish to do with their schedule.

**Mr. McPherson:** — Also with that standardized information, I thought about it some more last night, and we were talking consultants, legal firms — what was the — oh, ad agencies . . .

**The Chair:** — Advertising, yes.

**Mr. McPherson:** — To that. We should also be asking for the public opinion polls, focus groups, and survey research — not that we want to see the detail but we should see who was awarded the contract, what were the objectives and the cost and the like. We're not asking for the information that would be in the survey itself, just . . . Also I guess we might as well include to that sponsorships and the same criteria.

**The Chair:** — Mr. McPherson, you're expanding considerably the net of information that you want to receive and . . .

**Mr. McPherson:** — Well we could consider those first three items as consultants anyways. I mean I can always make that point. I'm just wanting it written down so that there's no misunderstanding any longer.

**The Chair:** — Well it seems to me that, yes, any consultants that are hired, work for a Crown corporation, and are paid fees in the year under review in excess of \$10,000, we would be asking for that to be tabled with the committee.

**Mr. McPherson:** — Just so we're very clear and we're including those three items that I just mentioned. And what we're trying to do with the standardized information is avoid having to sit here and go through it and burn up a lot of time, because we're going to get it one way or another.

**Mr. Kowalsky:** — Madam Chair, I want to make sure that we are clear on this. I think what Mr. McPherson has asked for here is opinion polls. And that would include surveys and I imagine that would include market surveys done by these corporations.

And I see this as being, from the point of view of a corporation, this may be a market-sensitive thing and I wouldn't want us to rush into this without doing the proper background homework. Because I can see that it could place a corporation at a disadvantage if they're releasing a method of seeking information on marketing.

**Mr. McPherson:** — Myron, I don't think there's anyone in this room that would be feeling that we would be giving up anything of a great deal of interest to competitors. Rather, it's using Angus Reid or Decima Research, and that's what we're asking.

I'm not asking what are the questions that were asked and give me the details of the survey. I want to know who was awarded the contract, was it tendered . . .

**The Chair:** — And for how much.

**Mr. McPherson:** — And for how much and what was the objective. And it doesn't have to go beyond that. I don't need to know the questions asked or the answers given.

**Mr. Kowalsky:** — Then the objective would be . . . it would be clear enough if the objective was simply polling?

**Mr. McPherson:** — Pardon me?

**Mr. Kowalsky:** — It would be clear enough if the objective was simply polling or market research?

**Mr. McPherson:** — Yes, focus groups. Is there anything wrong with knowing which company did a focus group and what was the cost and was it tendered?

I mean if you want to know whether, you know, the rural communities think it's better to have natural gas versus propane. I don't have to know the answer but I think it's fair to know that there was an objective here, and here's who got the contract, and here's how much it was.

**Mr. Kowalsky:** — Now I'm trying to establish, Madam Chair, what the advantage to the committee would be on this.

**The Chair:** — Well I think you've hit on a major concern that the Crowns might have and of course we can't prejudge what the Crowns may or may not say. But this committee has already determined that the Crowns have the ability to not divulge certain information on the grounds of commercial sensitivity. So I think as Mr. McPherson is pointing out, since the motion really talks only about the fees paid to consultants and their names, it doesn't give the questions . . .

**Mr. McPherson:** — And the objectives.

**The Chair:** — We don't have the objectives listed, Mr. McPherson, in the motion that we passed yesterday. It was . . . When we met it was fees paid to consultants included but not limited to legal and advertising fees totalling over \$10,000.

**Mr. McPherson:** — Well, all right, because that will then be a line of questioning in the committee. If you'd rather drag it out later than provide the information, it's entirely up to you; I get paid . . .

**The Chair:** — You know it may be that the Crowns will just customarily simply provide the information on the objective. I think what we need to do is ensure that the information is going to be useful for committee members and that we not simply engage in a fishing expedition without some clear purpose in mind. So why don't we wait and get the information and see

what the quality is like.

**Mr. McPherson:** — So you don't feel it's fine to have like a one-line objective of what we're trying to accomplish with the focus group or with . . . (inaudible) . . . I find that amazing.

**The Chair:** — It wasn't in the motion yesterday, Mr. McPherson.

**Mr. McPherson:** — There hasn't been a motion.

**The Chair:** — I'm trying to report on . . .

**Mr. McPherson:** — No, he's going to put it forward. We're discussing what should be in the motion.

**Mr. Trew:** — Madam Chair, having been a part of the subcommittee that met last night, there was no discussion about objective. I share your view and I'm somewhat frustrated by this exercise. I think we've asked for a good number, a good amount of detail from each of the Crowns. It's detail that some of this has come in recent years but I share with committee members, being as I'm one who has also served this committee in opposition.

I can recall when a Crown like SaskEnergy would appear before this committee; SaskEnergy's here today. We would have negotiated with the then government. They said it would take an hour to review the entire Crown. We said no, it will take a half a day or a day and it would get sawed off at two hours.

This detail would have been a Utopian dream for the then opposition. What I'm arguing is this committee has come light-years, just a huge distance, in providing information which is good. Opposition needs good information; so does government to run a Crown effectively. I'm a little bit concerned that we're going to be asking or creating additional jobs in these commercial Crowns, just chasing down minutiae for detail.

The motion that we agreed to last evening I think is a good motion. In many ways I think we're asking for . . . starting to get into the minutiae. The question then is, where do we draw the line? And I think this motion effectively draws a good line for now.

If there's a problem with it, we can always — as all committee members know — we can always come back, review it, pass an additional motion or a new motion asking for additional information.

The bottom line: I'm supporting the motion that all parties agreed to last night. Thank you.

**The Chair:** — Any further speakers?

**Mr. McPherson:** — Just to make one comment though. When we left it at the broad term of consultants, I mean a consultant is a focus group, is the company doing a public opinion poll, and a survey research. Would you not agree with that? You're not consulting that firm to . . .

**Mr. Trew:** — Well it seems to me that you would know . . .

**Mr. McPherson:** — I just hope we're not backing up into . . .

**Mr. Trew:** — . . . many of the consultants and what their specialties are. And certainly it's clear to ask . . . I mean the whole reason to get fee paid to consultants, including but not limited to legal and advertising fees totalling over \$10,000, it seems to me that that's a signal to you or me to ask the question then: what is this about?

It's a signal that there's some, what many of us would consider significant money being spent. Then the job of this committee is to determine, is that a wise expenditure or not?

**Mr. Toth:** — Madam Chair, just a few comments, I guess having been privy to some of the discussion last night . . .

I think we've all come to a fairly clear understanding of what we feel would be general information that would be presented. I think that certainly as committee members there probably will be ongoing questions that will arise from the information.

I think there will be ample opportunity to debate some of the areas. And I'm not exactly sure; if we try to get in to the full amount of questioning, then we're either limiting what we really need to accomplish here in committee.

So while I agree in part with some of the comments Mr. McPherson's trying to bring home, I think every time we sit back and look back we'll come up with new questioning that we think might be general. But I think the committee certainly will have opportunity to present those questions.

I think what I am looking for and our caucus is looking for is some general information that we can work at building questions to make sure that we have productive time in committee.

So I have some understanding of where Mr. McPherson's coming from. I think as well the door is open for us to raise, if we feel that some of the information we've been presented with is not exactly what we thought we might receive, we certainly have the opportunity to express and bring forward those questions with the corporations as we debate with them.

And so I think I can live with the motion before us. And if we feel down the road we need to expand some of that general information, I think we can work at that later rather than tying up time this morning.

**The Chair:** — Thank you, Mr. Toth.

**Mr. McPherson:** — Just for clarification then. We will be receiving this information but we won't receive the objectives.

**The Chair:** — That's correct.

**Mr. McPherson:** — So I will see which focus groups who are under contract for how much.

**The Chair:** — Any consultants that have been hired in a year for a total over \$10,000. And I made it very clear when I was talking with the minister's office yesterday and with a couple of the Crowns that what I expected was that if a firm was hired for

\$4,000 three times in a year, so that in total it was \$12,000, that would be reported. There would be no attempt to cover up the fact that firm X was hired three times but it fell underneath the limit that we had established.

And again once committee members receive this information, it may be that we've set the number figure too high or too low. But we can revisit that once we start to get the information.

Finally, just in closing, I want it to be very clear and I want committee members all to understand that CIC will be coordinating this and we will be getting the information on an omnibus basis. That doesn't preclude you from asking specific information today for instance of SaskEnergy, but it seemed from CIC's point of view that the best thing to do would be to coordinate this material. And I will excuse myself after the meeting is started and place a phone call to Mr. Wright to find out if we can have that information for tomorrow. And I'll inform committee members of that.

Any further speakers? Mr. Trew, would you put the motion then.

**Mr. Trew:** — I'll put the motion. I move:

That each Crown corporation and related agency called to appear before the Standing Committee on Crown Corporations shall provide the following information for the year(s) under review: out-of-province travel expenses for the minister(s) and ministerial staff undertaken on behalf of the Crown corporations; honoraria and out-of-province travel expenses for each member of the board of directors; salary and out-of-province travel expenses for senior management and executives; fees paid to consultants, including, but not limited to, legal and advertising fees totalling over \$10,000 in the year.

I so move.

**The Chair:** — It's been moved. All those in favour please indicate. Down. Opposed. There being none, that motion is passed.

We will now get on with the business of the day, and that business of course is to welcome Mr. Ron Clark and his officials from SaskEnergy. Mr. Clark, we have you scheduled from 9 until 5 o'clock. I don't know if we'll be using the whole day but I certainly think you should be prepared to be here for the whole day.

We will be reviewing the 1997 report and subsidiaries simultaneously. I would ask you, Mr. Clark, you do not have the Vice-Chair of your board present?

**Mr. Clark:** — No, Madam Chair.

**The Chair:** — Okay. We're into a new era with the Crown review process and some Crowns are coming with their Vice-Chairs, some aren't. We certainly are not seeing the ministers so we'll figure it out in due course and we'll figure out where we're going.

Mr. Clark, I would invite you to introduce your officials and

give a brief overview statement of where the corporation was in 1997 and any plans that you may have for the future. After that I will be asking your external auditor, a representative from Ernst & Young, to give a statement and then asking the Provincial Auditor, and then we will have the floor open for questions.

### SaskEnergy

**Mr. Clark:** — Thank you, Madam Chair. We're pleased to be here and we'll be here until 5 o'clock if you enjoy our company. I'd like to introduce the officials that are with me. I apologize if it seems like we've brought a battalion of people but we are going to try to respond to all your questions. Jullian Olenick — I'd just ask you to raise your hand or stand — Jullian is the senior vice-president of TransGas as you know which is the fully-owned transportation and storage subsidiary of SaskEnergy; Dean Reeve is the vice-president of business development and market services; Doug Kelln is the vice-president of the distribution utility responsible for SaskEnergy, the utility; Ken From is the vice-president of gas supply; George Barnhart is the vice-president of information systems and is leading our Year 2000 initiative; Greg Mrazek is the acting vice-president of finance and administration; Mark Guillet is our general counsel and corporate secretary; and Rod Podbielski is our acting director of corporate affairs, Madam Chair.

I'm at your disposal on how to proceed with a brief overview. If it's in keeping, Madam Chair, I have some material that I would circulate that members could follow if that's appropriate.

**The Chair:** — That would be most helpful.

**Mr. Clark:** — And I will endeavour to keep it very brief. I'll just wait for the Clerk to distribute those.

What's in those packages, Madam Chair, is a very brief overview of the company and the corporation and highlighting I think a couple of the major initiatives for '97 and into '98 which I think are of interest certainly to our customers and I'm sure are of interest to members of the committee. And that has to do with the issue of natural gas rates, the volatility of natural gas pricing, and of course the whole issue of competition which I think is both timely and of interest. So if I could just go through it quickly, Madam Chair, and then I will take my place.

On the second page, the first box on the top of the next page, is really just a corporate profile. I think members of the committee are quite familiar with the corporate structure of SaskEnergy. As I mention in my introductory remarks about Mr. Olenick, he's the executive vice-president of TransGas which is an important player in our natural gas industry in Saskatchewan, responsible for transmission and storage.

Many Islands Pipe Lines (Canada) Ltd. has no employees. It is a federally chartered company and is responsible for all those sausage links, if I can call them that, the short links that extend into Alberta. We have 11 of those crossings as well as the Williston Basin crossing into the United States. Those applications for those crossings must go to the National Energy Board and those applications are made to the National Energy Board through Many Islands Pipe Lines (Canada) Ltd. which is

our federally regulated entity.

Bayhurst Gas at the bottom, again has no employees. It's simply the royalty holding in some gas fields that were sold some years ago and SaskEnergy International is a fledgling subsidiary where we are endeavouring to market the considerable expertise that has been developed by the men and women of this company over the last 45 years.

Briefly, Madam Chair, on the bottom of that page, I think it's important to appreciate . . . I think coming from Saskatchewan we sometimes take the view that it's always bigger and better somewhere else. We do a lot of things pretty well here in Saskatchewan and it's important to know that the 60,000 kilometres of pipe which extend throughout Saskatchewan constitutes the largest distribution system in North America — certainly not the largest customer base but one of the largest systems to be managed in North America. As you can see, it touches almost 560 communities, 90 per cent of the homes and businesses, and 310,000 customers.

And I think that's an important juxtaposition of those two numbers, Madam Chair — the 60,000 kilometres of pipe and 310,000 customers. You don't have to be an M.B.A. (Master of Business Administration) graduate to figure out that that's a challenge because it's a relatively small customer base with a fairly large network. And I'm proud of the men and women of SaskEnergy who've kept the cost down and keep us very, very competitive.

As you can see, we obviously supply gas to all forms of businesses and homeowners in the province and over the course of the winter sell about 60 billion cubic feet to keep the homes and small businesses functioning during the year.

I'll just turn quickly to TransGas, Madam Chair, on the next page. Again I think it's an important . . . very important player in our province and in our industry.

And I think it's important to stop there for a minute because there's obviously a lot of discussion these days when we get into issues of competition about size, about competitiveness, critical mass, where we see more and more mergers and takeovers, how can a relatively small company like TransGas — and for that matter I suppose SaskEnergy — continue to play in this market.

And I want to say that I believe that we can. I think it's a mistake to think of the Crowns and their future as one kind of monolithic entity. I think they all have their strengths and their weakness perhaps, and they all have their challenges, and we're not without ours.

But it's important to understand that we are part of a continental system. We're downstream of Alberta; we have just about 40 billion cubic feet of storage; we're part of a system. And until somebody figures out how to move those molecules of gas by satellite, they're going to have to deal with us. They're going to have to deal with the piped infrastructure that we have.

Obviously it's critical we keep our costs down. I'm proud to say that our TransGas rates are 10 per cent below NOVA's. We're very competitive with our biggest competitor to the west in

NOVA now folded into TransCanada Pipelines.

So I think it's not a bad story, members of the committee. There's 13,000 kilometres of high-pressure pipe — that's the pipe that moves it around the province and moves gas out of Alberta and around Saskatchewan. We source for Saskatchewan homeowners about 70 per cent of the gas out of Saskatchewan and 30 per cent out of Alberta, and 10 years ago it was the other way around. So we're pleased that there's a somewhat more dynamic production element in Saskatchewan that is sourcing Saskatchewan gas.

We have a fair amount of compression as you can see, and we move about 320 billion cubic feet annually. Probably about half of that goes to export into the United States and into the TransCanada system down to Toronto and it branches at Emerson into the Chicago market.

And as I said, we store about 32 to 35 billion cubic feet, which is critical for our winter peaking here in Saskatchewan.

The bottom chart I won't spend much time on. I think that committee members are familiar with how gas moves in the province through the TransGas system, through the town border station. And that is really the break point between TransGas and SaskEnergy — the town border station. Pressures are reduced, odourant is added, and then we move it through the villages and towns and cities of the province.

I'm going to spend just a couple of minutes, Madam Chair, to talk about rates and the elements and the components of rates. Obviously, as you'll see in a minute and as I'm sure we'll cover extensively today in our deliberations, rates are one of the most interesting issues that we engage in here.

There really are two components. If you put your consumer hat on for a minute or if you have your bill in front of you, there really are two major components — the cost of the delivery and the cost of the commodity or the cost of the gas.

The cost of the delivery is the charge, the fixed charge, that is attributable to the company for the delivery of gas to your home. That is something that we are absolutely responsible for and if the cost of delivery changes, it's because we've made a conscious decision to seek additional revenue for the company.

The cost of gas which makes up about 35 per cent of your bill is that volatile component for which our utility or no other utility in North America has control. It's important I think, somebody out in one of the meetings across Saskatchewan this fall really said it as well as we could: consumers in Saskatchewan have about as much potential to dictate the cost of natural gas and the price of natural gas as farmers do the price of wheat. It's an openly-traded commodity. In this case it's continental not global as wheat is, but we are very much affected by the North American market.

We use 2 per cent of the gas in North America here in Saskatchewan. And obviously if you're a 2 per cent user, you're a price taker not a price maker. So it's important that we try and as you know we've, in 1998, split the bill — I realize this is 1997 but I wanted to touch on this — that we've split the bill to try to add transparency for the customer and try to gain some

appreciation of what really does drive, what are the drivers in terms of the customer's bill.

Obviously there's got to be frustration when there's price changes and rate changes. I understand that. The wounds are still healing from my little trek through Saskatchewan this fall. So I appreciate how that works.

But we've been trying hard to educate and illuminate why. I can tell you unfortunately almost every year, we're going to be up dealing with rates. Because as you'll see in the next chart, right below, the volatility of natural gas is the driver of your rates.

I want to say to you, Madam Chair, that when I talk about the cost of delivery, the cost for which you can hold this company's feet to the fire for, we've had one rate change in six years of 2.3 per cent. All the talk about rate changes have had nothing to do with adding revenue to this company. It's an unfortunate message and we know what happens to messengers.

But lots of times when we're out there . . . well as I say, five of the last six years has nothing to do with raising revenue for the company. I'm not saying that consumers like things to go up. I want to say that in two of those five years when rates were changing they went down 12 per cent as well.

And what's important is the — and I'm sure we'll get into it quite a bit today — is that box, the bottom box. You really have to appreciate how volatile natural gas is. Natural gas is the most volatile commodity on the New York Mercantile Exchange. It's not gold or oil or sowbellies or corn futures or anything else — it's natural gas. And it moves a lot and it impacts on all of us.

And as you can see from that chart that looks back about the last seven or eight years, and I say I won't spend too much time on it, Madam Chair, because I think we're going to get into it today, you can see that gas has moved from lows — these are what we call the twelve-month strip, not the spot price. As you can see these prices have fluctuated from as low as a dollar a gigajoule to two fifty, and as you can see that near the tail end of the chart, '98 into '99, it's well in excess of two fifty.

And there's good news and there's bad news in this story, Madam Chair. The bad news obviously is when we get the volatility on the upside it impacts consumers very directly. There's no mistaking that. But I want to tell you that when we see two fifty gas, we see 700, 800, 900 wells in Saskatchewan being drilled, and if you want economic development, you want jobs, you want investment, the other side of that coin is there's something attractive about two fifty gas as well.

I was in Success and Maple Creek and Swift Current and Hatton the last few weeks, and I can tell you a lot of people are pretty happy that with \$10, \$11, \$12 oil, they're pretty happy that somebody's out there drilling for something because now they're out there drilling for natural gas. For the last two years we've had gas drilling in this province below 300 wells. That doesn't even maintain deliverability in this province. I don't mean to get overly technical and I'm not an engineer so you know that — I have too nice a tie to be an engineer — but that 300 wells is not good for our economy.

We are seeing this year because of the low oil prices companies

like Renaissance and many others changing their capital program to go to gas. And we're going to have well in excess of 700 wells this year, and we hope maybe 1,000 wells next year which is, bodes well for our economy. But, as I say, two fifty gas is not good for our consumers.

So we'll come back to that, Madam Chair. But I do want the committee members to understand that I don't think you will experience in your time here with any other Crown corporation — or almost any other business I can think of — a business where they are not in a position to control the commodity that's an integral part of their business, for which they don't make any revenue on the commodity, and yet is one of the most volatile aspects of their business.

I just want to touch briefly, Madam Chair, on gas supply competition. There's always a lot of talk about competition. A lot of it gets highlighted around the competition in the telecommunications industry. We see it on TV with lots of advertising and lots of changes in the telecommunications, the structure of the telecommunications business.

It's important to understand that natural gas industry's been deregulated since October of 1985. The three producing provinces at that time, Alberta, Saskatchewan, and British Columbia, along with the federal government, signed what was called a Halloween accord on October 31, 1985 — the accord which deregulated natural gas in this country. And that's been the norm in our industry for more than a decade.

More than 60 per cent of the gas in this province has moved for a long time in a fully deregulated market. It doesn't move through . . . It isn't sourced by SaskEnergy, we move it through our TransGas system for customers — it's called the nominating process. And so there's been a pretty free movement of gas in our market for a long, long time.

Industrial customers, potash mines can source their gas from whomever they like, and they've been able to do that for — as I say — for some considerable length of time. We don't make money on the commodity. We try to provide an efficient, effective, and competitive system of delivery, and that's where we make revenue.

What's happened in the area of competition is we've deregulated as of November 1 this year the last component of the entire natural gas market, and that's what we call the core market or it's the residential and small commercial market. This is in keeping with what's gone on in Canada — with Ontario going in the early '90s, Manitoba in '94; Alberta went in '96; and we were a year or so behind. But we all now operate in a fully open market.

Why did we do that? We're not afraid of competition. We're not afraid of competition at all. In 1997, the year under review here in this proceedings today, I'm happy to say that SaskEnergy had the lowest — the lowest — residential rates in Canada. That's an anomaly, I'm quick to add to be fair, we're usually the second lowest by about two or three dollars a month even when we're second lowest. So we feel that we can compete. Somebody wants to come into the market and do better — fine. That's good for consumers but we're not afraid of the competition.

And people ask well is it going to come? Well if you get offside in the market they'll be here. I think as one of the proponents of competition and who's resident here in the province that I'll be watching very carefully. And if SaskEnergy gets offside I'll be in there. Alberta which is I think fair to say, Madam Chair, the home of the *laissez-faire*, the entrepreneurial spirit I think someone would argue in Alberta. With two large markets in Edmonton and Calgary of 700,000 people as I say they deregulated their market in '96. They've got no competition yet either. Although I saw last month where there's a small company called Apollo Energy is entering the Edmonton and Calgary markets. And that's a good thing. If they show up here — great. We're not afraid.

So that is the last bit of the deregulation in our market. We'll see how it unfolds. It keeps our feet to the fire and we're not fearful of that. And I think I should probably stop there, Madam Chair. I know there's going to be lots of questioning today that we can get into some of these other issues.

I would just close with, members of the committee, of all views that I want to say if we could leave you with one message today when we close, Madam Chair, is I want to tell you that the men and women of this company of this province over the last 45 years have built a hell of a company. I'm here as the chief cheerleader if you like and I'm proud of that. They're skilled. They committed. They're dedicated. They've built a low-cost, efficient system. It's something we can be proud of. We can market it. It's reliable. It's dependable. And it's a wonderful asset regardless of who owns it. Where it goes in the future — we're very bullish about the future. We're very bullish about our capacity to compete, and to grow the asset on behalf of the people of Saskatchewan.

Thank you, Madam Chair.

**The Chair:** — Thank you, Mr. Clark. I would now ask Mr. Bob Watt from Ernst & Young to provide a statement from the external auditors' point of view.

**Mr. Watt:** — Thank you, Madam Chair, and I appreciate the opportunity to again appear before this committee. As you indicated I'm Bob Watt, a partner of Ernst & Young, the appointed auditor of SaskEnergy. With me behind me is Bruce Willis, an audit principal who works with me on the SaskEnergy account.

I'm pleased to provide a few opening comments on our auditors' report for the year ended December 31, 1997. For the members of the committee our auditors' report can be found on page 48. The first paragraph of our auditors' report we indicate that the financial statements are the responsibility of the corporation's management. And that our responsibility is to express an opinion on the financial statements based on our audit.

In the second paragraph we state that our audit was conducted in accordance with generally accepted auditing standards which are established by the Canadian Institute of Chartered Accountants. In conducting our audit we test transactions and balances and assess the accounting principles used in significant estimates made by management.



In the third paragraph, we state our opinion that the financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997, and the results of its operations in the changes of its financial position in accordance with generally accepted accounting principles, again established by the Canadian Institute of Chartered Accountants.

So in short, Madam Chair, this is an unqualified auditor's report on the 1997 financial statements of SaskEnergy.

Now the members will know that in addition to this auditor's report, we also report to the Provincial Auditor on the systems of internal control and the company's compliance with legislation. Our report to the Provincial Auditor for 1997 noted that in our opinion nothing needed to be brought to the attention to the Legislative Assembly as a result of any of our audits.

Thank you, Madam Chair.

**The Chair:** — Thank you. That's comforting, but now we'll hear from the auditor, the Provincial Auditor, and find out what he wishes to bring to our attention.

**Mr. Heffernan:** — Good morning, Madam Chair. I should start out by saying that our office has a good working relationship with SaskEnergy and with the appointed auditor, Ernst & Young.

We agree with Ernst & Young's opinions on the SaskEnergy 1997 financial statements and its opinions on internal controls and compliance with authorities.

Madam Chair, last Wednesday the Public Accounts Committee reviewed chapter 6 of our *1997 Fall Report* and I thought I would just, briefly, brief you on what happened at that meeting.

On our first two recommendation the committee agreed to ask Crown Investments Corporation to report back to the committee on the resolution of the authority required for subsidiaries of Crown corporations to borrow money.

For our second and third recommendations, the committee agreed and noted compliance with our recommendation that CIC should issue guidelines to help SaskEnergy's board of directors understand their responsibilities pertaining to broad policy objectives of the government and on the role of the board's Chair.

For our final two recommendations the committee agreed to ask the Assembly to refer the matters of reporting on payees and planned versus actual results to the Crown Corporations Committee.

Finally, I have a few comments to make on SaskEnergy's 1997 annual report. The annual report is well laid out, is easy to read, and provides information on SaskEnergy's vision, mission, values, priorities, lines of business and some information on its objectives, measures and targets. It's in these latter points on objectives, measures, and targets, that we'd like to see SaskEnergy continue to provide more information in its annual report.

That concludes my remarks.

**The Chair:** — Thank you. Are there any questions from members of either the external auditor or the Provincial Auditor at this time? If not, we'll move directly into questioning of the SaskPower officials, and of course, members realize that they can . . . Oh, SaskEnergy. Got any extra little companies you want to talk about? You make one little error and nobody will ever let you forget it will they? All right.

We will move directly into questioning of SaskEnergy officials and I would also remind committee members that if at any point they have questions to ask of the auditors that they certainly can.

**Mr. Boyd:** — Thank you, Madam Chair. Welcome to Mr. Clark and his officials here this morning; to Ernst & Young and to the Provincial Auditor's representatives as well.

First of all, I guess I would like to say and offer our congratulations on I think a year that, by all accounts and certainly by your auditors and the Provincial Auditor's view, fairly well managed. Other Crowns, you would be aware, haven't received that same sort of bill of health from the Provincial Auditor, and the steps that you've taken to address the concerns of the Provincial Auditor, I think, are perhaps even a model that other Crowns could look at as a direction that they should be taking in the future.

There are a number of different areas that I wanted to talk with you about this morning and perhaps this afternoon, dealing with items like the pricing of natural gas, rate review processes, the competitive market that you find yourselves in, foreign ventures that you may be involved in, and the whole area of your business relationship with SaskPower.

I'll start off by saying that and asking, what do you view and what does your board view SaskEnergy's mission statement as to be. Do you have one that we can point to in your annual report?

**Mr. Clark:** — We do, Madam Chair. I believe it's set out here. Sorry, I know it's here somewhere. It's on the inside cover, Mr. Boyd. Like, I think the mission and vision statements of all companies, whether they be Fortune 500 companies or TSE (Toronto Stock Exchange) companies, I think they're lofty goals. I think where it says we want to be Canada's leading energy company, one would say well that's pretty ambitious for a small Saskatchewan-based company.

Well we believe that it's very much achievable, and I would argue that in some areas we are very close to being — as you benchmark us against our competitors — a well-performing company.

The simple message, Mr. Boyd, is I think that the Saskatchewan resident would want to have this asset owned by the people to be cost-efficient and cost-effective, trying to do everything it can to provide the maximum amount of quality service, to obviously do everything it can to maintain the rates because, by and large, our customers tell us. And in reference to Mr. McPherson's comment about focus groups, certainly we do those kind of things. And our customers, as long as the furnace

works and the hot water comes out of the shower, usually they don't have very many reasons to call us except when they see changes in their rates.

So we're very sensitive to issues around trying to keep and maintain rates. As I've indicated with some pride, we're certainly in the top one or two when it comes to keeping our rates as competitive as anybody in Canada's. And I think the real issue and the real challenge for all of us as Saskatchewanians is to want to see growth.

I think we're in an era where we're standing still — or as my son says: you snooze, you lose — is not good enough, standing still simply isn't good enough.

So our vision, without being too long-winded, Mr. Boyd, is to be a quality, low-cost, efficient, effective performer, growing, and in all kinds of reasonable benchmarks. Both industry benchmarks of cost per customer, cost per gigajoule of delivered service — these are standard kind of industry benchmarks. We want to be performing in the very top quartile of performance.

And I want to say to you as a resident of Saskatchewan most of my life, I see our role as trying to also play a role in the community. We're one of the top 12 companies in this province, which means I think we also have a social responsibility. We are proud of the way in which our employees engage themselves in the community, with the sweater recycling program and issues like that.

So we want to be . . . we would like to think that we could be Canada's . . . the best energy company in Canada.

**Mr. Boyd:** — So you feel you're meeting with your mission statement in terms of providing and looking towards opportunities, both in Saskatchewan and exterior to Saskatchewan?

**Mr. Clark:** — We think, Mr. Boyd, that we're certainly on the right track. I mean it's pretty evident, if you look at some issues of our annual report and you review some of the figures, we would like to have moved more gas. We've seen some reduction of the volumes we've moved, this as I said has been a function of price and drilling activity in Saskatchewan.

So there are some micro-indicators in the short term that are not everywhere we'd like them to be. But notionally, we've got strategies designed to improve gas drilling activity, more volumes in our TransGas system, trying to add more services to our SaskEnergy customers, the answer is yes.

**Mr. Boyd:** — So when you look at the operations of SaskEnergy, you are looking at ventures outside of Saskatchewan currently; I understand you feel that that meets with your mission statement.

**Mr. Clark:** — Well we certainly believe that the governance direction to Crowns by the shareholder, with the role of the boards, the role to grow these Crowns has not restricted us to look at opportunities beyond our borders.

**Mr. Boyd:** — And currently looking at opportunities within our

borders.

**Mr. Clark:** — Absolutely. I mean I think it . . .

**Mr. Boyd:** — First and foremost?

**Mr. Clark:** — Absolutely, Mr. Boyd. I think it is really a sense of let's make sure that we send the right message to Saskatchewan men and women. I mean, we spend on a capital on the SaskEnergy side more than 50 million a year, \$50 million a year, trying to extend more service.

And I want to say that it's very difficult; I mean we've got 90 per cent of the market. There's no low-hanging fruit left. And this year — well '97 — but '98, both over 4,500 new connections. That's well above the five-year average. That's a function obviously of a robust economy, particularly when that was the case in '97 in rural Saskatchewan particularly.

And so we are a real good bellwether of the state of the economy because we see starts. So we spend a lot of money. We have never lost sight of the fact that our commitment or obligation — our roots — are here in Saskatchewan.

**Mr. Boyd:** — Can a competitor come in and run a line into a facility?

**Mr. Clark:** — To your house?

**Mr. Boyd:** — No, to your . . .

**Mr. Clark:** — To your farm?

**Mr. Boyd:** — Yes.

**Mr. Clark:** — No, but he can't anywhere else in North America either.

**Mr. Boyd:** — So it's not completely deregulated then.

**Mr. Clark:** — No, but that . . . but let's be fair. I mean the natural gas industry in North America is a monopoly. Whether it's privately owned, whether it's Consumers Gas, or whether it's Canadian Utilities in Calgary, they all have a monopoly right over the infrastructure and the delivery of gas. Nobody wants to tear up the street and put three or four or five different sets of pipes in the ground.

**Mr. Boyd:** — I don't think anyone's suggesting that.

**Mr. Clark:** — No, I wasn't saying you were, sir. I was just trying to make the point that we're not unique here in Saskatchewan, is that utilities are given a monopoly function for that reason.

**Mr. Boyd:** — But if there were for example a new potash mine, a new forestry venture, a new mining opportunity of some sort, SaskEnergy would have the only opportunity to run a natural gas line to that facility if they want it.

**Mr. Clark:** — That's correct, but as would be the case with NOVA in Alberta.

**Mr. Boyd:** — And anywhere else in Canada?

**Mr. Clark:** — That I can think of but . . .

**Mr. Boyd:** — North America?

**Mr. Clark:** — There may be somewhere, somewhere that I'm not familiar. I wouldn't want . . . I'm not aware of it, but the general practice is that that's what we do, what our industry does.

**Mr. Boyd:** — When you're making your presentations to the people of Saskatchewan in the 45-day rate review process, you've broken the billing into two components. And I think that's probably a pretty good idea to indicate to people that on one hand here are the areas that we have some degree of control over in terms of the delivery of the service and here's the gas component of it and the volatility in the market is what we have to deal with.

I'm not quite sure you can absolve yourselves completely from the gas market in terms of saying that you have no control over that because I think you do in some respects. I would submit that you choose to enter the market at certain points and make your decisions based on forecasts of availability of supply and forecasts of, I suspect, of weather and all of those kinds of things to make your determination in those areas.

So it's not quite as simple to say that we don't have any control. You choose when to enter the market and you make forecasts based on when you would want to enter that marketplace to make your decisions of purchasing an acquisition of supplies.

So it's not . . . I would want you to make that clear, I think, in these rate review processes is that that is a function and a decision that is made by you and your officials. It's not quite as simple as just saying we have to take the price that's available on a given day — you don't have to enter the market on a given day. You can choose to enter it this week, next week, or whenever the case may be.

And the volatility in the market indicates that the decisions that you make in that area are pretty critical as to what kind of gas supplies you're able to secure on behalf of the people of Saskatchewan. Would you agree?

**Mr. Clark:** — That's a fair comment, Mr. Deputy Chair. I think it's still important to make the distinction on that chart that that is the real function of a supply and demand interaction, that chart that I showed you.

You're perfectly correct in saying that if you engage in strategies to try to mitigate on behalf of the consumer the impact of some of those movements in the gas volatility, you're absolutely correct. And I'll defer to Mr. From here, but sure we make deliberate interventions in the market through our hedging programs to try to shelter and mitigate our consumers against the absolute volatility of the market.

**Mr. Boyd:** — Have you guessed right for this year?

**Mr. Clark:** — You bet. The 12.8 per cent rate increase, of which we're not happy about . . . I mean there are 4 million

Canadian consumers — I guess misery loves company this year — who are being confronted with a rate increase. We will have probably the lowest — if that's helpful — we will have the lowest rate increase in Canada.

**Mr. Boyd:** — Well what are you projecting for your average cost to the consumer to be?

**Mr. Clark:** — Ken, do you want to jump in here?

**Mr. From:** — Thank you. I'll answer that question. What we have in our rates right now is a weighted average of \$2.40 per gigajoule, and that's for the time frame from November 1 to October 31 of 1999.

**Mr. Boyd:** — And what is the current price?

**Mr. From:** — The spot price in the most recent few days here, if that's what you're alluding to, has declined considerably.

If you look at the fundamental reasons for that, the warm weather. It was 20 degrees in Toronto on, I guess, Monday, it was about 5 degrees or 10 degrees in Calgary, and 11 in Maple Creek.

No one in North America has any place to put gas. So in a very short-term aspect right now we have seen a very significant decline from some highs. And currently gas is, I would say — I'm not at the screens right now — but it is probably trading around that price, and it was considerably higher as we moved into the first part of November.

**Mr. Boyd:** — At a price of . . . What did you say the spot price is? Sorry.

**Mr. From:** — I'm not sure right now. I don't have a screen in front of me so I don't want to suggest that . . . because it is a highly volatile . . . it can move 20 cents in a day and it may be 20 cents more. I don't want to set a number.

I would think that it is very close to our 2.40. Without having a screen in front of me I can't really make a firm comment on that at this time for today's spot gas price. But it is extremely volatile.

And if I can get back to the first question that you started with, which was that we don't have control over the market. What we try to do in our program I guess is to control the volatility. We're not necessarily out there, and we've told our board and we've told our customers, we are not out there trying to say that on this given day that's the lowest price that gas will ever be and we're going to lock in everything and that's the price.

What we're trying to do is manage the volatility. And over the long term when you manage volatility you can do a very good job of doing that. But what you can't do is manage the long-term price overall, because that price does change with the marketplace. Our job in terms of hedging is to manage volatility around that price.

**Mr. Boyd:** — So it would be fair to say that you speculate in the market?

**Mr. From:** — I would say we don't speculate. Because if we speculated, we would leave everything floating and subject to the whims of supply and demand and speculating on the weather patterns and things of that nature. What we do is we use statistics.

**Mr. Boyd:** — An experienced trader would say that you hedge your price then in the marketplace and not speculate. Speculate would mean that you don't hedge.

**Mr. From:** — Correct, correct. Whenever you make a decision you're actually taking a market view, whether you decide to leave that position open or you decide to close that position. But what we try to do, because we have a lot of gas . . .

**Mr. Boyd:** — In many people's views, coming from the agriculture background, in many people's views, certainly people that are unaware of how the marketplace works, they think that when you enter the market in any fashion, you're speculating.

**Mr. From:** — Yes. That is a common misconception I would think.

**Mr. Boyd:** — Absolutely wrong.

**Mr. Clark:** — He is a little sensitive about that word.

**Mr. Boyd:** — I'm not surprised.

**The Acting Chair:** — Mr. Boyd, if you could kind of start to wrap up.

**Mr. Boyd:** — Okay. I guess we will, when it returns to my opportunity to continue, I will endeavour to continue with this discussion a little bit.

I guess my point is that SaskEnergy does have opportunity to move into the market at certain points, hedging gas supplies, and making their best forecasts. Their best forecasts currently look off however. Now that's given the fact that we have some unusual weather conditions and that can turn around on a dime here. We may see that happen and we may see gas supplies go out . . . the market increase rather substantially.

The last three weeks, I believe, it has dropped every single day and as a result of that, SaskEnergy may be in a position where they have misread the market and the people of Saskatchewan will be paying a higher than . . . higher price for gas than is currently available on the spot market. Would you agree?

**Mr. From:** — Consumers do not have the ability, whether it's a utility or an individual consumer to go into the gas market and buy gas on the spot condition.

**Mr. Boyd:** — You do not?

**Mr. From:** — No we do not. We have all of our contracts on firm. Some are the reserve of the . . . the life of the reserve that we are buying from. They are firm contracts. We cannot rely on the spot market for deliverability. Our mandate here is to ensure that the people of Saskatchewan have safe and reliable delivery in the most extreme weather conditions.

**Mr. Boyd:** — But the spot market is what sets the market for what you have to enter into.

**Mr. From:** — The spot market sets the price of gas, and if a consumer — like for example an industrial customer who is buying gas — the gas year starts November 1 and you have to make your decisions on what you're going to do during that coming year. And what you do is make those prudent decisions . . .

**Mr. Boyd:** — Right, so if you make the right decisions in terms of that, the consumers would benefit by you purchasing gas at a lower price than the spot market is; if you made the wrong decisions and the spot market is lower, the consumers are in a position not to benefit.

**Mr. From:** — Well what we'd have to look here is where the spot market actually ends up, not where it is on any given day. But where it is on any given day, does not . . .

**Mr. Boyd:** — The trend line is currently going against you.

**Mr. From:** — The trend line — I don't know if I can call it a trend line because it just kind of went like a cliff. Because natural gas is, as we alluded to at the very start of our discussion, the most volatile commodity that is traded on any open exchange. And because of that, what our hedging program is to do is to minimize that volatility from going the other way.

**Mr. Boyd:** — So we're two-twelfths into the market so far, are we not then?

**Mr. From:** — Yes we are. November's gas has been decided. December's gas price has been decided as well. And both of those came in substantially higher than what SaskEnergy had locked in at.

**Mr. Clark:** — I just want to say . . . sorry, this is an important point to end on because I think that Mr. Boyd's raising an interesting issue, and I think it is — let's both sides be fair because we're not trying to be argumentative — is that if you take a small enough slice, I guess, I mean in '96 we looked pretty smart but it was a zillion degrees below zero every day and we locked in. If we had gone to the spot market where gas was trading for 7 or \$8, I don't think there's any Saskatchewan consumer would have said, boy I sure want to pay those prices.

I think we need to see what happens in March or April. We need to look back and if it's consistently El Niño II every day.

**Mr. Boyd:** — We'd expect a rebate at that point.

**Mr. Clark:** — No, you can't because we locked in to try and protect our customers. Just as if we wouldn't go and ask if it was more we locked in, we wouldn't ask for more money. We locked in to save the customers. If it ran to \$4, then the customers should be all rubbing their hands together and saying, boy I'm glad we're not in the spot market.

So all I'm saying is we are, we're very much at the whim of weather and the volatile market. We make the best judgment we can. We think if you look at the last several years, we haven't done badly. Is it possible that somebody could say . . . it's like

saying, gee you know I didn't have to buy my Grey Cup tickets in advance because look it, nobody showed up and so they were practically giving them away at the end of the game. And then you know, try that for the Super Bowl, it doesn't work. So, we'll see. But right now, warm weather, hey, someone could come in and say gee, I don't think I need your gas locked in; '96 we'd look pretty smart.

**The Acting Chair:** — Thank you very much.

**Mr. McPherson:** — Thank you, Mr. Chair. I have a few questions in regards to installation of gas lines and supply into rural areas. As you know, rural Saskatchewan is desperately in need of industry and we're seeing it in, I guess a number of large hog operations and feedlots now there's a few being mentioned. And I've had this raised on a few occasions about the cost of supplying gas to these operations. And it may well be the reasons some of these operations don't go ahead, if you're talking 2, 300,000 bucks to have just gas alone to be put onto the property.

And I was just wondering, Ron, what programs are available. If we just read those into the record, and if in fact over and above the programs, if SaskEnergy could ever find latitude to move even beyond a program to help out. I think it's very important; SaskEnergy of course being a strong economic player for rural Saskatchewan.

**Mr. Clark:** — I'd be happy to answer, Mr. Deputy Chair. I think that we're very sensitive to the issues in rural Saskatchewan, both just the individual farm sites that want gas, as I indicated earlier there's no low-hanging fruit left. There's obviously customers who want gas who tend to be further and further and further away from the main distribution grid and just by sheer economics it makes it more difficult to serve.

I want to come specifically to your point about economic development opportunity in rural Saskatchewan. The last . . . starting in '97 and moving forward, we've been very sensitive to . . . particularly hog operations I think started this whole thing with us about saying look, we want to start up, let's pick a number. It's \$100,000 for the installation because they often tend not to be located close to other people and they're difficult to serve. And we sat down with the hog industry. We sat down with some of the big players, we sat down with individual hog operators and said, look can you do something for us. We can't eat \$100,000 up front, we have no cash flow. What can you do for us?

And we've designed a program — it's not just for hog — for all of rural Saskatchewan, for all of our customers — the urban, rural, some resort villages — that says look, 25 per cent down, the rest financed over as much as 10, Doug, or 15 years in some cases, depending on the size. We've looked at end loading of some of those payments, that remaining 75 per cent to be paid out of savings, because in every case it's savings. Their options are either propane, or God forbid something else that's more costly, so that there's no question that the cash flow down the way is there; and so we've said look, if you don't have, if you don't have in the first two or three years of operation, don't pay us, we'll end load. So my point is, Mr. Deputy Chair, we have tried very hard to find ways to both hook up the individual homeowner — this 25 per cent down is also available just to a

farmstead or to a hog operator or to a grain dryer, grain dryer operator or a grain terminal rather. So we've been trying. And I must say that up to now I think we've had some, some fairly good success, and it's been . . . We've responded I think in a useful way.

**Mr. McPherson:** — Thanks, Ron. What about having latitude? If in fact, you know . . . Do you have a policy that's cast in stone or do you have the latitude to adjust that if it's going to ensure that you're getting some larger customers that are here for the long haul?

**Mr. Clark:** — Well I think this is it. If you're saying is there latitude . . . let me be clear about one thing. If you're asking me is there latitude beyond the policies which dictate the operation of this? This is a profit-making company. It operates under the same discipline and rigours as the private sector. We have internal rates or returns set by our board. And we have investment policies, and we adhere to those investment policies. So the short answer is, is there a point at which we just say, well to hell with it, there's an implicit subsidy here? I have no authority to engage in that. But we've tried to, as I said, bend and shape and assist in every way so that the cash flow is there for the company. It may be a little bit longer, we'll get a hurdle rate. We're going to get it longer. But if that helps a hog operator get started, and he's got some cash flow down the way, then I think we're doing our job.

And let's put it right on the table. Previously in the '80s there was a program, the gas distribution program to provide extensive rural infrastructure. And if you come from Saskatchewan and you believe in the access to universal service, I think that's a totally appropriate principle. You just ask yourself, who's going to pay for it? There's a program of \$2,500 max, and then it went to 31 — 26 and 31, excuse me. And I'm not passing judgment on that program except to say it was heavily subsidized. There is \$200 million of deadweight debt in our company. It wasn't paid for out of the government, out of the Department of Economic Development or Department of Agriculture as a program. It was said SaskEnergy will do this, and you will lose money. And we lost \$200 million.

Now that may not still be the wrong thing to do — again, I'm not here today to pass judgment. But that's a subsidy program. That's what that is. Somebody's got to pay for it; there are no free lunches.

And so I'm saying I don't have . . . The short answer is I don't have any authority to say let's put more infrastructure in there. Let's do this and if it produces a loss for the company, it's still good for Saskatchewan. I don't have that mandate.

**Mr. McPherson:** — What about, Ron, for some of the resorts or small communities, and perhaps the policy that you have or the way you viewed this is different — whether it's a community or a resort? But I think in fact out in the Cypress Park there is, there is some cabin owners that are asking for gas. Now do they follow these same guidelines that you were just talking about?

**Mr. Clark:** — Absolutely. I'll get Doug to help me. He's the architect of a lot of this. In fact, he's done an excellent job on

behalf of our company and the people. We wouldn't be in a position to extend gas service to Cypress Hills. It was a non-starter. You have the big load there, which is the Four Seasons. He uses an enormous amount of propane in the park. But by going to that private entrepreneur and the park and talking about the 25 per cent down and the cash flowing, we were able to create an economic project that will . . . I think the gas is there now, isn't it, or just about there. And so the fact that now cabin owners may want to see the attraction of natural gas if they're maybe going to winterize — I don't know what their motivation might be — they'd certainly be eligible for the 25 per cent as well. Am I correct there?

**Mr. Kelln:** — It's based on a cost less investment basis. We will invest as much as we can over a long-term. In the case of the cabin owners, we'll look at their consumption over 30 years, multiply investment to the cost. The remaining has to be a customer contribution.

For the Cypress Hills area, because there's 207 cabin owners there, we need a minimum number to make the project work from a cost basis. And the present target that the Cypress Hills cabin owners are working on is 55 cabins. We get 55 cabins signed up, we have enough to then go into the cabin area at a certain price and serve.

**Mr. Clark:** — And loop the pipe through the cabin owners' area.

**Mr. McPherson:** — All right. Another concern that I have heard in the past — I don't know if it's been worked out — but I guess the areas that are serviced by your personnel were enlarged quite a bit a few years back. And some of these guys are spending a great deal of time travelling from job to job and it seems like they're spending the day in the truck. Is there a problem? Is this something that's raised often?

**Mr. Clark:** — I don't want to say, Madam Chair, that this is a problem. First of all, I want to say that we are successful because we have a wonderful relationship with our union. We're unionized through the Canadian energy paperworkers union. And we work very closely together on issues — quality of work life.

Certainly when you've got 60,000 kilometres of pipe in a big province like this, there are . . . A lot of our service technicians are getting a lot of windshield time — no question. And we're cognizant of that and where we've had growth, we've tried to add more resources in certain areas. We're a company that's growing marginally, not certainly downsizing, but it's something we watch carefully. Yes, it's a fair comment, Mr. McPherson.

**Mr. McPherson:** — So from the consumer point of view, it's not a big problem getting the service.

**Mr. Clark:** — Not at all. What is interesting since we've got it on the table, Madam Chair, is that the men and women are so dedicated to getting out there to give service, we've had to spend more time watching issues around accidents because people are working so hard to support the customers and driving such long distances to support the customers. We've got to watch for fatigue and road conditions and winter driving and

things like that.

So I'm being very candid with you — very candid with you. Their first commitment is to the customer and almost, I don't want to say at the expense of their own safety and I don't want to suggest that. Please don't say I said that here. I'm just saying that there is that trade-off. And I'm happy to say that they're so motivated to public service that they go the extra mile.

**Mr. McPherson:** — Thank you. That's all for now.

**The Chair:** — Thank you, Mr. McPherson. I'll now recognize . . . Oh, do you have a follow-up, a specific follow-up on that? Go ahead. You can be a token Liberal for five minutes.

**Mr. Toth:** — If you don't mind, Madam Chair. Just coming to the distribution. There's a question in the area of distribution that I want to address if you don't mind, and that's when it comes to distribution of natural gas. Now we've just been discussing larger customers. I believe it was in the spring a customer came to me, and they had asked — it just so happens I believe they're around Welwyn but regardless — and my question to you is when it comes to distribution of gas and putting into a farm site or a yard site or whatever it is, it just so happened in this case this customer is a backhoe operator, has his own backhoe. They had applied for it and contacted the company. I just don't remember if anything was resolved in that issue.

They were building a new house and ready to move ahead. They had asked for the opportunity to dig in their own trenching, put the line down, and then have natural gas personnel come out and do the hookups or whatever. They didn't see a big problem with . . . and I believe they were looking at something like 12 or \$14,000 to have a contractor to come in when they already had the backhoe. What's SaskEnergy's policy in regards to digging in and allowing individuals just to roll the pipe out and then SaskEnergy looking after the hookup?

**Mr. Clark:** — I'll get Doug Kelln to get into that in some detail. I think I do recall this one, Mr. Toth, and it's a tough one because people are sitting right there. I'm not suggesting they're not well-qualified individuals to operate the backhoe or the trenching equipment or whatever. There are some really significant concerns from a liability point of view since we're . . . from the safety and installation point of view. But Doug do you want to chat on that?

**Mr. Kelln:** — Yes. Actually when we go . . . we are willing to sit down with customers if they want to provide part of the work, and we will let them consider that. And I think we did that with this individual. But we do lay out what effect that backhoeing or the trenching is costing us within our project price. And then they then have the opportunity to consider whether they want to do it, and we effectively take that part of the cost off of their price.

The one thing that does come about is that because we are physically doing so many hours of it our unit prices for that specific task are fairly low. And I can't recall whether that individual decided to do his own trenching or not but we did give him the option.

**Mr. Clark:** — I think the short answer is we try to be flexible and again maybe we're not talking about the exactly same one, but I do recall one where we broke down the unit costs showing exactly what that piece of the work was. And if he was qualified and could live up to our standards and meet our standards I think we were prepared to say go ahead. That's my recollection.

**Mr. Toth:** — When you're saying unit costs, you've just talked about what your costs would be in providing that service. The individual customer can look at that. I think — I'm just going off the top of my head — I think they felt they could do the trenching and lay the line, have you inspect it, and fill it in for roughly about 4,000 while they were being asked for 12,000. That's not including hookup, but there's still the hookup to the mainline plus the hookup at the yard site.

And I guess what I would ask of you is when you talk about that's about an 8,000 . . . and I can't be quoted because my numbers aren't exactly correct on that. But what I guess what I'm trying to determine is how you determine what your ploughing or your backhoeing component or your costs. I can appreciate what your cost is. So what you're saying is you would sit down with the customer and say well out of this 12,000 give or take roughly 6,000 is what we're going to be paying the contractor to come and open up that hole or the trench, and lay the pipe. If you can do it for less that's something we can work it out what you're basically saying here . . . indicating.

**Mr. Clark:** — And as I say the only caveat would be that we will always retain responsibility for ensuring a safe installation.

**Mr. Toth:** — And when it comes to safety, what areas of safety are we basically talking of? To dig a trench — what is it, three feet — that can't be a major factor if all you're doing is laying the trench and rolling out a coil.

**Mr. Clark:** — No.

**Mr. Toth:** — The biggest safety factor, I would imagine, would become when you get close to the line. I think that's an area to be left to SaskEnergy where you're hooking into a distribution line plus your hookup or set-up at the yard site or wherever you're going to install that delivery system.

**Mr. Clark:** — I wasn't trying to make too fine a point of it, Mr. Toth. I'm just trying to say that, what looks like a simple trench, may be that the individual who's not qualified leaves a rock in the bottom of the trench that an inspector of ours would identify right away as real trouble if you lay that plastic pipe over top of it, of a sharp stone or something. And an untrained person say, I've got a perfectly good trench here, what's the problem. So I'm not trying to make too fine a point of it.

**Mr. Toth:** — So what you are saying is, you will sit down with customers. If they can show at the end of the day that they can do this portion of it and you're willing to work with them to alleviate and provide the service at the most economical cost possible to the customer?

**Mr. Clark:** — Yes, we are.

**The Chair:** — Mr. Toth, you started something here; now Mr.

McPherson wants back on. And since you were consuming his time, I will recognize Mr. McPherson.

**Mr. McPherson:** — Thank you, Madam Chair. Just to further what Don had been asking. When contractors are awarded, you know these trenching contracts, are they done on an area basis or are they on a job-specific? So is there the ability to actually come into and do a job yourself?

**Mr. Kelln:** — In terms of our crews that we set up throughout the year, we have about 25 per cent of our work is done with internal permanent staffing and that includes some equipment such as backhoes. Another portion is done with the addition of temporary staffing through the busy summer season. And the remaining is done through tendering of getting individuals with their equipment to work for us, and on a contracting basis.

But we do allow, within that contracting portion, we have some that effectively are doing work province-wide, the bigger types of projects, the long-distance ploughing that we do. But we do also look at more local area tendering for specific uses such as backhoeing. We're very happy that we have a high content of Saskatchewan contractors within our contracting basis that provide the services.

**Mr. McPherson:** — So you're not limited by a certain number of contractors in an area? I think SaskPower are and I wasn't sure how, you know . . . one contractor is taking in quite a large area with SaskPower and you're not in that case.

**Mr. Kelln:** — We tend to layer it into sort of those three layers to try and give some flexibility.

**Mr. Clark:** — We try to stay a bit fluid. I mean if we're going to plough pipe . . . If you've ever seen us plough pipe I think it's an interesting thing to watch where the D9 takes the coil of pipe off the front and just rolled it over the back. And if we're going a long distance, that may be somebody that we're using province-wide. But where we can use local firms, we try to do that.

**Mr. McPherson:** — Thank you.

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

**Mr. Kasperski:** — Thank you, Madam Chair. I'd like to maybe zero in on a couple of areas first that were brought up by Mr. Boyd and Mr. McPherson. We talked a little bit, Mr. Clark, about the investment by SaskEnergy that there is certainly no real profitable areas to exploit anymore, but SaskEnergy still continues annually to have a program for providing new service. We talked a little bit about Cypress Hills and I notice down there, but I'm sure, I think you said it was '97, was if not a record year, certainly a record year in recent years with 4,400 new customers and about 50 million in new business.

I was wondering if you'd — we talked about Cypress — if you'd like to take a couple minutes about . . . and explain to the committee other areas where SaskEnergy expanded their service in 1997.

**Mr. Clark:** — Madam Chair, I'll turn it over to Mr. Kelln who can give you a considerable amount of detail of where we've

been all through '97 and to some extent '98.

**Mr. Kasperski:** — Please.

**Mr. Kelln:** — In 1997 we supplied gas to about 12 different communities throughout the province. We were involved with, let's see, approximately 11 agricultural projects which included grain terminals and hog operations, totalling about the 4,500 net customers throughout the province.

It's fairly well dispersed. The northern, the Saskatoon area, was the most intense activity in 1997. We've seen a lot of acreage development and of course the urban development in Saskatoon, followed by Prince Albert and North Battleford have seen some very intense activity.

But we're seeing it throughout the province. Swift Current has had a number of projects, and the Yorkton, Weyburn area as well.

**Mr. Kasperski:** — Madam Chair, without making too fine a point of it, I note Mr. Clark, you'd referred to the fact that SaskEnergy's still got about 200 million, you know, in what you refer to as dead weight debts. So it's important, I mean, from the point of view of the primers, you want to, in terms of your internal rate of return, you're limited in how much you can do at any one time to a certain degree. I'd like, maybe if you'd take a couple minutes to just explain that a little better, what general parameters you're operating under in that regard right now.

**Mr. Clark:** — Well I think, just to back up a bit, Mr. Kasperski, you have to understand that when SaskEnergy was born in 1998 — 1988 rather, I'm sorry — it was done so with a great deal of debt, it was highly leveraged. It had about 99 per cent debt and 1 per cent equity. In fact I think less than that, Greg . . . And so it's been a challenge. It's been a challenge for us to build a capital structure which is more in keeping with the benchmarks of the private sector because obviously carrying a lot of debt . . . and if we're ever to see interest rates run up again, it would be a real challenge for us.

We're now on an aggregated basis, about 73/27, roughly Greg . . . 73 per cent debt, 27 per cent equity. So I think we've, for the benefit of the citizens of Saskatchewan, we've built equity in this company which I think is a good thing. We need to get to be about 65/35 on a debt equity ratio, that's somewhere between 60/40 and 65/35. The distribution benchmark for debt equity is a little different than the transmission. So if I could just blend the two but give you that as a bit of a ballpark.

So issues around managing debt are important to us. I was only making the point about the additional \$200 million in debt that we're carrying. The rest of our debt is what I would call self-financing, rate-supported debt. We'd all like to not have any debt but it's rate-supported debt. Which if you're going to have any debt, I guess that's the more . . . It's like having good cholesterol and bad cholesterol I guess.

The 200 million was a program which I'm not here to take issue with, but just to say that somebody's got to pay for it.

So we're trying to move . . . The short answer is we're trying to

move our debt/equity structure into the area where it should be relative to the benchmark of the private sector, and I think that's the appropriate target to have.

So I'm not sure, I'm sorry, I'm not sure I'm answering your question straight up.

**Mr. Kasperski:** — No, I guess I'm raising it in the context, Madam Chair, of the discussion we started a little bit earlier that SaskEnergy is committed. You know, we had some discussion about investment in the province and what we're looking to. It's certainly, and I think you answered the question earlier, that this is a major priority of SaskEnergy, is looking at opportunities in the province here in Saskatchewan. And I just was . . .

**Mr. Clark:** — There's no question. I think that, you know, I mean, I know the sensitivity of issues around investments and looking at investments outside the province. I'm not naïve. But I want to stress that we've not lost sight of our fundamental commitment, which is to continue to try and extend service.

It's been in the media. It's quite common knowledge that we're doing everything we can to find a viable project to extend gas service to La Ronge. Now that's 254 kilometres of what, 6 inch, 6 inch and 4 inch all the way to La Ronge. And if you look at a 1,200 square foot home in La Ronge paying roughly \$2,000 a year for propane or electricity and you could provide that same heating source for about \$700 or \$750 perhaps, you can see there's an enormous savings to the residents.

So my point about it is we're looking all the time at trying to extend service. And with more and more baby boomers thinking about retiring, we're seeing a lot of activity in some resort villages. A lot of people winterizing their cottages and thinking that maybe that's the place where they want to spend more time. And we've been pretty active in that area as well.

And again that 25 per cent financing program has helped a great deal. I mean everybody would like it cheaper. I mean, don't get me wrong. I get lots of cards and letters saying, well can't it be a little cheaper, you know?

**Mr. Kasperski:** — Thank you. I'd like to maybe turn, Madam Chair, a little bit to some of the discussion we're having over management. But I guess . . . What was the term used for . . . well for hedging?

**Mr. Boyd:** — Speculating.

**Mr. Kasperski:** — Well I guess you made the point that I make, that there's a pretty fine line between hedging and speculating. I understand that issue. I guess managing risk we're talking about here, and this is the point.

And I think SaskEnergy, when I read it here in the annual report and I know it's pointed out, would seem to have in '96 and '97 was . . . did a very good job to manage its risk and rate exposure. And I'm like everybody else; I get calls too when rates go up. I think all of us in constituency offices do. And this is the conversation I get in with constituents when we have this type of discussion.

But I think it's important to point out, and I'd like to give you



the opportunity, in comparison to other jurisdictions. Now last year we were lowest and then the year before . . . Sorry. This year, '97, we were lowest and '96 we were second lowest in terms of domestic and small commercial delivery in the country.

The risk management program that the corporation has undertaken, I think it's served us well. And I'd like to just give you the chance to explain, in terms of rate increases that have been passed on in other jurisdictions right now, where we stack up in comparison to other provinces in terms of rate increases.

**Mr. From:** — Okay, Madam Chair. I'll answer that question by first talking about what happens in other jurisdictions.

For example in Alberta, the neighbours to our west here, what happens there is they go on a monthly price. They play the spot market basically with their gas supply in terms of the price. Their delivery is firm of course, but their price is variable on the spot market. I believe in 1996-1997, they averaged roughly five rate changes per year. They have a policy of looking at their cost of gas and then going back to the customer and saying you know what, we underestimated what it was going to be, can you please pay us some more.

And what we hear from those jurisdictions from consumers is — especially the business people who are using their natural gas as an expense in trying to forecast what their product for sale is going to be — all of a sudden they have a retroactive increase in their expenses that of course they cannot pass onto the product they have already sold. You know, you can't resend a bill to somebody who ate their Big Mac a month ago and by the way you've got to pay me 50 cents more. It doesn't really work very well.

We have taken the approach here in Saskatchewan . . . It has been our approach that customers here want stable rates. And with providing rate stability, what we're trying to do there is to smooth the ups and downs out. What we really tried to do is to protect customers from what we call an adverse price move. And in this sense an adverse move is anything up. I think customers appreciate the fact that we would be in a position to perhaps pass on rate decreases. And we did that in the years of '95 and '96 when some of our counterparts in Canada had entered into longer-term price arrangements, and as a consequence they were unable to pass on the then current market price.

In terms of 1997, you are correct, we had the lowest residential rates amongst the provinces in Canada; and given that the cost of gas was a major component of that, it was our cost of gas that allowed us to do that.

In this current year for 1998 what my counterparts tell me from across Canada: is that in B.C. they're having about 15 per cent rate increase; Calgary, I can just show you what Calgary is doing, the *Calgary Herald* November 3 — 20 per cent; Edmonton is roughly 21 per cent; in Manitoba, they are still trying to figure out what they're going to be doing there.

And really what happens when you are talking about percentages, they can be misleading. Because a percentage only works if you know what base you're starting from. And because

we had very low rates in '97, our base was low. And I'm surprised to tell you, the honest truth, that our percentage increase is not higher than some of the utilities because I know their gas costs for '97 were substantially higher than ours.

And so I'm always cautious when I talk to people about okay, the percentage increase. I would prefer to say okay what is their rate, what is their embedded cost of gas in their gas charge, and how does that compare, and what are the . . . and how long is that price good for?

**Mr. Clark:** — Thank you, just a footnote to Mr. Kasperski's comment because let's get right into it, because there's lots of talk about a regulator. As a CEO (chief executive officer), I can tell you it would be a slam dunk to have a regulator. Well, my colleagues got it real easy. The regulators got what's called a gas variance account — it's this little pot of money and sometimes it takes some out to give to the company and sometimes the company has to put some in. It's real easy.

We get one shot at this. God knows, as I say going around Saskatchewan in the fall doing it once is enough. It's like one root canal a year. Thank you.

**The Chair:** — Now you know why you're a CEO instead of a politician because you only want to put up with it once a year.

**Mr. Clark:** — That's correct. But I'm telling you, if I'm my colleague, Chris Sheard at Northwestern Utilities Ltd. in Edmonton who now runs the Calgary one as well . . . hey, I mean they watch the market as Mr. Boyd mentioned, and they go four or five times a year and they troop over to the regulator with their documents and their army of lawyers and accountants — and I can tell you 49 . . . we only had 55 people show up, but 55 people don't show up at the regulator in Alberta either — and they get pretty much what they want. The 20 per cent rate increase that Ken's alluding to is on the front page of the . . . they passed that in 37 days. So I mean if you want, you give me a regulator, and I'll be there tomorrow.

**The Chair:** — I don't think our purpose . . . Our purpose here today is not to discuss a PURC (Public Utilities Review Commission) or not.

**Mr. Boyd:** — I'd be happy to discuss this.

**The Chair:** — What we would like to discuss is what you're doing and what kinds of things you can do better.

**Mr. Clark:** — I wasn't trying to be provocative, Madam Chair. I think that Mr. Kasperski's . . .

**Mr. Boyd:** — Rather helpful, actually.

**Mr. Clark:** — Well, I'm not so sure, Mr. Boyd. Be careful, be careful what you ask for. I think it's important to understand why there's one rate increase, why we have to hedge. I mean obviously if you're sitting over in Calgary, you don't have to hedge. Why would you bother trying? Why would you bother trying to protect your consumers? You'll just get the regulator to do it for you — piece of cake, you know.

So we do it once a year; we try to get it right. And by and large

I think it's a credit to Mr. From. He's done an excellent job.

**The Chair:** — I think on that note we'll call a break until just a little bit before 11. So the committee will recess for a short break.

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

**The Chair:** — We'll resume our questioning of the SaskEnergy officials.

**Mr. McPherson:** — Thank you, Madam Chair. Mr. Clark, I'm just wondering how it's affecting SaskEnergy now that the minister, I believe he made some public comment about reviewing foreign investment or equity positions in operations outside of Saskatchewan's borders, and I was wondering a few things. Firstly, what investments do we have? Are they equity positions? Are we just selling our expertise? In what countries and such? If you could give us an overview.

**Mr. Clark:** — Sure. I think again, consistent with my opening comment on SaskEnergy International, it's been in existence coming up to three years, two and a half, I think. Let me be clear at the outset. We have no equity investments at this time outside the province.

We have engaged in consulting activities all the way from right next door in Alberta, in North Dakota, through to a fair number of quite lucrative contracts in Latin America. We did a very large study — large meaning about \$550,000 — in Uruguay for the Government of Uruguay. Because they are interested in rural distribution and we have, I think, a very good track record in rural distribution so they were interested in us, along with CIDA (Canadian International Development Agency). CIDA put them on to us. So we did a big piece of work there. We've done some work in Chile. We've done some transmission work in Argentina. Certainly all at this time was selling consulting services.

**Mr. McPherson:** — Oh, so no equity positions were taken, and any planned upcoming?

**Mr. Clark:** — I don't want to close the door on that. I think that if — I understand and I am aware that that's a sensitive area — but I want to say that in answer to an earlier question, if you want to grow the company. And I should also point out with some pride, Mr. McPherson, that we've been active looking at the opportunity in the Maritimes. As you know Sable Offshore gas is finally coming ashore in November of '99 into Nova Scotia, will link through New Brunswick, and in to serve the Boston market. So you've got a situation where you've got two greenfield . . . two brand new virgin opportunities in your own country of both Nova Scotia and New Brunswick looking for gas distribution opportunities.

Again if you look at both of those provinces, they're not in some ways unlike us — relatively small populations of around a million, a little bit less in New Brunswick; a lot of their population dispersed; Halifax metropolitan area is a pretty good size but other than that . . . So we see that it fits our expertise pretty well and so we're taking a pretty good long hard look at that.

But let me come back to your point. I don't want to rule that out. If we thought we could make a sound investment — and obviously that's a judgment call, somebody will hold our feet to the fire on that principle — then I don't think it's inappropriate. That's my view.

**Mr. McPherson:** — And the contracts that you're looking at in New Brunswick, Nova Scotia, that's expertise only as well is it?

**Mr. Clark:** — At this stage. I think you have to understand that those two governments will establish their own process for selecting a distribution utility. There's interest from Consumers Gas, from Enbridge, which is the old Interprovincial Pipe Lines which owns Consumers; Westcoast which owns Union Energy; ourselves; and a company called Sempra which is out of southern California.

And the process will be that you have to compete to win the franchise and then you would . . . if you owned the franchise that would obviously be an equity-type investment. You'd build a distribution system, say in Nova Scotia, not unlike what we built here in Saskatchewan over the last 40 years.

So if down the road six months or eight months from now, if we were fortunate enough to . . . Well let's say if we make a decision to go after it, that decision has not been taken. And we were fortunate enough to win that opportunity then that would take the form of obviously . . . (inaudible) . . . but we'd have some partners probably from Nova Scotia because you always have to have local partners in any successful venture I'd argue. That would have the potential to have an equity component.

**Mr. McPherson:** — Those decisions then, that would be solely in the hands of management and board or just the board or in fact does the minister have a role to play?

**Mr. Clark:** — Well I think certainly our first hurdle is always our board. I want to stress that we have an excellent board. Mr. Frank Proto has got 37 years in the industry, is well respected, has deep Saskatchewan roots. Mr. Mike Charlton who is the CEO of Saskferco — this is the fifth largest gas consumer in this country with 20 billion cubic feet of gas — has a lot of knowledge, etc. We have an excellent board. So our first hurdle is the board and then obviously that's not a decision we can take on our own. It would have to go to the shareholder.

**Mr. McPherson:** — So this comment by the minister that activities outside of Saskatchewan borders would be reviewed, that isn't having an effect?

**Mr. Clark:** — Whenever I've read review . . . I didn't see those comments. All I'm saying is that our board and the management has received no direction that looking at either external consulting or external potential, external equity opportunities, has been restricted.

**Mr. McPherson:** — All right.

**Mr. Clark:** — Sorry, have I not understood your question?

**Mr. McPherson:** — No, you've answered the questions. And that is all the questions. I can't be here later today, Madam Chair. I just would like to make the comment that I appreciate

the openness that I've always had in dealing with SaskEnergy and finding things out and we don't enjoy that from all the Crowns. But I want to give Ron some accolades in the way he's running his Crown. Thank you.

**The Chair:** — Mr. McPherson, I take it then that you'll allow the committee to proceed and conclude its review of the report.

**Mr. McPherson:** — Right.

**The Chair:** — Thank you.

**Mr. Clark:** — Thank you for your comments, Mr. McPherson.

**The Chair:** — Mr. Boyd, I do thank you for yielding your position in the speaking order to Mr. McPherson and I would now recognize you and encourage you to take as much time as you wish.

**Mr. Boyd:** — Thank you, Madam Chair. Mr. Clark, there was discussion earlier surrounding the whole idea and process of a rate review mechanism. Your colleague suggested that in Alberta there's differences in the spot market and how they make their decisions about pricing their natural gas.

Certainly I guess the significant difference is that there is a rate review mechanism in Alberta and there isn't here. What is commonly known as an independent rate review mechanism does not exist in Saskatchewan. There is what is called a 45-day rate review process which really is just a 45-day notice that the prices are going to go up . . .

**A Member:** — Or down.

**Mr. Boyd:** — Or down. We've seen one occasion where they've gone down. We've seen . . . (inaudible interjection) . . . Two? How many occasions have we seen them go up then?

**The Chair:** — Excuse me, gentlemen. Gentlemen. Mr. Trew, surely as Vice-Chair you are aware of the relatively limited number of rules we have in this committee. And one of them is . . .

**Mr. Trew:** — Point made, Madam Chair.

**The Chair:** — Thank you.

**Mr. Boyd:** — Thank you, Madam Chair. In essence the rate review mechanism I don't think is getting all that rave of reviews here in Saskatchewan as to its effectiveness by many people. And I think you can look at the process and I think your statements to the media in the past about them have been rather telling as to your views as to whether it is effective or not.

How many . . . Can you tell us in the last round of reviews, this 45-day rate review, how many meetings did you hold and how many people attended those meeting and what the cost to SaskEnergy was for those rate reviews?

**Mr. Clark:** — Madam Chair, we had 10 meetings across the province. Three of those were our shareholder-type accountability sessions which we have but which obviously turned into quasi-rate meetings.

And we had 55 citizens — not the media, not members of my staff — from out in the rural areas; 55 what I'd call bona fide citizens show up. And I think that you asked me about the cost. In total it was about \$100,000 or about \$10,000 a meeting.

**Mr. Boyd:** — From your perspective of a person running SaskEnergy and your experiences in the private sector, do you view this rate review process in its present form as worthwhile given their expense and the number of people who take part in them?

**Mr. Clark:** — In fairness, Mr. Boyd, please allow me a little latitude to answer your question because I think it's a fair question. I think you have to compare it against what. I think there's . . . I'm not going to say there aren't some warts on the 45-day review process.

The only other observation I make in your opening comment about the 45-day notice that the price is going up, I have to tell you that's exactly what it is when you go to the regulator. When Calgary asked for 20 per cent, they got 20 per cent, and they got it in 37 days. So I think that we'd need to be a little bit careful.

I think we should all be here . . . We should all here be, all here be interested in the welfare of the consumers in Saskatchewan, and what's best for them, and how we can most effectively serve them.

I don't want anybody to believe that a regulator's a panacea. We've had a regulator in this province. It was tried and somebody thought it didn't work very well, I guess. It's not a panacea. I've heard suggestions as well, Mr. Boyd, that boy if we had a regulator they would've blocked that rate increase. Well I can tell you that all the rate increases in Canada related to the commodity price are all going to be approved. They already all have been approved, all will be approved, and all will be approved in less than 45 days.

I'm not going to suggest that the current system is flawless. I think that the principal issue, Madam Chair, is one of arm's length and independent. Those are critical phrases, critical words. And obviously when we go out on the road and produce our materials and our charts, I suppose one can reasonably say, well you're the guys asking for the rate increase. How do I know your data is accurate or is really reflective of the facts? I mean I think that's a fair comment. And I feel sensitive about that.

I wish . . . I'm so confident and comfortable about both our cost of service cost structure and the commodity price, which has been the basis of the last five, five of the last six rate changes and two did go down as a flow-through. We had our independent auditor, Mr. Watt, here, and maybe he would like to engage in the discussion. We had an independent review done by Ernst & Young about the practices in Alberta and Manitoba and how we stack up. That's a matter of public record. We're quite proud to have that document circulated.

So are there some better ways? I think there's some better ways. I just would, I would just not want to hold out to the Saskatchewan people the false hope that a regulator is just a salvation for all of this. It's going to stop all of this stuff and you guys will stop gouging me, because that's not what's been

going on. It's been a tough public education sell because we don't have somebody that says . . . I guess people in Alberta say, well if the regulator says it's right, I guess it's right. And that's what they're saying — it's 20 per cent folks.

I can only say, Mr. Boyd, we've checked this out very carefully. To run just the natural gas component — not all of the regulation in Alberta — just the natural gas component of the regulator in Alberta is \$1.5 million. So I don't know whether \$1.5 million to go and get a 20 per cent rate increase in 37 days is better than or worse than going out on the road for 10 meetings and spending \$100,000. So you know my views and I'm not trying to suck and blow, Mr. Boyd; I think there are some warts on our 45-day process. But I would just hate to hold out that a regulator is a panacea.

**Mr. Boyd:** — The same question has been asked virtually all over North America. And the collective wisdom of every other jurisdiction other than Saskatchewan has been although a rate review mechanism may have some warts, it is clearly a better way to go. In the views of virtually every other jurisdiction that I can think of in North America have made that decision to have some sort of rate review mechanism.

All we have to do is look right at the operations of this legislature and the Board of Internal Economy I think is probably a pretty good example of that. Initially in the Board of Internal Economy here, there was the view that there was a great deal of mistrust what went on behind the doors of the Board of Internal Economy because they were closed. No one had opportunity to have any input into those decisions other than the people that were sitting around the table that had voting authority.

Many, many people, and the media particularly, were of the view that there must be something bad going on behind those doors because they don't have access to see what goes on behind those doors. Unfortunately that was the view — rightly or wrongly, you know; I guess it's open for debate.

When the doors were opened to the Board of Internal Economy, there was a tremendous amount of speculation as to what was going to be found behind those doors. And at the end of the day, and if you look at what has transpired since then, a lot of the speculation about what went on there and how bad it was has been alleviated by the fact that there is some degree of public scrutiny as to whether or not this is being handled in a proper fashion or not. And in many cases the media come down for a brief few minutes, have a look at the agenda, and then scam because they know there's nothing there that is of any significance whatsoever.

I don't recall ever suggesting that a rate review mechanism is going to be the panacea for the consumers here in Saskatchewan. Nor do I ever recall saying that these would stop rate increases. What it does do though is, just as it has worked in other instances all across North America, it at least gives the consumer some view that there is someone independent of the corporation themselves making decisions.

And you brought in independent firm to make some sort of . . . to make an assessment to provide at least some assurance that this is being done properly. And I congratulate you for that. I

think that was a step certainly in the right direction and it may have convinced a few people.

Unfortunately you know how sceptics are when it comes to these types of processes. Obviously Ernst & Young was being paid by you. There would be suspicion in some people's views as to what kind of criteria you allowed them to have access to, not suggesting for a moment that you didn't give them full and open access which I expect you did, but the difference is if there is someone that's clearly seen as independent, not being paid by SaskEnergy or SaskPower or any one of the Crowns, or not being in a position to be able to approve or disapprove of the increase, it is the collective wisdom of the people of almost every other jurisdiction that that's probably the way they go.

Not saying that it's going to be less expensive or more expensive or anything to do with that. They just think if we have a choice, the devil we know in terms of a rate regulator is probably better than the devil we don't know in terms of the Crown corporation themselves. And that seems to be the assessment that many jurisdictions have made.

There may be a cost associated with it, I don't dismiss that at all. I think however the costs of those kinds of things can be mitigated a significant amount. I think if you look at . . . If you went to organizations like SARM (Saskatchewan Association of Rural Municipalities), if you went to organizations like SUMA (Saskatchewan Urban Municipalities Association), if you went to organizations like the Saskatchewan Wheat Pool, Saskatchewan Federation of Labour, Canadian taxpayers association, if you went to people along those lines, consumer groups, all kinds of people like that and said, it's time for you people to buck up to the table and put your money where your mouth are.

You think that you are getting gouged. Well put a person on the board of a rate review mechanism at your cost and we will provide the expertise to those people, and you make the decision as to whether or not you're getting gouged or not. I think it would go a long ways towards addressing the concerns that many of those groups seem to have. And certainly the opposition would be satisfied I think in that case.

I don't think it has to be this big wieldly thing that somehow or another it can't make decisions because they've got a battery of lawyers sitting opposite them that makes it difficult for them to make a decision. I think you could frankly browbeat these people, these organizations, into putting people at the table. They've made a lot of noise over the years, all of them, about how these things aren't being handled properly. And I think it's time that we look at a bit of a more creative solution than just saying that the costs of these things in other jurisdictions is . . . and point to it as a reason why we wouldn't want to have something similar here in Saskatchewan. Saskatchewan, just as SaskEnergy comes up with very creative solutions to problems. Saskatchewan can also come up with a very creative solution in how we make and put forward a rate review mechanism.

And I would challenge you and your board to take that under advisement, and take it to the table of the cabinet of this province, that there maybe is some avenues that could be looked at in that respect. That we just can't hold up our hands and say no to everything because the cabinet of this province

decides that's the case. The people should have an opportunity to be heard. This rate review process that we have here in Saskatchewan is a dismal failure, and I don't think you have to look through very many newspapers, editorials, and comments of individuals in Saskatchewan to make that kind of an assessment.

I think that there is opportunity for a good rate review mechanism that has the protection of the Crown corporation's interests at heart, but also the interests of the consumers at heart. I don't trust the process currently. And I think that there are a lot of people in Saskatchewan who would agree with me on that.

**Mr. Clark:** — Just a couple of observations, Madam Chair. It's a tough speech to follow.

**The Chair:** — It is but that's . . .

**Mr. Clark:** — I just want to say in terms of other jurisdictions, Mr. Boyd's certainly correct. I think it is fair to say — I'm subject to being corrected by my own colleagues — but I think we're the only unregulated utility probably, certainly in Canada and perhaps in North America.

**The Chair:** — I think there's some slight anomaly in the province of Quebec, but other than that, Saskatchewan . . .

**Mr. Boyd:** — Why is that surprising?

**Mr. Clark:** — That's quite possible. I would stand to be corrected. My point though is . . . I want to make two quick points, Madam Chair. One is that we are different in Saskatchewan but I urge you to turn to page 41 of the annual report, and say that the one distinction is that we're not regulated but at least these entities are owned by the people of Saskatchewan. Last year that entity made \$39.444 million and it stayed here in Saskatchewan.

Obviously if you're a private company with your roots in some other jurisdiction with little interest, somebody better regulate you. At least the regulator here at the end of the day might be the people of Saskatchewan. I'm not saying that's adequate. I'm saying at least if we've erred, we've erred on behalf of all Saskatchewan people. I'm not suggesting we have.

With respect to my own, and I stress this is always a little bit ticklish, but in terms of my own particular view is if — I said it publicly, I'll say here again today — I'd be quite proud to take our story to an independent arbitrator, whatever that consists of. And I agree that we have uniquely in this province for decades found public policy solutions to many issues, and perhaps we can do it again. And I think that if that mechanism buys — or encourages is a better phrase — enhanced public creditability maybe that's worth something. I leave it for others to make that judgment. Your analogy or reference to the Board of Internal Economy, I'm not very familiar with it but there seems to be some belief that that was a good move. And I accept that.

So I'm not trying to hold out costs. I apologize if you thought I made reference to you suggesting it was a panacea. I did not. Although I will say that there . . . I can show you the comments of a member of this Legislative Assembly who did say if we

had it regulated we'd stop this stuff. And I want to caution that I don't think that would have happened.

And I think the key word here is independence and credibility. And I don't know what price you pay to get that or how you best get that. Nothing would make me happier than to have a group of people put our feet to the fire, because at the end of the day I'm not worried about what they'd find out.

**Mr. Boyd:** — Well I agree and I think that that is the point of the argument. If indeed you have a good story to take to a regulator, you'll achieve the ends that you want it to when you arrive at their door. If you don't, well you're in a little bit of a problem. And that's the difficulty in this whole exercise is, is we've been yet unable to convince the government that maybe the Crowns do have a story to take to an independent regulator that would address some of the concerns that the sceptics have surrounding this whole area.

I know the members opposite have tremendous confidence in what they see as the process currently. Many, many people don't agree with it. And I think they're voting with their feet at these meetings by not attending them. I'm just simply saying that it's going to happen whether we like it or not. At least if there was some representatives on an independent watchdog looking at these kinds of things, they would have some, I think, more assurance than they do currently. We'll leave it at that.

**The Chair:** — Yes, Mr. Boyd, I think before we leave it I think it's fair to say that members of the governing party also share many of your concerns, and I know that government is looking at alternatives. I would like to suggest that what I will do, as Chair of the committee, is pass on a copy of the *Hansard* of your remarks today to the minister responsible for CIC so that those . . . so that they are formally noted and so that the minister can take notice of them.

**Mr. Boyd:** — Thank you, Madam Chair. I'm not sure what benefit it will have. It's happened . . . we've made these comments consistently over the years and nothing's happened to date, but I welcome it.

**Mr. Clark:** — Excuse me, Madam Chair, don't pass mine onto . . .

**The Chair:** — Mr. Clark, you're in for it, it's a matter of public record.

**Mr. Boyd:** — If the Chair doesn't, we will.

**The Chair:** — No, the government is certainly looking for mechanisms to improve the 45-day rate review process. There is no doubt about that. And I think that if we all work together co-operatively to find a Made in Saskatchewan solution, and I think you've given some good suggestions here today, and they merit being passed onto the minister for his direct consideration.

**Mr. Kowalsky:** — On this point, Madam Chair, I appreciate your attempt to accommodate the viewpoints of the opposition, but there is an alternative point of view to this that I would like to put on record at this time.

Actually in a sense I'm surprised that somebody would ask for a return to the Devine years because we did have the PURC then, and I remember it very well, Madam Chair. And the problem with the PURC, was that it was viewed as a buffer between government and the people and it was costly.

And in this case where we have a situation where the gas delivery is made by a Crown corporation, it differs considerably in my mind from gas delivery made by a private company, where an independent commission might be viewed as somebody that represents the consumer more and is not speaking to government, to a government corporation.

But the advantage of this process that I've seen is that people can go directly to the corporation and talk directly to the people who are running the show on it.

Again I see that there are criticisms because people feel well . . . There are criticisms, I guess, and I don't have to repeat them. Mr. Boyd repeated them quite adequately. I think that going back to something that didn't work and was scrapped actually is not of any particular advantage.

Mr. Clark, I wanted to ask you one question with respect to that. And that is to confirm, is my assumption here correct, that we, that Saskatchewan is the only place that has a Crown delivering gas service, or are there other jurisdictions?

**Mr. Clark:** — None in Canada. I believe — maybe my colleagues can help me — but none in North America that . . . (inaudible interjection) . . . Oh I'm sorry. Some U.S. (United States) municipalities where they still own the franchise right, I guess, would be the only public enterprise. But very, very small percentage of gas delivered is not delivered by private companies.

**The Chair:** — There would also be co-ops in the United States, Mr. Clark.

**Mr. Clark:** — Fair enough.

**Mr. Kowalsky:** — I just wanted to put that on record without . . . because I thought that if you are sending records, Madam Chair, to whomever, that they should get both sides of the story.

**The Chair:** — Thank you, Mr. Kowalsky. Mr. Boyd, would you like to carry on with questioning now?

**Mr. Boyd:** — Well I almost . . . I feel compelled to respond to . . .

**The Chair:** — Oh shake that compulsion.

**Mr. Boyd:** — Well it's difficult. While I'm not surprised that Mr. Kowalsky would want to try and refight the 1986 election and the 1990 one and the 1995 one, I think it might be more helpful if we tried to confine our views to the present and the future.

If recollection serves me, the Devine administration was defeated. It might be mildly amusing to review those kinds of things of the past to you. It isn't all that mildly amusing to lots of other people. We can talk about them all we want. The fact

of the matter is, is that government was defeated and soundly defeated. The people of Saskatchewan passed judgment on that.

And the fact of the matter is, is it isn't going to make any difference whether you and I want to fight these fights for the rest of our lives in this legislature, the decision has already been made to move on from that. I'd prefer that we confine our discussions to the present and the future. But if you want to review the past, I'll be happy to engage.

**The Chair:** — Right now the Chair just wants to review 1997.

**Mr. Boyd:** — Absolutely. Thank you, Madam Chair. If we want to turn . . . Do I have the . . .

**The Chair:** — You have the floor.

**Mr. Boyd:** — Thank you.

**The Chair:** — Mr. Boyd, I would encourage you to ask questions . . .

**Mr. Boyd:** — If everything goes fine I think we'll be done before lunch.

**The Chair:** — Fine. And then I have an indication that the government members have perhaps five to ten minutes so we will have a late lunch but I expect that we'll probably be adjourning and concluding our review in this time.

**Mr. Boyd:** — The next . . . I only have two more areas that I wanted to talk about. And that was the foreign efforts that you are looking at currently.

SaskEnergy has announced I understand a possible deal in Chile at this time, including the possibility of an equity investment. Can you give us an update on that project.

**Mr. Clark:** — Sorry . . .

**Mr. Boyd:** — Are you not engaged . . .

**Mr. Clark:** — You made a reference to an announcement? I just . . . What was your . . . Sorry. I missed your introductory preamble.

**Mr. Boyd:** — Well perhaps my information is incorrect. Are you looking at an opportunity in Chile?

**Mr. Clark:** — Certainly looking at . . . we've been active in Chile for more than a year. We've engaged in some consulting work, as I indicated earlier, and are . . . exploring opportunities in Chile is one of them.

**Mr. Boyd:** — Is Chile one of them in terms of an equity investment?

**Mr. Clark:** — Possibly.

**Mr. Boyd:** — Possibly. Okay. Has any funds been committed in terms of an equity investment at this point?

**Mr. Clark:** — Not at this time.

**Mr. Boyd:** — Not at this time. What are your projections for a rate of return in Chile?

**Mr. Clark:** — I think it's speculative, Madam Chair. If there was the will of our board to ultimately consummate an arrangement in Chile, we would certainly disclose all of that information. But it's speculative to talk about it if there's no deal, I think.

**The Chair:** — I remind you, Mr. Clark, and I'm sure Mr. Boyd would be getting around to reminding you in any case, that if an equity investment in Chile should happen to proceed it would fall under the guidelines that this committee has for significant transactions.

**Mr. Clark:** — Absolutely.

**The Chair:** — So this committee would reserve the right to call on you once again to come to the committee and answer the kinds of detailed questions that I think that Mr. Boyd is putting now, but would probably, if such an investment were to proceed, would be more appropriately put then.

**Mr. Clark:** — Absolutely. I'm certainly aware of that requirement. Would be pleased if that ever occurs to be here. And I'm not trying to be obtuse, Mr. Boyd; if there's really no deal, I don't want to speculate on what the rate of return might be.

**Mr. Boyd:** — Are you looking at numerous . . . How many foreign investments are you currently looking at?

**Mr. Clark:** — Well I think I want to go back to the point that was raised with Mr. McPherson, is that if you consider foreign to be some interest in how Nova Scotia might unfold over the next year or so and issues much closer to home, there's probably at this stage two or three projects that look pretty attractive, that fit our expertise and track records. So I'd say probably there's two or three that are worthy of serious examination.

**Mr. Boyd:** — Uruguay?

**Mr. Clark:** — No, we did as I indicated, a major piece of work in Uruguay on a consulting basis. I think I said about \$550,000 and looked at the opportunity. It certainly . . . Because we produced all of the numbers on the rate of return and the service, and some of my colleagues are here with me, I can tell you that that did not look like a particularly attractive opportunity.

Certainly the Government of Uruguay had hoped that we would take a serious look at participating, even as an operator. They like what we do here. We looked at it and said, irrespective of any other consideration — our board, or the shareholder's views, or the public's views — as an executive with fiduciary responsibility to the company, we didn't see anything attractive about it as a subsequent . . . as a potential investment opportunity.

**Mr. Boyd:** — The project that you're looking at currently to La Ronge, what is . . . Is it just simply a pipeline — well, never simple I'm sure — but a pipeline to the community of La

Ronge?

**Mr. Clark:** — And the communities along Highway 2. You've picked up . . .

**Mr. Boyd:** — This is a liquefied natural gas . . .

**Mr. Clark:** — No, this would be natural gas in the traditional sense.

**Mr. Boyd:** — Oh, okay.

**Mr. Clark:** — And it's about a \$28 million project. And we would invest a fair amount of . . . When I was speaking earlier in response to Mr. McPherson, and I think perhaps to Mr. Toth, about our investment policy, we have an investment policy based on the net present value of 30 years of service. We make an investment and then the number of customers have to take the remaining amount and pick it up.

So it's 250 kilometres of pipe. That's the big thing, is getting the natural gas there and then it would be a typical community distribution system.

**Mr. Boyd:** — Yes. And you've looked at the economics of it. And what kind of time frames would you be expecting to see a positive return from a project of that type?

**Mr. Clark:** — Doug, do you want to help me here a little bit? It's our typical, internal, hurdle rate. We're trying to make it obviously and respond to it as an economic project. That's our mandate. Doug, do you want to expand on that a bit?

**Mr. Kelln:** — Our investment that we've provided to the community would be \$10 million based on if we get the customer sign up, and that's one of the provisions we have for it. Within that \$10 million would be investment of residential customers over a 30-year period, and an investment on commercial customers over a 20-year period.

**Mr. Clark:** — So we would expect to make our hurdle rate. But, as I say, sometimes if you're going to try to give the service you have to stretch out your returns to try to make it attractive for the people. Otherwise, if you want to get all your money up front you're not going to get the farmers hooked up either.

**Mr. Boyd:** — The last area that I wanted to touch on was the whole area of relationship that you have and have had with SaskPower. SaskPower, as you know through their investments in Channel Lake and the difficulties that they had in that area and the difficulties that they had in the gas arbitrage business, it seems peculiar I would think to the people of Saskatchewan that the first customer, or pardon me, the first supplier that they wouldn't have called . . . should have called wouldn't have been yourself. Was there difficulties in the relationship between SaskPower and SaskEnergy at that juncture?

**Mr. Clark:** — I just make two general observations, Madam Chair. First of all in the earlier period that I think you're referring to I was not with the company, so I couldn't even speak to the quality of the interchange between executives. And Mr. Olenick is here, and who I think was the acting CEO and

can speak perhaps to some of those.

I can say that during my tenure, which is coming up to five years, that we have, we had — you know, if you're thinking of Mr. Messer and anyone else — that we had a working relationship. We moved on issues as best we could. They were, they were a company looking to become more competitive as we were. And I'm sure there were areas where we agreed and areas where we disagreed.

But with particular reference to what was the byplay — if that's the right word — early on on Channel Lake I wasn't even with the company. I couldn't, I couldn't tell you what the atmosphere was like around that particular issue and certainly Mr. Olenick probably can.

**Mr. Boyd:** — Did SaskPower approach SaskEnergy with respect to the sale of Channel Lake or the gas arbitrage business?

**Mr. Clark:** — Madam Chair, with respect to that question I was with the company when it was made public that Channel Lake was sold. I can say to the committee that at no time was I . . . And I canvassed, had our counsel canvass the executive team of SaskEnergy, and no time were we advised of the potential sale of Channel Lake.

**The Chair:** — Mr. Boyd, if I may. I would refer you to the Channel Lake report of the Crown Corporations Committee, pages 13 and 14, wherein the history of the relationship between SaskPower and SaskEnergy is detailed. Specifically, it's a heading entitled, "Difficulties with natural gas fuel supply from SaskEnergy," and goes on to say:

In the summer of 1992, SaskPower management engaged in a dispute with the management of SaskEnergy over a number of issues.

And then goes on, and:

It is a matter of public record . . .

That was reviewed by the Crown Corporations Committee in our review of the Channel Lake circumstances. And again, Mr. Clark I believe is offering to have Mr. Olenick answer questions directly if you wish as well.

**Mr. Boyd:** — Have you taken steps since SaskPower's difficulties in those areas to make it clear to SaskPower that if they're looking at these kinds of activities in the future that you'd be happy to look at supplying SaskPower with gas supplies?

**Mr. Clark:** — We've done more than that, Madam Chair, we've had a meeting of our executive and their executive at our call about three months ago in which we covered a large number of areas of mutual interest ranging from Y2K (Year 2000) to business opportunities. I can tell the committee that we were to meet this afternoon at 3 o'clock and we thought we were going to be here till five so that's been postponed.

So my answer is that we are trying to find ways for synergies that are good for our companies, good for the people of

Saskatchewan. And simply trying to find ways to work together to get things done.

**Mr. Boyd:** — Thank you, Mr. Clark. Just to conclude I think the management team and the CEO of SaskEnergy should be congratulated on a pretty good year. I'd like to think that you're correct in your view that you have a good story to tell if you had a rate review mechanism that you had to approach. I think that the people of Saskatchewan would appreciate that kind of opportunity.

Your management style, although maybe not as flamboyant as others in the Crown sector, certainly gets the job done. And I think that that's more in keeping with the people of Saskatchewan than we've seen in other Crown corporations. And I thank you for your answers to our questions this morning — very straight forward and I think the kinds of answers that oppositions look for.

**The Chair:** — Thank you, Mr. Boyd. I'd recognize Mr. Wall now.

**Mr. Kasperski:** — Mr. Trew and then Mr. Kowalsky.

**Mr. Kowalsky:** — Thank you very much, Madam Chair.

**Mr. Boyd:** — Remember now, dinner time is approaching.

**Mr. Kowalsky:** — All right. Thank you very much for the advice. Mr. Clark, I want to ask you a question with respect to employment equity and what the situation is with respect to your out-of-scope employees. Could you give us some figures respecting the current numbers of people employed out of scope by category, and how many of them . . . what percentage of these people are men and what percentage of people of these are women? And also what percentage of these people are of Aboriginal ancestry? And is it also possible to get a comparison with a year or two previous to this current year?

**Mr. Clark:** — Madam Chair, could I just have a minute. We have that material and I think . . .

**The Chair:** — While your officials are searching for that information I would recognize Mr. Johnson.

**Mr. Johnson:** — You may have already answered, you may have already answered the question but I missed it. What of the, I think, the 27 million that the La Ronge project is estimated to cost, what is the customer contribution that you're looking at?

**Mr. Kelln:** — I've broken the project down into four areas, project areas grouping . . . there's approximately 10 communities on the way up to La Ronge so you have the Anglin Lake/Christopher Lake area, you have the Waskesiu/Montreal Lake area on your way up. Presently with the project cost less our investment, if we can get customer sign up, the residential customers in La Ronge would be paying about \$7,300 or if they utilized our financing, would have to pay \$1,900, approximately \$1,900 down and then finance the rest over a five- to ten-year period.

**Mr. Johnson:** — And the other ones lower, further down on the pipeline?



**Mr. Kelln:** — As you move further down the pipeline, it goes down in cost.

**Mr. Johnson:** — Okay. And that would amount to how much of the 27 million at those terms?

**Mr. Kelln:** — The present estimate is 28.9 million less the 10.2 million, that SaskEnergy would invest in ... SaskEnergy/TransGas under standard investment, would leave 18.7 million that the customers would provide, and the \$7,300 referred to is the La Ronge residential customers' share.

**Mr. Clark:** — You see, Madam Chair, that La Ronge is no slam dunk. I mean still, even at the 25 per cent that we've instituted, it is still a relatively healthy down payment. But as I mentioned earlier, and Mr. Kelln can help me here, the cost savings on an annual basis are very substantial — 12, 14, \$1,500 a year — so if somebody takes a little bit of the longer view, and it doesn't have to be that long, I think it's clear that it's ... the estimate over the life of the project is it will leave \$80 million in the pockets of the people.

**Mr. Kelln:** — Yes, over 30 years.

**Mr. Clark:** — Over 30 years will leave \$80 million in the pockets of the people of that area, but you've got to take a little longer view.

**Mr. Johnson:** — Okay, question for contributions on the financial, do they show up under revenue?

**Mr. Mrazek:** — I would refer you to page 49 of the annual report, about two-thirds of the way down. There is a line, a row referred to as deferred income, and you'll notice it's \$65,880,000 at the end of 1997. That represents the cumulative amount of customer contributions for the beginning of the corporation, 1988 until the end of 1997.

**Mr. Johnson:** — That's the customer contribution that's there then?

**Mr. Mrazek:** — That's the total of customer contribution that we have received from our customers over the 9-year period.

**Mr. Clark:** — That's where that shows up. To answer your question it doesn't show up as revenue, it shows up as deferred income.

**Mr. Mrazek:** — What we do is we take that into income over the life of the assets, so when a customer gives us a contribution I say of \$100, and the asset life is 10 years, we would take \$10 into income each year, and that's standard accounting practice across Canada.

**Mr. Johnson:** — For gas utilities?

**Mr. Mrazek:** — Gas utilities, yes, correct, yes.

**Mr. Johnson:** — Okay, the return on equity — if I did the calculations correct — turns out to be about fifteen and a half per cent, with the very small equity that's being talked about.

**Mr. Mrazek:** — That's correct. Yes, you're about right.

**Mr. Johnson:** — If that equity moved up to the figure that was ... where the recommended was, then the return on equity would drop to what, about 11 something?

**Mr. Mrazek:** — It would be about in that range, that's correct. Yes, the standard across Canada for 1997 was approximately ten, ten and three quarters per cent. So if our debt-equity ratio was at that range, we would be at about that point. It may be somewhat higher than that, but we'd be in that range.

**Mr. Johnson:** — The standard across Canada is?

**Mr. Mrazek:** — What each of the utilities do, is when they do their rate applications, one of the points that the regulator approves is their return on equity. And we have those for 1997 for all utilities across Canada — both distribution utility and transmission would be about ten and three quarter per cent for 1997 in that range. Now that's on an after-tax basis.

So in other words, they've had their income tax taken off of that to get to that ten and three quarters. So ours would naturally be higher because we don't pay income tax or net income. So ours should be higher than theirs because we haven't had any income tax taken off. The tax rates would be about, I think Bob, in the neighbourhood of about 40 per cent, somewhere around there. So we should be in about that 13 per cent range because of course we're on a before-tax basis.

**Mr. Johnson:** — Okay, and the standard amount of equity then across Canada is approximately what?

**Mr. Mrazek:** — It would be about, if you took let's say for every hundred dollars that was of capital in corporation, there would be about \$35 of equity and about \$65 of debt — about that. So it's 65/35.

**Mr. Clark:** — That's the industry benchmark.

**Mr. Mrazek:** — Yes, it would be in that range.

**Mr. Clark:** — If you achieve 65/35, you would be by any standard in the industry, doing well. And if you're better than 65/35 on your capital structure you'd be doing very well.

**Mr. Johnson:** — Okay. The discussion regarding the rate changes that was going on, quite frankly I support the concept that's being used where the CEO is asked to go out and face the individuals that express their pleasure or displeasure of where the rate is at.

Because I have seen in my lifetime, that it seems to me that if you're not the person taking the fire, you don't necessarily do the analysis as cold and as hard; and in this regard, having the CEO be the individual taking the fire, you'd probably also really know and understand what's taking place. And so I'm quite supportive of the approach that's being used.

**Mr. Clark:** — I don't dispute with that particular point, Madam Chair. I was being a bit frivolous about the annual fall public flogging. I would only say to you that of those 55 people — and I want to be very candid with the committee, some certainly came with a chip on their shoulder — I want to say that when we spent a couple of hours, they went away saying okay, I

might not like it, but I understand it and I understand it's not you gouging me, or this isn't hidden taxation and stuff like this.

I only say that if I'm going to go out there, I wish there were 550 people at every meeting. And because I think that if fair-minded people would allow the information to flow, I think they would come to the same conclusion. So if we're going to do it, I wish we would have more people. Because I think it's a story that I wish more Saskatchewan people did understand.

**The Chair:** — Thank you, Mr. Clark. Do your officials have an answer yet?

**Mr. Clark:** — I'm sorry, Madam Chair, I'm rather embarrassed to say that the detailed answers to the question that Mr. Kowalsky raised, I'm not happy with. Could I give an undertaking to the Chair, to send the 14 or 15 copies and the detail on the three-year assessment?

**The Chair:** — Yes, and please don't send them directly to the Chair.

**Mr. Clark:** — I'm sorry. I was instructed at Public Accounts that was the only way to proceed.

**The Chair:** — Oh no. No, no, no. I know my organizational capabilities and my filing abilities.

**Mr. Clark:** — All right, who should I send them to?

**The Chair:** — You should send them to the Clerk who has skills that I lack and probably will never acquire. Please send it to the Clerk, 15 copies, and she will distribute them as soon as they are received.

**Mr. Clark:** — I'll give you that undertaking.

**The Chair:** — Are there any other questions from government members?

**Mr. Kowalsky:** — Getting back to Mr. Clark, it's more valuable to have it on paper than it would be to have a report on that. Thank you.

**The Chair:** — Before we close, I do have one question and it is a general question. And perhaps I'm asking it because as Chair of this committee I spent 27 meetings reviewing well over 1,100 documents with respect to Channel Lake. And I think it is imperative that the lessons that were learned from Channel Lake not be learned exclusively for SaskPower.

I appreciate the glowing commendation that Mr. Boyd gave for your management style, Mr. Clark, but I don't wish to make any assumption that we should be reliant on one individual or that we can't have a great number of management styles within our Crown corporations.

And over the last couple of days the committee has also been reviewing a chapter from the fall auditor's report dealing with again, lessons — management lessons — that can be learned from Channel Lake. And so I would ask you if you have reviewed the *Channel Lake Inquiry* Crown Corporations Committee report and also the Provincial Auditor's chapter, and

if you can let us know what kinds of management structures are in place for adequate and full consultation and disclosure to your board, and to ensure that we are not overly reliant upon the good skills of any one individual, but that we have a proper and strong team in place in our Crown corporations and specifically SaskEnergy.

**Mr. Clark:** — A fair comment, Madam Chair, I'd hate to think that if there were accolades towards the company with respect to my particular style that that would be selfish and arrogant. I have an excellent, excellent team of senior executives who take their fiduciary role very, very seriously. And so I'm blessed in that respect.

I have to say to you I have not read in detail the Channel Lake report, and I'm not sure that I have any particular compelling desire to do so.

**The Chair:** — I would hope you do have a compelling desire to read the recommendations.

**Mr. Clark:** — Yes, I'm not being flippant, Madam Chair. I have reviewed it. For example I'm aware that, in respect to Channel Lake as a subsidiary company of SaskPower, that the board of directors consisted of management. I can assure you we have never had and never will have any of our subsidiaries staffed by . . . the board staffed by management people. All of our subsidiaries are the same board members who are the board members of the parent company, SaskEnergy. We have separate meetings of all the subsidiaries and break the meetings up into subsidiary components.

Mr. Guillet can help me here, my general counsel, before I stray into areas that maybe I shouldn't. But I don't know that I can ever give you assurance that we will not make a mistake. I hope we don't. I don't believe we will, I hope, of that magnitude. Mark, anything that I should be saying in response to Madam Chair's question?

**Mr. Guillet:** — Madam Chair, other than the recommendations have been reviewed by my staff and we are currently in the process even as of yesterday where I met with CIC staff in order to discuss the Channel Lake recommendations and we will be dealing with those recommendations and discussing them with CIC staff and also with our board. And that will be the process that we'll actually be doing, is discussing this with our board.

**The Chair:** — Thank you, and I couldn't ask for anything more. I simply want to make the point that there were important and very sad lessons to be learned from the Channel Lake circumstances.

**Mr. Clark:** — Well we accept that.

**The Chair:** — And no one should forget them.

**Mr. Clark:** — If I appeared flippant, Madam Chair, I apologize. I understand that they are serious and we've taken them very seriously and Mark and the staff are going through it in detail working with CIC. We'd like to think that we've built in all the appropriate and proper fiduciary and governance safeguards that one could reasonably expect and one should

expect of our company.

**The Chair:** — Thank you. Did I rouse any further questions or may I call on Mr. Trew to put the motion?

**Mr. Trew:** — Thank you, Madam Chair. I move:

That the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements of SaskEnergy Incorporated and the financial statements of its subsidiaries, TransGas Limited, Many Islands Pipe Lines (Canada) Limited, SaskEnergy International Incorporated, and Bayhurst Gas Limited, all for the year ended December 31, 1997.

I so move.

**The Chair:** — Thank you. All those in favour, please indicate. Hands down. Opposed. There being none, that motion carries.

Mr. Clark, thank you very much. I didn't find you were flippant; you had probably about the right amount of levity. And on behalf of the committee, I would like to thank you and your officials for your attendance at the committee hearings today. Do you have any closing statements?

**Mr. Clark:** — I just want to say, just before we withdraw, Madam Chair, there was some very generous comments offered by members of all sides of the House. I think that's useful if we're going to advance the public's interests in our corporation, and I thank you for your generous comments and we will try to live up to the expectations you have of us.

**The Chair:** — Thank you. It being well before the hour of 5, I require a formal motion of adjournment.

**Mr. Trew:** — I move that this committee do now adjourn.

**The Chair:** — Thank you. We now stand adjourned until the hour of 9 a.m. tomorrow morning.

The committee adjourned at 12:07 p.m.