



STANDING COMMITTEE ON THE ECONOMY

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**STANDING COMMITTEE ON THE ECONOMY
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Regina Dewdney

Mr. Randy Weekes, Deputy Chair
Biggar

Ms. Doreen Hamilton
Regina Wascana Plains

Hon. Deb Higgins
Moose Jaw Wakamow

Mr. Delbert Kirsch
Batoche

Mr. Eldon Lautermilch
Prince Albert Northcote

Mr. Lyle Stewart
Thunder Creek

[The committee met at 13:00.]

**Bill No. 32 — The Superannuation
(Supplementary Provisions) Amendment Act, 2006**

Clause 1

The Chair: — All right, if I could call this meeting to order. Thank you very much, committee members. We are here today to consider Bill No. 32, An Act to amend The Superannuation (Supplementary Provisions) Amendment Act and to make consequential amendments to The Provincial Court Act, 1998.

We have a number of presenters this afternoon that are going to bring information and make presentations to us. The first presentation this afternoon is from the Public Employees Benefit Agency, and we have presenting to us Ms. Kathy Sutherland from the Public Employees Benefit Agency.

Ms. Sutherland: — Good afternoon. My name is Kathy Sutherland. I'm the executive assistant to the assistant deputy minister of PEBA [Public Employees Benefit Agency]. Brian Smith, our assistant deputy minister, was supposed to be here today, but I'm here in his place.

The Chair: — Thank you very much for coming, and do you have a presentation to make to the committee?

Ms. Sutherland: — A very brief one.

The Chair: — Thank you. You can proceed.

Ms. Sutherland: — Bill No. 32, The Superannuation (Supplementary Provisions) Amendment Act amends the legislation governing the old defined benefit pension plans to provide guaranteed indexing equal to 70 per cent of the change in the consumer price index to the pensioners of those plans.

The consumer price index means the average, the annual average of the all-items consumer price index for Saskatchewan for a calendar year as released by Statistics Canada. The amendment is a result of the government's decision to provide guaranteed indexing to pensioners of the old defined benefit plans which include the Public Service Superannuation Plan, the Power Corporation Superannuation Plan, the Liquor Board Superannuation Plan, the Saskatchewan Transportation Company Superannuation Plan, and the Anti-Tuberculosis League Superannuation Plan.

The Provincial Court judges who retired prior to April 1, 2003, and members of the Legislative Assembly who retired under the old MLA [Member of the Legislative Assembly] defined benefit pension plans will also receive the guaranteed indexing of 70 percent of the change in CPI [consumer price index]. Approximately 8,000 pensioners and beneficiaries will receive the indexing if the Bill is approved. Thank you.

The Chair: — Thank you very much, Ms. Sutherland. Are there any questions? Yes, Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you, Mr. Chair. Ms. Sutherland, thank you for appearing before our committee today. I just want

to, I guess, take a step back and review some history on how we've got to this point.

As the official opposition we have been meeting with the retirees associations across the province and individuals across the province, and they expressed some concern to us that they weren't getting a hearing with the government. So as the opposition, we encouraged this group to come to their legislature, to fill the galleries, and that we would ask questions on their behalf and allow the government to, well really, make the government answer those questions on the floor of the Saskatchewan legislature.

We did that, and questions were posed by myself and answers were provided by the Finance minister. And then after question period, the Premier was asked by a number of individuals for a meeting to consult with this group. The Premier offered — and I'm paraphrasing here, and any member can correct me if I'm wrong — the Premier instructed the Finance minister to meet with the group and to consult with the group on many issues, one being the CPI number that obviously this group had asked for some legislation towards.

As the opposition, we brought up examples of what happened in other provinces, in Alberta and in Manitoba, and we encouraged the government to take that consultation seriously to meet with this group. Indeed what happened though was the legislation was brought forward and I'm led to believe with little or no consultation with this group.

Now I guess my question to you was, how much study did PEBA do on the points that were brought forward by the retirees association? The CPI number is one thing, but they've also outlined concerns regarding several other points: legislative indexing, health care benefits, health and dental plan, pension catch-up and several other points. Can you just outline to me the work that PEBA has done?

First of all, what they were instructed to do by the Finance minister and what work has actually been done to look at the concerns of the retirees association.

Ms. Sutherland: — I'm afraid I can't respond to the question of what our direction was from the minister. I know what I was instructed to do, you know, was survey how things are across the country, you know, and that's what we did — you know, looking at the benefits I guess, you know, how they compare right across the country.

Mr. Cheveldayoff: — So you looked at the CPI number that is in Alberta and is in Manitoba and is at the federal level. But did you look at the other areas as well — the health benefits, the pension catch-up, the other points that the retiree associations have made? Did you do an analysis of that? And can you let us know what work, I guess, has been done by your agency whether it was tasked by the minister or not?

Ms. Sutherland: — We did look at some of the issues, yes, looking at what's been done across the country.

Mr. Cheveldayoff: — Were you able to do any cost analysis of those issues and what they would cost the treasury? Were you

able to put some information together for the government to enable them to make that decision?

Ms. Sutherland: — Sorry, I can't respond to that. That wasn't my role. My role was to do the research.

Mr. Cheveldayoff: — Okay. So you can't tell us if any research was actually done then?

Ms. Sutherland: — Cost analysis, there probably is stuff there, but that wasn't my role in this.

Mr. Cheveldayoff: — Okay, okay. Whose role . . . Sorry . . .

Ms. Sutherland: — And really for this particular Bill, I mean it's guaranteed indexing that we were looking at.

Mr. Cheveldayoff: — Well . . .

Ms. Sutherland: — And the indexing across the country.

Mr. Cheveldayoff: — Thank you, through the Chair. Mr. Chair, to the official, we know what the result was, I guess. And what we're trying to find out is, as a result of consultations or internal consultations or internal study that has taken place, we would've hoped that the concerns of the retirees were taken seriously enough that a cost-benefit analysis was actually done. And so if it wasn't your decision . . . or who within the benefit agency would've made that decision or undertaken that study?

Ms. Sutherland: — It would've been a number of people and not just in PEBA. It would've been the people in Finance as well, I'm guessing.

Mr. Cheveldayoff: — Yes, I realize that, you know, certain questions should be posed to Finance officials as well, but with you being here we wanted to find out what indeed PEBA has undertaken for study regarding these issues.

The Chair: — Thank you very much. I'll recognize the member from Last Mountain-Touchwood.

Mr. Hart: — Thank you Mr. Chair. Ms. Sutherland, how many people, retired people would be affected by this proposed change in Bill 32? What are the numbers of . . . And the minister in his remarks, second reading remarks, referred to a number of pension plans. Could you give us a breakdown; would you have the numbers that are associated with each one of those groups? Or would you have a total number?

Ms. Sutherland: — I've got a total number, it's almost 8,000.

Mr. Hart: — Almost 8,000.

Ms. Sutherland: — Yes.

Mr. Hart: — And are these pension plans . . . As people commence employment with various government departments and agencies, are new people being added to these plans, or it's a closed number?

Ms. Sutherland: — These are closed plans.

Mr. Hart: — Okay.

Ms. Sutherland: — When the Public Employees Pension Plan was introduced in 1977, at that the point the current plans were closed to new members. So they're closed plans and they're not accepting any new members.

Mr. Hart: — Did the current members of these various plans have the option to join the new plan? They were given that option at that time.

Ms. Sutherland: — Yes.

Mr. Hart: — But the plans that we are talking about now, that we're dealing with in Bill 32, were plans that were in existence prior to the new pension plans.

Ms. Sutherland: — Yes. And those plans are the Public Service Superannuation Plan, what we call the PSSP; the Power Corporation Superannuation Plan; the Liquor Board Superannuation Plan; the Saskatchewan Transportation Company Superannuation Plan; and the Anti-Tuberculosis League Superannuation Plan. And there's also the Provincial Court judges who retired prior to April 1, 2003, and members of the Legislative Assembly who've retired under the old MLA defined benefit plan are eligible. But the total number is approximately 1,000.

Mr. Hart: — So out of 70 per cent of CPI, if we assume CPI of two and a half per cent or 2 per cent for easy figuring, what would the annual additional cost be compared to no increase. What are we looking at in terms of additional dollars?

Ms. Sutherland: — Let's see, the last year the increase was 2.3 per cent, or that was the change in the CPI, and the superannuates got 100 per cent of that. So if it had been 70 per cent, let's see, I think the cost was about 2.4 million.

Mr. Hart: — For 100 per cent.

Ms. Sutherland: — For 100 per cent.

Mr. Hart: — Okay, okay. Well that at least gives us some sort of an idea of the magnitude of additional dollars that we'd be looking at. Thank you.

The Chair: — Thank you very much. Are there any further questions? Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you, Mr. Chair. Ms. Sutherland, were you employed by PEBA back in October 2000?

Ms. Sutherland: — Yes.

Mr. Cheveldayoff: — Do you recall the Finance minister at that time undertaking or directing PEBA to look at the possibility of Saskatchewan government retirees being rolled into the current plan at the time? Like, I believe it was Minister Cline that at that time had proposed that information.

Ms. Sutherland: — Can you repeat that?

Mr. Cheveldayoff: — Back in October 2000 when Minister

Cline was approached by the retirees and asked for assistance to redress their concerns, his suggestion — the information that I have — was that government retirees be included with current employees at the time in the group benefits program. The decision was made at that time that only those that retired after October 1, 2000, would be included. And I guess the question that I'm leading to is why that decision was made not to go back any further. Do you have any knowledge in that regard? I realize it's quite a specific and technical question.

Ms. Sutherland: — Yes. Sorry, I could dig through files and find out, but . . .

Mr. Cheveldayoff: — Yes.

Ms. Sutherland: — No. Sorry.

Mr. Cheveldayoff: — Okay, no. I will accept that you don't know that. We'll have several other questions, but I think that for procedure-wise it'd probably be best if we allow others to present and then, you know, ask questions based on their presentations as well.

The Chair: — Thank you very much. Mr. Lautermilch and then . . .

Hon. Mr. Lautermilch: — Mr. Chair, just with respect to the parameters of the questions, these questions would appear to me to be very much questions that one would pose in estimates where officials, a broad base of officials from PEBA including Mr. Smith who's the senior official dealing with this issue, would have support staff to be able to deal with more detailed questions.

My understanding is that we are here to hear the presentations from the different groups that we have scheduled on the legislation itself and what the legislation deals with. And so, you know, I do understand the, you know, the questions, the nature of the questions. My comments would be that, without a broad range of officials, it's very difficult for one official who is charged with individual and specific initiatives within PEBA, that drafting and bringing forth the legislation. So I would just ask you to keep that in mind as we go through these discussions.

Some of them I'm sure the presenter would have no way of knowing as it's not the scope of her job, nor the scope or the nature of her work. So I would ask you to keep that in mind as we go through the deliberations.

The Chair: — Thank you very much. But I would point out to all members of the committee that the first presenter was in fact the Public Employees Benefits Agency, and they had the opportunity to bring all of the officials they felt necessary to bring. I'll move to Mr. Weekes next.

Mr. Weekes: — Thank you, Mr. Chair. We in the official opposition, the Saskatchewan Party, were looking forward to these public hearings and asking questions on behalf of the retirees. And we have a number of presenters from the retirees' association coming up, and we find that very important. But I'd like to just go back to the process, to the date. Mr. Brian Smith, the assistant deputy speaker, is on the original schedule to be

the presenter here, and we were expecting that he would be here or his officials would be here, that they would be able to answer the questions that we have been answering.

And I'd just like to make the request, if the questions that Mr. Cheveldayoff has been asking that weren't answered, could we get those questions answered in writing some time in the near future? We will be voting on this Bill after we're sitting, and we'd like to have the answers to those questions before we vote on this Bill, and so I make that request.

And no slight to the individual who was here today, we just expected Mr. Smith to be here and have the depth of information that would be required to give us more insight into this Bill and the process behind how the Bill was developed.

The Chair: — Thank you very much. Ms. Sutherland, can you undertake to review the *Hansard* and in fact reply to those questions to myself and I will have them distributed to the members of the committee. Thank you very much. Ms. Crofford.

Ms. Crofford: — I do have one question that I think was within the study that you did. And I do agree, by the way, that it would be preferable to have Mr. Smith answer the questions. You did a comparison across Canada. Can you tell us how we compared, well for example, with our two neighbouring provinces, Alberta and Manitoba.

Ms. Sutherland: — Yes. Alberta provides, I believe it is 60 per cent of the CPI to their superannuates, and Manitoba provides sixty-six and two-thirds, so 70 per cent is higher than either Alberta or Manitoba.

Ms. Crofford: — Okay. Thank you very much.

The Chair: — Thank you. First time speakers will go to Ms. Hamilton and then back across. Ms. Hamilton.

Ms. Hamilton: — I think further to Ms. Crofford's question, I know when you were looking at the information you also would take into consideration what other pension plans are available in Saskatchewan. So for example if you were doing a comparison to something that was a SaskTel plan or another plan, are there caps in place or are there percentages in place for those plans? And when you're doing work at looking at the sustainability of the decision we're making, would you do projections on the plan?

I guess just the very basic of information. If you want to look at some form of indexing of a plan or putting a formula like this in place, you would look at the plan itself, have someone look at the amount available, and what you can project with the drain on the plan. If you could answer those questions, thank you.

Ms. Sutherland: — In terms of caps I'm just looking at the Saskatchewan plans. The SaskTel superannuation plan provides indexing of 100 per cent of the CPI to a maximum of 2 per cent, so it's capped at 2 per cent. The Saskatchewan Government Insurance superannuation plan provides indexing of 100 per cent with no cap, and the Saskatchewan Teachers' Superannuation Plan provides indexing of 80 per cent of the CPI. And then just fairly recently the Workers' Compensation

Board also decided to provide indexing of 50 per cent of the CPI to a maximum of 2.5 per cent.

Ms. Crofford: — Did you say 1.5 or 2.5?

Ms. Sutherland: — For . . .

Ms. Crofford: — The last one.

Ms. Sutherland: — 2.5. And I'm sorry what was the second part of your question?

Ms. Hamilton: — Well the next question is how would plans in general . . . when those organizations or we're looking at the plan that's under discussion, what would be the background information you would look at to determine what cap could be put in place or what percentage would be put in place? What are some of the considerations you would follow and how did you determine that? Someone said, was there a review done? But I'm wondering what input do you have. For example do you look at with an actuary how much is in the plan, how it might flow out in future years based on inflation averages? Like what would we do to arrive at the recommendation before us?

Ms. Sutherland: — The big component would be the actuarial evaluation. And what you would do is look at the current benefits being paid now and then look at, you know, any sort of, well, indexing for example — what would the impact of that be over the life of the plan. And with these plans, they're closed plans, so at some point in the future all of the benefits being paid to, you know, the pensioner and their beneficiaries will have been met.

So what you have to do is look at, from basically this point, you know, into the future, what is this particular benefit going to mean to the plan? And of course if the Bill is passed, what will happen is the 70 per cent of the CPI . . . or the change in the CPI for this year, that'll be included next year. So it'll be their pension plus the 70 per cent from this year, and then the 70 per cent on top of that in the future years. So it's compounded.

The Chair: — Thank you very much. I think we have one final question on this part. Mr. Hart.

Mr. Hart: — Thank you, Mr. Chair. Ms. Sutherland, when you looked at what pension plans were being offered to retirees in our two neighbouring provinces, I believe you said Alberta — if I heard correctly — Alberta's at 60 per cent and Manitoba's 66.7 or in that neighbourhood. But do you know, do they also offer additional benefits such as health and dental and death benefits, those sorts of things? Do Manitoba and Alberta also have that part of their overall superannuation plans for their retirees?

Ms. Sutherland: — I'm sorry. I don't know.

Mr. Hart: — You don't know. Okay. Thank you.

Ms. Sutherland: — But I do know that Saskatchewan is quite unique in terms of its pension plans, specifically with our closed plans. In a lot of the other provinces, their defined benefit plans are still open, so they're accepting new members. And in a lot of . . . in fact in, I think it's most of the other provinces, the cost

of indexing is worked into the contribution rates. So what ends up happening is that basically the employees are contributing to the cost of the indexing.

The Chair: — Thank you very much. And thank you very much, Ms. Sutherland, for coming this afternoon. We do appreciate it.

With that, we will move on to our next presenter which will be the Power Pioneers Association of Saskatchewan. Mr. Shepherd, could you introduce yourself and your colleague to the members of the committee.

Mr. Shepherd: — Yes. My name is Jack Shepherd, and I happen to be at this point in time the president of the Power Pioneers Association of Saskatchewan. And to my right is Hugh Hubenig who is the secretary of our association.

The Chair: — Thank you. Do you have a presentation, Mr. Shepherd?

Mr. Shepherd: — Yes we do. Before I start, Mr. Chair, what I'd like to do is, as we go through the presentation, when I come to the attachments, I would then like to present the attachments for the benefit of the people that have never heard them before.

So, Mr. Chair, we thank those MLAs responsible for giving the Power Pioneers Association an opportunity to make this presentation on behalf of our membership. Copies of the presentation, together with two attachments, have been circulated to all committee members — I hope.

The Chair: — Yes.

Mr. Shepherd: — Our presentation to the Premier — in attachment 1 — our presentation to the Premier and Minister of Finance on July 13, 2006. The attachment is provided to give you general information on our position and forms the basis of today's presentation. And at this point I'm going to read the presentation to the Premier on July 13, 2006:

The Honourable Lorne Calvert, Premier of Saskatchewan

Dear Premier:

First, we wish to thank you, for giving us this opportunity to present the Power Pioneers Association of Saskatchewan's position on the subject of pension indexing, in relation to our Saskatchewan Power Corporation pension Plan (The Old Plan).

As you are aware the Old Plan, henceforth called "The Plan" or "Plan", is a defined benefit plan that was closed to all future employees of SaskPower after October 1, 1977. As of December 31, 2005, the Plan membership consisted of 527 active employees, 1724 superannuates or spouses who draw benefits and 24 members who are eligible to receive a deferred pension, for a total membership of 2275.

Since 1985, the Lieutenant Governor in Council can provide ad hoc increases to superannuate allowances, by a portion equal to or less than the average Consumer Price

Index, as it applies to Saskatoon and Regina, clause 36.1(a) and 36.1(3) of the (Superannuation Supplementary) Provisions Act . . .

From 1985, the governments of the day have provided ad hoc pension increases in 14 of the 21 years up to and including 2005. During the first 6-year period 1985 to 1990, we missed only one year where no ad hoc increase was provided. Since 1991, in a fifteen (15) year span, we have had 6 years of zero ad hoc increases. This is certainly not an enviable position we as superannuates have had to endure. These actions by government, have taken a severe toll on the ability of our plan members to maintain their financial independence. Many of our members have resorted to applying for financial assistance from Federal Government programs.

The Plan, which includes a . . . [50%] Consumer Price Index . . . component built in to the plan liabilities since 1995, has been virtually fully funded over that time period. Indeed the Plan had very healthy surpluses from 1996 up to and including 2001. A maximum surplus of 102 million dollars was recorded in the year 2000. Given the financial integrity of the pension funds, the government would have an extremely difficult task convincing any of our members, that their best interest have been and are being served. Cumulative ad hoc increases awarded to superannuates over the past 15 years amount to 13.6%. CPI on the other hand, has increased by 43.6%. With all due respect, if government thinks awarding 100% of CPI in 2006 or 2.3% on benefits paid, dissolves them from the disparities that have prevailed over the past 15 years, between our plan and other provincial plans about to be discussed, then this government is very much mistaken.

Let us review the negotiated benefit improvements of both SaskTel and Workers Compensation Board. These Crowns moved their pension plans from under the Superannuation (Supplementary Provisions) Act to the Pension Benefits Act. In SaskTel's case, they receive 100% of CPI to a maximum of 2% for annual indexing. Workers Compensation Board receive 2.5% indexing or 50% of CPI whichever is less. However Workers Compensation Board have another clause in their agreement, which can increase indexing to 100% of CPI subject to the financial success of their Pension plan. Both these Crowns also had their superannuation allowances revalued, by using the best 3 years instead of 5 years average salary in pension calculations. SGI yet another Crown, resisted being moved under the Supplementary Provisions Act. SGI have gone their own way with their pension plan. Superannuation allowances are based on the best 5 years average salary as it is in our plan. SGI has enjoyed ad hoc increases each and every year since 1991 without interruption. These cumulative benefit increases amount to a total of 36.9% through 2005. How, one may ask, can SGI increase superannuation allowances by 36.9% while another Crown, SaskPower, awards its plan members 13.6% over the same period, a difference of 23.3%. It is very apparent there are no set policies in place that address equity and fairness for retirees in government pension plans.

Finally, let us review the Teachers Pension Plan. They use

the best 5 years average salary in superannuation allowances. They also have 80% of CPI as annual indexing, all guaranteed by government. In fact Mr. Calvert, this government, while in official opposition to the Conservative party in power, stated through the Honorable Member of the Legislative Assembly, Ms. Pat Atkinson on June 13th, 1991, that the NDP Caucus was fully supportive of "Bill 82 — The Act Implementing certain provisions respecting Pension Benefits for Teachers". Mr. Premier, we believe that you were a member of the official opposition during the implementation of Bill 82.

On May 16th, 2006, the Honorable Andrew Thomson, Minister of Finance, responded to many petitions put forward by the Saskatchewan party expressing concern on the gross inadequacies of pension benefits, as provided to provincial government retirees. Mr. Thomson espoused entertaining 60% or some appropriate figure, which would be reasonable for indexing of the provincial government pension plans. The actual figure was to be determined before commencement of the fall session of the legislature. We as members of "The Plan", fall under the same Superannuation (Supplementary Provisions) Act as do government superannuates. It follows therefore, we must have input into any decisions which affect the Act and our members. Mr. Thomson mused during question period, that Alberta and Manitoba provincial superannuates receive 60% and 66.6% respectively. We on the other hand, do not think indexing alignment with our provincial neighbors is acceptable or indeed necessary. The information provided in this presentation, on indexing received by our provincial counterparts, should suffice in determining the proper and just value of indexing to be applied to our plan and that of the provincial superannuates through the Superannuation (Supplementary provisions) Act.

We the Power Pioneers Association, with total support of representatives of all active Plan members, hereby recommend to this government, they recognize the anomalies of the past and bring retirees up to the same status enjoyed by superannuates of the Teachers Pension Plan, that is indexing at 80% of CPI on an annual basis. Anything less Mr. Premier would be considered blatant discrimination against our members by this government. We also recommend the costs of such indexing, be funded through the annual revenues of SaskPower, just as the government will have to provide the indexing cost through general revenues to the provincial superannuates.

Lastly Mr. Calvert and on a different subject, we recommend your government as the shareholder of SaskPower and representing the people of Saskatchewan, support our position by directing SaskPower to return to the negotiating table. An attempt at resolving the outstanding issues contained in the 10 year old lawsuit should be made prior to proceeding to trial. All stakeholders are in favor of this exercise with the exception of SaskPower.

This presentation is made on behalf of the members of the Power Pioneers Association of Saskatchewan Inc.

J. Shepherd, President
 Hugh Hubenig, Secretary
 Hank Heerspink, Past-President.

I'll go back to my real presentation now, attachment 2. Attachment 2 is a table showing the pension discrepancies experienced between SaskPower and SGI retired personnel, given the same starting pension benefit. See attachment 2 for assumptions. SGI was chosen for comparison as their plan is similar to the SaskPower pension model. It must be realized however, SGI's plan was never subjected to The Superannuation (Supplementary Provisions) Act. The decision to provide annual ad hoc benefit increases to SGI retirees was left at the discretion of their board of directors.

Now the attachment, attachment 2, is basically a table which, on the left-hand column, vertical column, is the years 1991, '2, '3, etc., down to 2005. Adjacent to that is the SPC [Saskatchewan Power Corporation] ad hoc percentage increases as it was applied in the particular years that we got such increases.

The next column to that is the SPC pension income. And we started with a pension income of 20,000, an annual pension income 20,000. And I'll get back to that later on. And therefore that pension was increased as the years rolled on by the percentage of ad hoc.

In the third column we have the SGI ad hoc percentage increase. And in the fourth column, the same 20,000 starting point, it shows how the salaries or the annual income for the retirees of SGI have accumulated over the years. Column 5 is the difference in pension income, the difference between the SGI retiree and the SaskPower retiree in any given year. And then in column 6, what I've done here is I compounded the actual individual years to bring it up to 2005. So column 6 is showing, in respect to the column 5, it's showing the 2005 value, the 2005 valued dollars with respect to column 5.

There were some assumptions there and what we've done is we said SPC and SGI employees retired on March 1, 1991, when each started pension benefits of 20,000. Now they could've started January 1, 1991. The only reference I make there is that normally ad hoc starts on April 1 of each year, so any time before April 1 each year, these people could've retired on 20,000. That was the base. Then at April 1, 2000, ad hoc would take effect if it was being applied. And in the second bullet there you'll see, effective April 1 each year, ad hoc benefits, if any, are applied.

Pension incomes are for a 12-month period, April 1 to March 31 of the following year. In other words it's not a calendar year we're looking at here, it's the year between ad hoc increases. And then in column 6 the pension difference in any year, which was column 5, compounded at a nominal 5 per cent up to 2005, that is to express the various yearly differences in 2005 valued dollars. I'll go back to my original presentation again.

Now let us move on with our presentation. First, Mr. Thomson, Minister of Finance, is to be commended for introducing Bill 32. He expressed at our July 13 meeting a desire to move new legislation during the 2006 fall session on pension reform. The minister was as good as his word on this very contentious issue. Annual pension indexing and removal of government controls

through the ad hoc clause will certainly alleviate some of the frustrations experienced by our members over the years.

On the other hand, the Finance minister must be condemned for not listening to our arguments on the level of indexing to be applied.

We were neither looking towards negotiating or bargaining when calling for a minimum threshold level of 80 per cent of CPI annually. That is the level of indexing enjoyed since 1993 by the Saskatchewan teachers pension plan. SaskTel, since exiting the supplementary provisions Act in 1999 and negotiating a new indexing agreement in 2001, has received on average 85 per cent of CPI. SGI retirees have also received benefits averaging 85 per cent of CPI since 1991.

Comparison with other provinces was strangely enough not on our horizon. I say strangely enough as it is normal to search outside provincial boundaries when looking for reasons to support the position on wage or benefit improvements. We take the approach, if you look at what other provinces provide for indexing, then other issues come into the equation — for example provincial and local taxes, health care, and other benefits which may have the potential to improve quality of life. All we ask and indeed expect is equity and social justice as it applies to our counterparts in the province we call home.

These are essentially the reasons why Bill 32 as presented is unacceptable to our membership. Certainly 70 per cent is more tolerable than the abyss we have languished in during the last 15 years. However, what Mr. Thomson expects us to accept under Bill 32 will continue to leave us further and further behind the teachers of this province, SaskTel and SGI retirees in future benefit provisions.

Mr. Calvert has stated on many occasions during 2006, and I quote, "No one should be left behind on the road to opportunity." Here we have an ideal opportunity to follow through on the Premier's declaration that no one should be left behind. Unfortunately government is about to default on Mr. Calvert's statement if Bill 32 is moved in its present format.

It is sad that words purported to be so meaningful by such high authority as the Premier are found to be so empty and lacking substance when challenged.

The Power Pioneers Association have lobbied government on pension benefits since our inception in 1996. Our organization was formed through necessity. Increases in benefits under the supplementary provisions Act in 1991 and '92 were zero. Increases in '94 and '96 were also zero. These zeros represent huge discrepancies in benefits to our members compared to other government plans. The treatment received from government during that time was the catalyst in forming our association.

How do I say to a retired lineman from SPC who froze his butt off year after year in sub-zero weather conditions keeping the lights on in this province that, you did a good job but its worth will not be recognized by government at the same level of a SaskTel counterpart? How does one say to a retired accountant from government finance that his dedicated service to the province does not come close to government's recognition of a

retired insurance adjuster who worked for SGI?

If Bill 32 goes forward with 70 per cent indexing, the situation we have today will only continue to exacerbate. Public civil servants and SaskPower employees paid the same contributions into their pension plans as did the teachers, SGI, and SaskTel. Governments of the day chose to annually spend the pension contributions of civil servants. They said, trust us; we will look after you in your retirement years. Now government places a dollar restriction on evaluating the benefit entitlement of those provincial civil servants. We say shame on you, Government of Saskatchewan.

SaskPower has virtually a fully funded plan which includes a 50 per cent indexing clause. The SPC retirees have never come close to receiving 50 per cent of CPI over the years. Our plan is equal to or better financially than either SGI or SaskTel, unless these Crowns have injected much more funding into their plans in recent years than the contributions provided by SaskPower.

The chart presented as attachment 2 shows the losses incurred since 1991 for an SPC retiree compared to an SGI retiree. We conclude the staggering loss experienced by the SPC retiree, some \$55,000 in 2005 valued dollars, is simply due to being imprisoned under the supplementary provisions Act and government's control of the ad hoc clause. If the loss to the SPC retiree or for that matter government civil servant is extrapolated over 6 to 8,000 retirees who drew similar benefits over the period 1991 to 2005, then it can be conservatively estimated government has milked 300 to \$400 million on the backs of these unfortunate people for use in other areas.

In summary what was expressed earlier in this presentation bears repeating — all we ask and expect is equity and social justice. This is not possible with Bill 32 as it stands. Government will create another class of retiree — the third-class retiree. We have been sacrificial lambs of government long enough. The unjust differential in pension benefits between pension plans contained under the supplementary provisions Act and other government plans outside the Act cannot be allowed to continue. We expect as a minimum the same threshold level of 80 per cent enjoyed by other plans mentioned in this presentation. Anything less will be perceived as a detrimental act by government against their members.

We thank the committee for giving us the opportunity to express our position on Bill 32. We trust you will seriously consider this presentation, the information contained therein, and make your recommendations accordingly. Thank you on behalf of the Power Pioneers Association. Jack Shepherd, president; Hugh Hubenig, secretary.

The Chair: — Thank you very much, Mr. Shepherd. I have so far on the speaking list, Ms. Crofford. Would you proceed.

Ms. Crofford: — Okay. And I'll just start out first of all, so you know, where on a broad social justice issue I have a lot of empathy with the fact that it's just hard to live on income that continues to drop. However having been a member of the collective bargaining committee for many years in cabinet, we sat through many arguments by the representatives of the unions and the Crowns that each Crown should be able to

bargain their own conditions; each Crown should be able to decide what per cent of the total bargaining allocation went into pensions or salary or holidays or whatever.

And I guess that what I am struggling with here is the fundamental change this suggests in the whole basis of which negotiations have occurred over the years because we sometimes from the management perspective — as management as we get on our side of the table — suggested that perhaps we should have a uniform mandate across the Crowns. And the employees argued rigorously that they made the money in SGI or they made the money in SaskPower or they made the money in SaskTel so they should be able to benefit from the profitability of the particular corporation they worked for.

And so, I mean, forget that for a minute, but from the point of view of economic adequacy I understand the argument. But I'm wondering what the argument does to some of the fundamental principles of bargaining that have existed over the years.

Mr. Shepherd: — When you talk bargaining, I know that I've talked to the IBEW [International Brotherhood of Electrical Workers] members and their committees and their whatever, and they have said that to bargain for benefits was not a given at any bargaining table that they sat at. It was not a given because the government controlled the supplementary provisions Act, and they were adamant that that would never change.

Now the supplementary provisions Act governs our pension plan so when we had millions of dollars in surplus, we couldn't use it. We couldn't give it to the members as a benefit because we're imprisoned under this Act which is controlled by government.

Ms. Crofford: — I think I understand that now. And so one would have to look at the provisions of the supplementary provisions Act.

Mr. Shepherd: — Which take precedent over the individual Acts underneath it like SaskPower and the government civil service . . .

Ms. Crofford: — You know, I'll just mention I've sat through I don't know how many presentations for pensioners year after year, and, you know, year after year you'd make the arguments, and year after year some of us would make the arguments. But I never quite understood this part of it, and so I'm going to get a copy of this legislation and try to understand how this has affected this because this particular piece is something I haven't really understood in the whole discussion.

Mr. Shepherd: — Well that's basically why SaskTel ultimately negotiated out from underneath the supplementary provisions Act. And since they moved out and since they got their indexing in 2001, they have now got 5.9 per cent more since 2001 to 2005 — 5.9 per cent more in indexing than what we've had. Why? Because two years the government said, no increases — even though our plan was healthy, no increases. So I mean although we lost, we had four zero increases back in the '90s, the early '90s to mid-'90s, come 2000 we had the zero increase in 2002 and a zero increase in 2004. Yet SaskTel, because they bargained out, continued to get their 2 per cent. Different plan now.

Ms. Crofford: — And I'll just thank you for that now and I'll get Kevin to explain it to me more later because he's the guy who understands this stuff really well.

The Chair: — Thank you. Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you very much, Mr. Chair, and thank you very much for the very detailed and very thought-provoking presentation that you made. The area that I want to concentrate on is in your attachment no. 1 on the second page, the second paragraph. And I'll just read the first part of it. It says:

On May 16th, 2006, the Honorable Andrew Thomson, Minister of Finance, responded to many petitions put forward by the Saskatchewan party expressing concern on the gross inadequacies of pension benefits, as provided to provincial government retirees. Mr. Thomson espoused entertaining 60% or some appropriate figure, which would be reasonable for indexing of the provincial government pension plans. The actual figure was to be determined before commencement of the fall session of the legislature.

If you could expand on that last sentence that the actual figure was to be determined before the commencement of the fall sitting of the legislature. Can you tell me your impression, how that number was to be determined? Was there any consultation? Did the government give you any assurances that some consultation would take place?

Mr. Shepherd: — They led us to believe consultation would take place. Like, when Mr. Thomson was in the legislature and you people had brought petitions forward for the government civil service that day, he talked, you know, in terms 60 per cent. And then during question period he talked what Alberta was doing, what Manitoba was doing, but then it was two months later when we had our meeting with the Premier and Mr. Thomson. At that point halfway through the presentation the Premier had to leave but Mr. Thomson stayed and so did Brian Smith, for that matter. He was involved in it.

So we were talking away and Thomson said, we'll probably get back to you to help us decide what the outcome of this thing's going to be. Now to me that was the impression was, okay they're going to ask us sit down and talk on this thing but that never materialized. There was no discussion.

Mr. Cheveldayoff: — You see, to me that is the crux of the matter. And, you know, I was the one from the opposition side of the House that was able to ask the questions of the Finance minister that day. And, you know, I was the first to admit we don't have all the answers. But we look at the other provinces — we look at the 60 per cent that Alberta had, the 67 that Manitoba had — the 80 per cent that the teachers had, the 100 per cent that the federal government had, and what our message to the government was, consult with these people and come up with a settlement that they can prove to you was appropriate. And my recollection was that the Premier made the commitment in the rotunda to have a meeting with your group, I think, within two weeks is what he said. And then I remember . . . [inaudible interjection] . . . And it actually happened within two months. And I stand to be corrected on those, on those timelines.

But to me the whole reason that we are sitting here today and talking about this is that the Finance minister chose not to consult with your group or any of the other groups sitting here today or indeed any of the individuals across the province. And I think that is totally unacceptable. And, you know, I'm very concerned for, you know, if indeed he did make that pledge to you that he didn't follow up on that.

Mr. Shepherd: — I think I received a phone call from Andrew Thomson the Thursday before the first reading of the Bill — which was a Monday if I recall — November 17. The Thursday before, I got a phone call from him and he said, Mr. Shepherd, we're going to go ahead with 70 per cent. And I said to him at the time, well what if our people are angry when you talk 70 per cent? It's not what we asked for, and it's not near the same as the other plans. And his comment was that, well surely 70 per cent is better than Manitoba; it's better than Alberta; they should be quite happy with that. And that was the extent of the conversation.

The Chair: — Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you, Mr. Chair. Part of the problem that I have as the Finance critic and in bringing this forward, I don't have all the information of the costs. I don't know exactly what it's going to cost the treasury. That's why I asked questions like I did earlier of PEBA, and I will ask and have asked and will continue to ask in estimates.

But what we are asking the government and what we will continue to ask them is to consult with people like yourselves and to come up with a reasonable . . . not just to pull out a number. Yes, you know, 70 per cent maybe seems to make some sense when you look at the provinces that border us, but there's also extenuating circumstances. There's also, you know, health benefits that are included in some, not all, but there's different circumstances in each. You can't just look at those numbers.

So you know, what I say to you today is that we will continue to press the government to undertake those consultations that they did not take during the drafting of this legislation and the announcement by the minister. And you know, really as an opposition that's really all we can do. We can't put forward a money Bill to increase it to 80 per cent or to 100 per cent because an opposition isn't allowed to do that. But we can make a recommendation to the government that they undertake those kind of consultations that they said they would, and by your testimony they haven't. Thank you.

The Chair: — Seeing no further speakers, Mr. Shepherd, thank you very much for your presentation.

Mr. Shepherd: — Can I have another five minutes just to go through that post-presentation discussion? Or do you want to . . .

The Chair: — We will take an opportunity to read that. We are at a point where we need to move to the next presenters.

Mr. Shepherd, thank you very much. These processes are always very valuable. We all learn from the opportunity to have these discussions. So thank you very much.

Mr. Shepherd: — Thank you for having us here today. Thank you.

The Chair: — Thank you. The next group presenting is the Saskatchewan Federation of Union Retirees.

Mr. McGrath: — Thank you, Mr. Chairman. My name is Blake McGrath. I'm the president of the Saskatchewan Federation of Union Retirees. With me is Gib Todd, who's the first vice-president of the same organization. And thank you for inviting me to present our views on Bill No. 32, The Superannuation (Supplementary Provisions) Amendment Act, to the Standing Committee on Economy on behalf of the Saskatchewan Federation of Union Retirees.

The subject matters allows me to be very brief. It is the official and unanimous position of the SFUR [Saskatchewan Federation of Union Retirees], which represents and lobbies on behalf of retired union workers and seniors, that the pension indexing should be set at 100 per cent of the cost-of-living increase. Any amount less than 100 per cent would result in a significant erosion of the disposable income of retirees. When increases in the rates of electric, gas, telephone, insurance are announced, they are not discounted by 30 per cent.

With me today are several members of the SFUR, many of whom have provided many years of dedicated and faithful service to the Government of Saskatchewan. And now as retirees when they are at the checkout counter in a Safeway or Canadian Tire store, the clerk does not say, oh you're a retired Saskatchewan government employee; as such you're entitled to a 30 per cent discount. How can the Government of Saskatchewan, as the former employer, justify anything less than 100 per cent of the cost-of-living adjustment?

Thank you for entertaining our views in this matter. If there are any questions, I'm prepared to respond to them.

And I'd just like to add at this time that today is March 1. Anyone retiring yesterday would start today with his next month's paycheque be significant less than the cheque for February — 20, 30, 40, maybe even as much as 50 per cent. So he starts out the month quite significantly less than what February's paycheque was. At the end of March it will be, as I said, significantly less. So he's already behind. And as he goes through his retirement life, however long that lasts, you're asking him to be behind another 30 per cent on top of that. Depending on how long you live, you could have very little value and a significant change in your quality of life.

And I'm prepared to answer any questions that you might have.

The Chair: — Thank you very much, Mr. McGrath. Are there any questions at this time? Mr. Hart.

Mr. Hart: — Mr. McGrath, just for information purposes, can you explain who your members are? I realize that you're retired civil servants, but there's also another organization, the Sask Retirees Association. What is the difference between your organization and that organization in the membership makeup and so on? And how many members would you represent?

Mr. McGrath: — We represent some 4,000 members, I

believe, through affiliates throughout Saskatchewan, about half a million people across Canada. And our members are made up of anyone that has been a union employee or union member at any time, whether he comes from management or wherever. It doesn't matter where he comes from. He can be a member of our organization — any union, any employer — as long as he's a senior and a retired worker.

Mr. Hart: — Thank you for that.

The Chair: — Thank you very much. Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you, Mr. Chair. A question similar, on the similar lines to my previous questioning. Was any consultation undertaken by the government with your organization regarding this, either from the Premier himself, from Executive Council, from the Finance department or from the pension benefits agency?

Mr. McGrath: — No. There was no consultation. Perhaps that is because we're not known as representing the broad base of representation that I've just explained to you that there was no consultation. I was invited by the chairman, Mr. Yates, to attend here and make this presentation.

Mr. Cheveldayoff: — Thank you very much for your answer. I'm just trying to determine, I'm asking everyone if any consultations whatsoever took place. I haven't heard that any have but I wanted to extend the courtesy of asking you the question as well. Thank you for your answer.

The Chair: — Thank you. Are there any further questions? Yes, Ms. Crofford.

Ms. Crofford: — Now I'm a social policy person by background. I worked at the Faculty of Social Work before, and I know, for example, that 45 per cent of people in Canada have actual pensions with employers. The rest depend on some combination of . . . I was shocked, actually, when I heard those numbers. I think that's appalling. But there's some combination of CPP [Canada Pension Plan] and the supplementary pension for . . . Now because I'm not retired yet, but I'm going to be next year and you're scaring the hell out of me, how does the . . . [inaudible interjection] . . . Patience is a virtue. Anyway, the supplementary part that's provided through the various, I guess, programs to address need, do those affect your group at all or are your incomes not at the level that that would be very helpful?

Mr. McGrath: — Well I would think that those programs can be affected to any group, whether it's our group or not. Let me give you a little bit of history. The magic age of 65 came out of Germany I think in the last century. Unfortunately at the time they arrived at the age of 65, life expectancy was 58 and 60.

Even I guess I was guilty myself when I was younger of not thinking too much that I'd ever get old. But I can tell you that every bit of . . . There's never been any handouts or anything easy for seniors. As I just explained, how they hit on the magic age of 65 years of age. Now you can see what has taken place.

And you're not much different than other jurisdictions, as has been pointed out here, on offering 70 per cent. But 70 per cent

will not do it. You need 100 per cent. And you think because we're seniors that a loaf of bread costs less? In fact, we have as many or maybe even more expenses than we had when we were working and had coverage for all of the social things that we needed, which were cut off at that magic number 65 for most of us.

I'm fortunate my benefits are still looked after. But the people I represent — 99 per cent of them — they aren't. So I don't know if I've answered your question, but there is clawbacks as well. You don't have to earn very much pension from your employer, whether it be government or the private sector, you don't have to have a very large pension to have things like the OAS [old age security] and other things claw it back.

Ms. Crofford: — Yes, that's what I'm not sure of — where the breaking points are there.

Mr. McGrath: — I couldn't . . . I don't want to quote because I'm not sure.

Ms. Crofford: — No, we'll get some financial wizard to figure that out. But I wondered if that solves the problem at all. But it sounds like you're saying no, it doesn't.

Mr. McGrath: — No it doesn't. Because as people are living longer now . . . And as I say, you start out the very next day you retire, you start out with a form of reduction in your take-home pay of anywhere from 25, 30, maybe 40, 50 per cent. Then this thing called COLA [cost-of-living adjustment] or indexing that is in place to try and help offset the added cost as the CPI goes up as the cost of living — it's not 100 per cent. So you're getting reduced there, and you're reduced already.

Ms. Crofford: — Thank you. And there's nothing like being close to the magic number that sharpens up your concern over it. So thank you very much.

Mr. McGrath: — Or Conrad Black that stole a pension plan from people. It sharps, smartens you up pretty quick too.

Ms. Crofford: — Yes.

The Chair: — Thank you very much, Ms. Crofford. Are there any other questions? Seeing none, I'd like to thank you, Mr. McGrath, for your presentation. At this time we will take a 5-minute break before our next presentation and give them a chance to get settled in.

Mr. McGrath: — And thank you for allowing me to come here, and if you want to see the face of the people I'm talking about, we've got a number of your previous employees that served this province well at the back of the room. Thank you.

The Chair: — Thanks very much.

[The committee recessed for a period of time.]

The Chair: — Could I have the members take their seats, please. Thank you very much. Members, I'd like to call the meeting back to order. We now have with us the Saskatchewan Retirees Association and Mr. Alf Zimmerman, president. Mr. Zimmerman, would you introduce yourself and your colleague

to the members of the committee, please.

Mr. Zimmerman: — Mr. Chairman, I'm Alf Zimmerman. I'm president of the Saskatchewan Retirees Association. Beside me is Mr. Frank May. He's the vice-president of the association. I'll be making a presentation on behalf of some 8,000 superannuates of the province and we hope that at the end of the day your committee will bring in a truck of money to distribute to all of our members.

The Chair: — Thank you, Mr. Zimmerman. Will you proceed with your presentation.

Mr. Zimmerman: — Thank you, Mr. Chairman. I have, to start with, a couple of quotes. The first one is from one of your government colleagues and it says:

Benefits earned during a life of hard work must be secured and protected. Retirement should be a time of comfort and enjoyment, not a time dominated by financial stress and worry.

The second comment I have is a comment made by a senior Saskatchewan pension official who indicated that the Public Service Superannuation Plan provides the worst pension payment of all pension plans he is aware of. Interesting comments.

We have before us Bill No. 32. We say it's a nice start, but there's still some distance to go. We believe from our experience that Saskatchewan government retirees have been treated less fairly than many other provincial retirees. The Saskatchewan Retirees Association is here today to provide the government yet another paper detailing our situation and what we believe we have paid for and what we believe we are entitled to.

But I'd first like to start by briefly discussing, what is a pension plan? We believe a pension plan is loosely defined as the setting aside of current dollars, investing them to earn income, and from the accrued amount provide future payments to the benefactor once his contributing or working days are over. Many politicians and others often refer to these payments as deferred income.

We are told in Saskatchewan the law requires that separate accounts be established for pensions and that the contributions of members and their employers be deposited into those accounts to earn income. Actuaries tell me, as does PEBA, that as a general rule some 80 per cent of the subsequent payments from these plans come from pension income. These funds, these pension accounts often earned enormous amounts of income which in turn could support the pension payments but also pension embellishments including COLA, health, dental, and other benefits.

One example, and that one quickly comes to mind, is the University of Saskatchewan faculty pension fund. Around the year 2000, give or take, the U of S [University of Saskatchewan] was advised that their fund had grown to accumulate a surplus well exceeding its expected future needs and that the surplus had to be reduced. Ultimately the U of S divvied up \$115 million of surpluses from the faculty pension

fund.

Through this process some professors received cheques worth hundreds of thousands of dollars, and I'm told a few got cheques of over a half a million. With the pension contributions and the return on investment, the fund had sufficient money to sustain comfortable pensions, support improved benefits, and provide these excess payments as well.

What is clear? It's clear that the university accepted seriously its fiduciary responsibility of the faculty pension fund and invested those funds wisely.

The SRA [Saskatchewan Retirees Association] is also aware that the teachers' pension plan, since funding was established by the province, grew from \$200 million to over 1 billion in ten years. These desirable pension situations are due to the provincial laws that require separate pension funds be established and closely monitored.

In Saskatchewan, employees of government believed their pension future and their retirement was secure. They had faith that their employee, the Government of Saskatchewan, would treat them fairly after their working days were over. They made pension contributions at rates amongst the highest in Canada and were told and expected their pension payments and benefits would meet their needs through retirement.

What happened? Why did the government exempt itself from establishing a separate pension fund and forego a fund that would earn income and become self-supporting? We don't know. But we certainly know and feel the results of those arbitrary decisions. It's clear that the government decisions were extremely short sighted and somewhat selfish. The fact the employee pension contributions were taken into the Consolidated Fund of the province provided the province with substantial amounts of money which many refer to as unjust enrichment.

This unjust enrichment enabled the government to proceed with projects of their choosing without having to enter into fundraising arrangements for millions of dollars. Who really paid for this unjust enrichment? Well we know. This confiscation of employee pension contributions was done without the knowledge or approval of the employees or the contributors. Like so many other arbitrary decisions by government, these resulted in devastating the pension and benefit rights and entitlements of the employees and retirees.

Who are these retirees? Well I'll tell you, they're not a wealthy group. The latest figures that we have is that some 8,000 members have an average pension of approximately \$1,385 and some 1,200 spouses have a spousal allowance of about \$600. Truly this is not a wealthy group.

Mr. Chairman, this group is confronted daily by the damaging . . . and constantly impacts of inflation, pension harmonization with CPP, the impact of bridging that was curtailed at age 65, the loss of health benefits, dental benefits, the clawback relative to OAS, low spousal allowances, diluted death benefits, lack of indexing, lack of purchasing power, lack of catch-up pension adjustments, and I could go on and on. These concerns are real. They're urgent. And they're well-known and understood by the

government.

Hansard tells us that many past members, including ministers of Finance, spoke courageously in the legislature about the need to correct and restore the purchasing power of retirees that was being ravaged by inflation. But by the end of the day, the government's will to do the right thing was not there. Members see government and Crown corporation executive salaries increase dramatically in recent years. Some salaries have often increased over 30 per cent in two years. Some have gone up from 34 to 61 per cent over five years. These are extraordinary, particularly when they're base salary is already over \$200,000 a year.

You will also be aware that the auditor has recommended that all provincial pensions be reviewed and recommendations made to bring some consistency and equity for all retirees. Government members speak in support of such auditor recommendations, but again at the end of the day nothing happens.

We are aware that some changes have been made to the pensions of Crown retirees. In these cases not only was the pension formula changed, but in addition, indexing was provided and at 100 per cent. Actions such as these, along with the blatant neglect of pensions of executive government retirees, has finally caught the attention of superannuates. The SRA members have become better informed of their pensions, of other provincial and Canada pensions, and pensions generally. They are voicing extreme stress and dissatisfaction with what is and continues to happen to them. The SRA is being overwhelmed with phone calls, letters, emails, expressing disgust that the government's abandoning them, and the unfairness of not sharing economic benefits of the province.

Despite this seemingly vindictive treatment of superannuates, the SRA has offered to the Premier the groundwork of closure if a reasonable accommodation can be achieved on only five of the concerns facing superannuates. The first, legislated indexing. And there's five. The purchasing power of retirees has fallen behind and continues to be adversely affected by inflation. Employees were told for years that legislated indexing was not required because the government will always provide pension increases when necessary. Employees were told and expected that in the normal day of day-to-day administration, pensions, reasonable adjustments would be made to take care of the effects of inflation — as was the case with all other expenditures.

We all know these statements were complete falsehoods. Our experience is that in the best years only partial inflation adjustments were made, and in too many years no adjustments were made at all. The track record of the government providing inflation adjustments is poor. From 1990 to the end of 2005, CPI rose 38 per cent; pension adjustments were made at only a rate of 16 per cent. And during this period, five years, there was no increase at all. It was the government alone that decided not to match employee contributions. It is the government alone that decided not to abide by its own laws and set up a pension fund. It was the government alone that enjoyed this unjust enrichment.

But, Mr. Chairman, it was employees and retirees — not the

government — that has been shortchanged in benefits resulting from these arbitrary government decisions.

Just a few years ago, across Canada, most other government jurisdictions were in a similar situation. Most pension plans were not funded. In recent years however we see that all other provinces and the federal government has passed legislation to provide indexing. Only Saskatchewan — the assumed leader in social legislation — does not provide indexed pensions or any health, dental, or any other related benefit.

It is noted that, until just a few years ago, the teachers were in a similar situation as executive government retirees. Their pensions were unfunded and without indexing. However when the elected teachers occupied such important positions as Minister of Finance and Deputy Premier, the foundation was laid to change the teachers' pension program and administration so that retired teachers now enjoy a variety of benefits including indexing.

We applaud and support retired teachers getting these enhanced benefits. We believe they deserve them. We also believe that executive government superannuates have paid for, deserve, and are entitled to similar treatment.

We see the retirees of other jurisdictions both in and out of Saskatchewan with pensions that are indexed and indexed significantly. We see retirees from the federal government receiving 100 per cent indexing. We see retirees from the Maritimes and elsewhere with pensions indexed at 100 per cent.

Even in Saskatchewan we see indexing. Teachers initially were provided this some years back at 100 per cent. SaskTel retirees have indexing at 100 per cent. You and we are aware that pension payments under the PSSP are relatively short-term.

In approximately five years all members of the old plan will be retired. After 2012, the PSSP annual pension payments will reduce rapidly every year. One can expect that almost all expenditures under this program will terminate around 2030. These are short-term expenditures for the province.

The cost of indexing pensions at 100 per cent similar to many other provinces in Canada is what Saskatchewan's superannuates paid for. They deserve it. It is well within the government's ability to pay and, Mr. Chairman, the end of these payments is in sight. All that is needed is the government's will to do the right thing and make right the long-standing wrong.

Number two, pitch and catch-up. One hundred per cent pension indexing will accommodate the inflation problem from the date of its implementation into the future. And it will particularly address those that retire in the future. It does nothing, however, for those retirees that were deprived of these inflation adjustments through all the previous years of retirement. These individuals and their families have been shortchanged throughout their retirement to this date. They have been deprived of enjoying and benefiting fully from their pension contributions. Retirees are entitled to some catch-up for those lost years of missed indexing. And in addition their current pension payments must be adjusted to reflect the appropriate pension amount for index application in the future.

This catch-up and pension adjustment is a one-time correction. These catch-up payments can be determined in several ways, including calculating what the payment should've been utilizing actual CPI factors or agreeing on some incremental amount per month or year for each retiree.

Number three, health and dental benefits. Saskatchewan superannuates find that as soon as they walk through the retirement door, they are completely on their own. And this happens at a time when age is starting to dictate a higher dependency on health resources. Unfortunately it is also at a time when access to insurance programs is curtailed.

This is not the case with virtually all other governments and a predominance of other organizations. Federal retirees receive health, dental, and other benefits for a nominal fee at some 12 to \$14 per month for each service benefit. We on the other hand, the Saskatchewan retirees, get nothing from our government — no health, no dental, virtually nothing in terms of benefits. What we do get however, Mr. Chairman, is the privilege to pay for the 100 per cent indexing that federal retirees get in their health, dental, and other benefits. We get the privilege through taxation to pay what they get that we can't get. Several years back then Finance minister Eric Cline suggested superannuates be enrolled in the government program along with current employees. He even directed senior staff of PEBA to research this and make appropriate recommendations.

Well a program was ultimately established but not what Mr. Cline initially suggested. The program established was only for retirees that retired after October 1, 2000. So it was younger people enrolled in that program commanding lower premiums. What did it do? It basically put the kiss of death on the program that the retirees' association had developed for its members because we no longer now could enrol younger people because of this program the government brought in. The government program, while beneficial for those retirees, is viewed by the SRA as discriminatory and vindictive. It has essentially blocked the SRA program from any chance of expansion, growth, or longevity.

The federal and other governments hold their former employees in much higher esteem and respect than the province of Saskatchewan. They appear to deliberately provide programs to assist them, programs aimed at providing their retirees a better way of life. Certainly the suggestion of Mr. Cline some years back was reasonable and should be pursued. Short of this, the province is requested to develop for its retirees a health and dental program along the design provided to federal employees.

Number four, death benefits. When employees retire from the Saskatchewan Public Service, they've been provided a paid-up insurance policy to cover or help with the costs of funeral and burial. Years back these paid-up policies for amounts around \$1,000 . . . and they've increased over the years. The provision of this benefit is appreciated. What is wrong however is the benefit amount at any given time.

The cost of funeral burial expense is determined not at the time of retirement but at the time of one's death. Costs of funeral burial expenses increase considerably over the time of one's retirement, and the value of this benefit diminishes. Several years ago the federal government had a program almost

identical to that what we have here in Saskatchewan. It was amended however in such a way so that the benefited amount for all retirees changed whenever the benefit amount was updated or adjusted. In this way the estate of any federal retiree was provided the death benefit of the amount currently in place at the time of death. This is a small expenditure item but is one that takes on more prominence as we approach our senior years. Having this program reflect current funeral costs provides a degree of respect and worth to our former and current employees.

Number five, spouses' allowance. These are the pensions paid to spouses of deceased retirees. These allowances are for surviving spouses, was initially set at 50 per cent of the former employee's pension. These ultimately were increased to 60 per cent. The 60 per cent has been in place now for many years; I believe over 40.

While the cost of living has increased dramatically in recent years, spousal allowance, like pensions without COLA, has been drastically diluted. As well the spouses are receiving their allowances based on pensions calculated on salaries that have been outdated many, many years ago. There are many spouses having to resort to welfare to make ends meet. This is a difficult situation for the remaining spouse and an embarrassment to all retirees, and should also be for the province.

An adjustment of these benefits essentially for widows while affecting only a few would have a major impact for retirees throughout the province. Moving the benefit to 75 per cent would require only a small amount of money; however it would be a major step in returning the dignity to these widows and would give credit to the worth of the former employees. These surviving women have been doubly hurt. First by the departure of their spouse, second by the low allowance payment from the province that is supposed to but is insufficient to sustain them.

Mr. Chairman, members of the committee, this for the most part covers the five issues I discussed with the Premier and which I indicated could provide the groundwork for an agreement with the Saskatchewan retirees on behalf of its members.

With the time available today, it was not possible to fully delve into the many arbitrary decisions made by the government over the years and which have had a detrimental effect on the financial and social well-being of Saskatchewan retirees, decisions such as not establishing a pension fund, using employee pension contributions for government programs, the unjust enrichment of the province without repayment expectations, the cancellation of PSSP, the arbitrary changing of pension calculation of employees from best three years to best five years, failing to redesign the program when it redesigned the teachers' program, and setting up the PEPP [Public Employees Pension Plan] program as a devious way of shoring up the province's fiscal assessment report card in order to enhance provincial borrowing on the bond market and manage pension debt. And I could go on.

Mr. Chairman, retirees wonder why in 1973 at a time the minister of Finance was informing the Legislative Assembly how inflation was diluting the purchasing power of retirees, the government commissioned Bill Fyles, chairman of the Public Service Superannuation Board, to carry out a study on

superannuate pensions and benefits and then completely ignored his recommendations when he called for legislated pension indexing tied to the CPI along with other such benefits — 1973, Mr. Chair.

We wonder why judges' salaries, why many municipal pensions, federal government pensions, Saskatchewan teachers' pensions, Saskatchewan telephone and some other Crown pensions, along with the retirees of all other provinces, get guaranteed pension indexing, and most at 100 per cent. And lastly, Mr. Chairman, we note that MLAs' salaries are on the threshold of being tied to the CPI and I'm told at 100 per cent.

Mr. Chairman, the current pension situation for superannuates is not fair, and it is not seen to be fair. Many retirees, former employees, have given their working careers for the citizens of this province, and some have given their lives. Superannuates deserve a better outcome from their working career than they now receive. The cost of providing indexing and these other benefits is not too big a price. It's just a matter of priority and the will to do it.

Mr. Chairman, the province has the resources to fix these standing problems. Over and over, even yesterday, we hear the ever-increasing record levels of revenue for the province. All that is needed now is the will and the sense of fair play to do it. We look to you, we look to your committee to help correct this long outstanding wrong. Thank you, Mr. Chairman.

The Chair: — Thank you very much, Mr. Zimmerman. I have two members on the list so far, Ms. Crofford and Mr. Cheveldayoff. Is there anybody else who would like on the list? Seeing no others at this time, Ms. Crofford.

Ms. Crofford: — Yes. Thank you for your presentation, and I took careful note of the specific things you think should be included.

One of the things I want to go back to is a comment you made, just so I'm sure I'm understanding your logic of what you're saying. So when the revenues were taken into the General Revenue Fund, even though the obligations were also taken into the General Revenue Fund, the argument is, if that money had been in a separate fund, it could have been invested and earned money and rolled back to the members as benefits. Is that the argument?

Mr. Zimmerman: — Well I can only look to the University of Saskatchewan and what happened there. Their fund, I don't know when it was started, but it certainly amassed a lot of money to the point that the income tax or, I believe, revenue folks from Canada said you've got too much, more than you'll ever need, so downsize. And so they did downsize.

And I've got copies of papers — Moose Jaw, Saskatoon — where employees of the university were given cheques to downsize. And some of them got cheques of over a half a million dollars. And the fund still had more than enough money to make the pension payments and provide all the additional benefits.

So yes, I believe that if the contributions of the staff were put in a fund as the Saskatchewan law I'm led to believe requires and

if that fund was matched the way we were led to believe it would be matched and it earned income — if it was invested wisely — there would have been tons of money to look after all of the problems. And I could be out volunteering at a hospital now instead of being here today in . . .

Ms. Crofford: — Just to pursue this a little further, now my understanding is that under defined benefit plans, it's a slightly simpler situation because you bring in the revenues but you have a defined obligation. So that is very clear; the relationship is very clear.

Under a money purchase, which is what we have, you put your money in and then it goes into an investment fund. And some years it does better. Some years it does worse. This year it did pretty good. The condition existing at the time you're talking about, was it under a defined type of situation or was it under a money purchase type of situation?

Mr. Zimmerman: — It was under a defined . . . Ms. Crofford, is it?

Ms. Crofford: — Yes.

Mr. Zimmerman: — And you know, you look at the money purchase plan, and you try and sit down and think of, why did the government bring this in? I'll tell you, I've wrestled this many times and I've talked to a lot of people about it. And I cannot find one reason to benefit staff that that was brought in. That was brought in to change the report card of the province so that they could borrow money at better rates on the bond market and to better try and manage their debt via footnotes on financial statements rather than something else. That whole program was almost a scam.

Ms. Crofford: — Well I would . . .

Mr. Zimmerman: — It was not for the benefit of employees.

Ms. Crofford: — Again I would just state that I think you raise many important points. I have a lot of sympathy regarding the spouses obviously who are living on a percentage of what may be considered a less than desirable income. But quite frankly I would have just as soon not had a debt to manage either.

Mr. Zimmerman: — Well, Ms. Crofford, the debt that the province has was a decision the province made. It was not because of anything the employees or the retirees did. If the province had lived up to its own laws, we would not be discussing it here today.

Ms. Crofford: — Thank you.

The Chair: — Thank you very much, Ms. Crofford. Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you, Mr. Chair. And, Mr. Zimmerman, thank you very much for your presentation and thank you for your work on this matter. You were the first person that brought it to my attention when I assumed this role as Finance critic. I know you and others have met with my predecessors and you've been tenacious.

And when you came to see us you expressed concern, frustration that you weren't able to get a hearing with the provincial government. And we said, we challenged you. We said, do your homework, bring your members to the floor of your legislature, and we will ask the questions and the government will have to answer. And on May 16, 2006 that's what happened. In the legislature we asked some questions on your behalf, and the Finance minister answered them on the floor of the legislature. And further to that you had a chance to speak with the Premier on the rotunda of the legislature and to ask him for a commitment to a meeting with your group. I understand you received that commitment and that meeting did indeed take place.

You know, that's where the information that we have sort of stops. And we have to ask you for what happened beyond that. You had a meeting with the Finance minister and the Premier where you explained your five issues. Can you give us the details of that meeting — I understand the Premier had to leave earlier — and what your thoughts were, what would happen after that meeting took place?

Mr. Zimmerman: — Well, Mr. Cheveldayoff, I would love to say it, but that meeting was without prejudice so I think it would not be proper for me to indicate what was said. The overall impression was that our situation would be resolved and resolved quickly.

Mr. Cheveldayoff: — I guess specifically what I need to know to do my job here is, was there an undertaking to have consultations, further consultations take place with your group or any other group or individuals of retirees across the country?

Mr. Zimmerman: — Our understanding was there would.

Mr. Cheveldayoff: — Thank you, sir. Did any of those consultations actually take place in the time that commitment was made to when the legislation was introduced, to your knowledge, with yourself or any of your members?

Mr. Zimmerman: — Not with me.

Mr. Cheveldayoff: — Thank you, sir. What we have here is a situation where retirees in this province have been asked to trust successive governments, ministers of Finance. We see the numbers here over the years, from 1991 to 2005, where indeed your group and others in the province have taken five or six zeros in that period of time. You know, I look at those numbers and I see that it just so happens in election years those numbers seem to be higher than the years following. I'll leave people to their own interpretation of that.

But I just want to say that, you know, I don't feel personally that you were treated fairly. Finance ministers over time had asked you to take, you know, to be at their whim and that they would take care of you for, say, year by year, on an ad hoc basis — while the six zeros here indicate to me that that care wasn't taken. It also is apparent to me that commitments were made for consultations with your group and with other groups and those commitments weren't followed through.

Now members of this committee, we've talked about the sympathy that we have for your group. Well I would suggest

that there needs to be more than sympathy here, that there is one person — the Minister of Finance in this province — that can open this up, that can entertain your suggestions, that can actually consult with you on these five issues.

I said earlier, before you were here, as the opposition we don't have all the answers. We don't have the resources to cost everything out here. But what we have, what we assisted you in doing, is getting a commitment to consultations that didn't take place. And that frustrates us and leads us to believe that you were not treated fairly.

So you know, I undertake on behalf of the official opposition to write the Finance minister to ask him to do that and to bring forward amendments here to the legislation, to this committee, largely based on the work that you and your members from across the province have done. And again I thank you for your work.

Mr. Zimmerman: — Thank you.

The Chair: — Thank you very much. Are there any further questions? Seeing none, then Mr. Zimmerman, I'd like to thank you for your presentation. It is always beneficial to us to hear from representatives of the public, and this afternoon was an afternoon where we had that opportunity. And we thank you very much for that. So on behalf of all the committee members, thank you.

Mr. Zimmerman: — Well, Mr. Chairman, I want to thank the committee for the opportunity to come here and to express, I can't say just my thoughts, but the thoughts of many, many retirees across the province. And believe me, they are getting very, very frustrated. And they're getting old.

And there's no question, you can sit back and wait us out. We're going to be gone. But I don't think that's the legacy that any government wants to have. But anyway, on behalf of our membership, I thank you for listening and we look forward to something that may come of this. Thank you.

The Chair: — Thank you very much. And Mr. Lautermilch, you wanted to make a . . .

Hon. Mr. Lautermilch: — Mr. Chairman, and members of the committee, I want to on behalf of the government members thank you for your presentation — and others who have been here today.

Obviously this government has seen fit to make a long-term commitment with respect to indexing to our seniors. I understand there are some frustrations. This is a long-standing issue with seniors. And I would want to say, as someone who has been a member of the government side of the House for a number of years, and as we've struggled to put our financial house in order, balancing our budgets, now we have some track record of consecutive balanced budgets.

We have been able to reduce our debt to the point where we have some fiscal freedom. We've been reducing tax levels for seniors, for low-income families. We've been investing money in public housing — we've just announced a large program. And I'd have to say I'm very proud of the fact that we now

have the financial ability to be able to make some of the decisions that we wish we could have made so many years ago.

And I want to thank your associations for your patience as we've, you know, struggled to move this province into a circumstance where we have the freedom to do the kinds of things that we as citizens of Saskatchewan all want to see.

And I understand that a commitment of 70 per cent of indexing may not be a 100 per cent, which is what members of your associations would like to see. I understand that. And as had been said in the documents here, it's a nice start but we still have some distance to go. And I would agree with you, but I would suggest that there were members of the legislature who recommended an Alberta model which is 60 per cent of indexing as opposed to 70 per cent of indexing. We recognize we have far to go but I think that we'll all have to admit that it is a start and we have to continue to work together.

I've been, and sat through many, many, many meetings where seniors have made, delegations have come and made presentations to cabinet and to our caucus. And I want to thank you for the time that you take to share your thoughts and your association's ideas with members of this government. So thank you very much.

Mr. Zimmerman: — Well, Mr. Lautermilch, you know we're in the middle of a court case. That is an expensive proposition. We've been at it five years and we're prepared to stay the course. We don't want to stay the course. We think it's to your benefit and all of our benefits to scrap that. But we have seen nothing. Why should we accept 70 per cent when you provide 100 per cent to SaskTel? Teachers get 80 per cent. Why are we less entitled than they are?

And I know it's difficult for you, Mr. Lautermilch, because you've already advertised the results of this Bill in your constituency. I read it on the email the other day. I thought this Bill was still in committee and still being worked. It didn't appear that way, Mr. Lautermilch.

But anyway, we would rather not go through a full court battle. But one thing we can promise, unless there's some collaboration and some give-and-take, that's where we're going. And all you have to do is talk to your staff that are involved in it. Thank you.

The Chair: — Mr. Weekes wants one small final comment.

Mr. Weekes: — Thank you, Mr. Chair. On behalf of the official opposition I would like to thank you and your group that you represent and the other delegations that were here today. I believe you and I met back when I was still Labour critic on this very issue, back quite a number of years ago. And I certainly appreciate the work that you've done bringing this issue forward. Certainly the NDP [New Democratic Party] has been in power since 1991 and obviously your issue has not been a priority for them. And as we see by the table that was presented today, the only increases took place around election years. So it's certainly . . . I think it's a bit cynical on the government's part to continue this situation that you've presented today. But once again, thank you very much for your input. I think it's been very valuable.

Mr. Zimmerman: — Just a tidbit on that. Can we have an election every year then?

The Chair: — With that we are going to adjourn Bill No. 32 and we'll take a five-minute break to prepare to move forward on Bill No. 5. Thank you very much.

[The committee recessed for a period of time.]

Bill No. 5 — The Oil and Gas Conservation Amendment Act, 2006

Clause 1

The Chair: — Thank you very much, committee members. We are now going to once again resume committee hearings. We're now meeting on Bill No. 5, The Oil and Gas Conservation Amendment Act, 2001.

We have before us today officials from the Department of Saskatchewan Industry and Resources. Mr. Dark, would you introduce the individuals with you to the committee?

Mr. Dark: — Thank you, Mr. Chair. To my right is Mr. Todd Han, the assistant director of petroleum development branch. To my left is Mr. Brad Wagner, manager of licensing and environmental liability protection. And I'm Trevor Dark, assistant deputy minister of petroleum and natural gas with Saskatchewan Industry and Resources.

The Chair: — Thank you, Mr. Dark. I see that you have a presentation. Would you proceed with your presentation at this time.

Mr. Dark: — Thank you, Mr. Chair. I would like to thank you for the opportunity to appear before the Standing Committee on the Economy during its consideration of Bill No. 5, The Oil and Gas Conservation Amendment Act, 2006. Today I would like to provide you with an overview of the proposed Saskatchewan orphan well and facility liability management program.

I will begin with some general background information about the current oil and gas environmental fund. Then I will discuss the magnitude of the estimated orphan well and facility risk which the province is exposed to. And finally I will discuss the details of the proposed Saskatchewan orphan well and facility liability management program including the proposed legislative changes to support the new program.

In 1989 the Government of Saskatchewan introduced the Oil and Gas Environmental Fund through The Oil and Gas Conservation Act. The environmental fund allows the government to pay for the costs of abandoning orphan wells and responding to a major environmental disaster caused by oil and gas operation where the responsible party cannot be found.

Please note in this presentation I will refer to common oil and gas industry jargon called abandoning or abandonment of a well. An abandonment of a well is a process of squeezing cement into or using a mechanical tool to plug all open sections of a well bore. Once a plug is set, the steel casing in the well bore is cut and capped just below the ground. However, the abandonment of a well does not include the remediation of

ground water or soil contaminated with pollutants that may be released during the operation of the orphaned well. The Oil and Gas Environmental Fund only pays for the abandonment of a well and it does not pay for the remediation work.

The Oil and Gas Environmental Fund was initially created by assessing a one-time fee of \$100 per well in existence as of May 1989 to a maximum of \$20,000 per company. At the same time, amounts held under the old well deposit system were refunded to the operators on record at that time. Interest generated on the monies were credited to the fund.

In late 1999 a joint industry and government member committee was formed to examine the adequacy of the Oil and Gas Environmental Fund. The committee was asked by the Government of Saskatchewan to recommend changes to legislation and regulations where it was necessary. The committee members included representation from the Canadian Association of Petroleum Producers ; the Small Explorers and Producers Association of Canada ; the Saskatchewan Swab Producers Association ; Saskatchewan Environment, referred to then as Saskatchewan Environment and Resource Management ; and Industry and Resources, referred to then as Saskatchewan Energy and Mines . This committee was later named the Saskatchewan orphan well and facility liability management program steering committee, hereinafter referred to as "the steering committee" in my presentation.

The three oil and gas associations represent every size of oil and gas company in Saskatchewan and their member companies who are responsible for almost all oil and gas produced in the province.

The steering committee undertook a comprehensive review of The Oil and Gas Conservation Act and the regulations as they relate to Saskatchewan's potential exposure to liabilities presented by orphan wells and facilities. The steering committee found that The Oil and Gas Conservation Act and the regulations did not provide an adequate level of protection and recommended sweeping changes to The Oil and Gas Conservation Act and the regulations.

One inadequacy identified by the steering committee was the amount of potential liability presented by existing orphaned wells and facilities were significantly greater than the amount of money available in the Oil and Gas Environmental Fund. As of March 31, 2006 the fund had a balance of \$2.92 million.

To illustrate this inadequacy we would like to present the findings from an in-depth risk analysis study carried out by Industry and Resources officials in December 2005. Out of the total of 635 oil and gas producer companies operating in Saskatchewan, there are 231 companies that have a high likelihood of being or becoming insolvent or defunct. These 231 companies had zero cash flow for more than a year or they have not produced any oil or gas for at least 12 consecutive months. Their wells and facilities have not been abandoned, decommissioned, or reclaimed, and many of these companies are no longer registered to do business in Saskatchewan.

The estimated cost of abandoning, decommissioning, and reclaiming all of these wells and facilities is estimated to be over \$26 million. Based on Industry and Resources analysis, the

potential liability presented by orphaned wells and facilities is significantly greater than the \$2.92 million available in the Oil and Gas Environmental Fund.

Another key finding by the steering committee was that Saskatchewan lacked rules to prevent the continued growth of orphan well and facility liabilities. Currently there are a total of 63,554 wells in Saskatchewan, but 17,397 of these wells are inactive.

Also there are 3,300 upstream oil and gas facilities such as gas processing plants, oil batteries, and gas compressors, however over 900 of these facilities are currently inactive. The cost to abandon and reclaim the existing and active wells and facilities is estimated to be \$648 million, a potential liability to the oil and gas industry and the government.

As of the end of 2006, Industry and Resources data indicated that 60 per cent of oil wells produced less than 10 barrels of oil per day and 80 per cent of gas wells produced less than 50,000 cubic feet of gas per day. Also over 3,500 oil wells produced less than one barrel of oil per day. The marginal nature of the existing producing wells suggests the potential for more wells to fall into the inactive category in the near future.

As mentioned in previous slides the potential liability presented by the orphaned wells and facilities is significantly greater than the amount of money in the Oil and Gas Environmental Fund. An alarming trend uncovered from the risk analysis is that Saskatchewan does not have effective legislation to limit or prevent depleted and uneconomical wells from being sold by a company to unsuspecting individuals. These individuals often do not have the financial means to assume the cost of abandonment, decommissioning, and reclamation. Even worse, inactive wells may be transferred to specifically designed numbered companies, for example empty shell companies.

Experience in both Alberta and Saskatchewan has shown these kind of wells have a high risk of becoming orphaned. If we do not act now the future liability will grow to a level that may be unmanageable. In addition, as the magnitude of the costs associated for orphan liabilities grow, it will be very difficult if not impossible to introduce an orphaned liability management program that is not fully funded by the oil and gas industry as the number of remaining companies slowly declines.

In 2001, The Oil and Gas Conservation Amendment Act, 2001, also known as Bill 10, was passed but has not been proclaimed pending development of regulatory changes to implement the proposed Saskatchewan orphan well and facility liability management program. Bill No. 10 incorporates all the recommendations made by the steering committee. Bill No. 10 enables the government to eliminate the Oil and Gas Environmental Fund and replace it with the oil and gas orphan fund. The oil and gas orphan fund is designed to minimize the likelihood of oil and gas properties becoming orphans and to ensure that the cost of decommissioning and reclaiming orphan properties is paid for through a sustainable funding mechanism derived solely from the oil and gas companies operating in Saskatchewan. The oil and gas orphan fund is designed to pay for the cost of abandoning decommissioning orphan wells and facilities as well as the cost to remediate ground water or soil contaminated with pollutants that may have been released

during the operation of the orphan well or facility.

Industry resources officials continued to work with the steering committee to develop the details of the proposed orphan program titled the Saskatchewan orphan well and facility liability management program.

Industry and Resources staff facilitated the meetings and articulated the steering committee's ideas into a guidance document. Industry and Resources staff used the guidance document to draft the regulations in consultation with the Saskatchewan Justice officials to support the new Saskatchewan orphan well and facility liability management program.

The Saskatchewan orphan well and facility liability management program features two key economic instrument components — one, the licensee liability rating system, and two, an annual orphan fund levy. Under the licensee liability rating system, security deposits are collected from the companies whose liabilities are greater than their assets. The amount of security deposit is equal to the company's liability minus their assets.

The security deposit serves two purposes. First, it prevents an individual who does not have sufficient economic means from acquiring oil and gas wells or facilities and prevents unscrupulous oil and gas companies from dumping depleted properties on unsuspecting individuals.

Secondly, if the company becomes defunct or insolvent, then the security deposit will cover the cost of decommissioning their orphan property.

In a case where no security deposit was paid, or the amount that was paid is insufficient to cover the costs of necessary work, all of the oil and gas properties operating in Saskatchewan will be levied a fee called the orphan fund levy to make up the shortfall. This system allows for a sustainable funding mechanism derived solely from the oil and gas industry to pay for the abandoning, decommissioning, and reclaiming orphan oil and gas sites.

Both the security deposit and orphan fund levy amounts are dependent on the licensee liability rating. The licensee liability rating measures the financial risk that any licensee presents to the province by accounting for their deemed assets which is the monetary value of oil and gas production less the operating cost, and dividing by the deemed liability, such as the cost to decommission, abandon, and remediate a well or a facility. In instances where the licensee liability rating falls below a threshold, for example more liability than assets, the security deposit in the form of a letter of credit is required from the company. A company can always reduce the security deposit requirements by abandoning some of their inactive wells. In fact many companies can avoid paying a security deposit altogether simply by abandoning their uneconomical and depleted inactive wells.

The factors used to calculate the licensee liability rating, such as deemed assets and liabilities, will not be determined in The Oil and Gas Conservation Act or the regulations. The fund advisory committee, which is comprised of representatives from the aforementioned industry associations totalling four members

and the experts from government totalling two members, will advise the Minister of Industry and Resources on the appropriate values to be used to calculate the licensee liability rating on an annual basis.

Each year the staff in petroleum development branch of Industry and Resources will identify orphan wells and facilities that require abandonment, decommissioning, and remediation. This will be done by field inspections of the site followed by prioritizing the environmental or public safety risk presented by the orphan site. The cost for the work will be estimated and a budget created in consultation with the fund advisory committee. The estimated cost will be levied against all oil and gas companies operating in the province. The cost will be shared by the companies on a percentage basis. The larger the company — for example, the more wells a company has — the greater the percentage of the total levy it will pay.

Saskatchewan's system is similar to the one used in Alberta. However, Saskatchewan's system incorporates a number of modified factors to accommodate for the greater number of smaller oil and gas operations and other unique operational and economic features that exist within the province. Saskatchewan's program is specifically designed to accommodate all sizes of oil and gas operations.

A high level of flexibility designed into the program can be credited to the knowledgeable advice from the experts from the oil and gas industry who guided the design of the program. These experts were from oil and gas companies of all sizes, ranging from multinational energy companies to the very small, family-run operations. The flexibility I am speaking of comes from the fact that the program has been designed to allow Industry and Resources officials to work together with companies to make the application of the program rules as equitable and amicable as possible for the particular operation rather than imposing a one-size-fits-all rule upon the company.

During the development of the orphan program, it was determined that one policy change was needed in Bill 10 as well as some related housekeeping amendments. Hence The Oil and Gas Conservation Amendment Act, 2006, Bill No. 5, was proposed.

With respect to the one policy change, it was originally intended that back in 2001, the orphan fund levy would only be imposed on inactive wells and upstream facilities, which was identical to Alberta's original system. However during consultation, the oil and gas industry stakeholders recommended that a levy must be assessed on all wells and upstream facilities, not just the inactive ones. This proposed policy change now mirrors Alberta's new system.

The industry stakeholders are concerned that the current wording attempts to marry two different concepts: the prevention of inactive wells and an industry funding mechanism to pay for orphan wells and facilities. This union creates an unsustainable and inequitable funding mechanism. A company may simply walk away from its inactive wells since there is little or no economic value. As the number of levy contributors shrinks, a smaller number of companies bear greater economic burden. At some point there will be no more contributors left, and the government would be required to absorb the cost of

dealing with orphan wells and facilities. Proposed amendments specified in Bill No. 5 provide the necessary changes to construct the regulations that the industry desires.

The industry stakeholders advise that active wells and facilities also represent a future liability. Industry and Resources staff had completed consultation with the oil and gas industry and government stakeholders and, in consultation with Justice officials, have completed drafting the amendments to The Oil and Gas Conservation Regulations, 1985 that will support the orphan program. The stakeholders have recommended that the regulations come into force as soon as possible in order to limit the further escalation of orphan liabilities in Saskatchewan.

Once Bill No. 5 is passed, the regulatory amendment package will be submitted to the legislative instruments committee for their review. After the regulations are passed, all companies will be provided with a detailed breakdown of their licensee liability rating, security deposit, and orphan fund levy amounts. The reason for not releasing the detailed breakdown until after the regulations are passed is to prevent mass dumping of liabilities by some companies. All companies will be provided with a period of one year to adjust to the new program. This will allow the companies to review the information and to make any necessary corrections or have the opportunity to appeal and request changes to any of the factors used to calculate the licensee liability rating. In addition any company that is required to submit a security deposit will be provided with four years to submit the total amount, in other words 25 per cent per year. If this causes a hardship, on an appeal basis they may be provided with up to 10 years to submit the necessary security deposit.

After the end of this adjustment period, the program will be delivered at its entirety. Please note even after the end of the adjustment period the companies will be allowed to request for corrections and appeals on all of the above mentioned factors. Thank you, Mr. Chair, that's my presentation.

The Chair: — Thank you very much, Mr. Dark. Are there any questions of the officials? Mr. Stewart.

Mr. Stewart: — Thank you, Mr. Chair. And thank you, Mr. Dark, for that presentation. And I'd like to commend the department and the department staff for working with the industry the way you have on this. This is the way that we think, you know, new regulations and Acts should be developed, and we're very happy with the process that you've gone through. And I think the results are pretty satisfactory too, although we have had some concerns expressed to us.

And you mentioned that you're not going to announce the numbers that are involved in this until after the Act is in force. But how many . . . I guess my concern is that this will force a number of small producers to abandon wells. And do you have any kind of a handle on how many wells are likely to be abandoned in the intervening time between now and the time this thing is proclaimed as word leaks out into the oil and gas industry that this thing's coming?

And you know I commend you and the industry for trying to protect our environment, and I think this thing is going to work very well down the road. Our only concern is the immediate

one where we may see a number of, a rash of wells abandoned to avoid the monetary penalties, if you like, that go along with this Act. Do you have any kind of a handle on that?

Mr. Dark: — Thank you for the question, Mr. Stewart. As I indicate in my presentation, certainly I think the reason for not releasing the detailed breakdown until after the regulations are passed is just to ensure that there's not mass dumping of liabilities by some companies. Clearly we're concerned what that might do to, clearly, to the equity markets, to stocks, to certain oil and gas companies.

As I indicated in the presentation there's about 635 oil and gas producing companies operating in Saskatchewan. The analysis that we did in December 2005 indicates that there's 231 companies that have a high likelihood of being or becoming insolvent or defunct, and on the basis that these 231 companies had zero cash flow for more than a year, had not produced oil or gas for at least 12 consecutive months.

Mr. Stewart: — I'm looking at page 4 of your presentation as, I guess, you are. And those 231 companies represent 687 wells at the present time.

Mr. Dark: — That's right, and six facilities. Correct, correct.

Mr. Stewart: — And I would think that there's reason to believe that a number of those companies will do the responsible thing, and they won't just walk away. I hope that's the case anyway. I'm wondering what you would feel about that?

I guess we're just trying to get our heads around how many new, if any, wells we're going to have, you know, in the lead up to this Act being brought into force.

Mr. Dark: — Right. And I think, based on our analysis at that point in time, there was about 687 companies, if you will, wells owned by those 231 companies, Mr. Stewart, and about six facilities. Again I think that's a question that we'd like to deal with through the fund committee and with industry through the development of the program after the assumption that the regulations are passed. And certainly I think the built-in caveats that we have in terms of deposits over a longer period of time, allowing companies appeal processes, I think there is built-in provisions to ensure that there is flexibility in the program.

Mr. Stewart: — One more, if I may. Thank you, Mr. Chair. On the fund committee you mentioned that there would be four members from industry and two from government. Are the four members broken down between CAPP [Canadian Association of Petroleum Producers], the small producers, and the swab producers in any particular fashion?

Mr. Han: — Yes they are. There's two members from CAPP and one member from swabber association and one member from Small Explorers and Producers Association.

Mr. Stewart: — I think that's all I have of you gentlemen. And I'd like to thank you again for your presentation and the work you've done on this.

The Chair: — Thank you very much. Are there any more

questions? Seeing none, I'd like to thank you on behalf of the committee for your presentation this afternoon. And thank you for the manner in which you proceeded with this piece of legislation. It's nice to see the co-operation that . . .

Mr. Dark: — Thank you, Mr. Chair.

The Chair: — At this time we'll take a few minutes, five minute recess in order to allow for the next group to set up a PowerPoint presentation for us. Thank you.

[The committee recessed for a period of time.]

The Chair: — Thank you very much, committee members. It's now time to commence the committee hearings again. We have with us now representatives from CAPP. And if you could please introduce yourselves and the other individuals with you, we'd appreciate that, to the members of the committee.

Mr. Pryce: — Thank you, Mr. Chairman, members of the committee. My name is David Pryce. I am vice-president of western Canada operations with the Canadian Association of Petroleum Producers. I guess our group today includes Henry Dunfield from the Saskatchewan Swab Producers Association, Gary Leach and Carl Henneberg from the Small Explorers and Producers Association of Canada, and also with me is Orest Kotelko from Canadian Natural Resources Limited, and also a representative on behalf of CAPP and a member of the orphan committee that was mentioned earlier in the previous presentation.

So what I'd like to do is run through the presentation, if you don't mind, and as part of that I'm going to invite a couple of the members of this group to speak to a couple of the slides. I will go through most of them and then invite them also to provide any comments at the end of the presentation.

So we are three industry associations that are here today . . . Sorry my slide isn't in the right place. There we go. We are three industry associations represented here today, the swabbing association, the small explorers and producers, and CAPP, and collectively we represent the very smallest to the very largest operating companies in Saskatchewan.

So we're very pleased to have the opportunity to present to you today on the proposed orphan well and facility liability management program as it relates to Bill 5. We are collectively represented again on the committee that the Industry and Resources officials spoke to. We wanted to come and speak as one industry voice to demonstrate our commitment and our support for the program, but also as I had indicated earlier we are happy to respond to questions individually on behalf of our respective associations. And generally through this initiative, we think it contributes to a healthy, long-term oil and gas business climate in Saskatchewan.

So I will speak to the CAPP slide. We are an association, a trade association. We represent the large companies in the upstream business. We have 150 producer members, and our members explore for and develop hydrocarbons and sulphur throughout Canada. We represent about 95 per cent of the production, the activity, and the investments in Canada, and we also have about 130 associate members that provide a wide

range of the services that support the upstream oil and gas industry. And I'll turn it over to Gary.

Mr. Leach: — Thank you. SEPAC is the Small Explorers and Producers Association of Canada. We're based in Calgary but we're very strong in Saskatchewan. By our statistics, looking at some public published data, our members are probably drilling close to 20 per cent of the wells drilled each year in the province of Saskatchewan. A large number of companies, from very small start-up companies to some sizable companies producing 10 to 15,000 barrels of oil equivalent per day — so we represent everything from emerging right through to what's typically called junior oil and gas companies. And we're also here today of course with CAPP to lend our support to this proposed legislation.

Mr. Pryce: — And then I would ask Henry to speak to his association.

Mr. Dunfield: — Hi. I myself own an E and P [exploration and production] company, which we derive 98 per cent of our revenue from wells that are produced in the Kindersley, Saskatchewan area. And the association that I represent, the swabbers association, is made up of mostly Kindersley-based, local producers who have taken the smallest, the most marginal of wells and have taken them over and now produce them through a method called swabbing. These wells that are typically owned by my members make less than one barrel a day, yet they make a very good living out of producing these as an owner-operator-type operation.

Most of these wells at one time were deemed to be marginally economic by a larger company. They were in turn sold down to locals. And they then created local jobs and now good livings for the local people. There's about 1,500 swab wells, of this particular type we're taking, in the Kindersley area alone and more to come.

Mr. Pryce: — Thank you. What I wanted to do with the next set of slides is give you a sense of the changing industry in the Saskatchewan portfolio for most of the industry. So what this really does is give you a comparative between 1999 and the year 2005, and the bottom line is all the performance measures that we're showing there are showing a fairly significant increase across the board, so revenues to the Crown essentially doubling in that period. Capital investment is up two and half fold almost. The number of wells drilled are up by a third. Production volumes are up by about 50,000. And jobs are up by about 9,000, making actually the oil and gas sector the number one private sector employer in the province and just about 7 per cent of the GDP [gross domestic product].

The reasons for that growth are probably a couple of reasons. One is we have seen a fairly strong growth in the commodity price over that period. I think the other reason is we've seen some very favourable, sort of, policy and fiscal measures that have encouraged investment and attracted the attention of the industry as it looks at ways to employ its capital. It is becoming a fairly competitive, a very competitive place in which to do business.

This is a graphic that shows land sales over the past five years or so. And really what we'd like to demonstrate with this graph

is to show you that really since about the beginning of 2005 the land sales have really firmed up, become far more consistent and far more significant in contributions. It's very strong since then but it's also a leading indicator. And I think the point to derive from this slide is, as a leading indicator, it bodes well for future growth and activity of the industry in the province.

This slide shows, for the past 15 years or so, of the number of wells drilled in the province of Saskatchewan. You can see that since about 2002 or so the number of wells have really hit a fairly, quite a high level, somewhere just under 4,000 — between 3,500 and 4,000 — throughout that time. Our estimates for 2006, about again another record drilling year.

For 2007 it's off very slightly. I think the point I would like to make on this one is, this is unique for Saskatchewan in its strength for 2007 forecast. We would see probably a more significant percentage decline in the other Western provinces as a result. And again that speaks to the opportunity that I think industry sees in Saskatchewan in the coming years.

Again this is a slide on production in Saskatchewan and it has held fairly consistent across the last five years or so. Again I think that's a very positive indicator given the nature of the production in Saskatchewan — a lot of relatively small, producing-by-volume wells — and it is a challenge to maintain that level of production. And so our level of activity has to be up in order to do that. And I think this slide shows that the commitment and the investment is happening in order to maintain that.

Again when you compare that to the other Western provinces, we are starting to see a decline, say, in your neighbour to the West, particularly on the oil side of things. And so for Saskatchewan to be able to hold that I think speaks well for the interest of the industry and the commitment to the province.

What I was trying to do with those slides is really give you a sense that industry has changed over the past five, six, eight years in this province. It has grown remarkably and with some of the leading indicators is likely to continue its level of activity.

Now look at the aspect of how we manage liability in the province. This was covered in some respects in Mr. Dark's presentation. But what I wanted to give with this brief history is, we have had an environmental fund as the mechanism to manage industry liability in the past. Given the changing circumstances of the industry, it was felt that it was time to take a look at that as an instrument to manage that and do some other things.

So the fund itself is about \$3 million in balance at the moment. It's funded by a \$100 per well fee up to a maximum of \$20,000. We just felt it was time collectively — industry and government — that we should take a look at this and decide whether or not it was the right instrument to manage that liability, which is basically what this slide says. So we are a growing and maturing industry and there was believed to be a need to update that mechanism going forward.

We have about 63,000 wells capable of production. About one-third of them are indeed inactive. They haven't produced

for about 12 months so it's important to manage those inactive wells. But it's also important to consider the potential liability of the active wells in the future and that's why we're looking at a program that kind of balances the active and inactive wells. The assets and liabilities in this program are considered at the same time.

One of the points to consider is that currently there isn't a mechanism to prevent the transfer of any well, whether it's active or inactive, to an entity regardless of its corporate health, meaning its monetary capability to manage the liability. And so moving from the environmental fund to something that provides a tool to cover that, folks felt was an important initiative.

So as has been noted, we have participated with Industry and Resources on the steering committee, bringing our thoughts around this, bringing some expertise around the work we've done in designing the program in Alberta. And indeed we are looking to carry this forward into the province of British Columbia in the not-too-distant future as well.

So the principle is the new fund would have an appropriate level of funding, given the changing nature of the liability and the growth of the industry, but it also we believe would ensure that you have a healthy business environment. It will provide for that liability protection and it won't discourage normal business practice for the large and small companies. It will have sort of an appropriate set of rules to operate under. As I said, it was designed to replace the existing program. It should reduce the likelihood of wells and facilities that become orphans.

One point maybe to make here is we are not trying to establish a zero-risk-tolerance kind of program. We need to be careful that we don't make this too tight that companies can't start up businesses in the province. And so we are prepared, as industry who will fund this, to take some risk in that regard.

As this indicates, we as industry are proposing that we cover the cost of the decommissioning, abandonment, and reclamation of orphans, putting a sustainable funding mechanism in place. And our estimate right now is an annual levy of about \$30 per well, per year — if you think about a \$2 million per year abandonment and reclamation program for orphans that may crop up. And it would include, as I said before, involve a measure of the active wells and the inactive wells to determine the liability and to share the burden of not only the inactive wells but the potential for the active wells to become part of this liability.

So industry is committed, subject to getting the appropriate rules in place, to operate the program and operate the fund in a way that protects the fund from excessive demands on it. As we've indicated, it's similar to the program in Alberta. And you heard Mr. Dark talk about the modifications that have been taken into account as we, as association reps, have collectively discussed this over the past months and probably a few years as well to try and come up with the right balance for the program. So we've been at it for quite a while.

We think it is a best practical fit to do things. We are collectively happy to provide our support to government on the program as industry associations representing our member companies. We are volunteering as a set of industries, industry

associations rather, to fund the orphan program. But we need to make sure that we get the rules right in order to give the funders comfort that the program will not be excessive but also will strike the right balance. So it should ensure that we get the job done with respect to abandonment, reclamation, or mediation, and it should serve to manage the risks that the more active industry might pose going forward.

The large companies, as they look at the whole issue of liability, are looking for certainty around the ability to finalize their liabilities. And so as they look to transfer wells to other smaller companies who may have a different fiscal outset or mindset to develop or continue to produce the aging facilities, we want to, as larger companies, be sure that that liability at some point does not find its way back to the larger companies. And this program is intended to provide that certainty. From the smaller companies' perspective, if the large companies have uncertainty there, they may not choose to sell the properties down the economic chain. And so their opportunity for business would be reduced.

So this program gives some certainty for the smaller companies, the start-up operators that they can access those, because the large companies will release it and that they know what the rules will be and what the risks for them will be as they assume responsibility for those properties.

The program has a proven track record in Alberta. It's been operating and evolving in the province since about 1993. And so we have had a good chance to look at how it works, and whether or not it is doing the job of balancing the risk to the fund and providing the assurance that those inactive wells will be managed appropriately. In fact, in Alberta it has allowed the beginnings of about 1,300 new licensee companies since the inception of the program as we've collectively gained some certainty there. And indeed in doing that it is actually contributing in some respects to the fund because new licensees have a start-up obligation of about \$10,000 in the province of Alberta.

So that is our presentation and we would be most pleased to entertain questions from you folks.

The Chair: — Thank you very much. Are there any members who would like to ask questions? Mr. Stewart.

Mr. Stewart: — Thank you, Mr. Chair. And thank you, Mr. Pryce, and gentlemen. I think that's a pretty complete presentation and there aren't many questions that I can ask. And there won't be need to ask many questions, I should say.

But I go back to the same line of questioning that I took with Mr. Dark. And in his submission he talked about 687 potential wells that could be shut down pretty quickly as this Bill comes into force. If all 687 of them were abandoned, would the program still be able to carry on? Would that break the bank, I guess, is what I'm asking. Would it put this thing, you know, out of whack and have to go back to the producers for more money and so on?

Mr. Pryce: — I'll take a stab at that, and with your indulgence I'm going to ask Mr. Kotenko to come forward as well, as our technical expert. But I think we're not trying to put a program

in place that will mandate that those wells, those inactive wells necessarily be abandoned. They may still have some value. And companies that have the wherewithal fiscally to manage those along with their active wells may choose to do recompletions. They may have value for flood, CO₂ floods or water floods to enhance production as well. So the goal isn't necessarily to get all of those wells abandoned, but it's to make sure that there is the wherewithal for companies that own those properties to be able to do that at the right point in time.

With respect to the . . . I guess I'm going to pass it to Mr. Kotelko for the rest of the response to the question.

Mr. Kotelko: — I believe you're asking about the 687 that were mentioned by Mr. Dark which are, currently have not produced over the last 12 months and many of the licensees aren't even around any more, which represents roughly \$26 million in liability. Will that break the orphan fund? The industry associations saw that number. We expected that number and we're prepared to work at it at 2, 3, \$4 million a year.

In Alberta, our orphan well budget is \$12 million. We've spent \$85 million. We have another 90 to spend. And that's quite a commitment by industry to pay for our competitors' sins, but this is something that I think industry's undertaken. And I was surprised at it. When you sit in CAPP's meeting room and talk about \$175 million commitment, no one bats an eye. They feel that this is the right thing to do and they're just extending that into Saskatchewan where again, who will be paying for these unfunded liabilities? It's better to have industry regulate itself, almost I guess is the way to look at it and to . . . But we need rules to protect it so it's not a blank cheque.

So the \$26 million is not going to scare industry or break the bank.

Mr. Stewart: — That was my question and thank you for the answer, both of you. I guess I just want to say that I think the way this thing was done is proper. The industry and the department worked together on this thing. That's the way we'd like to see more laws developed and Acts developed.

I'd also like, while I have the floor, to commend the industry on the commitment they've made to our environment. And our only caution was that we don't want to do anything to hurt the industry in this province, while we want to encourage them to be responsible. And so thank you very much. And I don't know if any my colleagues have questions but that's it for me.

The Chair: — Thank you very much. Any other questions? Mr. Lautermilch.

Hon. Mr. Lautermilch: — Just to comment. I'd like to thank you, Mr. Pryce, CAPP and SEPAC, and SSPA [Saskatchewan Swab Producers Association].

I know this process began a long time ago and I know that because I worked with Mr. Dark and with CAPP when the idea of doing something beyond the existing legislation was brought forward. And so it's taken some time but obviously I think it's fair to say that the co-operation between government and industry has created a piece of legislation that will act in the

best interests of the people of Saskatchewan, their environment, and of course the industry that creates a lot of opportunities for Saskatchewan people. And we'll see that again this spring come budget time. And so I want you to pass on to your association members our thanks for your co-operation and your faith in Saskatchewan's economy.

But I need to also tell you that this activity is creating some angst in some areas of our province. You're putting a lot of pressure on infrastructure, and from Kindersley you would know that. And it's creating a lot of pressure on the government to ensure that we're keeping up with infrastructure as you continue to develop this economy

And so our commitment as a government is, as it has been in the past, that we rely very much on the positive working relationship that we've built. We plan to continue that because it works both for industry and for the province. And so it's a healthy relationship, and we want to thank you for working with us to make it so.

It's a great place to invest, as you have said. You're showing that with your dollars and land sales. You're showing it with the amount of wells that you're drilling. And it's a message that we want you to spread to all of your industry members because some of them actually don't do business — it's hard to believe — but some of them actually don't do business here in Saskatchewan. So, Mr. Pryce, I'm asking you to go back and pass on the message to those who aren't doing business here in the province that you're welcome and we'd welcome even more investment because we've got lots of room.

Mr. Pryce: — I'd be happy to do that, and as you know that those companies that work exclusively in Saskatchewan don't like to tell the other companies about the opportunity.

Hon. Mr. Lautermilch: — I know that, but that's okay.

Mr. Pryce: — I have not offered, Mr. Chairman, the opportunity for the gentlemen from the other associations to provide any concluding comments, if you don't mind.

The Chair: — They're most welcome to.

Mr. Leach: — I don't really have much to add except I do want to thank all the people that we worked with from SEPAC's point of view. What we're pleased to see in this legislation is the extended periods, I think, that will allow for transition for smaller companies to adjust to the new financial requirements to be operating in the province. I think that's something that was developed particularly for the Saskatchewan environment which has a lot of smaller companies operating here.

So I applaud that addition to this Bill and this regulatory program.

Mr. Dunfield: — And I would probably just add to the same. The air of co-operation between the largest and the smallest companies and the government regulators has been just a real pleasure to work with. It's been a great process to be involved with — and many years. As you say, Mr. Lautermilch, we've been a long time putting this together but it's been a lot of thought, a lot of going back and forth put into it. But I'm

comfortable as representing some of the smallest producers here in Saskatchewan that we've done the best that we can to take all parties into consideration.

Now there will be some challenges and so on going forth, but I think we've done the best. And we have a very lenient process recommended here, where there'll be some time to phase-in and some appeal processes and so on. I'm most excited that I think that this will . . . Once we have something like this in place it's going to really facilitate the further transferring of these mature assets down to the owner operators who live right here in Saskatchewan — in Kindersley, Weyburn, Estevan, so on. And then you get the local economy much more stable because then the ownership and the head offices become right here and then they grow into bigger companies. And that's been inhibited in the past because of the unknown liability.

And most of these large companies want to be good corporate citizens and there was just no way to assure that who you were giving it to was a credible or properly regulated individuals. And many times over trying to build my company and with my peers is that's been an inhibitor. So this will really I think help clear the road for ongoing good, healthy business which I think will be very exciting for us.

The Chair: — Thank you. Ms. Hamilton you had some comments?

Ms. Hamilton: — There are many committees that I've had an opportunity to sit on and certainly this committee . . . Over time you always wait for presentations and then you wait to hear the but. And so you've been a refreshing change from what we're used to hearing because it seems that there's no but here. It's a good partnership that's developed not only for yourselves and the organizations you represent, but it's always good to have officials who work really hard within departments to have that recognition as well. Because partnerships is certainly something that that department has been working really hard to develop in a favourable way for the economy.

So in ending I wanted to say that your two comments, number one, talking about the health of the industry and the economy in Saskatchewan, of course commodity prices, and quite often we hear from others, it's not anything you're doing Government of Saskatchewan, it's just by good luck and good fortune that prices are where they are. Today you've dispelled that in front of committee in saying that, number two, the favourable measures that have been employed to allow people to want to invest capital here is also an important component. And your partnership between ourselves, our officials, and your association would be a favourable part of that. So we thank you very much.

The Chair: — Thank you. Mr. Pryce.

Mr. Pryce: — If I could just add one comment and echo . . . There have been some positive comments for the officials and I think we would collectively want to echo those comments. They work very well with us and they're very thoughtful and deserve a lot of credit for the product you've just seen.

The Chair: — Thank you very much. Mr. Kotelko did you want to make comments now or after the final presentation this

afternoon.

Mr. Kotelko: — Is there another presentation?

The Chair: — There'll be a presentation from 4:15 for about . . .

Mr. Kotelko: — After that would be fine.

The Chair: — After that presentation? Okay. Thank you very much. With that then we'll move on the next presenters. We have Mr. Grant Greenslade from Greenslade Consulting coming forward. We'll just have about a two-minute recess here to switch presenters.

[The committee recessed for a period of time.]

The Chair: — All right, thank you very much, committee members. Could I have the members take their chairs so that we could resume the meeting? And our next presenter is Mr. Grant Greenslade, owner/operator of Greenslade Consulting out of Shaunavon, Saskatchewan.

Mr. Greenslade: — Good afternoon, and thank you very much for taking this opportunity to hear me this afternoon. I'm not sure whether I'm going to be reiterating what you've already heard or not, but we'll go through.

When I first heard that there was going to be changes coming up to the orphan well program with regards to Saskatchewan and lean towards the Alberta way of doing things, it was a great concern to me. I'm a small producer in Saskatchewan. I've had two oil companies now. We started off first with nothing and I built it up to 600 barrels a day and sold it. And now I'm back trying to do the same thing and in Saskatchewan only. I live in Shaunavon. My office is in Shaunavon and we employ people in Shaunavon.

What we primarily do now is operating in oil and gas related things for small producers, so I've got a pretty good hands-on with really small companies. Most of them aren't public. Most of them are based out of Alberta unfortunately, but they're usually under, you know, 500 barrels a day. So from the grassroots in southwest Saskatchewan. I can tell you, you know, orphan wells down there up till now have not really become much of an issue. There has been a few in the past, but those orphan wells actually were, you know, posted by the Crown and resold again. The five that I knew of down there in the last 10 years, three of which are producing now again, paying royalties, paying taxes, creating employment, and the rest of . . . and the other two were actually abandoned. So you know the industry itself has actually, you know, kind of governed itself a little bit that way.

So with respect to southwest Saskatchewan, I'm not really sure if, you know, a big problem exists. You know there may be in other areas but in southwest Saskatchewan right now, you know, I don't really foresee that occurring. You know what works in Alberta may not necessarily work in Saskatchewan and it sort of depends on the area and the field you're producing. You know a Kindersley field is much different than Estevan and different than Shaunavon or Swift Current. And like your royalty structures are set up accordingly already to

make it so, you know, southwest pays a different royalty than Kindersley and so on.

And if something is implemented I think, you know, you need to look at the area and understand what becomes uneconomical in that area may be economical in a different area. And the costs of abandonment in one area, I think, would be different than abandonment costs in another area. So there's other factors that need to be looked at rather than just a broad, you know, stroke of the brush to cover everything.

You know, I think it's true that small producers tend to operate wells that larger producers don't want to operate. You know, certainly in Kindersley with the swabbers, I mean, you're not going to see some of the top 10 companies go into swabbing operations. But it's creating employment and it's creating growth in small rural communities which, you know, we need to see.

I think that these small producers will always be able to pick up where the big producers fail in small producing wells. And in southwest Saskatchewan that's what we're kind of faced with. We're either . . . You've got a high-water-cut well, high-volume lift which is, you know, the bigger companies are in there because it's capital intensive. But the small wells with low decline rates that have small production rates, you know, that's where the little guys can go in there, operate effectively, and create employment, pay taxes, and grow.

You know, small producers are the only ones, as I said small producers are the only ones that can operate uneconomical wells from the big ones. And as fields age and they become less and less volume, if you implement programs that are going to have barriers to entry for small producers to get involved, then you are going to have an orphan well program problem. Because the big companies are going to walk away from wells that little guys would operate economically and make money and carry on for several years. We've got wells that don't decline any more. They're the same every day — day in, day out — and they're probably not economical for the big companies, but they most certainly are for little ones.

So if you make the barriers for entry too difficult, you're going to have, now you're going to have an orphan well problem. You're going to have hundreds of wells that nobody's there to operate and hundreds of abandonments. And in reality these wells are economical and we can still grow and start business and have employment and pay municipal tax from.

I guess that's probably my biggest concern is if, you know, if the barrier to entry gets too high so that small producers can't get involved. Future technologies may make some of these smaller wells more economical. You know, you could come out with a new stimulation technique to double, triple, quadruple the production. We've seen some of this occurring. You know, it's happening all the time — different frac techniques, different stimulation techniques. It's a reality that could happen. You know, primary recovery techniques will only recover, you know, a high paying percentage amount of oil in place. So I think things could change.

You know, I guess I just wanted to bring sort of a small, small producer onside when I was first aware of this problem. I didn't

know that the Swab Association or SEPAC was really too involved. But, you know, just you're kind of hearing it from a producer's point of view that, you know, we really need to . . . I understand too that we can't put the burden of all of these liabilities on the taxpayers' backs. I understand that too. We need to come up with something that we can work together, you know.

It's my belief, you know, that this government, any government's mandate is to create employment, create . . . especially in the rural areas. You know, we're always looking for value-added farming lines. Well in a lot of these rural areas we've got oil industry there, you know, and small producers do create a lot of employment. Down in my area right now which isn't really Swift Current, it's sort of more south, you know, most of the drilling this whole winter has been from small producers that are under 1,000 barrels a day. You know, we've got 14 staff in my business and they're all, you know, related to small organizations. So they are a very important part of the Saskatchewan industry.

The Chair: — Thank you very much, Mr. Greenslade. Are there any questions? Mr. Stewart.

Mr. Stewart: — Thank you, Mr. Chair, and thank you, Mr. Greenslade for your presentation. Earlier today we heard that there are 600 and some wells that have not produced any oil for a year or more. It was my immediate concern that those would likely be shut down between now probably and the time that this Act would come into force. And that question was asked and it's been dealt with to some extent. But in your presentation you mentioned that you think the Act might be a barrier to those wishing to enter the business. Could you explain that to us please?

Mr. Greenslade: — Well my concern is if you, you know, for a new small person that wants to get involved in the industry . . . Maybe he's got a 10-well program, He's identified 10 wells that he may be able to take over that are, you know, maybe under a cube a day, under six barrels a day, maybe four or three barrels a day, which is still economical for a small producer — at least in my area it is.

If you say well the abandonment costs then are going to maybe reach as high as \$40,000 per wellbore — you know, 40 times 10 would be \$400,000 — then is what you're going to have to put up as a bond to go in and own these wells? If it's something like that that this committee's thinking of, there's not a small person around that's going to put \$400,000 up for a bond to buy 10 wells that are going to make, you know, three or four barrels per well. So you're looking at 40 barrels a day total. You know, it's still a viable business. It's viable at \$18 because I was there and I know when it was, when we were getting \$18 a barrel, not even what it was today. It was viable back then, so it'll be viable again.

Mr. Stewart: — Thank you. I think that's all.

The Chair: — Thank you. Are there any other questions? Mr. Lautermilch.

Hon. Mr. Lautermilch: — Not so much a question, I think, just a comment. I appreciate what you're doing. I appreciate

what your business is doing. This is important to our economy, and I think my understanding, the goal of the initiatives that have been put forth by the department and the associations is that we would make sure that small operations are viable, more viable, on wells that aren't any longer desirous to some of the larger producers.

And I think it's good advice that you give this committee and members of the legislature, and we will obviously want to keep your comments in mind as we go through the process. And I think it's fair to say the officials are here who could allay your fears because I think, quite the opposite from shutting in smaller operators, that the intent here is to make smaller operations, Saskatchewan-based operations, more viable. So obviously we appreciate your comments in that regard.

Mr. Greenslade: — Thank you.

The Chair: — Any other questions? Seeing none, Mr. Greenslade, I would like to thank you on behalf of the committee for your coming today and bringing forward your presentation. This is the Economy Committee of the legislature, and we have a very, very keen interest in ensuring that our economy continues to grow and that entrepreneurs like yourself in our province have the opportunity to continue to grow our province. And so we do appreciate when you come forward and raise concerns. And we will endeavour to take your comments to heart and ensure that we do everything we can to ensure that small producers not only continue to operate but in fact are able to grow in the province of Saskatchewan.

Mr. Greenslade: — Thank you very much. Thank you, Chair.

The Chair: — Committee members, before we recess today, Mr. Kotelko would like to make a few comments to the committee.

Mr. Kotelko: — Mr. Chair, committee members, thank you very much for allowing me to speak to this committee. I bring a unique blend of experience to this activity in that I consult to Canadian Natural Resources which I found out yesterday has the highest oil and gas production in Canada — that comes from Canada. And Canada's bigger, but a lot of their production's actually from the US [United States] so . . . And I also personally operate Servant oil and gas which is a small producer in Alberta. We operate three wells. So I represent the very large and the very small, and I know intimately the details of them all.

And I've been involved with Canadian Natural and the liability management program in Alberta since '99 and worked on the orphan program there. And the orphan program, when it started in '93 . . . Of course when you start a program you're going to crystallize some liability because there's nothing in place before to really govern how transfers or activities of companies . . . And we've just recently undertaken to try to understand in Alberta how that works. And so upon crystallization now, we look back and find there's \$33 million that was crystallized. In Saskatchewan you see there's 26 that appears, that will be there right on day one.

Alberta brought out a well screening ratio in '93 that was really . . . looked at active wells versus inactive wells, which was a

blend of two programs — one trying to reduce inactive wells, to penalize them, because the levy at the time was only on inactive wells. And so they tried to meld a program of limiting inactive wells and an orphan program. With that well screening ratio from '93 to 2001, they amassed another \$81 million in liability because the screen was not valid. And so the commitment of industry to fund the orphan program . . . and requested that there be proper rules in place, found that the well screening ratio was not proper. And instead of having a \$33 million liability, they added another 81 on top of that.

In 2001 we rewrote the rules because the costs were mounting. And with that, we came to the asset to liability, where we said production is the asset. Every disturbance is a liability, whether it's producing or whether it's not. Any disturbance has to be put back because this is leased land that has to be returned to the farmer. So we have to put it back in pristine condition, so he can continue to use it for his operation. We don't buy this land. We just rent it or lease it, so proper rules are essential.

When we look at . . . In dealing with the Saskatchewan implementation of a program, industry's commitment, recognizing what they've spent in Alberta, you'd think if they're burnt once they'd be twice shy. But really their commitment is to . . . Someone's got to pay for this. And industry is saying, we will pay for our competitor's sins, so to speak. If they come to the industry and try to enter underfunded and mismanage, industry will stand behind and pay for that.

But they'll only stand behind and pay for that if there are proper rules to regulate it. And the regulation is really asset to liability, production versus . . . And it's pretty simple. It's cash flow. We take industry net back times production for three years. That's an asset. That's roughly the asset. The liability is whatever the current we have . . . Each area has an abandonment cost that has, determined by its depth, the number of perforations it has, a number . . . or if it's a dual complete or is it ground water? Is it protected? Is there surface casing vent flows? Is there other problems with it? So there is a matrix that determines what the well liability is.

And by then calculating asset to liability, if a company cannot, does not have production . . . Like we talked about those 687 wells. Well those are held by companies that have no production whatsoever. There are 17,000 that don't have any production, but only 687 in companies where the company doesn't produce. So those companies are obvious. And some of them are no longer registered to operate. So we know that coming out of the gate, of the 17,000 inactive wells there's only 687 that are held by companies that have either walked away already . . .

There may be some that may be operating a welding shop somewhere, and you send them a letter, and they'll say, yes that's my well. I'll pay for it because I undertook to try to get in the business. It didn't work, and I've got a well liability that I've been putting off. I'm going to step up to the plate, and I'm going to go and abandon it. There might be some of that, and I hope there is. But there may not be. Industry's taking the position that the \$26 million is there and will be there, and we'll fund it all, but we don't want it to grow to \$187 million like it has or \$175 million like it has in Alberta. Therefore you need the right rules.

With regards to, you know, an example of 10 wells we've brought in . . . there's components of the program that to calculate an asset initially it's without knowing what the life of a well is. We said we'll use three years. Unfortunately you really don't know the life of a well until it's finished. All you know is what it's producing today. Some wells will decline very rapidly. Some will decline very shallow. Some will stay steady. Actually in heavy oil they found that when you drill a well, heavy oil production actually increases with time as it creates a worm hole to the wellbore and your oil production increases. Different but anyway . . . So we've taken that into consideration and said if over time your well does not decline, we'll use something different than the three-year average. We can use a six-year life to recognize that there is more value in a well that has no decline than one that's declining at 50 per cent a year.

So I think there are measures as part of the program that we'll recognize and that can be appealed. In other words the standard is three years, but if you have a no-decline well you can apply and get six. So I think that there are parts of the program that really would alleviate a small company's concern that they will be unfairly treated. There's also an appeal for netback. If you've got designer oil and no operating costs somehow and you're getting a high netback by demonstrating through your financial records that you're getting \$1,000 a barrel; submit that and we'll use \$1,000 a barrel as part of your netback.

With regards to the cost itself, if you feel that you've been a very prudent operator, you don't have any spills, you have no contamination, and your calculation is not 20,000 to abandon a well, it's something less; submit that and it will then be reviewed because I know there are sites out there . . . The experience from the Orphan Well Association in Alberta, we take on sites and some of these operators who become defunct really don't have very good operating practice.

There's one company just north of Edmonton where we're paying \$1.4 million a site to reclaim. I don't think the guy hauled salt water out of his site. He just opened the valve because there's salt water contamination everywhere. And so it's not \$20,000. It's 1.4 million for these sites, and there's 15 of them. And who's paying for that? In Alberta, it's the producers. And so what do we have in our 63,000 wells in Saskatchewan? How many are going to be at 5,000? How many are going to be at 20? How many are going to be at 1.4? Hopefully not many.

In closing, I believe the program that has been put forward has been . . . You know, I just want to commend the department officials, you know, Todd and Brad and Brian for their work in always trying to achieve a balance. As a large company like CNRL [Canadian Natural Resources Ltd.] in Alberta last year paid \$1.5 million for our competitors' mistakes. And their only concern is, are the rules right? We'll pay for it. We've committed to do it. That's the right thing to do. But are the rules right?

And so I think the rules are right. There's a balance. There's a phase-in period. There's appeal processes. I think it's a very robust program. And with that I just want to again commend the department officials for really desiring to work hard to bring a balance. And I think there is a balance in this program. Thank you.

The Chair: — Thank you very much, Mr. Kotelko. Are there any questions? Seeing none, thank you very much. And at this time then I would move that this committee now adjourn.

[The committee adjourned at 16:42.]

Corrigenda

Corrigenda for November 21, 2006, verbatim report No. 32 for the Standing Committee on the Economy

On page 551, the two paragraphs attributed to Mr. Hart are in error and should instead be attributed to Mr. Elhard.

We apologize for this error.

On page 563, left column, Mr. Hart's first paragraph, the last sentence reads:

And one of the vice-presidents of that organization made the statement, and it's in the press, that there are marriages within the civil servant that need to be dealt with.

And instead should read:

And one of the vice-presidents of that organization made the statement, and it's in the press, that there are managers within the civil servant that need to be dealt with.

We apologize for this error.

[NOTE: The online version has been corrected.]