

STANDING COMMITTEE ON PUBLIC ACCOUNTS

February 16, 1998

MINUTE NO. 29

1:30 p.m. — Room 10

1. **PRESENT:** Ms. Draude in the Chair and Members, Gantefer, Goochsen, Hillson, Jess, Koenker, Stanger, Tchorzewski, Thomson and Whitmore.

Provincial Auditor's Office

Wayne Strelloff, Provincial Auditor
Fred Wendel, Assistant Provincial Auditor
Shelley Lipon, Principal
Rodd Jersak, Manager
Rod Grabarczyk, Manager
Carey Robertson, Communications Intern

Provincial Comptroller's Office

Terry Paton, Provincial Comptroller
Chris Bayda, Director, Financial Management Branch

2. The following documents received since the last meeting of the committee were tabled:

PAC 26/23 – Office of the Provincial Auditor: Legal opinion with regards to the Worker's Compensation Board.

PAC 27/23 – Legislative Counsel and Law Clerk: Legal opinion with regards to the Worker's Compensation Board.

PAC 28/23 – Department of Justice: Legal opinion with regards to the Worker's Compensation Board.

PAC 29/23 – Saskatchewan Worker's Compensation Board: Two legal opinions with regards to the Worker's Compensation Board.

PAC 30/23 – Department of Justice: Response to questions raised at the December 11th, 1996 meeting.

PAC 31/23- Office of the Provincial Auditor: Supplementary report by the Provincial Auditor to the legal opinion in regards to the Worker's Compensation Board.

3. The Clerk to the Committee presided over the election of a Chair. Mr. Tchorzewski nominated Ms. Draude for the position. There being no further nominations, it was moved by Mr. Hillson:

That nominations for the position of Chair close.

The question being put, the motion was agreed to.

4. It was moved by Mr. Tchorzewski:

That June Draude be elected to preside as Chair of the Standing Committee on Public Accounts.

The question being put, the motion was agreed to and Ms. Draude took the Chair.

5. The Chair of the Committee presided over the election of a Vice-Chair. Mr. Gantefoer nominated Mr. Tchorzewski for the position. There being no further nominations, it was moved by Mr. Whitmore:

That nominations for the position of Vice-Chair close.

The question being put, the motion was agreed to.

6. It was moved by Mr. Gantefoer:

That Ed Tchorzewski be elected to preside as Vice-Chair of the Standing Committee on Public Accounts.

The question being put, the motion was agreed to.

7. The Committee considered a proposed business agenda for its meetings of the week February 16th through February 19th.

It was moved by Mr. Tchorzewski:

That the draft agenda of the Standing Committee on Public Accounts for meetings to be held Monday, February 16th to Thursday, February 19th, 1998 be adopted.

A debate arising, it was moved by Mr. Hillson in amendment thereto:

Whereas the 1997 Fall Report of the Provincial Auditor (Volume 2) makes reference to serious concerns about the activities of Channel Lake Petroleum Ltd., (a subsidiary of Saskatchewan Power Corporation) and in particular serious concern over:

- (a) Channel Lake's natural gas futures trading program and the lack of rules and procedures to safeguard the company's assets from risks, including the lack of an adequate credit approval process;
- (b) Channel Lake's lack of a business plan outlining the risks involved in the gas marketing futures business, including a lack of any assessment of the potential losses from defaults from outside parties;
- (c) Channel Lake's purchase of common shares in an oil and gas production for which it paid \$364,000 without proper legal authority in the form of an Order in Council, as required by section 12(1) of The Power Corporation Act and subsection 29(1) of The Crown Corporations Act, 1993;
- (d) Channel Lake's forecast of operating losses in the neighbourhood of \$5.6 Million for 1997;

And Whereas Saskatchewan Power Corporation reported that it sold Channel Lake Petroleum Ltd. in April of 1997 to Direct Energy Marketing Ltd., such sale to be finalized in June of 1997;

And Whereas serious questions and concerns have been raised about the circumstances surrounding the sale of Channel Lake Petroleum Ltd.:

That the agenda of this meeting be amended to so as to add to it:

"An examination of the circumstances surrounding the sale of Channel Lake Petroleum Ltd. by Saskatchewan Power Corporation, including the lack of any public tendering process for the disposition of a crown asset valued at approximately \$25 Million, such sale being referred to in paragraph .37 of the Fall 1997 Report of the Provincial Auditor, (Volume 2)".

The Chair ruled that the motion contained preambles which are not accepted practice in the Committee and, pursuant to *Beauchesne's Parliamentary Rules and Orders*, 6th edition, paragraph 566(3), asked the mover to modify the motion by removing the whereas clauses. Thereupon Mr. Hillson moved:

That the agenda of this meeting be amended to so as to add to it:

"An examination of the circumstances surrounding the sale of Channel Lake Petroleum Ltd. by Saskatchewan Power Corporation, including the lack of any public tendering process for the disposition of a crown asset valued at approximately \$25 Million, such sale being referred to in paragraph .37 of the Fall 1997 Report of the Provincial Auditor, (Volume 2)".

A debate arising and the question being put, the amendment was negatived. The debate continuing on the main motion, it was moved by Mr. Hillson in amendment thereto:

That the agenda of this meeting be amended to so as to add to it:

“An inquiry into the role played by Mr. Lawrence Protigal in the sale of Channel Lake Petroleum Ltd., by Saskatchewan Power Corporation, and in particular, an inquiry as to:

- (a) When Mr. Portigal first entertained the idea of working for the purchasers of Channel Lake Petroleum Ltd., (Direct Energy Marketing Ltd.);
- (b) When Mr. Portigal first informed the management of Saskatchewan Power Corporation of his intention to seek employment with the purchasers of Channel Lake Petroleum Ltd.;
- (c) What steps Saskatchewan Power Corporation management officials took upon learning that Mr. Portigal was seeking employment with the purchasers of Channel Lake Petroleum Ltd.;
- (d) What effect, if any, did Mr. Portigal’s dealings with the purchasers of Channel Lake Petroleum Ltd. have on the sale price and the other terms of the sale of Channel Lake Petroleum Ltd. to Direct Energy Marketing Ltd.”

A debate arising and the question being put, the amendment was negatived. The debate continuing on the main motion, it was moved by Mr. Hillson in amendment thereto:

That the agenda of this meeting be amended to so as to add it:

“An inquiry into the purchase by Channel Lake Petroleum Ltd. of shares in an oil and gas production company, and in particular, an inquiry into:

- (a) The identify of the oil and gas production company;
- (b) The terms and conditions of the purchase agreement;
- (c) The effect of the purchase upon the value of Channel Lake Petroleum Ltd;
- (d) The legal reasoning behind the theory that Saskatchewan Power Corporation is not required to obtain an Order in Council for the acquisition by Channel Lake Petroleum Ltd. of common shares in an oil and gas production company.”

A debate arising and the question being put, the amendment was negatived. The debate continuing on the main motion, it was moved by Mr. Hillson in amendment thereto:

That the agenda of this meeting be amended to so as to add to it:

“An inquiry into why Saskatchewan Power Corporation has failed to table separate financial statements for Channel Lake Petroleum Ltd. and that the Committee consider directing Saskatchewan Power Corporation to table separate financial statements for Channel Lake Petroleum Ltd. in accordance with the recommendation of the Provincial Auditor.”

The question being put, the amendment was negatived. The debate continuing on the main motion, it was moved by Mr. Hillson in amendment thereto:

That the agenda of this meeting be amended to so as to add to it:

- (a) An inquiry into why Saskatchewan Power Corporation decided to purchase Channel Lake Petroleum Ltd., in 1993; and
- (b) An inquiry into why Saskatchewan Power Corporation caused Channel Lake Petroleum Ltd., to enter into the business of trading in natural gas futures (arbitrage); and
- (c) An inquiry into why Saskatchewan Power Corporation subsequently caused Channel Lake Petroleum to have and abandon the business of trading in natural gas futures (arbitrage); and
- (d) An inquiry into why Saskatchewan Power Corporation ultimately decided to sell Channel Lake Petroleum Ltd.”

A debate arising and the question being put, the amendment was negatived. The debate continuing on the main motion, it was moved by Mr. Hillson in amendment thereto:

That the agenda of this meeting be amended to so as to add to it:

“An inquiry into the contradictions concerning the profits and losses of Channel Lake Petroleum Ltd., including an examination of the sale price of the company and how it has been calculated.”

A debate arising and the question being put, the amendment was negatived. The debate continuing on the main motion, it was moved by Mr. Hillson in amendment thereto:

That the agenda of this meeting be amended to so as to add to it:

“An inquiry into the terms and conditions of any collateral agreements entered into by Saskatchewan Power Corporation at the time of the sale of Channel Lake Petroleum Ltd., particularly whether there was an exclusive contract given to Direct Energy Marketing Ltd. to supply Saskatchewan Power Corporation with all its natural gas needs, and, more particularly:

- (a) The length of the exclusive natural gas supply contract;
- (b) The sale price under the exclusive natural gas supply contract or how the sale price is to be calculated;
- (c) The effect which the exclusive natural gas supply contract had on the sale price of Channel Lake Petroleum Ltd.”

A debate arising and the question being put, the amendment was negatived on the following division: Yeas 2; Nays 7. The debate continuing on the main motion, it was moved by Mr. Hillson in amendment thereto:

That an invitation to attend this committee be issued to the following persons:

- Jack Messer
- Kenneth Christensen
- Lawrence Portigal
- Richard Patrick

The Chair ruled the proposed amendment out of order on the grounds that it was in the form of a distinct motion and not in the form of an amendment. Mr. Hillson challenged the ruling of the Chair, which was sustained on the following division: Yeas 7; Nays 1.

The debate continuing on the main motion, it was agreed to.

8. With respect to a future business agenda of the Committee, it was moved by Mr. Gantefer:

That this committee directs the steering committee to place the issues raised by the honorable member from North Battleford be placed on the next agenda.

A debate arising, it was moved by Mr. Hillson in amendment thereto:

That the motion be Amended to adding the words:

“and further that such meeting to be called within 30 days of this date”.

A debate arising and the question being put, the amendment was negated on the following division: Yeas 3; Nays 6.

The debate continuing on the main motion, it was negated on the following division: Yeas 3; Nays 6.

9. The Committee received an orientation on the role and responsibility of the Office of the Provincial Auditor.
10. The Committee received an orientation on the role and responsibility of the Office of the Provincial Comptroller.
11. The Committee agreed to postpone consideration of the Workers' Compensation Board agenda item.
12. The Committee recessed at 3:10 p.m. until 3:20 p.m.
13. The Committee proceeded to consider Chapter 10 (Department of Agriculture and Food) of the *Fall 1996 Report of the Provincial Auditor*. Mr. Grabarczyk of the Provincial Auditor's office provided an overview of the chapter and responded to questions put by Members.

The following Department of Agriculture and Food officials appeared before the Committee and responded to questions put by Members:

Witnesses

Terrence Scott, Deputy Minister

Jack Zepp, Director, Administrative Services Branch

Dr. Peter Rempel, Director, Pastures Branch

Roy White, Senior Marketing Officer, Industry Development Branch

Secretary -- Agri-Food Council

Ken Petruic, Manager of Financial Services, Administrative Services Branch

14. The Committee concurred with the recommendation made at paragraph 10.15, concerning the completion and updating of written policies and procedures of the Conservation and Development Revolving Fund, and noted that progress is being made by the Department to comply.
15. The Committee concurred with the recommendation made at paragraph 10.20, concerning the improvement of Community Pasture Program internal financial reports, and noted that progress is being made by the Department to comply.
16. The Committee concurred with the recommendation made at paragraph 10.24, concerning the preparation of accurate financial statements for the Conservation and Development Revolving Fund using accrual accounting principles. The Committee noted that the Department has complied with the recommendation.
17. The Committee concurred with the recommendation made at paragraph 10.28, concerning the need for staff to adhere to policies established to safeguard the inventory of the Conservation and Development Revolving Fund. The Committee noted that the Department has complied with the recommendation.
18. The Committee concurred with the recommendation made at paragraph 10.32, concerning the need for a control system for the inventory of the Conservation and Development Revolving Fund. The Committee noted that the Department has complied with the recommendation.
19. The Committee concurred with the recommendation made at paragraph 10.36, concerning the need for the Department to control and safeguard the money it collects for the Conservation and Development Revolving Fund. The Committee noted that the Department has complied with the recommendation.
20. The Committee concurred with the recommendation made at paragraph 10.47, concerning the need for the Saskatchewan Canola Development Commission to have written agreements for all grants. The Committee noted that the Department believes the Commission has complied.

21. The Committee concurred with the recommendation made at paragraph 10.52, concerning the need for the Saskatchewan Canola Development Commission to ensure all grant recipients meet the terms and conditions of grants. The Committee noted that the Commission is making progress towards compliance with this recommendation.
22. The Committee concurred with the recommendation made at paragraph 10.57, that the Saskatchewan Canola Development Commission should clearly document their decisions in the board minutes. The Committee noted that the Commission is making progress towards compliance with this recommendation.
23. The Committee concurred with the recommendation made at paragraph 10.62, that the Saskatchewan Canola Development Commission should update its accounting policies and procedures manual. The Committee noted that the Commission has complied with this recommendation.
24. The Committee concurred with the recommendation made at paragraph 10.65, that the Saskatchewan Canola Development Commission should evaluate its computer systems, prepare a written contingency plan, and test the plan. The Committee noted that the Commission has complied with this recommendation.
25. In consideration of the recommendation made at paragraph 10.69, concerning the necessity of the Saskatchewan Canola Development Commission to obtain Lieutenant Governor in Council approval before creating subsidiaries, it was moved by Mr. Tchorzewski:

The Public Accounts Committee does not agree at this time with the Auditor's recommendation and notes that the Saskatchewan Canola Development Commission is seeking to clarify its authority and asks that this be reported to the Public Accounts Committee when completed.

A debate arising, it was moved by Mr. Hillson in amendment thereto:

That the motion be amended by adding the following words:
"and further that we note the undertaking to file the legal opinions obtained."

The question being put on the amendment, it was agreed to. The debate continuing on the motion as amended, it was moved by Mr. Hillson in amendment thereto:

That we express our preference for the approach recommended by the Provincial Auditor.

The Chair ruled the amendment out of order on the grounds that it was in the form of a distinct motion rather than in the form of an amendment and further, that it was an expanded negative. Mr. Hillson challenged the ruling of the Chair, which was sustained on the following division: Yeas 6; Nays 1.

The question being put on the motion as amended, it was agreed to.

26. The Committee concurred with the recommendation made at paragraph 10.73, that the Saskatchewan Canola Development Commission should submit its annual reports to the Agricultural and Food Products Development and Marketing Council by the dates required by law. The Committee noted that the Commission has complied with this recommendation.
27. In consideration of the recommendation made at paragraph 10.79, concerning the tabling of the Saskatchewan Canola Development Commission financial statements in the Legislative Assembly, it was moved by Mr. Tchorzewski:

That the Public Accounts Committee recommends the Agri-Food Act is the relevant legislation for supervising the activities and operations of boards and commissions such as the Saskatchewan Canola Development Commission; and further the Act has a supervisory structure in place that ensures financial reports are scrutinized not only by the producers who fund all activities but also by the Agri-Food Council which is charged with the responsibility of reporting to the Minister of Agriculture and Food; and further the Act has no requirement for tabling Financial Statements of boards and commissions in the Legislative Assembly.

A debate arising and the question being put, the motion was agreed to.

28. In consideration of the recommendation made at paragraph 10.83, concerning the publicly reporting a list of persons who received money from the Saskatchewan Canola Development Commission, it was moved by Mr. Tchorzewski:

That Public Accounts Committee recommends the Saskatchewan Canola Development Commission continue to report all information regarding funding recipients be made available to the producers who provide the funds; and further no public funds are administered by the commission, only refundable levies that are collected from producers when canola is marketed.

A debate arising and the question being put, the motion was agreed to.

29. The Committee concurred with the recommendations made at paragraphs 10.102, 10.110, 10.111, and 10.116, concerning the accountability practices of SPI Marketing Group. The Committee noted that SPI Marketing Group is in the process of being wound up.

30. In consideration of the recommendation made at paragraphs 10.119 and 10.124, it was moved by Mr. Tchorzewski:

That with respect to Chapter 10 - .119 to .124, the Public Accounts Committee recommends the Department of Agriculture and Provincial Auditor work together to determine reporting requirements when the new SPI Marketing Group structure is determined.

The question being put, the motion was agreed to.

31. The Committee concurred with the recommendation made at paragraph 10.135, that the Milk Control Board should approve a budget before the year begins. The Committee noted that the Board has complied with this recommendation.
32. The Committee concurred with the recommendation made at paragraph 10.140, that the Milk Control Board should ensure all quota transfers comply with the law. The Committee noted that the Board has complied with this recommendation.
33. In consideration of the recommendation made at paragraph 10.143, concerning the provision of a complete list of persons who receive money from the Milk Control Board, the Committee agreed to recommend that the Board continue to publish a list of its administrative costs but not a producers list.
34. The Committee adjourned at 5:15 p.m. until Tuesday February 17th, 1998, at 9:30 a.m.

Committee Clerk

Committee Chair