

Saskatchewan's Commercial Crown Corporations Time for a New Crown Review



Presented at
Breakfast on the Frontier
Frontier Centre for Public Policy

Regina, Saskatchewan
June 19, 2008

Sheldon Schwartz, CFA

Background



- Governments have always had an interest and often a direct role in ensuring basic infrastructure to support social and economic development.
- Examples of government-owned businesses at the national level include:
 - US: AMTRAK, the Tennessee Valley Authority and the US Postal Service
 - Canada: Canada Post Corporation, VIA Rail, and the Canadian Broadcasting Corporation ;
 - Australia :Australia Post
 - UK : British Broadcasting Corporation

Saskatchewan Commercial Crowns

- Public policy rationale:
 - Established because people in the province felt government should provide certain essential services that were either not offered by private companies, or not available to all residents on a fair and equitable basis .
- Four guiding principles - Services should be:
 - Universal, or available to everyone;
 - Reliable;
 - Of high quality; and
 - Offered at a reasonable cost.

Saskatchewan Commercial Crowns



- Crown Investments Corporation (CIC) holds investments in 11 commercial Crown corporations, but we'll focus on “big Four”: SaskPower; SaskTel; SaskEnergy; and, SGI Canada.
- Assets at December 31, 2007

SaskPower	\$4.5 billion
SaskTel	\$1.3 billion
SaskEnergy	\$1.4 billion
SGI Canada	\$707 million

Where did they come from?



SaskPower



1929	Saskatchewan Power Commission established to provide safe, reliable, cost-effective power to all Saskatchewan people.
1949	Becomes a Crown corporation called Saskatchewan Power Corporation.

SaskTel



1908 Dept. of Railway, Telephones &Telegraphs established and given authority to create and operate local and long distance telephone lines. Its goal is to provide cost-effective service to as many farms, homes and businesses as possible.

1947 Responsibility for telecommunications transferred to a new Crown called Saskatchewan Government Telephones, later named SaskTel.

SaskEnergy



1988

SaskEnergy Incorporated is created as a new Crown to provide natural gas transmission and distribution services. It assumes responsibility from SaskPower for providing Saskatchewan people with a highly reliable, safe, and economical source of energy.

SGI Canada



1945

Saskatchewan Government Insurance Office (SGIO) is established to ensure that affordable, good quality insurance is available to Saskatchewan people.

Where are they now?



Overview



- Provide excellent service, job opportunities, head office jobs.
- Dedicated and competent boards, management and staff.
- Work to achieve industry-standard capital structure, return on equity targets.
- “Textbook corporate finance” dividend policies.

SaskPower SaskEnergy/TransGas



- Little competition
 - natural monopolies in the transmission and distribution of electricity and natural gas.
 - Further enhanced by legislative protection in their respective Acts.
- Saskatchewan Rate Review Panel conducts reviews and provides opinions to the government on the fairness and reasonableness of proposed rate changes.

SaskTel



- Offers similar products, in full competition with private carriers.
- Federally-regulated by the Canadian Radio-television and Telecommunications Commission (CRTC).

SGI Canada



- Offers similar products in full competition with private property and casualty insurers.

Where are they going?



Crown Corporations Public Ownership Act



- Passed in 2004 with all-party support.
- Highlights:
 - Any privatization needs specific authorizing legislation.
 - Before bill can be passed, the terms of privatization must undergo additional detailed scrutiny, and results disclosed in a written public report.
 - Even if bill is passed, can not come into effect earlier than 90 days after a provincial election is called.

Crown Corporations Public Ownership Act



- Strong disincentive to any government contemplating privatizing any commercial Crown corporation.
- Shouldn't be allowed to stifle:
 - public review of the Crowns' situation and outlook,
 - public debate about why the Province of Saskatchewan owns commercial Crown corporations.

A New Crown Review



- 1996 Crown Review
 - Last public review of the situation and outlook for the commercial Crown corporations.
- With the changes that have occurred since, e.g.,
 - commercial
 - regulatory
 - technological
 - strategic
 - competitive
- It's now time to have another look.

Framework



- Independent of the government.
- Analysis:
 - rigorous,
 - objective
 - transparent
- Open public input and debate.
- Process and results should be public.

Mandate



- For each of the commercial Crowns examine:
 - Situation
 - Outlook
 - Continuing public purpose

Market Value of Equity



- Taxpayers' investment in owning the commercial Crown corporations totals billions of dollars, or thousands of dollars per citizen.
- For each commercial Crown corporation, what is the current market value of the taxpayers' equity?

Relative Performance



- Since the 1996 Crown Review, has each of the commercial Crown corporations maintained or enhanced its equity value relative to its private sector counterparts?
- If not, why not?

Public Policy Activities



- What activities does each of the commercial Crown corporations conduct for public policy purposes that a private sector counterpart would not do without subsidization?
- What would be the amount of the required annual subsidy to a private sector counterpart?

Public Policy Purpose



- Which of the commercial Crown corporations have achieved their mandates?
- For those that have, what is the public policy purpose of continued government ownership?
- For those that haven't, why haven't they?

Thought Experiment



- In economics, the decision to own, or to not sell a marketable asset is the same as the decision to buy it at its current market value.
 - If SaskPower, SaskEnergy, and SaskTel were privately owned and independently regulated, would the Saskatchewan public support a government policy to borrow billions of dollars to nationalize them?
 - If SGI Canada was privately owned, would the Saskatchewan public support a government policy to borrow millions of dollars to nationalize it?