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Main points

Responsibilities of NorthPoint Energy Solutions Inc. (NorthPoint), a wholly-owned subsidiary of SaskPower, include buying and selling electricity in various markets in Canada and the United States. On numerous occasions during 2008 and 2009, NorthPoint may have violated a rule of a market and, as a result, exposed itself to financial penalties. Violations of market rules can cause additional costs and impair NorthPoint's reputation and ability to participate in key electricity trading markets. NorthPoint has not provided its staff with adequate training on market rules and adequately monitored compliance with market rules. Adequate training and monitoring is essential to reduce the risk of violations occurring.

Most of SaskPower's power-generating stations were built before 1970. Based on its projected needs for electricity, SaskPower will need to rebuild, replace, or acquire about 4,100 megawatts by 2030. In 2006, we assessed SaskPower's processes to plan for infrastructure needs related to generating electricity and made two recommendations. SaskPower has adequately addressed our recommendation about using its new strategic plan to assess alternative strategies that address identified infrastructure needs. Also, through its risk management initiative, SaskPower has partially implemented our recommendation about documenting the nature and extent of specific infrastructure risks that it accepts when it approves projects.

In 2009, SaskPower spent almost \$900 million on capital projects and goods and services (excluding salaries and related benefits). In 2007, we assessed SaskPower's processes to buy goods and services valued at under \$100,000 and made four recommendations. In 2009, staff documented reasons for the selected purchase methods, and had better guidance on setting bid submission deadlines. However, staff did not always obtain appropriate approvals for purchases before finalizing purchase decisions. Also, SaskPower did not track problems with key suppliers and make this information available for purchasing decisions.

Introduction

SaskPower is the principal supplier of electricity in Saskatchewan operating primarily under the mandate and authority of *The Power Corporation Act*. SaskPower's mission is to deliver power in a safe, reliable, and sustainable manner.

SaskPower's consolidated financial statements include the financial results of SaskPower and its subsidiaries. SaskPower wholly-owns three companies – NorthPoint Energy Solutions Inc. (NorthPoint), Power Greenhouses Inc. (Greenhouse) and SaskPower International Inc. As well, SaskPower sponsors the Power Corporation Superannuation Plan (Superannuation Plan).

SaskPower, NorthPoint, Greenhouse, and the Superannuation Plan each provide the Legislative Assembly with their annual financial statements. Because SaskPower International Inc. had no active operations in 2009 beyond its joint venture interests, it does not provide the Assembly with financial statements. The financial results of its joint venture interests are included in SaskPower's consolidated financial statements.

This chapter sets out the results of our 2009 audits of SaskPower, its subsidiaries, and the Superannuation Plan. It also describes management's actions on the recommendations we made in two previous audits. The first audit examined SaskPower's processes, in place in 2005, to plan for infrastructure needs related to generating electricity. The second audit examined SaskPower's processes, in place in 2007, to buy goods and services.

Our audit conclusions and findings

Deloitte & Touche LLP is the appointed auditor of SaskPower, NorthPoint, and the Superannuation Plan. Meyers Norris Penny LLP is the appointed auditor of Greenhouse. Our Office and the appointed auditors worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors*.¹ The appointed auditors and our Office formed the following opinions.

¹ To view this report, see our website at www.auditor.sk.ca.

In our opinion, for the year ended December 31, 2009:

- ◆ **the financial statements of SaskPower, NorthPoint, Greenhouse, and the Superannuation Plan are reliable**
- ◆ **SaskPower, NorthPoint, Greenhouse, and the Superannuation Plan had adequate rules and procedures to safeguard public resources except for the matter noted below**
- ◆ **SaskPower, NorthPoint, Greenhouse, SaskPower International Inc., and the Superannuation Plan complied with authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**

During the audit, we noted potential violations of an electricity-trading rule by NorthPoint.

NorthPoint Energy Solutions Inc.

Introduction

NorthPoint provides SaskPower with generation and load management services and, in certain circumstances sells and buys electricity for domestic use.² Since 2005, it also manages SaskPower's natural gas supplies for SaskPower's natural-gas fired power plants.³ It also acts as a principal in wholesale electricity trading transactions that do not relate to electricity generated in Saskatchewan.

In 2009, NorthPoint had revenues of \$79.9 million including \$6.3 million in service fees from SaskPower and net income of \$3.7 million. At December 31, 2009, it held total assets of \$29.2 million.

² NorthPoint sells and buys electricity for domestic use when a shortfall occurs or when lower cost power is available for use in Saskatchewan.

³ Additional information on NorthPoint Energy Solutions Inc. is available on its website at www.northpointenergy.com.

Potential electricity trading market rule violations

NorthPoint did not provide staff with adequate training on market rules or adequately monitor compliance with market rules.

NorthPoint participates in electricity trading markets operating in Canada (Alberta, Manitoba, and Ontario) and in the United States (Northwest, Mid-continent, and East). Each of these markets has its own rules to regulate the interrelationships among the market participants trading in electricity. Each market routinely makes changes to these rules. Some rules regulate the fairness and openness of trading whereas others are administrative in nature. Not complying with certain rules can result in financial penalties or suspension from participation in the market.

Through agreements, NorthPoint is required to follow these rules when conducting a trade. Also, NorthPoint's code of conduct requires staff to comply with its policies and to conduct their activities in compliance with all related laws and regulations.

On numerous occasions during 2008 and 2009, NorthPoint may have violated a rule of a market, and as a result, exposed itself to financial penalties. At December 2009, the market regulator has not reviewed or reached a final decision on this matter.

NorthPoint's regulatory monitoring processes were not managed separately from its market trading personnel, staff was not appropriately supervised, and potential violations were not dealt with appropriately. Furthermore, NorthPoint staff did not fully understand the requirements of the rule or the consequences of potential violations, and did not regard them as non-compliance with NorthPoint's code of conduct.

Violations of market rules may result in additional costs. They also increase NorthPoint's risk of impairing its reputation and its future ability to participate in key electricity trading markets.

- 1. We recommend NorthPoint Energy Solutions Inc. assign responsibility for monitoring compliance with electricity and natural gas trading market rules to staff not directly involved in trading activities.**

- 2. We recommend NorthPoint Energy Solutions Inc. establish a training program that provides its staff with ongoing training on market rules and on NorthPoint's Energy Solutions Inc. processes to monitor compliance with those rules.**

Management told us the following. NorthPoint has created a new position that is not directly involved in trading activities and is responsible for monitoring compliance with trading rules. NorthPoint is also in the process of participating in market-rule development groups to gain a better understanding of the markets and to effect rule changes in a collaborative manner. Also, NorthPoint is developing an ethics and compliance-training program with an external consultant and plans to deliver this training to all staff in spring 2010.

Processes to plan for infrastructure needs—a follow-up

Introduction

In 2009, SaskPower provided more than 467,000 customers with about 18,000 gigawatt hours⁴ of electricity.

At December 2009, SaskPower can generate up to 3,840 megawatts⁵ of electricity. SaskPower's generating infrastructure includes three coal-fired power stations, seven hydroelectric stations, four natural-gas stations, and two wind generation facilities. Most of the power-generating stations were built before 1970. Based on SaskPower's projected needs for electricity, SaskPower will need to rebuild, replace, or acquire about 4,100 megawatts by 2030.⁶

At December 31, 2009, the power stations had a cost of \$3.9 billion and a net book value of \$2.2 billion.⁷ Over the last five years, SaskPower invested \$2.1 billion on upgrading and expanding its infrastructure including power stations.⁸

⁴ One gigawatt-hour represents one hour of electricity consumed at a constant rate of one gigawatt.

⁵ Megawatt is a unit of power equal to one million watts or 0.001 of a gigawatt.

⁶ SaskPower 2009 Annual Report p.2.

⁷ Ibid, p.78.

⁸ Ibid, p.47.

Related outstanding recommendations

Chapter 13 of our 2008 Report – Volume 1 includes the status of recommendations from our 2006 audit of the adequacy of SaskPower's processes to plan for infrastructure needs related to generating electricity at December 31, 2005. It reports that SaskPower, at March 31, 2008, had adequately addressed two of four recommendations we made in our 2006 Report – Volume 1. We continued to recommend that SaskPower:

1. use its new strategic plan to assess alternative strategies that address identified infrastructure needs
2. document the nature and extent of specific infrastructure risks that it accepts when it approves projects

The Standing Committee on Crown and Central Agencies agreed with these recommendations on January 10, 2007.

Key findings—overall and by recommendation

As explained below, at December 31, 2009, SaskPower has adequately addressed the first recommendation and, through its risk management initiative, has partially implemented the second recommendation.

Assessing alternate strategies consistently

Since our audit in 2006, SaskPower has updated its strategic plan. In October 2009, SaskPower tabled in the Crown and Central Agencies Committee⁹ its plan to meet infrastructure needs (*Powering a Sustainable Energy Future – The Electricity and Conservation Strategy for Meeting Saskatchewan Needs*). It has also assigned responsibility for planning and preparing key planning documents to a single business unit (i.e., the Planning, Environmental, and Regulatory Affairs business unit) to make its planning more consistent.

⁹ In October 2009, the Standing Committee on Crown and Central Agencies initiated an inquiry “to determine how Saskatchewan can best meet the growing demand for electricity in a manner that is safe, reliable, environmentally sustainable and affordable for Saskatchewan residents”. See website at www.legassembly.sk.ca/committees/CrownCentralAgencies/crown_central_agenciesnew.htm.

SaskPower has also developed templates to help it consistently document and evaluate proposed power-generating capital projects and long-term supply option scenarios. The templates set minimum documentation requirements that require staff to show how the project or scenario aligns with SaskPower's strategic plan and priorities. For example, the capital project template requires staff to describe the project (objective, reasons for proposal, relevant federal and provincial regulations or standards), determine its cost-benefit, indicate alignment to SaskPower's strategic priorities as set out in its strategic plan, and complete a formal project risk analysis.

Documenting infrastructure risks

Since our audit, SaskPower revised its approach to identify, assess, mitigate, and monitor risks and has plans to formalize its practices further by making them more consistent across the company. During 2009, SaskPower engaged a consultant to review its risk management practices and to help it adopt a "Enterprise Risk Management" model. Also SaskPower used, on a pilot basis, a more formalized risk management process on a few selected capital projects.

Processes to buy goods and services—a follow-up

Introduction

Effective acquisition of goods and services is crucial to SaskPower. As set out in its purchasing objective, it expects "to ensure SaskPower and its subsidiaries purchase goods and services in a manner that maximizes value, competition, and fairness and results in the best possible balance of benefits to SaskPower and to the people of Saskatchewan."¹⁰

In 2009, SaskPower bought about \$250 million of goods and services (e.g., materials, contract management) excluding its salaries and related benefits, and, spent over \$640 million on capital projects. Capital projects include turbine and boiler upgrades, transmission lines, and wood pole replacement. Each year, SaskPower does business with about 5,000 suppliers.

¹⁰ SaskPower *Purchasing Policy and Procedures*, September 2007, p. 4.

Related outstanding recommendations

Chapter 23 of our 2007 Report – Volume 3 includes results of our audit of the adequacy of SaskPower's processes to buy goods and services valued at under \$100,000 for the seven-month period ending July 31, 2007. It reported that SaskPower had adequate processes except for the matters described in the following four recommendations. We recommended that:

1. Where SaskPower allows for a choice of an approved purchase method, it consistently follow its established processes that require its staff to document the rationale for the method chosen
2. SaskPower provide staff with guidance on setting acceptable bid submission deadlines
3. SaskPower consistently follow its established processes that require its staff to obtain the appropriate approval of the purchase prior to finalizing the purchase decision
4. SaskPower track problems with key suppliers and make this information available for purchasing decisions

Key findings—overall and by recommendation

As explained below, at December 31, 2009, SaskPower had adequately addressed the first two recommendations but had not yet addressed the last two recommendations.

Documenting chosen purchase methods and providing guidance on acceptable bid submission deadlines

To increase staff's awareness and reinforce the process set out in its Purchasing Policy and Procedures Manual, SaskPower provided over 500 staff with specific training on its purchasing policies and procedures during 2007 to 2009. It plans to provide further training in 2010. These training sessions explained its key purchasing policies and procedures. It reinforced that staff must use approved purchase methods for specific situations, and provided staff with information on setting bid submission deadlines consistent with its policies.

SaskPower adequately documented its reasons for selecting the purchase method and better documented its rationale of bid submission deadlines where the time between the invitation or request and the deadline was short.

Obtaining approval as required by established purchasing processes and making information on problems with key suppliers available to decision makers

Although its policies are clear and training reinforced its policies, staff did not consistently obtain the required approval before finalizing the purchase decision. Its policies require that staff do so. Obtaining proper approval prior to finalizing the purchase makes certain the purchase decision (including chosen purchase method) is appropriate.

Also consistent with the findings in our 2007 audit, SaskPower does not document issues with individual supplier's performance in a coordinated and accessible format. Tracking supplier performance can reduce the risk that SaskPower will continue to use suppliers with known performance problems.

In 2009, SaskPower, with the assistance of a consultant, developed a proposal to improve its purchasing processes. Potential improvements include streamlining approval processes and better management of supplier information through use of a computerized system to capture and track supplier performance information. At December 31, 2009, SaskPower was reviewing this proposal.