

**EVIDENCE****Whitehorse, Yukon****Wednesday, February 9, 2005 — 1:30 p.m.**

**Mr. Hardy:** Welcome back. We will start immediately with the line of questioning that Mr. Cathers was on, so let us proceed.

**Mr. Morrison:** Would it be helpful if I provided the information that I had agreed to look up this morning first, or would you like me to wait?

**Mr. Hardy:** Actually, yes, we could do that. That actually would be better right now.

**Mr. Morrison:** Over the lunch hour, Mr. Hoenisch and I took a look at some information regarding the questions that were raised this morning and that we had indicated we would bring back. First of all, I would like to just address the issue about the approval of the project. I've gone back and looked at the information, and the approval from the minister to proceed with the project back in 2000 was an approval to the board of the Development Corporation to proceed. There are no conditions attached specifically in the letter of approval.

I just want to make sure that we all understand that the approval the minister is providing is under section 3.2 of the Yukon Development Corporation regulations. It is done in this manner because the regulations require that Yukon Development Corporation must approve the Yukon Energy Corporation going ahead with any transmission line projects greater than 20 kV, and this is a 34 kV line.

So the Yukon Energy Corporation needed approval from the Yukon Development Corporation within these regulations, and the Yukon Development Corporation required the approval of the minister within the regulations. When I say that the reference is an approval for the Yukon Development Corporation to go ahead with the project, that is a requirement of the Yukon Development Corporation regulations — specifically section 3.2 of the regulations.

I have also had the opportunity to refresh my memory on the question of whether the board was being advised and whether the minister was being advised by the chair. I can certainly tell you that the various ministers, over the time of this project, were periodically advised on issues by the chair. There's certainly reference to that in the minutes — periodic reference to a briefing of the minister. What they specifically briefed the minister on is not particularly clear all the time. There are references to briefings on the quarterly financial statement or specifically an update on the Mayo-Dawson line, but they're very intermittent — and I mean very intermittent. There's no evidence there was any regular briefing by the chair or the board to the minister, at least not in the minutes of the meetings.

The third piece is that there are references in board minutes during the period between 2001 and 2003 where there were issues of difficulty with the line. I can confirm with you that I believe I was correct this morning when I said reports to the board were narrative in nature. There wasn't a series of spreadsheets. There were a few graphs provided very early on. There was advice by the technical advisor and indications from

management that the project was tracking to be overbudget. There's no evidence that any specific action was taken in regard to that. These were just briefings, and that was information provided.

On the question of operating costs that we talked about this morning — were there operating costs included in the economic analysis? — we have included in there approximately \$200,000 a year for operation of the diesels in Dawson and the maintenance of those diesels. If that's helpful, Mr. Chair —

**Mr. Hardy:** Thank you, Mr. Morrison. Before we continue the regular line of questioning — and as you know, at the end of the questioning we go back to allow some follow-up questions — Mr. Rouble has a comment or a question.

**Mr. Rouble:** I would like to ask a couple of questions of clarification. I can either ask them now or at the end, whichever you prefer.

**Mr. Hardy:** Let's do them now and then you can think about them if you want to follow up at the end.

**Mr. Rouble:** Thank you for providing the additional information.

With regard to the approvals that were given, was that approval given to put in a transmission line, or was it approval specifically for the spending of a specific amount?

**Mr. Morrison:** The transmission line project very specifically stated it.

**Mr. Rouble:** The approval was based on the project rather than approval was based on a budgetary amount to be spent or unspent.

Okay, you also mentioned that quarterly financial statements were prepared.

**Mr. Morrison:** Quarterly financial statements are prepared and those are provided to the board. What I mentioned was that there were a few references to chairs reviewing those with ministers. I would suggest to you that that shouldn't be taken to mean that there was any specific information on the Mayo project in those financial statements. You have to remember that the project is a work in progress, so it's not being charged against financial statements. I don't mean to say that there isn't a bit of information there, but it's not showing in the revenues or expenses column — let me put it to you that way — because it's a work in progress. So it's being accumulated in a work-in-progress account.

**Mr. Rouble:** I'd just like to clarify this though. In the quarterly statements that were presented to the board and on occasion to ministers, those statements did not include financial updates as to project costs.

**Mr. Morrison:** There would have been some limited information. They wouldn't necessarily have been clear that the project was tracking off budget. What I'm saying to you is that in capital work in progress or the capital project account, there would be some information on costs to date. That wouldn't give you enough information to do an analysis of whether or not the project was significantly off budget.

**Mr. Rouble:** Anywhere in the organization were budget variance reports or analyses conducted?

**Mr. Morrison:** Yes, they are.

**Mr. Rouble:** During the period of the project, were those reports created, and with whom were they shared?

**Mr. Morrison:** The budget variance reports — there isn't a separate variance report, but the quarterly financial statements illustrate a variance to budget, and Mr. Hoenisch will correct me if I'm wrong. Those are provided to the board on a quarterly basis and management on a quarterly basis.

**Mr. Rouble:** The project is a separate work-in-progress account and would be part of a capital project management report that would also show budgets to estimates. But I'm saying to you that it's very limited information. It's not detailed financial spreadsheets on where the project was at. It was very, very superficial, very limited information.

Okay, so there was a capital project management report that was being created.

**Mr. Morrison:** There is a capital project finance report that is always created, yes.

**Mr. Rouble:** However, it did not have a level of detail that you would — what tools were the project manager and the president, who was responsible for the project, using to track the cost of this project?

**Mr. Morrison:** I can't tell you that. I can't see anything in the files that would indicate to me that there were any detailed spreadsheets or financial analysis of where the project costs were.

**Mr. Rouble:** Mr. Hoenisch, is this something that you could shed some light on?

**Mr. Hoenisch:** No.

**Mr. Morrison:** Sorry, Eric can answer on his own. Just to be clear, what I'm talking about is that there is no project management report that has a budgetary component, where you could sit down and say, "Okay, here's where we're at on this day, this day and this day." Eric might agree or disagree, but he can answer on his own.

**Mr. Hoenisch:** That's correct. A detailed analysis was not done of the project in the years 2001 or 2002, and finally, in 2003, we were able to start putting together some of those numbers. The focus was to get the project finished.

**Mr. Rouble:** I can appreciate the focus was getting the project finished, but I'm having a very difficult time accepting the fact that a \$27-million project was being managed without accurate, up-to-date financial instruments.

**Mr. Morrison:** You have my agreement on that. It was very disconcerting to find that out, and it's still disconcerting. When we did determine that, and what Mr. Hoenisch was referring to at the end of his statement was that, in mid-2003, we said we wanted a project accounting and we got it. That was really the first time we had a comprehensive detailed review of project costs and where they were allocated. It's very disconcerting, but it wasn't happening. That's what I'm telling you.

**Mr. Hardy:** Thank you, and you can return to these questions toward the end. I do have just one clarification, Mr. Morrison. You just mentioned that from 2001 to 2003 there was an indication that, during that period from as early as 2001, there were issues around the difficulties and cost, so it was as early as 2001 that they were recognizing that.

**Mr. Morrison:** Yes. Later in 2001, there were indications they were having some difficulties with the contractor and there were issues arising. Then, early in 2002, the board was being told the project is looking like it's overbudget, but nothing specific — not "Here's a detailed sheet and here's where we're off budget".

**Mr. Hardy:** Okay. Mr. Cathers, take it away.

**Mr. Cathers:** Thank you, Mr. Chair. Just before we broke for lunch, we were discussing whether the minister was informed of contract changes. I'd like to start with a quick follow-up question to that line of questioning.

In section 37 of the Auditor General's report, it refers to the lack of a project brief being found. I'll just briefly quote from the report. It says: "We expected to find a project brief with a statement of objectives, clearly defined roles, responsibilities, accountability, implementation approach, detailed budgets and controls for this capital project." It goes on to refer to the lack of finding such a document.

Is there any record of the minister responsible requesting a project brief before granting project approval?

**Mr. Morrison:** I can't tell you that, no. I don't know that.

**Mr. Cathers:** So none that you've found?

**Mr. Morrison:** Not that I've seen, no.

**Mr. Cathers:** Thank you. Moving on to the next area, in its report, the Auditor General noted significant deficiencies in the contracts for the project manager and the project engineer, especially the lack of safeguards to protect the interests of the corporation. Were there any specific reasons why these contracts did not specify a maximum price and did not contain any provisions for auditing claims?

**Mr. Morrison:** If there were specific reasons, I'm not aware of them. I think that, to help you with that, I want to go back a little bit to the paragraph that you referred to previous to this. If I can kind of summarize or paraphrase the point made in paragraph 37, I think it was, about the project brief — is that correct? If somebody were giving me advice on the matter of managing a project, I would say that this is the absence of a workplan or a planning document around the project. So if you sit down and you do a project brief, and it shows you who is responsible for what part of the project and how the lines of accountability work and who reports to whom and what everybody's responsibilities are, you actually have a very well-thought-out, well-planned workplan to go forward, the project — by rights, if you've done all that work — should then be carried out in a very well-organized manner.

I think that the absence of that, and your reference just now to why these contracts were open-ended and why they didn't have controls in them, was a bit of flying by the seat of your pants. People hadn't sat down and thought through this process as well as they should have, and I think I said that earlier today. These contracts were never supposed to be for very much money, as you can see in the beginning on the spreadsheet I had discussed with Mr. Rouble earlier — \$150,000 for project management. I'm sure that the people who wrote that first contract thought that was plenty of money. But if you're not working in as organized a manner as you should be — if

you don't have clear focus and clear lines of responsibility — it doesn't matter how good you are, things are going to creep away from you. And I think that's what we're talking about here. Nobody could figure out a way to put stops on these contracts because they couldn't figure out a way to go about doing this without having these people there every day. Again, the project became kind of a rule unto itself — it had to get done, we're in the middle of it now. You just keep on going.

I know that's not a concrete "this happened and that happened" kind of an answer, but when I think back, I think that's where people got caught.

**Mr. Cathers:** You referred to 2001 being the first time that there was an indication in board minutes, I believe, of there being contract problems. This is all extremely baffling to see this get to such a stage. It's also a little troubling that ultimately the board has a responsibility, and beyond the board, the buck does ultimately stop on the desk of the minister responsible. That's a basic tenet of responsible democracy, and the minister ultimately has the ability to remove the chair or even the entire board.

With regard to that, we know that there was coverage in the media, there were a number of individuals that were expressing concern that the project was going awry for the past several years. I'm not sure when this initially dates back to, but certainly in board minutes you say it refers to 2001.

Is there any evidence, any record, that when these concerns were being requested, there was a detailed request for either the project brief, which we just referred to, or any detailed accounting of where things were going?

**Mr. Morrison:** No, there wasn't.

**Mr. Cathers:** Thank you. Okay, moving on to the next area of questioning, do you have an explanation for why the board of directors was not asked to approve the project engineering service contract?

**Mr. Morrison:** Other than — and I'm not sure what number we're talking about here, but if you help me out with a number, I might be able to help explain it a little bit.

Let me respond this way then, Mr. Cathers. If the project engineering services contract was under somebody's signing authority — \$1 million or half a million dollars, depending upon their signing authorities — that would be the only reason I could give you that it wouldn't have gone to the board of directors for approval. That's why I was asking for the number. That's just searching.

**Mr. Cathers:** I apologize for that, Mr. Morrison. I was going off notes that didn't have the number of the Auditor General's report listed in there. I believe that was section 49 of the Auditor General's report, referring to contracts, the project manager and the project engineer, and it's referring to sole-source contracts being tendered. The total of those two contracts ended up being over \$2.3 million, according to the report.

**Mr. Morrison:** It comes down to a point I was trying to make earlier about what your interpretation of "signing authorities" is and how you apply that interpretation. I'm not suggesting that it was applied properly. As a matter of fact, I would probably suggest to you that it was interpreted quite the opposite of what it was intended to be.

The contract didn't have a number on it. It had no limits on it and no estimate in it of what the costs were going to be, so it was pretty easy to sign. It met all kinds of people's signing authority. It didn't have a number in it. It didn't have a million dollars, or half a million dollars, or \$2.5 million in it. That's not how it should have been interpreted.

Even more so, when the amount got to be past the budget estimate, somebody should have done a review of the contract, worked up a different number — what is the number going to be? — and got approval for a revision to the budget. That didn't happen. In the end, as you can see in this paragraph, we spent \$2.3 million on project management.

I don't know, and I'm no expert, but my bet is that a project management cost of nearly 10 percent of the project budget is pretty high. I would guess that. My guess is that the rule of thumb is somewhat lower than that. Nobody was paying attention to these costs, I guess is what I'm trying to say. How you interpret "contracting authorities" is how you get to this point.

**Mr. Cathers:** They seem to be pretty large costs not to pay attention to. Section 55 of the Auditor General's report refers to nearly \$1.9 million being paid to the engineering firm through a sole-source contract as of May 31, 2004, and backing up one clause of the Auditor General's report, section 54 refers to the use of the engineering firm being contrary to the design/build concept in the first place.

**Mr. Morrison:** I'm not disagreeing with you. This is breaking all the rules. I've tried to talk about that. I was talking about that a little bit this morning. You have a design/build project. Now you have a project engineer, and now you are at loggerheads with the contractor.

Now, management's view would be, well, the contractor is not doing its job. You know, maybe that was the case, maybe it was. I wasn't there. But you now don't have a design/build contract any more. Now you have people over here engineering and people over here engineering. That's not what the process was designed to do. It was designed to be efficient, to eliminate duplications of these things. I can't justify this, and I was just as upset. I mean, I expressed these concerns to the board as soon as I could figure out that these costs were at these levels. It's not a very good practice. I mean, I don't know what to say.

**Mr. Cathers:** Thank you for that. Pardon my bafflement, but it's just a little bit surreal, looking at this and seeing, in this case, \$1.9 million being paid through a sole-source contract and nobody noticing. Trust me, if I were to spend \$1.9 million that I didn't have, my bank would notice.

**Mr. Morrison:** Trust me, Mr. Cathers. If somebody's spending \$1.9 million of the corporation's money, I'd notice.

**Mr. Cathers:** Well, that is at least some comfort for today's present.

The other contract that we were just discussing briefly was the project management contract. Section 52 of the report refers to the corporation reimbursing the project manager about \$6,000 for entertainment expenses on meals and alcoholic beverages with executives of the construction contractor, project engineering firm and with Yukon Energy Corporation staff and consultants and that these entertainment expenses were not provided for in the contract.

**Mr. Morrison:** It shouldn't have been approved. I'm agreeing with you. I'm agreeing with the auditors. These are situations where somebody wasn't paying attention to the contract. My guess is that there's probably not a segregation of duties, in terms of who is recommending payment and who is actually signing approval for payment and who is monitoring the contract. These kinds of things shouldn't have happened.

But more disturbing to me than the \$6,000 — although it's disturbing — is how the project management costs and project engineering costs got from \$150,000 to \$2.3 million without anybody putting some stops on it, or at least going back to the board and saying, "We're overbudget. We really goofed. We need \$2 million to do this, not \$150,000, and here's our explanation and the justification." And then somebody makes a decision. That's the part for me that is really troubling because there's a huge gap there. You know, something that should have happened in normal business practice didn't happen.

**Mr. Cathers:** With regard to that admittedly small amount in comparison to the huge cost overruns we're talking about, the issue with the \$6,000 in entertainment expenses is not so much the cost, but that it should have been something that was obviously not covered. Has the corporation attempted to recover that? Is it currently attempting to, or going to, or is it simply regarding that as such a small issue compared to the other ones being faced?

**Mr. Morrison:** I hope you didn't mean that I thought it wasn't an issue that needed to be dealt with. I didn't mean that. Collectively, I think all these costs are very significant and a very big issue.

I hope you'll forgive me, but I'm going to try to be a little politically correct here. We have a claims process we have to enter into, and at the moment we don't know where that's going. This project manager and the project engineers will be part of that process in some fashion or another. So making decisions about what we're going to do and how we're going to do them — if you could give me a little licence here, we haven't finished making those decisions, but I don't want to suggest we are doing something either. We're looking at how we'll work through this claims process — who we'll be looking to for claims that we have, and that's something we'll hopefully be able to report to the Yukon Utilities Board and to the Legislature at some time in the future, but I don't have an answer for you at the moment.

**Mr. Cathers:** Okay. Thank you.

Can you explain how the new contracting policy and guidelines will address the issues raised by the Auditor General in this report and keep us from heading down similar problematic roads in the future, whether they be on a large project like this or simply through general management?

**Mr. Morrison:** I'll do my best on a verbal basis. I wish now I had maybe brought back some of the — we have some forms that would be illustrative and help see this a little better, but let me try this.

There's a series of approvals that are required now in contracting and purchasing. There's also a series of authorities. Each contract now has an owner's representative — "designate" I think is the right word — within the corporation. For

certain of those items, I'm the owner's designate; for certain, Mr. Hoenisch might be, or other departmental managers, maybe individual project managers. Then there's a series of approvals both under that and above that in terms of who recommends invoices for payment, which is not the same person who actually approves them for payment.

With this segregation of duties, and this clear reporting system, there's a series of approvals that are required before the contracting department sends it over to accounts payable. I know that on a verbal basis it's hard to imagine how that fixes these problems, but I would be more than happy to review. I know that during the audit process the Auditor General's staff will audit this process that we have now, because it's a new process. So it may not be the be-all and the end-all; it may need a little more tweaking or a little refinement, but the process now is a series of approvals, not somebody just coming in and saying, "Oh yeah, approve this and approve this and approve that."

We also don't interpret "signing authorities" the same way. I think part of the culture change that all three of the organizations have gone through, and the board and senior management, is that there's a very clear understanding now that budgets are approved not on a single-number basis. In other words, if the budget for the project is \$29 million — \$20 million or whatever it is, even if it's the operating budget — there are a whole series of categories of items that fall within that budget, and management is accountable for each of those and needs approval for increasing any of them, not just the bottom line.

I think those types of checks and balances, when you add them up, really provide a pretty good system. Is it foolproof? No system is foolproof if somebody wants to try to find a way around it, but it's a very comprehensive system, and the organization understands how it works now. I don't think the organization had a very clear understanding of the system that was there before, and it was a very rudimentary system, as the auditors have said in their report. Certainly there were a few guidelines in place, but not nearly the extent of policies and procedures that need to be in place to manage any kind of a project, so I think we've got them there.

I'd be happy to subject them to the Auditor General's scrutiny, and if they have any suggestions for improvements, we'd be happy to make the improvements.

**Mr. Cathers:** Thank you, Mr. Morrison. Did anyone associated with the supervision of the Mayo-Dawson transmission line receive a performance bonus?

**Mr. Morrison:** Not that I'm aware of.

**Mr. Cathers:** Okay. Has that been specifically looked at or not?

**Mr. Morrison:** To be honest, I don't think I've ever asked the question. I can certainly go back and ask it and find out, but I'm not aware of one.

**Mr. Cathers:** It may be somewhat of a moot point at this juncture, but I find that an interesting thing to ponder — whether the project was going off the rails and meanwhile perhaps people in a supervisory position were awarding themselves performance bonuses.

**Mr. Morrison:** I'm not aware that there was an ability to do that during the period of time of this project, so I don't know that anybody got a bonus, because I don't think there was a system in place to give management bonuses. I can honestly tell you it's not a question I've asked, so I'll ask the question and see if in fact I can get a better answer.

**Mr. Cathers:** Moving on to a little bit of a different area regarding the management of the project implementation, can you give a bit of an outline of what the main reasons were that the construction of the project was delayed more than a year?

**Mr. Morrison:** Well, I can give you a series of them. The trespass issue created a problem. There were issues around routing of the transmission line and whether or not it was following the route that it was supposed to. There were issues around the reclamation of timber associated with line clearing and the rerouting around the Dawson City Airport. On top of all those specific issues, the project managers and engineers and YEC senior staff that were involved and the contractor got to a point where they really couldn't agree on just about anything.

That created a great deal of difficulty. Fairly early on, there were fairly substantive disagreements on how the project should work. What I mean by that is, and maybe a better way of saying it is, how the project should be carried out, with Yukon Energy Corporation, the project managers and engineers on one side of that issue and the contractor on the other.

If you looked back and asked what the fundamental underlying problems were with this, it was that the project engineers and YEC had one view of the world and the contractor had a completely different view of the world, and they never saw eye to eye. They saw eye to eye on virtually nothing, to the extent that, once removed or suspended from the project in late 2002/early 2003, it took bringing in an independent arbiter to sit between the parties in order to get the project completed. There was a great deal of disagreement between the parties on virtually everything. Their view of the world was very different from the utility's view of the world.

**Mr. Cathers:** In that last response, you just referred to the issue of the trespass on First Nation settlement land. It's also referred to in the Auditor General's report on this. Most of us here in this Chamber today, and probably the majority of Yukoners, do recognize the importance of the final agreements with First Nations and the fact that these have constitutional status. These are not something to be trifled with lightly and they are quite widely known.

Given those facts, can you explain how the trespass on First Nation lands could possibly occur without somebody being aware of what they were doing and that they need to stop immediately, and who was responsible for that?

**Mr. Morrison:** I think this is a good example of how the parties worked together in their relationship. Certain data was provided to the contractors at the beginning of the project. I'm trying to search my mind for how I would describe it, but if I described it, it would be very broad-based mapping data on where the routing of the line should go. It was very clearly

pointed out to the contractors that they were not to go on First Nation land, and they were responsible for ensuring that.

But the routing of the project, if you look at it — I'm trying to help Committee members understand this — there might be a corridor this wide, and somewhere in that corridor there's a little line — the routing of the line itself. So there is a fairly broad scope of distance between each boundary that was provided on this preliminary mapping data.

The contractor's opinion of the world was that they needed to get from Mayo to Dawson in the most expeditious manner possible. Yukon Energy Corporation's view of the world was that they had to go exactly along this little line that was drawn between these two big lines, which were the boundary lines. My understanding was that the contractor got to a point and there was some difficult terrain, and he needed to go around it and he went around it.

His interpretation of that would be, "Well, we had a problem. We needed to get around here, and we didn't know that was First Nation land. Gee, sorry. We're sorry." So there were just very different approaches to things: "We're going to go the best way we can." "No, sorry, you need to go in a very specific corridor."

I hope you don't think I'm trying to gloss over it, but it's such an important issue here. They didn't think that they trespassed. They weren't paying attention. Maybe they thought they were within the right boundaries. They didn't know the country. They had never been here before. All of those issues just add up.

**Mr. Cathers:** Well, I guess that's as good an explanation as —

**Mr. Morrison:** Well, yes, and I'm not trying to explain it. I mean, in the sense, I'm not trying to say that somebody was right or somebody was wrong. I'm just trying to give you what I think happened and the best information I have. I don't think anybody mistakenly — what I'm getting at is nobody mistakenly rerouted that. In terms of a design, somebody didn't say, "Oh, well, we're going to move over here," and then the contractor went the wrong way because he was told to go the wrong way. What I'm saying to you is by that time they had decided they were going this way and the parties weren't talking to each other, nobody was really communicating very well, and they ended up on First Nations land, and they shouldn't have.

**Mr. Cathers:** Did YEC inform the contractor that there was First Nation settlement land within the immediate vicinity?

**Mr. Morrison:** I believe so, but I come back to my point to you earlier, that the corridor within which you could build the line was quite wide. I'm not sure that they would agree that they knew exactly where the First Nations land was. They knew it was in the immediate vicinity, but they didn't think they were on it when they went on it. They would argue that, I would guess.

**Mr. Cathers:** I certainly appreciate your comments, Mr. Morrison, and recognize that you're doing the best you can to explain this, but this seems a little bit of a — I guess I can't help regard this with some level of incredulity, considering the

fact that First Nation final agreements are protected by the Constitution of Canada. They have a tremendous amount of force of law behind them. There is a responsibility not only on Yukon Energy Corporation in this situation as a Crown corporation, but on the government as a whole. The responsibility for living up to First Nation final agreements ultimately rests on the government, on the Cabinet — through the Executive Council Office being the department responsible but ultimately Cabinet is responsible for this. Is there any record of either the minister responsible for YDC/YEC or the minister responsible for Executive Council Office questioning Yukon Energy Corporation as to whether the contractor had been fully apprised of First Nation land within the right-of-way corridor or in immediate proximity?

**Mr. Morrison:** Not that I'm aware of, but let me go back. Yukon Energy was clear there was First Nation land in the vicinity and the contractors were all told that, even in the bidding process, and that these final agreements had to be respected. Yukon Energy understands the importance of that issue, which is evidenced by the fact that the corporation reacted quite quickly when it found out about the trespass and dealt with the issue, hopefully in a manner that was sufficient for the First Nations.

I don't know that Yukon Energy would have — I can't think that they would have provided that information to any minister. They may have provided it to the board. They certainly did tell the board when the incident occurred. They told the board there had been a trespass on First Nation land and this is what is being done to sort it out. But I don't see anything that indicates they would have told the minister that they were providing that information to the contractors up front.

**Mr. Cathers:** Maybe my question wasn't clear. What I was referring to was, as I interpret it, there's an obligation on the Cabinet and on government collectively to ensure that any department of government or any corporation of government is living up to the responsibilities that YTG collectively has to live up to in final agreements with First Nations. So there is an onus in this case on the Cabinet and on the minister responsible for the Executive Council Office to ensure that any department or corporation of the government that is dealing with a project in immediate proximity to First Nation land is aware of that First Nation land. But is what you're saying that there's no record of letters or directives or any information flowing from the Cabinet level to ensure that the contractor was informed of this?

**Mr. Morrison:** There's nothing that I've seen specifically dealing with that issue.

**Mr. Cathers:** Moving on to another area that brings up the question of the ability of those putting in the line to read a map, another factor that led to increased cost was the need to reroute the transmission line around the Dawson City Airport. Were officials at YEC not aware of plans to expand the Dawson City Airport, which necessitate this change?

**Mr. Morrison:** It's my understanding they were not aware until after the contract had been awarded and perhaps even after the contractor had started work. So in the preparation of routing plans for the line, the understanding was the original

routing could be followed and nobody was aware, until after the contract was out, that the line would have to be rerouted.

I don't know, in terms of timing, those exact dates, but it's my understanding it was after the fact that they were aware the Dawson City Airport was being expanded, and they wouldn't be allowed to go the original routing.

I will say that it's also my understanding that YEC was advised — I don't know when it was in terms of preparing for the contract — that the routing would be fine, originally. If that situation changed down the road — and it obviously did — I don't know what that timing is.

**Mr. Cathers:** Shouldn't having a project in immediate proximity to an airport raise a number of flags to be aware of the airport and the flight paths, and ensure that airport officials and NavCan, or whomever has jurisdiction over whatever elements of the airport control, are aware of project plans and have provided a clear go-ahead that everything is fine?

**Mr. Morrison:** Yes, you are correct, and there is a very standard process for dealing with things like this around airports. Maybe I wasn't as clear as I should have been, but in the project planning phase, and certainly the information provided to the contractors originally, was a route that was an approved route, if you will, or suitable route. At what point did plans for the Dawson City Airport change and impact that route? I can't tell you, but at some point they did. From the contract point of view, it was after the contract, so it was after the contractor already agreed to a route.

**Mr. Cathers:** Prior to putting the contract in that location, had they actually sought the high sign, the go-ahead from aviation authorities?

**Mr. Morrison:** Yes, but it was some time before that. What I'm getting at is that I think there was a gap in terms of time and somebody didn't re-check if there was anything else going on, if this was still fine. So it could have been a year. I just don't have that for you, and I'd be happy to get it if it would be helpful, but I just don't have that timing in my head.

**Mr. Cathers:** The audit found several problems related to survey data and to soil conditions. Why did Yukon Energy Corporation not make sure that the contractor made use of that information included in the RFP and ensure that the necessary steps to comply with those requirements were taken?

**Mr. Morrison:** I don't know. I mean, I don't understand why the project manager would not have ensured that all of the data that was provided and all of the authorities and approvals and timelines were being followed. I can't answer that. I think it points to the difficulties and the problems in the contract. If all of these things were done in the manner they should have been done, I don't think we'd be sitting here today. So why they did that or why they didn't do what they were supposed to be doing, I don't know. There isn't anybody who can cite specific reasons. You know, it wasn't that something else came along and so they provided better information.

The contractor would allege that some of the information he was provided with wasn't correct. Maybe it wasn't. Maybe soil conditions changed between exactly where the line was thought to be going or where the line went. I don't know the reasons behind why there would be a difference in soil data. All

I know is that if you follow the inconsistencies, they all point to the same issue, and that is problems with managing the process.

I don't know how to explain to you why the project engineer didn't make them follow these things. I can't explain that.

**Mr. Cathers:** It's troubling. It seems that it's not just a case of one corporation, one branch or one individual making a mistake. It looks like management, the board and the minister responsible were all asleep at the wheel on this one.

Anyway, I thank you for your response, and I'll pass on to the next questioner.

**Mr. Hardy:** Thank you, Mr. Cathers. I'm going to ask a few questions.

Listening to your responses, I know at times you may feel like you're repeating yourself. You're spinning your wheels and trying to answer us. You're trying to get the message out as best as you can. Bear with us. We're into the home stretch here, and we're just trying to find out what really went on, where we are today and where we're going.

I will have some questions as well for Mr. Phelps. He made some comments earlier that I would love to revisit again — good questions.

Picking up where Mr. Cathers left off, along the lines of the project implementation — more along the lines of the construction design documents — why did the corporation not ensure that the contractor comply with all contractual obligations, such as the provision of detailed construction design documents before beginning construction work?

**Mr. Morrison:** Earlier today I talked about this seeming urgency that seemed to shroud itself in the project right from the very beginning, right from the approval process. When I think about your question — let me back up for just a second.

The project engineer was reporting to the president, whichever president was there at the time. Right from the beginning after awarding the contract and sitting down and negotiating a series of additional things with Chant to make sure everything that was anticipated for the contract was actually in the contract and the costs were there, there seemed to be this urgency that they had to get going; they had to get this project on the go. The only explanation I've been able to find — and it is not a good sign to start a contract this way, because from fairly early on requirements that the contractor should have been meeting were being overlooked or bypassed by the project engineers and the project managers. So they were giving them de facto permission to do things and to build and work without providing the drawings and proper inspections and quality control issues.

The only thing I can think of, and the only reason that has ever been explained to me, is they wanted to get going; they were a little behind because they had had a problem right off the bat with a land use permit — I believe it's a land use permit — that was supposedly in place, but when it came down to the starting of work, the land use permit wasn't in place and that permit had to do with the routing of the line that had been changed a little bit. That meant there had to be an environmental assessment done, which delayed the start by several months.

So I think people by that time were saying, "Okay, let's just get going. We'll catch up. Everything will be fine. They'll do their work." To me, it's a little like a teenager. If you tell the teenager to come home at 12:00 and they come home at 2:00 and you don't say anything, guess what? Next time you tell the teenager to come home at 12:00 they come home at 2:00. And they keep coming home at 2:00 until you tell them different. And when you start working on the project and you're allowed to keep going past — and I can't think past these dates for providing reports and providing drawings, well, you just keep going, and then it's hard to rein in the monster that you've created. So there is no explanation in terms of a technical capacity. Was there a real reason, was there a significant substantive reason on a technical basis that these things happened? No. To me, it was on a let's-get-the-project-done basis: "That's going to hold this up so let's let them go."

**Mr. Hardy:** Yes, I have actually worked on projects where the plans are being developed as you build, and almost every single one of them ends up over, and they end up — you actually really don't know where they end. They get quite confusing. It's good to have the plans up front. But the plans that were received during this period and over the period — was the corporation satisfied with their plans, and if they weren't satisfied what actions did they take?

**Mr. Morrison:** Well, they were often not satisfied, and generally I would say overall not satisfied. What action they took, the first thing they did, was to expand from a project manager to a project engineering capacity, and that was the first step. So that was going to fix it. That never fixed it. The plans and the drawings were an issue right until final completion and there on after. There was never a satisfaction but there was never a resolution.

**Mr. Hardy:** Are you saying that the corporation did some work itself on the plans?

**Mr. Morrison:** That's why the project engineering costs got so high; the plans that were being submitted were then being reviewed by these project engineers, and they never did get to be satisfied until the very end of the project. There was always an argument about whether the plans were right or wrong.

**Mr. Hardy:** How much did it cost the corporation in the end to complete these plans or do that work on an ongoing process as well as the completion?

**Mr. Morrison:** When we got to final completion, it was pretty evident to me — this was January 2004 by this time — that getting the contractor to do the drawings to the satisfaction of Yukon Energy Corporation was just never going to happen. It was like pulling teeth. So we agreed in the end that they would pay us an amount of money — I believe it was about \$50,000 — and we would complete the plans to our satisfaction, which we are doing. We're going to spend a little bit more money on that, but we have that as part of a claim we have with the contractor.

But you could never get them to agree. In a hundred years, they weren't going to agree.

**Mr. Hardy:** The Auditor General's report notes that there is \$17 million in claims by the construction contractor

against Yukon Energy Corporation — speaking about what you just mentioned — and \$9.5 million in counterclaims by Yukon Energy Corporation against the contractor. Can you tell us the status of these claims that have been in dispute since, I believe, October 2003?

**Mr. Morrison:** That's correct. Under the contract, both parties had to file a listing of their claims by October 2003, and both parties did that. This is a pretty basic document. It is a one- or two-sentence explanation of the claim, and then there is an amount attached to the claim. Since October 2003, I have, on as many as nine or 10 occasions, tried to get Chant to provide us with additional material relating to these claims, in order that we could (a) assess the claims and (b) enter into a process for resolving the claims.

They indicated to me in December of 2003 that they would have all that information on my desk by January of 2004. This is February 9, 2005, and I have yet to see one piece of paper — not one.

**Mr. Hardy:** Is there a timeline on something like this?

**Mr. Morrison:** That's exactly the problem, Mr. Chair. The contract provides no time limitations, other than the filing date of October 2003. So once the claims were filed, I have to live with them until I can get the information and initiate the dispute mechanisms under the contract.

I've tried, I've gone to meet with them, I've had lawyers talk to them, we've wrestled with it at the board. They keep telling me that next month, next month they're going to provide information. I haven't yet seen any. It's a very difficult process.

I'd like to add just a little bit more on the claims, if you don't mind. The \$17 million that Chant has claimed against us — and if I've said this before, I apologize, if members of the Committee have heard it. There are three categories of claims. Out of the \$17 million, there is a claim of \$6 million that is a claim for Yukon Energy impacting Chant's ability to get future bonding on future work. They claim that during the process of the contract, we wrote a letter to their bonding company, which we did, indicating that we weren't very satisfied with the work they were doing.

That letter was written in response to a letter from their bonding company asking us what the status of the project was and how their contractor was doing. We responded not inappropriately, would be our position.

Chant then took that and said that — Chant's bonding company, for what reason, I don't know, refused to give them a bond on a job that they had bid on subsequent to working on the Mayo-Dawson line.

They indicated to us that they felt that we had impacted their bond, and they are basically claiming \$6 million. That's not a claim related to this project. It has nothing to do with this project. I have told Chant numerous times that it may be on their claims list, but it is not something we are ever going to arbitrate or mediate. If they need to pursue that claim, they're going to have to take a legal action against us. So I don't see that as part of the claims process. Of the \$10 million or \$11 million that is left, there is about \$1.5 million in change order, change directive claims. We legitimately owe some part of that \$1.5 million. I can't tell you what it is because I haven't seen

the backup for the claims, but that's work that we asked them to do in addition to the contract and that we didn't follow our own procedures on, which is that the price of that work should have been agreed to up front and signed off by both parties. So now we have a dispute about how much it is that we owe. But it has an outside value of about \$1.5 million.

So we have about \$8.5 or \$9 million of claims that we may or may not ever see information on, which we may or may not ever settle on, because they have to prove their claim to us. We have our \$9 million worth of claims, and we have to prove them to them. We have also filed a couple of insurance claims under the contract relating to some damage that was done by an earthquake and we are also filing a claim with the insurers for errors and omissions insurance for some design issues we have with the tensions on the line. If we recover the monies from the insurance companies, it will just reduce money that we wouldn't try to go after Chant for on our claims.

**Mr. Hardy:** Were there dispute resolution mechanisms in the agreement?

**Mr. Morrison:** Yes, there are. It calls for a mediation process followed by an arbitration process.

**Mr. Hardy:** And you have used that?

**Mr. Morrison:** No, we haven't because we have no information — there is no point in going forward with any process until we've got some information.

**Mr. Hardy:** There was a referee, though, at one time, wasn't there?

**Mr. Morrison:** That's correct. When the work was suspended in late 2002, in order to get the parties back to the table and to get the work recommenced, Chant and Yukon Energy agreed to implement this process whereby a referee would examine the project, review the project on a weekly basis with both parties — what progress they were making, what issues were there, how could those issues be resolved. It proved to be a good process but a very cumbersome process.

I think it's illustrative of the fact of how difficult the relationship was, when you had to have somebody sitting between the parties refereeing.

**Mr. Hardy:** It did have some benefit, obviously.

**Mr. Morrison:** Yes.

**Mr. Hardy:** Yes.

**Mr. Morrison:** It got the work.

**Mr. Hardy:** Okay, good. Have you set aside any money to resolve these claims?

**Mr. Morrison:** No, we haven't.

**Mr. Hardy:** There were significant cost overruns on this project, and they were neither authorized nor approved by the board of directors. We've gone around this time and time again, from many different angles. YEC acknowledges that the execution of the project circumvented the normal processes and controls. Actually, you have addressed the deficiencies and you also indicated how you would be acting today and in the future. I've heard that from you, Mr. Morrison, and I would like to hear from Mr. Phelps his position on that, from the board's perspective.

We've heard today and yesterday some very disturbing evidence and indications from the report, as well, of the board's

lack of due diligence, I guess we could call it, on many of these matters, in accountability and ensuring that they are cognizant of what's happening within this corporation.

Obviously change had to happen, so if you could tell me what changes you're making, what you've observed and also, if this is also being done with the minister's involvement or is the minister aware of it. Because that's another part that has been very concerning: there seems to be a lack of some kind of formal accountability from the board to the minister and from the minister back to the board.

**Mr. Phelps:** First of all, there was a lack of due diligence on the part of the board. That was, unfortunately, the case with regard to both these matters — the Energy Solutions Centre matters and the transmission line.

I would make the observation that, as soon as Mr. Morrison became chair, one of the things he did was bring to the attention of the board, in each case, what he saw as failures on the part of them exercising their duties and had a heart-to-heart talk with them. My understanding is they've had numerous discussions about this.

I think there has been acknowledgement on the part of board members that they were less than diligent. I'm pretty sure in my own mind that some of this was simply fundamentally that they weren't really aware of what their full duties were as board members. This gets us to qualifications of people when they're appointed, which is a big issue, as we've already said, and it also gets to the issue of training members on the board, something that we take very seriously and are in the process of making arrangements to do. In fact, I think the first major training using an expert from outside the corporation will be within the next five weeks. We're just setting the date now. This will be an ongoing process.

And certainly, as I've already said, I am somewhat concerned with the methodology over the years of appointing board members that has been in play. Certainly I agree in principle with many of the recommendations and points made by your Committee in your previous report.

With respect to the chair's responsibilities, I think one of those responsibilities for a chair is leadership of the board. Certainly, the chair has to take a little more responsibility, I think, for failures. I take the additional responsibilities of being chair for the next period of time very seriously.

Regarding the communication with the minister, we have been formalizing that in many ways. As I said yesterday, I feel that is one of my key roles. I think it ought to be the chair that deals with the politicians and negotiates, in essence, with regard to getting a clear understanding of the direction the government would like to see the corporations taking over the next period of time. In my case, I'd like to see this done on a yearly basis.

With regard to the minister being advised of what has been happening regarding the changes in policies, contracts and so on, I can assure you that once Mr. Morrison took over as chair, this process began in earnest and I've carried it on. We have very good communication with the minister, and really, I see the chair's responsibility in some ways somewhat like a deputy minister in that regard. One of the deputy minister's main roles

is to try to protect the minister and make sure that the department is doing everything it can to protect the minister in the exercise of his duties. I feel that is the role of the chair in his relationship to the minister with regard to the activities of the three corporations.

**Mr. Hardy:** Are you satisfied with the present expertise on the board? You mentioned that one position hasn't been filled yet. If you are going to be filling that position — if it's going to be filled, of course — the situation right now, which I'm going to explore a tiny bit, is about the political appointment thing, as we are all very familiar with and have been for many years.

But there is one position left over. Will you be indicating that what the board needs is somebody with a specific background that would lend itself to strengthening the expertise on that board?

**Mr. Phelps:** Certainly I can and will be making some comments appropriately to the minister with regard to what I'd like to see. But one has to remember that when you have a pool to draw from, it's a pool of Yukoners. You have very limited fees that you can pay. They're set fees, so you aren't really going to be able to bring in some expert from Outside to sit on the board — this has been looked at — and they'll demand considerably more than the per diem that is paid.

So that's always a problem, but we would like to get at least one individual with a background in engineering and an understanding of mining, and some of those things — at least some technical background to add to the mix of capabilities and experience that is currently on the board.

**Mr. Hardy:** I'm just going to stay on this for a minute and then come back to more management project cost questions. You mentioned yesterday, and you've mentioned today, and you seem to have indicated that the appointment of boards has to change. The way it has been in the past, and still is, which was quite political, has to change.

Do you have any recommendations?

**Mr. Phelps:** I'd be hesitant to make recommendations at this time. I have no difficulty with the recommendations that were made by the Committee, if I could say that.

I have a great deal of difficulty with what has gone on in the past with these corporations. There have been many changes in the makeup of the boards over the years. Oftentimes this has been just after an election. As I say, every government has done it, and I was just as guilty when I was a minister as everyone else.

I think what we're seeing from this exercise of today and yesterday is that we need to get the best possible people to sit on these boards. We need to train them, and they need to be there for a considerable period of time, because they're going to gain experience as they're there. We're very unlikely to get very many qualified, experienced people in the Yukon who are able and willing to sit on these boards and who have the experience you'd want at the outset. So the training and the time they spend there is an investment in these individuals by the public and by the government and by the corporation. I really would hope that at some point we're able to develop the quali-

fications of board members and see them sit for extended periods of time.

**Mr. Hardy:** I have a couple of questions still on that area. Going back to a question way back at the beginning, I think it was the third question we asked: who had the authority to replace Mr. McWilliam? Is it the board's authority to replace the president? For the hiring of Mr. Robertson and Mr. Willems — who actually has that authority? We are seeing so many changes happening during this whole period and so many different faces.

**Mr. Morrison:** I would be happy to answer that, if it's helpful. The *Yukon Development Corporation Act* requires that the minister appoint the board, but in the bylaws of the corporation, it's the board that hires its senior officers. So the board of the Development Corporation made a decision to establish two presidents' offices, and it was the board that did that.

I'm not quite sure how they were able to convince Mr. McWilliam that his job should be cut in half, but I guess they did that. The board then hired Mr. Robinson and then hired Mr. Willems, who left at the end of 2003. And the board hired me.

**Mr. Hardy:** It doesn't need legislative, ministerial, Cabinet or executive approval?

**Mr. Morrison:** Not under current legislative guidelines. If it's helpful, there are instances — and I think I mentioned yesterday part 10 of the federal *Financial Administration Act*, which governs Crowns — I think in the *Northwest Territories Power Corporation Act* as well, the minister not only appoints the board, they appoint presidents.

In some capacities at the federal level, and certainly in the N.W.T., it's clear in the legislation who appoints the president. In this case, it's just the appointment of the board the minister is charged with.

Mr. Phelps is just reminding me that the president is an ex officio director, and so the position is appointed to the board by the minister, but it's the board that hires the president.

**Mr. Hardy:** What I'm hearing and seeing are three levels of failure around this project and also around maybe the whole period in regard to YEC and the Energy Solutions Centre. It's at the ministerial level, the insurance of monitoring and accountability and asking the right questions. I see it at the board level, without a doubt. A lot of it seems to come back to there and the due diligence, and of course at the managerial and presidential level.

Again you've mentioned the sense of urgency. That has come through very clear. It was like a pet project that a few people really wanted and, for good reasons and bad, it has gone sideways. Throughout it all, there was just a massive number of mistakes. There doesn't seem to have been a method of reporting established — or a level of reporting that should have happened at all those three levels — or accountability, nor the proper request for information. The last thing I see is that there have been so many changes of people. Both of you have mentioned that.

At the board level, there were changes of the chair during this period. Off the top of my head, I think I can count four ministers. That's really outstanding over this very short period of time. How many presidents?

**Mr. Morrison:** Four.

**Mr. Hardy:** And I don't know about the other changes, all in a period of three or four years. There are very serious concerns around this.

I'm going to switch back to some questioning here. As of May 2004, the corporation spent \$33.5 million, and the corporation indicated the total cost of the budget would be \$36.2 million. Can management explain how they arrived at that figure, and is this number the one you're actually using today?

**Mr. Morrison:** I'm going to ask Mr. Hoenisch, because he has a piece of paper in front of him, to look up the number we're using today. Let me distinguish between these three numbers. The \$33-million number was the amount of money spent to date when the auditors did their work. The number we have in our application to the Yukon Utilities Board for putting in the rate base, I believe, is \$35.6 million — Mr. Hoenisch is reminding me. That is actually what we've spent to date.

I have told everybody within earshot of me that, because we have a provision, we know there are some additional costs that have not yet occurred but will occur in completing our accounting of the line, that if the cost is greater than \$36.2 million, somebody will have to explain it to me. We have used that number for quite some time. It's what we think is the final cost, absent claims. So \$36.2 million is what I believe we'll spend on the line, plus any expenditures we have to make regarding claims. To date we have spent \$35.6 million. Cheques have been written and bills have been paid. That amount of money has gone out the door.

In our application to the Yukon Utilities Board, \$35.6 million is offset by a \$5.8-million contribution from the Development Corporation, and that's contributed capital. Utility regulation normally means that you can't earn a return on that.

So to date the project would go in the books at about \$30 million in rate base.

**Mr. Hardy:** I think you said \$36.2 million. I remember that, but what do you estimate for the final cost of the outstanding claims?

**Mr. Morrison:** I'm not biting on that one. Sorry. I don't mean to be flippant about that. I have no idea where we're going to come out on the \$10 million, but as I said to you, we clearly owe Chant something, something between zero and \$1.5 million. So even if we say it's \$750,000, it's halfway between there.

But what we owe on the rest, I couldn't tell you and I can't guess. Somebody will hold me to it.

**Mr. Hardy:** Yes, they always do. The Auditor General had concluded that the final cost of the project may be higher than what is estimated, and we'll have to wait and see on that. Does management believe the megaproject's stated intent to receive first-class design and construction will work?

**Mr. Morrison:** I'd have to say to you, Mr. Chairman, that I don't think that's the case. The project contract calls for certain things to happen at certain points in time. What I'm referring to here is that we get to what's called "substantial completion" when a certain amount of the work is done. We get to final completion when certain things are done, including

commissioning and certain work is finished. The question isn't that work has been finished. And certainly the work on the line has been completed. The substations were completed; the line was strung; the poles are up; the line operates and has been operating for a couple of years — I guess it would be a couple of years now.

I guess it would be close to a couple of years now. The question is: is it a first-class product? The dispute, I believe, in that regard centres around the number of deficiencies we experienced at the end of the project, for which again Chant provided us with some money in order that we would finish them because we were having difficulties agreeing on what the deficiencies were.

We have a fairly substantive issue around line vibration and the tensions on the line. I think if I had a first-class product, I would say to you that there were no issues around vibration, line tensions, and things like that. Unfortunately, the contract didn't provide an opportunity for us to say that we get to decide what the quality is. It's part of — I'm being very frank with you when I say that in my mind I don't think it's the term the auditor has used, "a first-class product". I think there were enough issues around it that I can't pretend that it is.

**Mr. Hardy:** On a question I asked earlier — just to get it clarified in my mind. I asked you about the claims, and you said that there were no time limits — one of the problems. Are you meaning that there is no statute of limitations at all in this?

**Mr. Morrison:** My understanding from legal advisors is that the date that had to be met was October 2003, that there was a filing, and after that it's open-ended. Nothing I can see and nothing that — my lawyers insist that I can't force Chant — I could sue them for something, I'm sure, but that's not going to get the claims anywhere. So, besides that, I'm going to spend a lot of money, and I don't think we want to do that.

**Mr. Hardy:** Going back to the first-class design and construction that we are talking about here, what is going to be the total costs that the corporation will be spending to fix the design deficiencies? And you've already mentioned the vibration isolators, or whatever they're called, related to the high tension of the line, and are these costs part of the claim that had been made against the contractor?

**Mr. Morrison:** Mr. Chairman, at getting to final completion, there were a number of deficiencies that we noted that we required the contractor to complete. One of them was the drawings. I think I mentioned that earlier. There were a number of deficiencies on the line, the cross-arms that weren't straight, insulators and things like that. We finally negotiated a buyout of those deficiencies, and the contractor provided us with \$200,000, and we then undertook to complete the work on the deficiencies.

This spring we let a contract for completing the deficiencies on the line and resolving the aeolian vibration problem, which is the vibration problem I referred to on the line. The contract, I believe, is about \$1.4 million. It might be \$1.5 million. That includes all the claims and the vibration fix, and we have a claim against the contractor for all the costs of fixing the vibration, and they've paid us the \$200,000 for the deficiencies. So the vibration project was approved by the board. It is a

claim against the contractor and is in our original claims and is also part of an insurance claim we filed. So we're trying to recover the money in two different ways, and whichever way we recover it is fine with us.

Either the insurers will pay us, or we're hoping that it will be a claim we're successful on with Chant.

**Mr. Hardy:** Okay. The key objective of the project was a long-term reduction of the rates. Considering the significant cost overruns, what do you think will be the impact on the rates as a result of this project?

**Mr. Morrison:** I still believe that there will be cost-savings on the line over the period of the project term — the 40 to 50 years. I believe those cost-savings in fuel will be significant. I think, though, that it should be clear that the amount of that benefit is obviously dependent on how much money we have to pay out in claims, and there is a relationship. The higher the total costs, the less benefit there is.

Indications are that fuel pricing certainly will stay within ranges that we're experiencing these days. The higher the price of fuel, the greater the benefit over time. I think the big issue is how much the Yukon Utilities Board will allow us to include in rates. The smaller that number will impact the benefits of the line over time as well. So if we start with the auditor's premise that the line is economic up to \$38 million — well, at the moment, we're talking about \$30 million, so there is a little bit of room. If we look at our way of calculating it, there's a little more room, so I think there are still some benefits.

**Mr. Hardy:** I think you have probably addressed this, but I'm going to ask it. It's one of the last ones and bears repeating. In light of the large cost overruns, is the corporation seeking Yukon Utilities Board approval to include the entire project costs in the rate base?

**Mr. Morrison:** I will be very clear. We are asking the Yukon Utilities Board for \$35.6 million, less the \$5.8 million — correct? So, approximately \$30 million.

**Mr. Hardy:** Right. I'm going to open the floor to the other members of PAC. Mr. Rouble has some follow-up questions.

**Mr. Rouble:** I'll apologize right off the bat. My questions are going to be scattered a bit, all over the board, due to the nature of these being wrap-up questions.

You've just indicated what you expect to be the total cost of the project as \$36.2 million, plus or minus the net result of the lawsuits and the insurance claims. That \$36.2 million is higher than the \$33.5 million that's described in the auditor's report. Could you explain where those differences have come from?

**Mr. Morrison:** I can't give you a listing of that today, but I'd be happy to get it for you and supply it to the Committee.

**Mr. Rouble:** I'd appreciate seeing that.

Also, during the introductory questions, you indicated that this project had gone before the Yukon Utilities Board before.

**Mr. Morrison:** Yes. Do you want me to clarify that a little bit?

It's my understanding that in this period I indicated previously — 1991, and it may have spilled into 1992 — the gov-

ernment of the day ordered the Yukon Utilities Board to review the capital plans of the two corporations and make recommendations, which they did, and that's why this project was reviewed.

**Mr. Rouble:** What was the reasoning, then, behind not doing the same thing when bringing forward the project again, having it considered by the YUB, and what were the benefits, then, of not taking it to the Yukon Utilities Board?

**Mr. Morrison:** What were the benefits of not taking it to the YUB this time? Well, it's a shorter time frame. You don't have to spend several months going through a Utilities Board process, so there is a timing benefit. You eliminate the risk that somebody is going to put a cap on the costs, or tell you that they don't want you to do the project, so you can go ahead, so there is — if you're looking at it from somebody who wants to build the project's point of view, there are some substantial benefits of not going to the Yukon Utilities Board — if I get your question right.

**Mr. Rouble:** Would you agree that there would be benefits for a YUB review before these kinds of projects are approved in the future?

**Mr. Morrison:** Yes. My strong feeling is that major capital projects should always be reviewed prior to commencing. There should be a clear approval of both the project and the project budgets. It's just too much risk otherwise. You're rolling the dice if you don't have the up-front approval.

**Mr. Rouble:** Okay, thank you. Thank you, Mr. Chair.

**Mr. Hardy:** You're welcome. Are there any more questions? Mr. Cathers.

**Mr. Cathers:** Thank you, Mr. Chair. Just a follow-up to earlier comments that were made, Mr. Morrison referred to the reorganization of the corporation into having separate presidents for YEC and YDC occurring at the same time as the company was embarking on this project, the largest project that it had ever undertaken. Now, to me, this seems like a fairly ill-advised structure, procedurally, to be changing your chief executives and management at the same time as you're embarking on a large project. Did anyone on the board flag this as a concern?

**Mr. Morrison:** I can't say they did and I can't say they didn't. I can't see anything in the board records that indicate there was any disagreement about the issue. But I do agree with you; it's a significant difficulty at the time you're embarking on a major project to be changing horses right in mid-stream.

**Mr. Cathers:** Is there any record of the minister expressing concern with this reorganization occurring at the same time as embarking on the large project when the minister granted project approval, or subsequent to that project?

**Mr. Morrison:** Let me answer it this way: I don't know. The board would not necessarily have even told the minister that it was doing this. It may have told the minister; it may not. I don't know. The board has the authority to hire its own president, and one of the things that should be clear in this whole process is that the boards — both the board of YDC and the board of YEC — acted within — I mean, if they think they have authority to do something, they do it. So hiring a president

was what they thought they had the authority to do and they did it. Now, whether they told the minister or not, off the top of my head, I can't tell you. I haven't seen anything that says in the board minutes, "We're going to do this, but first we're going to tell the president." Now, if I was going to do it, I'd tell the minister. But whether they did or not, I don't know.

**Mr. Cathers:** Well, maybe my question wasn't entirely clear on that. I wasn't referring to just whether the minister was informed about the desire to reorganize the presidents and have a separate one for each corporation. But whether or not the minister was informed of that — at some point, around the same time, the minister granted project approval for moving forward with the power line; and however exactly these time-lines interacted, it would seem to me that at such point as the minister was advised of the reorganization and separation of the management of YEC and YDC presidents, that there should have been a flag raised in the minister's mind, and there should have been written correspondence to the board expressing concern with that.

**Mr. Morrison:** Again, I don't think I can answer your question.

No, I think I understand his question, but what I talked to you about earlier was that the minister authorized the project. That was in July and August, the correspondence authorizing the project. I believe I indicated at the beginning this morning that it was October of 2000 that the new president started. When the corporation told the minister, I have no idea.

**Mr. Cathers:** Could you repeat those dates again, please?

**Mr. Morrison:** So, in August of 2000, the minister authorized the project to go ahead to the YDC board. Whether they had told the minister that they were embarking upon the reorganization and the establishing of two presidents at this point in time, I have no idea. There is nothing to indicate they did. I don't know.

**Mr. Cathers:** Could you repeat again for me what the date was that the reorganization —

**Mr. Morrison:** October.

**Mr. Cathers:** October. Okay. That's understood, then, that the minister may or may not have been apprised of that. However, to clarify, as I understand the chair was asking for clarification from me on what my question was, it seems to me that at such point as the minister became aware that the corporation either intended to reorganize its senior management, or the two corporations, rather, or had done so without advising the minister, that the minister should have written a letter to the board expressing concern that we have just approved the embarkation upon this major project.

I do not feel this is well-advised or at the very least would you please provide me with some mitigating factors and comfort to me on this issue, because this does not look like a well-advised management practice.

**Mr. Morrison:** Yes, I don't know if that happened or not. I can't tell you.

**Mr. Cathers:** So you have no record of such a letter on file? That's all you can say?

**Mr. Morrison:** I don't know.

**Mr. Cathers:** Thank you.

**Mr. Morrison:** I don't know if we have a letter or not. I don't know.

**Mr. Cathers:** Thank you, Mr. Morrison. That ends my questions. Thanks also to Mr. Hoenisch and Mr. Phelps, and thank you, Mr. Chair.

**Mr. Hardy:** Thank you, Mr. Cathers. Mr. Cardiff, do you have questions?

**Mr. Cardiff:** One of the questions earlier was whether or not you received a first-class product from the contractor. If you refer to, I guess, on page 13, paragraphs 48 through probably over on to the next page deals with the contracts with the project manager and the project engineer. Given their involvement, especially the project manager, I guess, in selecting the contractor, and the fact that the costs escalated from about \$800,000 — actually, originally, \$150,000 up to about \$2.5 million, would you consider that you got a first-class product out of the project manager?

**Mr. Morrison:** I think their performance was abysmal.

**Mr. Cardiff:** Thank you. That's what I expected to hear. It doesn't seem like it would be normal practice to move from the contract to actually a fee-for-service. Originally, they started out with a consulting contract, and then there was a contract to provide project management services, and then it ended up going to a fee-for-service type of arrangement; is that correct?

**Mr. Morrison:** I think, just to maybe help a little with that, I think that the original contract was a smaller amount of money and fairly well-defined. But it was always on maybe an hourly rate basis. But I think there were expectations of so many days' work and there was a cap around at least the budget process. Basically, I think what you're getting at is — if I'm on the right track — is that it escalated to basically an open-ended contract, just hourly rate, no definition of even what a day was, just hours, and my guess is that some days on that project were pretty long days, because in the summertime during daylight hours they were probably out there all the time. So I understand your point. Yes, it wouldn't normally happen that way, that it is open-ended and without control or some definition that said, you know, we think it's this much work and then you could get to that point in terms of total dollars and then maybe it would be extended or added to, but just with no cap is not usual. That's unusual, yes.

**Mr. Cardiff:** So it would be safe to say that the corporation didn't receive value for dollar for that service, then?

**Mr. Morrison:** I have never met these people, but, as I said to you, based on my review of things, I certainly was very, very unhappy when I saw the costs. If I equate those costs to the difficulties and the problems encountered on the project, I don't think there is a fair value for the dollar there.

**Mr. Cardiff:** Thank you. I have one more question. I'd like to thank everyone who has appeared here today for being here. This has been a long day for everybody.

I would like to direct the final question toward the chair. There are probably a lot of questions that are still on all of our minds. We may have to come back and revisit this one yet again. There has been some discussion about the breakdown of

communication among the various levels of people responsible: the management to the board, the board to the minister, the minister back to the board. I am wondering whether — Mr. Phelps may not be comfortable, but given his experience at these various levels, I think he could maybe provide some direction or advice. Where would you see, I guess, some rules being put in place around what is expected of each of these groups?

Now, I think it is probably the board's responsibility to make its arrangements with management. But at the political level — because you've got experience at both of those levels — should it be a letter of expectation between the minister and the board? Should it be in the regulations that are laid out in the act that creates the corporations? Or should it actually be legislated that there is a set schedule of meetings and an expectation of communication, say, on a set time frame? Where would you see that best placed?

**Mr. Phelps:** I have said several times that I take very seriously the issue of the protocol being done on an annual basis. That is set out now in the governance act. I think the letter of expectation is a very important tool. It's one that I used as a minister in various departments and I strongly recommend that other ministers do it, because what it does is that it creates a working relationship between the board on the one hand and the government, so that they know that they are pulling in generally the same direction. Of course, when you are running a utility business, there is the day-to-day business to run, but it's really important that those be the key mechanisms, in my view.

I think that if the chair understands the responsibility he has toward the political people — the minister, in particular — and the board, and sees himself as a go-between, I think the chair will ensure that they are in constant or regular communication with the minister.

I remember when I was a minister that one of the things that my deputy ministers would say — or deputy ministers generally would say — is that one of their most important tasks is to protect the minister. As I've already said, I think, no matter who the minister is, that's the chair's responsibility.

**Mr. Hardy:** Are there any more questions?

Seeing no more questions, on behalf of the Public Accounts Committee, I would like to thank the three of you for attending, being forthcoming with your answers, and willing to work with us to try to find out as best we can what went on over there and to have a discussion, of course, of the two reports.

I would also like to thank the staff of the Auditor General's Office for attending and assisting us in this, as well as the Clerk, and of course, the people at *Hansard* for a job well done, as usual.

So, unless there are any closing comments from Mr. Morrison, Mr. Phelps, Mr. Hoenisch — no?

Are there any closing comments from the Auditor General's staff? No? Then I will conclude these hearings now. Thank you very much.

*The Committee adjourned at 3:24 p.m.*