



Third Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

33 Elizabeth II

Chairman
Mr. Phil Eyer
Constituency of River East



MG-8048

VOL. XXXII No. 2 - 10:00 a.m., TUESDAY, 8 MAY, 1984.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

| Name | Constituency | Party |
|--------------------------------------|--------------------|-------|
| ADAM, Hon. A.R. (Pete) | Ste. Rose | NDP |
| ANSTETT, Hon. Andy | Springfield | NDP |
| ASHTON, Steve | Thompson | NDP |
| BANMAN, Robert (Bob) | La Verendrye | PC |
| BLAKE, David R. (Dave) | Minnedosa | PC |
| BROWN, Arnold | Rhineland | PC |
| BUCKLASCHUK, Hon. John M. | Gimli | NDP |
| CARROLL, Q.C., Henry N. | Brandon West | IND |
| CORRIN, Q.C., Brian | Ellice | NDP |
| COWAN, Hon. Jay | Churchill | NDP |
| DESJARDINS, Hon. Laurent | St. Boniface | NDP |
| DODICK, Doreen | Riel | NDP |
| DOERN, Russell | Elmwood | IND |
| DOLIN, Hon. Mary Beth | Kildonan | NDP |
| DOWNEY, James E. | Arthur | PC |
| DRIEDGER, Albert | Emerson | PC |
| ENNS, Harry | Lakeside | PC |
| EVANS, Hon. Leonard S. | Brandon East | NDP |
| EYLER, Phil | River East | NDP |
| FILMON, Gary | Tuxedo | PC |
| FOX, Peter | Concordia | NDP |
| GOURLAY, D.M. (Doug) | Swan River | PC |
| GRAHAM, Harry | Virden | PC |
| HAMMOND, Gerrie | Kirkfield Park | PC |
| HARAPIAK, Harry M. | The Pas | NDP |
| HARPER, Elijah | Rupertsland | NDP |
| HEMPHILL, Hon. Maureen | Logan | NDP |
| HYDE, Lloyd | Portage la Prairie | PC |
| JOHNSTON, J. Frank | Sturgeon Creek | PC |
| KOSTYRA, Hon. Eugene | Seven Oaks | NDP |
| KOVNATS, Abe | Niakwa | PC |
| LECUYER, Hon. Gérard | Radisson | NDP |
| LYON, Q.C., Hon. Sterling | Charleswood | PC |
| MACKLING, Q.C., Hon. Al | St. James | NDP |
| MALINOWSKI, Donald M. | St. Johns | NDP |
| MANNES, Clayton | Morris | PC |
| McKENZIE, J. Wally | Roblin-Russell | PC |
| MERCIER, Q.C., G.W.J. (Gerry) | St. Norbert | PC |
| NORDMAN, Rurik (Ric) | Assiniboia | PC |
| OLESON, Charlotte | Gladstone | PC |
| ORCHARD, Donald | Pembina | PC |
| PAWLEY, Q.C., Hon. Howard R. | Selkirk | NDP |
| PARASIUK, Hon. Wilson | Transcona | NDP |
| PENNER, Q.C., Hon. Roland | Fort Rouge | NDP |
| PHILLIPS, Myrna A. | Wolseley | NDP |
| PLOHMAN, Hon. John | Dauphin | NDP |
| RANSOM, A. Brian | Turtle Mountain | PC |
| SANTOS, Conrad | Burrows | NDP |
| SCHROEDER, Hon. Vic | Rossmere | NDP |
| SCOTT, Don | Inkster | NDP |
| SHERMAN, L.R. (Bud) | Fort Garry | PC |
| SMITH, Hon. Muriel | Osborne | NDP |
| STÉEN, Warren | River Heights | PC |
| STORIE, Hon. Jerry T. | Flin Flon | NDP |
| URUSKI, Hon. Bill | Interlake | NDP |
| USKIW, Hon. Samuel | Lac du Bonnet | NDP |
| WALDING, Hon. D. James | St. Vital | NDP |

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES

Tuesday, 8 May, 1984

TIME - 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. P. Eyler (River East)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Uskiw, Mrs. Dodick, Messrs. Enns, Eyler, Fox, Malinowski, Ms. Phillips and Mr. Scott

APPEARING: Mr. Gordon W. Holland, General Manager, Manitoba Telephone System;

Mr. Saul Miller, Chairman of the Board, Manitoba Telephone System.

Mr. D.H. Wardrop, Director of Corporate Development, Manitoba Telephone System.

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone System for the fiscal year ending March 31, 1983.

* * * *

MR. CHAIRMAN: Mr. Minister, do you have an opening statement?

HON. S. USKIW: Well, not an opening statement, I would just like to take this opportunity to introduce to the committee our Chairman, Saul Miller, who, I think, all of you are familiar with; and General Manager, Gordon Holland, who is going to go through the report with us, and perhaps Gordon would like to introduce the other members.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there are a number of our officers here this morning: Roger Ballance from the General Manager's office; Glover Anderson, the Assistant General Manager, who in the last few days completed his 35 years service with MTS; Barry Deacon, the Director of Marketing; Maurice Provencher, the Director of Finance; Dennis Wardrop, Director of Corporate Development; Brian McCallum, Director of Operations; Bob Vannevel, Director of Internal Services; Ken Beatty, our General Council; Barry Gordon, the Director of Engineering and Corporate Information Systems; and I see Don Plunkett who is the Operating Officer of MTX.

Mr. Chairman, I have prepared some comments on events since March 31, 1983, which is the end of the fiscal period before the committee. If you agree, it might be easier if copies of these were distributed to the committee and they could follow my comments. The 1982-83 Annual Report was mailed to all members in January and tabled by the Minister in the Legislature.

A brief review of the financial statistics in the report shows:

Total revenues from all sources increased by 7.8 percent to reach \$276,541,000.00;

Total expenses increased by 9.1 percent and amount to \$273,034,000.00;

Net revenue for the year \$3,507,000.00 compared with \$6,182,000.00 during the previous fiscal year;

Capital expenditures during the year amounted to \$111,131,000.00.

By the end of the year, the system had a total of 457,148 main telephones, an increase of 8,671 during the year.

The total investment in telecommunications plant reached \$977,610,000 at the end of March 1983, representing an average investment of \$2,138 per telephone up from \$1,620 four years ago.

It has been customary to supplement information contained in the Annual Report with comments concerning recent and current activities. May I therefore comment on the systems major programs and activities for the period from April 1, 1983 to the present.

In response to a significant reduction in the growth of revenues from interprovincial toll services, MTS filed an application requesting rate increases for selected services with the Public Utilities Board of Manitoba on April 14, 1983. The Public Utilities Board approved rate changes effective July 1, 1983 which were projected to generate an additional \$9,400,000 during 1983-84.

The 1983-84 fiscal year has just drawn to a close; the following preliminary year end figures are subject to final review and audit.

MTS expects that operating revenues will be \$294,200,000, a growth of 12 percent over the previous year. "Other Revenues" will be \$15,600,000 producing total revenues of \$309,800,000.00.

Operating expenses, including depreciation and taxes are estimated to increase by 13.3 percent to \$243,500,000.00.

Debt charges and foreign exchange amortization are estimated at \$64,100,000 compared to \$58,306,000 in the previous year.

Net revenues are expected to be approximately \$2.2 million for 1983-84 in comparison to net revenues of \$3,507,000 for 1982-83.

In November 1983, MTS received a government advance from Series AD in the amount of \$65 million at an interest rate of 10.35 percent per annum.

MTS Series 1B and a Government Advance 10P, along with the portion of Government Advances 10E and 10J, were retired and an outstanding Promissory Note was redeemed from the Minister of Finance in the amount of \$4,560,000.00.

Continued inflationary pressures on MTS caused the system to file an application for increased rates with the Public Utilities Board on April 5, 1984. MTS has made every effort to keep the required increases to a minimum, requesting new rates that will result in a 2 percent increase in operating revenues for 1984-85, if the new charges are introduced on July 1, 1984.

During the year, the System undertook a \$122 million capital spending program aimed at maintaining and improving Manitoba's telecommunications network. The conventional and fibre optics cable, central office switches, microwave and other facilities which with this year's expenditures now have a value at acquisition cost of over \$1 billion.

A continued strong emphasis was placed on service in rural areas. For example, 390 customers in 17 communities received individual line telephone service, where previously multi-party service was the standard offering. This is an ongoing program, with additional communities scheduled to receive service as they qualify, under the size and density criteria established by the system. Under this program, some 282 communities with more than 15,000 customers have received individual line service since 1969.

Early in the fiscal year 1983-84, MTS completed a \$3 million program that saw the introduction of regular local exchange telephone service for the first time in 10 Manitoba communities. Three thousand customers in Jackhead, Pine Dock, Matheson Island, Little Black River, Sherridon, Paungassi, Split Lake, York Landing, Anama Bay and God's River now have access to local dial and long distance service from their homes.

In the past year, MTS has installed pay telephones at Grass River Provincial Park, Grindstone Point, Princess Harbour and Rocky Lake. These locations, considerable distances from existing facilities, are served by connecting radio links to the nearest telephone offices.

As need and capital availability dictate, the system is proceeding to introduce digital switching technology in communities throughout the province. This latest generation of telephone switching is computer based, handles both voice and data messages and is significantly more flexible than existing electromechanical equipment.

In April, 1983, MTS installed a new digital switch to serve customers in Winkler. In June, an 11,000 line extension was added to the digital switch in downtown Winnipeg. The Provincial and Federal Government offices were added to this switch, enhancing their centrex services.

Manitoba's first digital switch was installed in Brandon in 1980 and in October, 1983, this switch was expanded to enable it to handle long distance calls from the area. As well, work is under way in Virden, Stonewall, MacGregor, Woodlands and Teulon, to replace the present central office facilities with new digital switches in 1984-85.

In last year's report to this committee, I described the installation of a 130 kilometre fibre optic network that would link several Winnipeg exchanges and nearby communities, including Stonewall, Hazelridge and Beausejour. The work on the network was completed in August, 1983 and the fibre optic links have been performing to expectations. Fibre optics is no longer an experimental technology for the future. MTS is using fibre optics routinely in situations where it provides the most economical means of transmission, chiefly as a large capacity carrier between switching centres. Because of its significant carrying capacity, fibre optics is suitable for application where large amounts of information are being transmitted over longer distances.

In the expansion of cable television service in the province, MTS continues to play a significant role as

the common carrier in Manitoba. During the past year, MTS constructed local broad band networks in Gimli, Leaf Rapids and Gillam. The construction of these local coaxial facilities has enabled the introduction of CANCOM satellite television programming to these areas. Approximately 80 percent of households are now passed by coaxial cable facilities, with some 235,000 subscribers.

In November, with the addition of new trunks and central office facilities at a cost of almost \$370,000, MTS introduced toll-free calling between Benito and Swan River and between Cowan and Swan River. These communities are the first of 23 Manitoba centres that will be provided with extended area service, or EAS, over the next few years. Criteria for selection include the small size of the exchange, the limited services available without having to call long distance, and the high amount of calling to and from a nearby community. The \$4.6 million program has been reviewed with the Union of Manitoba Municipalities so that MTS might have the union's views in deciding priorities for the introduction of EAS.

Under New Services, MTS electronic messaging service, Envoy 100, has experienced a growing acceptance in the marketplace, and the number of subscribers across Canada now exceeds 10,000. An enhancement to Envoy 100, EnvoyPost, allows Envoy users to send letters electronically to post offices in Canadian cities. Printouts of the letters are delivered with the regular mail the same or the following day. EnvoyPost, offered in conjunction with Canada Post, has just concluded its trial year where delivery was offered to 20 Canadian cities. As of April 1, 1984, it became a commercial offering with EnvoyPost delivery gradually being introduced to most centres in Canada.

Medium to large businesses are still the major users of Envoy 100, but a significant new market area is opening up for individuals and small business. Applications such as invoicing with EnvoyPost allow small businesses to reduce the time it takes for customers to pay bills.

There is also a growing market for services like Envoy 100 among personal computer users. As the use of computers in the home has grown, so has the use of these machines as communications terminals, using the telephone network to link personal computer users with one another or with central data banks. We are seeing more and more evidence of small remote terminals being used for work as well as recreation, creating new challenges for MTS engineers and managers who must design the networks that will allow for new expanded uses of telecommunications facilities.

MTS is proceeding to expand its capability in offering communications alternatives to business travel. In September, 1983, MTS, in conjunction with the other members of Telecom Canada, announced the introduction of Conference 600 service, a satellite-based two-way video conference service designed for medium to large organizations. Conference 600 offers business savings in time, energy and money and allows participants to hold meetings electronically.

In January, MTS introduced a trial of a new pricing arrangement for patient telephone services to hospitals, and this service has been successfully operating at Victoria General Hospital and is being introduced at Seven Oaks Hospital. MTS sought the approval of the

Public Utilities Board to lower its rates for patient services which were previously charged at business rates or were provided by portable coin telephones. By making the service more affordable to hospitals, MTS has increased patient access to family and friends during their hospital stay and allowed improved communications within the hospital. The patient telephones allow hospital staff to call for assistance from the bedside when the patient needs immediate care.

With the decline in the historical growth pattern of long distancing calling MTS has increased its marketing efforts to stimulate long distance calling and provide a more convenient service for its customers. Since June of 1983, MTS has been offering a "Surprise Sale" discount on its direct dialed long distance service within Manitoba. On selected evenings from 8 p.m. to 10 p.m., Manitobans can call anywhere in the province for a flat per minute charge at significant savings over the normal discount over more areas. As well, in February, MTS introduced changes in rates and discount times for Manitobans calling other Canadian points. Between 6 p.m. and 11 p.m., on top of its existing 35 percent discount, MTS placed a maximum price of 59 cents per minute on its rates resulting in savings for those calling longer distances. At the same time, the System moved its highest long distance discount period back one hour to 11 p.m. from midnight for calls to other provinces. This allows more Manitobans to take advantage of the 60 percent discount on normal rates at a more convenient time. These changes to our direct dial long distance service are intended to stimulate calling and to familiarize more Manitobans with the ease, the relatively low cost and the other benefits of long distance calling.

Along with improving the marketing of our existing services, the System is responding to market demands for new services. Since last fall, MTS has been conducting an experiment with the Universities of Manitoba and Brandon in teleconference education. MTS has made available Conference 300 bridges, equipment that interconnects the telephone lines of meeting participants and makes it possible for each person to hear and speak to every other person connected to the conference bridge. At the University of Manitoba, instructors have been delivering lectures in history, political science, religion and education via telephone to students in Portage la Prairie, Arborg, Gypsumville and Morden. Brandon University has been reaching students in Winnipeg, The Pas, Mafeking, Shilo, Saskatoon, Creighton, Notre Dame de Lourdes and Moosomin. Students, for whom travel time and expenses would ordinarily preclude participation in university courses, can now further their education by long distance. The universities find that teleconferencing allows them to reach more people while making more productive use of instructors' time.

Last July, the System introduced a series of measures to cut back on the incidents of fraudulent billing of long distance calls from pay telephones. A growing problem which had reached the \$400,000 mark in annual lost revenues, fraudulent billing involves a customer billing the call to an unauthorized third number. From 8 a.m. until 11 p.m., MTS operators have been attempting to contact the billed number in order to ensure that the billed customer will authorize the

call. After 11 p.m., such third number billed calls have not been accepted from pay telephones since most businesses are closed and most households are at rest. Since September, these measures have resulted in an annualized reduction of \$120,000 in fraudulent billings with the co-operation of our customers. In June, 1984, MTS will proceed with the final phase of this program - long distance calls made from pay stations which cannot be verified with the billed number will not be advanced. Manitobans will still have the option of placing their long distance calls from pay telephones through the use of coins by calling collect or by using an MTS calling card.

I would like to place my report on MTS activities in context with events and developments that are taking place outside Manitoba that will over time have an increasing impact on the delivery of telecommunication services in our province.

The telecommunications industry in the United States is going through a major restructuring and transformation. Government authorities, together with certain key customer groups, have encouraged the evolution of more competition in the provision of telecommunications services and equipment. These pressures, as well as court challenges, resulted this year in the breakup of AT&T.

A principle focus for the changes taking place in the United States has been the pricing of telecommunication services. Throughout the history of telecommunications, governments and regulators, here and in the United States, have supported a utility pricing arrangement whereby certain services, and services to certain categories of users, are priced above cost to generate sufficient revenues to underwrite the cost of basic services to residential, rural and remote users. These basic services, as a consequence, have been priced below cost.

Governments and regulators have approved of this arrangement because they recognize that telephone service would become universally available only if it was priced within the means of most people. The broader the service, the more valuable it becomes to all customers.

In the United States, it is predicted that basic rates for residential, rural and remote customers could double or triple, while the price of long distance services, where competition is growing rapidly, is expected to fall.

Here in Canada, the Canadian Radio-Television and Telecommunications Commission, which is the federal regulator of Bell Canada, Telesat Canada and British Columbia Telephone Company, has made several decisions which would appear to moving Canada closer to the United States model.

The CRTC last November received an application from CNCP Telecommunications which requested permission to interconnect its facilities with those of Bell Canada and BC Tel for the purpose of competing in the delivery of long distance voice service. That service, until now, has been deemed to be a monopoly service to be provided by the major common carriers under close regulation. The CRTC will be holding a major public hearing on this application this coming fall.

MTS presently receives approximately 40 percent of its annual revenue through its share of interprovincial and international services provided in co-operation with

the other members of Telecom Canada. If CRTC approves the CNCP application, the resulting revenue losses could place pressures on local basic rates in Manitoba.

The Federal Department of Communications is undertaking a review of telecommunications policy. The Minister, the Honourable Francis Fox, told the House of Commons on May 26, 1983 that the aim of the review is to insure that the federal policy "promotes competition in the provision of services and provides product innovation in Canadian industry."

In some telecommunication services such as private line and data communications, competition already exists. There is concern that new competitors, through interconnection with the telecommunications companies should be expected to make adequate contributions to the support of reasonable basic rates to ensure the maintenance of universal service. If such compensation is not forthcoming, it is possible that the economic viability of common carriers, including MTS, could be threatened if they are expected to continue to sustain uneconomic services.

A further challenge to the System this year was the loss of 113 MTS staff, with a total of 3,705 years of service under the provisions of a voluntary early retirement program. Included in this group were an Assistant General Manager, a Director and three Department Heads. As well, the System lost the valuable experience of 16 of its service foremen, with an average of almost 36 years of MTS service. I would like to take this opportunity to acknowledge the contribution of these long-service employees to the building of Manitoba's telecommunications network and their commitment to service that is being continued by their successors.

On October 31, 1983, MTS signed a contract with General Instrument Corporation of New York for the rights to the Omnitel broadband distribution technology developed for MTS in its Project IDA. The contract called for an initial payment to MTS of \$250,000 as well as royalty payments on future sales to a maximum of \$5 million. In addition, separate installation and consultation contracts were agreed to by General Instrument with the work being done by MTX, the MTS subsidiary.

The Omnitel technology was developed for MTS in Project IDA, a field trial conducted in Headingley between April, 1980 and December, 1981. The Omnitel system allows a number of communication services, including television, telephone, videotex and alarm signals to be delivered to customers over one integrated network.

On September 9, 1983, after 52 years, the TransCanada Telephone System adopted a new name - Telecom Canada. Telecom Canada is a consortium of Canada's major telecommunications companies, including MTS, that provide coast to coast voice, data and image transmission services. The new name more accurately reflects the changing marketplace where Telecom Canada members now provide much more than telephone services.

During the past year, the System also completed the series of events marking the 75th Anniversary of MTS. The final public event was the donation of a section of the original trans-Canada long distance pole line to the Manitoba Agricultural Museum in Austin on

September 10. The poles and wire were placed in service in 1932 and formed part of the first all-Canadian long distance telephone network.

The various 75th Anniversary public and employees' events served to remind Manitobans of the strong MTS tradition of service in the province.

MTX Telecom Services Inc. activities during 1983-84 have been in three major areas: Saudi Arabia, a consulting contract with General Instruments in the United States, and a marketing agreement with AEL Microtel of Vancouver for MTS's network management system.

Based on revenues in excess of \$6 million, MTX expects to make a profit of \$210,000 for the year ended March 31, 1984.

In keeping with one of MTX's missions of bringing business to Manitoba and Canada, MTX has placed purchase orders totalling \$4.5 million during the year. Of this amount, \$2.6 million was placed through Manitoba based suppliers. This represents orders which would not otherwise have been placed in Manitoba.

MTX has 11 employees in Saudi Arabia, which is providing a challenging and rewarding opportunity for MTS employees which further develops their competence, efficiency and satisfaction.

Saudi Arabian Datacom Company Limited received its Commercial Registration in June, 1983 to operate as a separate business entity in Saudi Arabia. Saudi Arabian Datacom Company Ltd. is a joint venture of MTX and Al Bassam International. Prior to June, 1983, MTX was operating in Saudi under the sponsorship of Al Bassam International. Saudi Arabian Datacom Company Limited has established itself as a responsible supplier of data communications products and services in the Kingdom and at its first year end, December 31, 1984, the company expects to recover most of its start-up costs and approach a break-even position.

MTX is also a supplier of telecommunications equipment and services to Al Bassam International - Telecom Division. For the period April 1, 1983 through February 28, 1984, gross sales amounted to \$2.2 million.

During the year under review, MTX entered into a consulting contract to further enhance the Omnitel technology developed during the Project IDA trial. MTS received \$250,000 as an initial payment for the software, while MTX has completed consulting contracts in excess of \$140,000.00. The contract has extended into 1984-85.

MTX has also entered into a joint marketing agreement with AEL Microtel of Vancouver to market the network management system developed by MTS based on Microtel's product line. Activity to date has consisted mainly of marketing the system to various interested telephone companies.

Mr. Chairman, if there are any questions, I will try and answer them.

MR. CHAIRMAN: Are there any questions on Mr. Holland's introductory remarks?

Mr. Orchard.

MR. D. ORCHARD: I just have a number of general questions arising from the statement by Mr. Holland.

When you mentioned that you have a \$977 million investment - now I know my question may have been

answered on Page 3 where it indicates that the value is now over 1 billion at acquisition costs, that isn't a depreciated figure then I take it?

MR. G. HOLLAND: No, Mr. Chairman, that is the gross value of plant at acquisition cost.

MR. D. ORCHARD: Thank you. Page 2 of the report brought up a question I had, it may take me a minute or two to find the notes I made on it. Coming out of the Annual Report, there was something that was of interest to me. On Page 11 of the Annual Report, there is the statement which shows the sources of funds used for construction and this may tie in partially with some of the information provided on Page 2 of the 1983-84 financial picture.

Let me go down the line and we find the line there of Internal Sources of Funds from Operations, including charges which do not involve an outlay of funds. In '83, it was \$81.5 million, roughly. Now, I'd assume that the two components of that would be the net income of the system plus the depreciation that's charged to the system. Would that be correct?

MR. G. HOLLAND: Yes, Mr. Chairman, that is the prime source of internal funding.

MR. D. ORCHARD: Now, when we go down further in the page - Funds Used Other Than For Construction - and there's a column in there, Repayment of Province of Manitoba Advances, which was alluded to also in the Chairman's statement this morning.

Now for fiscal year '83 it was \$4.9 million; fiscal year '82 it was \$57.25 million. Could the Chairman indicate for the 1982 figure of over \$57 million, was that the retirement of the - no it can't be the Swiss Series 10P - which series was that? Or what was the retirement of the \$57.25 million in 1982?

MR. G. HOLLAND: Mr. Chairman, the borrowings of MTS are shown on Page 13, Note 8. They are made up of a combination of advances from the Province of Manitoba and bonds payable. In order to reconstruct the \$57 million, I think I would have to have last year's report here, they have been removed from this year's statement.

MR. D. ORCHARD: Well, I'm just wondering, I've got the last year's report, but I don't believe it's the right one. I can't find a tie-in of the retirement for fiscal year '82. If at a later date that information could be provided on the \$57.25 million, that would suffice for now.

The question I'd like to pose which deals once again from Page 13 of Series 10P, the 98.6 million Swiss francs. Now, that has been retired presumably November 1, 1983. When was that advance taken out, how long a period of time? Was that a 10-year advance?

MR. G. HOLLAND: Mr. Chairman, it'll take me a minute to see if I have that information here. I think I will have to obtain that information, Mr. Chairman, the issue date.

MR. D. ORCHARD: Okay, good. Whilst you're looking that one up, the current report that we're dealing with

today indicates a foreign exchange adjustment note, which is, of course, the current exchange rate at the time of the report, March 31. Could Mr. Holland also provide the adjustment that was required in retiring that Series 10P?

MR. G. HOLLAND: Mr. Chairman, for Series 10P, 7,652,000 was a realized loss and was withdrawn from the investment fund.

MR. D. ORCHARD: Now, to follow that process through, that's the investment fund that was set up - what, in 1979? - to take into account the offshore currency fluctuations?

MR. G. HOLLAND: And foreign exchange.

MR. D. ORCHARD: And foreign exchange? Was that about 1979 that was set up or . . . ?

MR. G. HOLLAND: Mr. Chairman, it was set up during the fiscal year of '78-79, at which point, based on the then currencies, the potential liability was over \$100 million. The initial contribution in that fiscal year was \$7,819,000, and it was based on a straight amortization to the redemption date of each of the issues.

MR. D. ORCHARD: Now, which line in Page 10 or 11 is the one that specifically deals with that account? I want to make sure I've been looking at the right one.

MR. G. HOLLAND: Mr. Chairman, on the balance sheet, the Investment Fund is listed this year at \$29,732,000 and Note 7 discusses the activity under the fund during that fiscal year.

MR. D. ORCHARD: Now, the 29 million appears where?

MR. G. HOLLAND: Page 10. In the middle of Investment Fund.

MR. D. ORCHARD: Under deferred, the total Deferred Charges is what we're dealing with here, all under the heavy heading Deferred Charges, that's the entire fund? That isn't the entire offshore currency fund, that has other things in it as well? Is it not just the top figure of unrealized foreign currency losses less amortization?

MR. G. HOLLAND: Mr. Chairman, the figure I was referring to was the status of the Investment Fund in heavy letters which shows it at 29.732 million, compared with 27.717 million.

MR. D. ORCHARD: Sorry I've got the wrong spot then.

MR. G. HOLLAND: The other figure that you referred to which is decreasing is unrealized losses less the amortization that has gone into the fund.

MR. D. ORCHARD: Okay, just clarify for me then please, from which fund does the \$7.6 million foreign exchange loss come from upon retirement of something like that series 10P. Would it come out of Investment Fund as the cash surplus body?

MR. G. HOLLAND: Mr. Chairman, yes. The amount withdrawn in the 1982-83 year was 1.985 million, and in the 1983-84 fiscal year just ended an amount of 9,381,000 was withdrawn from the Investment Fund.

MR. D. ORCHARD: And the 9 million, the major portion of that, of course, would be for the 7.6 on the 10P series? Okay.

Now, then going back to our sheet here, going back to this statement of Sources of Funds Used for Construction to maintain on a year when your target is for \$100-plus million construction program yearly, that seems to be what the system has been requiring over the last couple of years. Now, on years where you've got a heavy retirement of borrowings, any kind of a series that comes due on a given year like it did in 1982, and as it has in, theoretically, '83-84. The retirement of that is being replaced by new borrowings presumably.

MR. G. HOLLAND: Mr. Chairman, yes, that normally is rolled over after adjustments for a sinking fund, and any MTS internal revenues that can be applied to it.

MR. D. ORCHARD: Then, Mr. Holland, are we then looking at, under the current rate structures, a situation where the telephone system, if they wish to continue on \$110 million, \$120 million of capital construction per year, and given that retired borrowings are retired by new borrowings that we're not likely to see, for instance, very much relief from the 50-plus million, approaching \$60 million debt charges to the system over the near future. In other words the rate structure of the Manitoba Telephone System is in a hold pattern. We're not retiring, we're not paying for and ending up with actual ownership of our telephone plant, we're treading water. Is that a fair assumption?

MR. G. HOLLAND: Mr. Chairman, I think there are two ways to illustrate that. On Page 15 there's a brief financial history. If you look at debt charges, they're shown from 1979, those have been held at a relatively static level and have been watched. For the year ending March 31, 1984, incidentally there, 65 million is the annual cost of the debt.

The second way of looking at it is how much equity is in the MTS billion dollar plant? If you look three lines from the bottom, in 1979 the debt ratio was 87.5 and for the last several years the MTS board has adopted a policy that that should be very gradually reduced.

If you notice, it did drop in almost all years except 1983 which was a rather unusual economic situation. With the current rate application, if that is approved, it will see a further reduction next year to perhaps 83.5, about that level.

We're advised by the financial authorities in the market that one criteria is to show very careful management of that figure and hopefully a very gradual improvement.

MR. D. ORCHARD: Then dealing with that figure, how does MTS's ratios compare to, say, Bell Canada, or BC Tel? Are they in the same debt capital range?

MR. G. HOLLAND: Mr. Chairman, generally there's substantial difference between the public companies

and the private companies. The private companies tend to be in the probably 47-55 ratio. Now the public companies, I believe, Sask Tel is in the mid 70s, and AGT is extremely high. They've had again unusual circumstances with years of very rapid growth, and very rapid investment, so that their debt ratio is quite high.

MR. D. ORCHARD: When the General Manager makes the observation that the debt ratio in the private companies is considerably lower, would one be correct in drawing the conclusion that the private companies are retiring their debt with their current billing, with their current revenues? They are not retiring their debt with new borrowings as MTS is doing. Would that be a fair assumption?

MR. G. HOLLAND: I think, Mr. Chairman, they would be following two general practices.

One is watching very closely their rate of return and the profitability of their operations. Other than funds that are returned to their shareholders would be increasing their equity investment in their companies.

The second one is, of course, they would be watching very closely to generate as much fund internally as possible to reduce the amount of borrowing.

MR. D. ORCHARD: Yes. So I think basically you've agreed with the question I posed, that their revenues are used possibly to a greater degree to retire debt, to finance expansion internally, so their debt equity ratio remains in that 50 percent range. Now that of necessity I suppose would mean that their telephone rates would have to be higher and, of course, that's by any comparison is the way it is.

So I guess the interesting observation to make here would be that although the telephone system in Manitoba has been able to maintain a relatively economic rate over the past 20 or 30 years, if we had the unfortunate circumstances of an Argentina-type inflationary spiral. When the system is unable today to retire previous borrowings from earnings - they are retiring them by reborrowing, refinancing - then you could end up with, if interest rates were to take off, I guess you could end up with a line for debt charges that would possibly double even, and the customers of Manitoba Telephone System would very soon find themselves in a position of having to pay increased rates, increasing at a fairly alarming rate.

Now, Mr. Chairman, when I'm saying this I'm not faulting the system for what they're doing but it presents a problem. I guess the problem was focused on by the Minister of Finance in his delivery of the Budget here a couple of weeks back, where he put the position forward that a debt which was covered by an asset was good. It wasn't the same as a current deficit. So the deficits incurred for capital spending shouldn't be worried about, that we shouldn't concern ourselves about them, that that's basically good debt if there's such a thing.

Yet one can see that even the debt of the Manitoba Telephone System is not a self-retiring debt; it's a self-sustaining debt. We keep on refinancing as issues come due and God forbid if ever we end up with a runaway inflation, hence interest rates cycle that lasts a number

of years, not just the 18 months it did last time around, our customers in Manitoba will have to face substantial increases in rates or else the provincial government will have to come in and have some sort of an offset on the interest rate borrowings. The low rates are there because we're not increasing our equity to the same extent that the private companies, with which we make comparisons, to say that we are better off, because we have lower rates we're better off than in the areas where the private companies provide the telephone, the telecommunication services.

MR. CHAIRMAN: Mr. Miller.

MR. S. MILLER: Thank you, Mr. Chairman.

If I might make a comment here. I can well appreciate what Mr. Orchard is saying. MTS is a corporate entity and the board certainly address themselves to the whole question of debt equity and the ratio, and I think it was back in '79 or something like that, where the board at that time considered and felt that they should try to reduce that debt equity ratio. I concur with that thought but, as Mr. Holland points out, this is a publicly owned utility, it's offering a public service, it's mandate is to be self-sustaining. There is no guarantee on equity return when we go to the Public Utility Board, they're not looking at equity return, they couldn't care less. Their position simply is, "Here are your expenditures, we'll examine them and, if they are valid, we'll allow you enough of an increase so that you can carry on." They, too, in the past, have indicated that it would be nice to have a lower debt equity ratio, but that is not their main objective, so really it is between the privately owned companies and publicly owned companies. The emphasis really is on public service, universality and as low a rate as possible, versus the private companies' position, where their major responsibility is to their shareholders.

At an Alberta Government Public Utility Board hearing recently that point was made by the Chairman of the Alberta Government Telephone in rejecting an argument with regard to how private companies operate. He indicated that, "Private companies have a responsibility primarily to their shareholders; a public utility has to take into consideration the public interest and, therefore, the fact that AGT has a debt equity ratio of something like 99 or 98, he just brushed it aside as being really not that key to the determination of what the rate should be because making rates available, as the lowest possible rates to Albertans, was in his opinion the valid way to go, so there is a different approach, a different interest in how you operate.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Yes, of course, that's always been the philosophy of the publicly owned utility in Manitoba for 75 years.

MR. S. MILLER: We would like it to go down.

MR. D. ORCHARD: The point I'm making is that if we did see the interest rates take off for prolonged periods of time and, you know, no one knows whether that's going to happen, the customers in MTS with the debt

equity ratio, and AGT would be even worse, not knowing where their borrowing is, but it wouldn't matter. We are enjoying economic telephone service and we have been for the past number of years by not charging sufficient to make sure our debt equity ratio is down in comparison with other utilities.

MR. S. MILLER: Well, we've maintained it.

MR. D. ORCHARD: It's being maintained at close to the same ratio, but if we were to undertake to achieve, let's say, the 50 percent debt equity ratio that, for instance, Bell has, our rates would probably be very comparable to them. Okay, I maybe raised a red herring there, or a blue one.

MR. D. ORCHARD: It's pretty black.

MR. G. HOLLAND: Mr. Chairman, I have these comparative ratios for December 31, 1982: Bell was 49.03; NB Tel 50.72; MT & T 51.63; Newfoundland Tel 50.36; BC Tel 52.67; Sask Tel was 80.80; and AGT 96.53.

I just wanted to comment, Mr. Chairman, that we attempt to be very careful in comparing rates between companies, particularly with the private companies, because we do not pay corporate income tax and that is normally explained with any comparisons.

The other factor is that the - and of course we don't pay dividends - the dividends are instantly returned to our customers.

MR. S. MILLER: Every month with a lower telephone bill.

MR. G. HOLLAND: The debt equity ratio really is judgmental and it doesn't stay fixed. I think in an era of where there was an absolute and clear monopoly in the province likely it could be considerably higher than in an era where competition is looming and the revenue base is threatened. I think that is another factor that has to be watched very, very carefully.

MR. D. ORCHARD: Agreed. Now, first, Mr. Holland I fully appreciate that the Manitoba Telephone System and its spokesmen are always very careful in not drawing the comparison too solidly between the private telephone companies in Canada and their own operations. Such care and caution is not always there in some of the political statements that emanate from time to time from across the hall, across the aisle, and I've been challenged to explain and I'll be glad to.

The whole *raison d'être* for public expenditure and public ownership, MTS is often held up as the example of success in that by comparing the monthly bill in Toronto to the monthly bill in Winnipeg, etc., etc. They have said that because it's a Crown corp. it's able to do this, but I think you've identified, Mr. Chairman, that there's more reasons than simply it being a Crown Corp. There's the debt equity ratio which, if we were to achieve in Manitoba, would cause our rates to go up. We're paying income tax on our profit, of course, our rates would have to go up. The interesting point that you made, Mr. Holland, in your last statement there is that the system now faced with new technologies,

competition from more sources, is in a change of flux and one that may cause us some trouble to maintain economic service.

I would ask, if dealing with competition that is here today and will certainly increase over the next several years, is our ability to compete not less than what it is with Bell or Newfoundland Tel, or New Brunswick Tel or BC Tel? When we have a debt equity ratio of some 85 percent, theirs is roughly 50 percent, our flexibility to change with changing times is impaired because of our debt equity ratio in comparison to the private utilities?

MR. G. HOLLAND: Mr. Chairman, that is a very complex question and I wouldn't want to pretend that I'm answering it completely.

The ability to compete, first of all, depends on the provincial policy, regulatory policy, namely, the extent to which we, as a Crown corporation, are going to be permitted to compete in the area. Some of the decisions of CRTC have required, have imposed discount rates on our competitor and we, through Telecom Canada, are not permitted to match the rates, or there are regulatory edicts coming out. For instance, with cellular radio, we are not permitted to install that technology and market it as quickly as we can, because the new competitor has to be given time to organize his business, introduce it, compete and be given perhaps a six-month head start.

As far as under present circumstances, MTS expense factors compare very favourably, in every way, with the public and private companies, so there's no reason to expect that we can't compete on an expense cost basis with our competitors. In a sense we also have a reserve in our tariffs because our business and residential rates are lower than other jurisdictions, but I guess, in summary, there are certain things that MTS can do, if it's regulatory and provincial policy permit. There are some things that we can only do through the Telecom Canada vehicle, that is the only way in which we can offer our customers national and international service. I think the members of Telecom Canada have seven different regulators, including CRTC, so that is quite a complex scene.

MR. D. ORCHARD: A final question. The billion dollar value is the acquisition cost. The financial statements do assign a depreciation chart. What's the undepreciated plant investment at MTS?

MR. G. HOLLAND: Mr. Chairman, Morris Provencher is a C.A. and I would prefer that he'd quote the figures in answer to that.

MR. M. PROVENCHER: As at March 31, 1984, the undepreciated plant value is \$596.977 million.

MR. D. ORCHARD: That's all for now.

MR. CHAIRMAN: Mr. Enns.

MR. H. ENNS: Mr. Chairman, I have some general observations and questions to MTS officials. Mr. Orchard was pointing out in his line of questioning some of the concerns about what could happen to telephone

rates in Manitoba, as a result of the exposure that MTS has, dead exposure, should there be sudden or dramatic increases in costs of money. I have more general questions, perhaps more correctly directed to the Chairman of the Board at this moment.

Mr. Holland, in his opening statement, draws our attention to the fact that in the year reporting, your revenues rose some 7.8 percent and your costs rose from 9.1 percent and you reflect on the next page - not finalized, but nonetheless I take it to be relatively accurate figures, is for the coming year - again a revenue growth of some 12 percent costs exceeding that anticipated to come in at 13.3 percent.

I ask the General Manager or the Chairman of the Board, what is the board doing to see whether or not, in these times where all businesses, government, private, are searching to live within their means to either reduce their expenditures, their costs, so that those two figures can be equally offsetting. I don't worry too much or look to my public telephone company to be making dollars, but at a time when we have brought inflationary pressures below those figures particularly in this year - I think we speak of inflationary costs generally in Canada running between 5 and 4.8 or 6 percent - MTS costs are anticipated in the coming year to rise something in excess of 13 percent. So I invite the Chairman of the Board, recognizing that MTS has looked hard at its staff complement, I assume, or is this a pattern that the Chairman of the Board feels cannot be corrected?

MR. CHAIRMAN: Mr. Miller.

MR. S. MILLER: Well, Mr. Chairman, it's a problem. It's a matter that the board has tried to address a number of times for the last two years and in the kind of economy that we've been operating in, it's really been a serious issue.

The board, together with the executive management, undertook certain trimmings of costs and did it quite successfully, but MTS serves all of Manitoba. There are some parts of Manitoba which we know required service and did get service as recently as last year, where the revenues involved are minimal but the costs are high, both capital costs and maintenance costs.

As well, when we try to move and did move to the reduction of overtime, I can tell you that the response from the public was not all that good. People have come to look at their telephone system as part of their established life, it's like their right arm, and when the telephone isn't operating to their satisfaction - whether it be Monday or Friday or Sunday or whatever it is - they want action and they want it immediately. Nonetheless, we did reduce overtime in order to try to save money because overtime is costly.

As well, we tried to plan the work somewhat better - at least we didn't, I shouldn't say we, the board didn't - we asked staff to do it and they did, so that appointments could be made in a week or six days for new installation - six days down the line or three days or what have you - and try to plan the work in that way so as to reduce costs and utilize all staff in a more efficient manner.

Again that worked to the extent that some of our costs were reduced, but in the final analysis the public

perception of Manitoba Telephone System is that it's a public utility, it's there for their use, it's got to work when they want it and when they have it, and it's a constant struggle between giving service and running it, as if I owned it on my own where I'd simply say, well you'll just wait five days or eight days and that's all there is to it, as I know they do in other jurisdictions. I've discussed it with people in other jurisdictions and they make no bones about the fact that since 1981 or 1982, they simply clamped down on service.

Now we've recognized that our first responsibility is to the home-owner and to the business community, and we'll do possible to give them the kind of service they're used to, and at the same time ride herd on costs to trim them, to keep them as low as possible. So in the final analysis, it's because we're a public utility we have an additional interest, or additional concern, of simply keeping things in balance or perhaps even decreasing expenses much lower than they are. We have responsibility to make sure that the system operates to the satisfaction of the public.

MR. H. ENNS: Mr. Chairman, to you or to the General Manager. Where are you at, frankly, with respect to your labour contract? Are you concluding a contract year, or in the midst of the contract year, or in a process of negotiating?

MR. G. HOLLAND: Mr. Chairman, our craft union contract is under negotiation at the moment on a wage reopener only and then that will extend for a further year. The other two contracts have been opened, for the wage reopener, are in their second year and will be up for renegotiation March — (Interjection) — About the end of February, Mr. Chairman.

MR. H. ENNS: Mr. Chairman, what I was getting at without interfering with those negotiations, but this government has belatedly recognized that it too must keep its personnel costs in line with what's happening in the real world and have issued from time to time, particularly from the Minister of Finance, some pretty specific guidelines. They are currently in negotiations with the largest political group, The Manitoba Government Employees Association, and if one believes what's happening or how it's being reported in the paper, that they are talking about little-to-no-wage increases possibly in exchange for job security and those kind of matters, my question, I suppose, is to try to determine whether MTS is acknowledging the guidelines as they emanate from time to time from the government.

MR. G. HOLLAND: Mr. Chairman, particularly since 1982 we've been consulting very closely on overall provincial guidelines and policies in this area and I believe MTS has reserved those guidelines very very carefully.

MR. H. ENNS: Mr. Chairman, on Page 6, of the General Manager's opening remarks he makes reference to the growing services, of the growing use of computers and even in the smaller, not just the large commercial operations but the remote terminals being used in small businesses, or even in homes.

Indeed, Mr. Chairman, I've had it demonstrated in my own office where a party will come in and demonstrate and use the telephone link-up to a central data bank somewhere here in the city and it boggles my mind that that machine and similar installations or uses of the system like that must be occurring regularly in increasing numbers. How do you arrive at fair and reasonable charges?

I know if that phone were used from my home in the metropolitan centre of Woodlands, you would at least have long distance charges emanating from Woodlands to that central data bank. As I watched this person use my desk phone and hook into a city data bank here, we tied up that line for several hours as a demonstration was in process as to how that whole modern technology works. I invite either the Chairman or the General Manager to tell me - I'm now looking for revenue for Manitoba Telephones - how do you arrive at fair charges for that? I draw your attention to that because you do draw our attention to it and I can see it happening more in a less structured business commercial way.

I think you can walk into a big firm, you can negotiate a contract, you're going to move X-number of million bits of information, you have hourly costs. How do you get a handle on the growing use of home computers, home terminals clicking into these kinds of central data banks?

MR. G. HOLLAND: Mr. Chairman, with the medium and high users, heavy volume customers, of course, we have the dataroute, datapac, datalink networks which are competitive. They have specially designed costings and tariffs to fit those circumstances.

As you point out, the use of the networks for data purposes, and that is to access data banks, not only within Manitoba or within Winnipeg, there are hundreds and hundreds of data banks internationally which are being accessed.

Another prime example, students doing their homework at 3 in the morning on the universities' computers and this is a new phenomena, and we do not have tariffs designed expressly for that kind of use. We have only our standard local exchange and toll tariffs at this point.

MR. H. ENNS: Coming to an area, perhaps, where you have had greater concern, an ongoing concern, and that has to do with the application currently before CRTC from the CNCP Telecommunications people. I suppose, recognizing that when one enjoys monopolies one doesn't like to see that interfered with, but the concern is roughly the same. There is, in terms of getting a CRTC ruling that will recognize the legitimate revenues that should accrue to common carriers, if link up is allowed, is that the nub of the concern that the common carriers, public carriers, have in this instance? Along with the obvious competitive factor of loss of business perhaps, or loss of revenues resulting therefrom.

MR. G. HOLLAND: Mr. Chairman, CNCP has been a competitor, of course, for many years. They have their own network and serve business customers in Manitoba and have for many, many years. The issue is whether or not they will be permitted to interconnect their

networks to the MTS network, and thus, use the local exchange plant, the distribution plant, and those areas of the province where their network does not extend, and under what terms and conditions that would be permitted. So, I suppose, our questions that are of great concern at the moment are twofold, and one is will MTS continue its 75-year mandate to provide universal access to all Manitobans in all locations at tariffs which are affordable by all Manitobans? That has involved a very intricate pattern of cross-subsidies and price averaging to achieve the state where virtually everyone has basic service today.

Then, if we are to continue that role, what should the terms and conditions be for interconnection to our network by a competitor? Will they pick up their proportionate share of the unprofitable areas that MTS serves?

MR. H. ENNS: Mr. Chairman, a final area that I would like to explore - Mr. Orchard will be doing the more detailed examination of the report. Members of the Legislature are always intrigued with the South Arabian venture that MTS is involved in and I take this opportunity inasmuch as it is alluded to at some length in the Chairman's opening remarks.

What is the state of affairs in Saudi Arabia as far as MTS is concerned? Can you make a general statement, Mr. Chairman, that I'm sure my colleague will want to pursue? Is the Saudi Arabian venture contributing to the general revenues of MTS, I suppose is the best question I could ask at this time? You note that the MTX Telecom services is in a profit picture for the first time, or is it recovering costs? Those are the kinds of questions that I'm directing, myself, at this time

MR. G. HOLLAND: Mr. Chairman, as we've previously reported to the committee, external activities by MTS have been contributing revenues toward our overall revenue requirements since at least 1977 or '78. Those annual contributions have been typically \$250,000 or \$300,000.00.

MTX to January 31, 1984 is showing a net income of \$183,000 and it's projected that should go well over \$200,000 for the year ended March 31, 1984.

MR. H. ENNS: Who is Al Bassam?

MR. G. HOLLAND: Sheik Abdullah Al Bassam is a prominent and well-known Saudi Arabian national, very active in business life in that country. He is a partner of MTX in Saudi Arabian Data Communications Company Limited.

MR. H. ENNS: Mr. Chairman, that concludes my concerns at this time.

I offer this observation that it's, I suppose, a tradition that we should take time to acknowledge in our time-honoured way here in the Manitoba Legislature to be able to examine the public business in the relative calm, that we would be rather sad at the news emanating out of Quebec where upward to three people have been killed in the Legislature. The Legislature of Quebec was seized by a gunman earlier this morning, 10 people wounded and the latest news is that somebody is still

sitting in the Speaker's Chair with a submachine gun. So I think we all want to acknowledge why we play our adversarial role here, the privilege that we have, in conducting our business as we are in Manitoba.

MR. CHAIRMAN: Mr. Doern.

MR. R. DOERN: Mr. Chairman, I would like to put some questions to Mr. Holland and Mr. Miller concerning a section in the General Manager's Report called "Challenges" because this . . . (audio breakdown) . . . the area of the unknown future. There's been a great deal written and said and discussed about the telecommunications industry in the U.S. going through a major restructuring and transformation, and I note on Page 10, the statement that there is a prediction in the U.S. that basic rates for residential, rural and remote customers may double or triple while the price of long distance service is expected to fall. So I think the main question there is, will the same thing occur here.

Let's look at the first part, namely, does the General Manager anticipate a doubling and tripling of monthly phone bills in the Province of Manitoba?

MR. G. HOLLAND: Mr. Chairman, again, that is a difficult question to answer very briefly. I have reported to the committee the revenues that MTS accrues from its interprovincial services, which are well over \$100 million. All of that revenue presumably is at risk, and I don't know how much of the intra-Manitoba would be at risk in a competitive scene.

MTS is committed to have our costs and our quality of service and our customer service in such shape that we can compete very vigorously if we're permitted to. That is the policy. What the impact would be on local exchange rates, I suppose is dependent on the speed with which national policy changes, the aggressiveness of our competitors in Manitoba, the quality of their service. So there are a great many imponderables to think on.

MR. R. DOERN: Mr. Chairman, the General Manager then, is not prepared to say that within two to five years, that monthly phone bills will double.

MR. G. HOLLAND: Mr. Chairman, the national Minister, Mr. Fox, has commissioned a federal-provincial study on competition. Submissions are due in May, and that review process will start over the rest of 1984. In October, 1984, the CRTC will be hearing the CNCP application for full voice interconnect. I think those two events will determine the course of Canadian policy, and then it will be much easier to predict impact.

MR. R. DOERN: We had a situation here in the province for decades where there were either little or no annual increases, but it seems to me that we're now getting into a situation of requiring annual increases in the monthly phone bills.

Is that how you see the situation now?

MR. G. HOLLAND: Mr. Chairman, we did go for some 21 or 22 years without a rate increase, through 1975. Even in the years following 1975, the economics of our

business were a little more manageable and predictable than they had been since early '82, particularly.

Our policy at that time was to try and project three-year cycles and establish the new tariffs suitable for a three-year period and that worked quite well, through until the early '80s. With the fluctuations in revenue growth and cost of money and other factors, we are now looking at one-year forecasts and basing our revenue requirements on those.

MR. R. DOERN: Also, there's a mention here about long distance rates expected to fall. Now, of course, normally, that would be good news, but for the telephone company it may not be good news in the sense that this may lead to declining revenues with which MTS subsidizes the home-owner and the home-user, and I was just wondering if Mr. Holland had any projections on what might happen, for example, if long distance rates declined 10 or 20 or 50 percent. Would there be a similar increase in volume, for example, to offset that?

MR. G. HOLLAND: Mr. Chairman, it has been demonstrated that there is elasticity in the toll rates, that it is possible to stimulate usage and, of course, we had quite a dramatic example with our own surprise sales over the last year. They were very low rates, but the volumes of usage were extremely heavy. The networks were loaded in effect.

The answer is that of course, with the reduction in toll, there will be some stimulation in revenue. How that is broken down between Telecom Canada and its competitors remains to be seen.

MR. D. ORCHARD: I meant to at one point in time ask, on your surprise sales, you indicate volumes went up dramatically. Is there any indication that it was a replacement of normal calling that would have been done during regular business hours? Could you detect any trend like that or was this brand new business that you were stimulating?

MR. G. HOLLAND: I think it's our belief that most of it was incremental business to MTS. Impulse. I do have some data on the Surprise Sales. One of the phenomena, of course, was that the holding times were considerably longer than usual. People talked for a longer period as well. I think our data shows that calling went up 87 percent and 82 percent on two successive Fridays, and the calling times almost doubled. People talked almost twice as long as usual.

MR. CHAIRMAN: Mr. Doern.

MR. R. DOERN: Mr. Chairman, what I'm trying to do here is establish with the Chairman - General Manager in this instance - that there are in fact some long-term trends and patterns that are clearly discernable, and that what is happening in the United States will probably happen here, and that for the individual home-owner and the monthly telephone user, their long distance rates are going to go down, but their monthly basic rates are going to go up and continue to go up in the foreseeable future. Is that what is anticipated in Manitoba and Canada?

MR. S. MILLER: Mr. Chairman, on this subject, as Mr. Doern knows since he was at the Board meetings when these matters were discussed at times, what happened in the States is now established. The divestiture by AT&T was forced by the courts and subsequently by the FCC. The full reading in the United States is not yet known because, as a result of this year being a presidential year, Congress was faced with about 14 different bills, which expressed their alarm at what had happened without congressional knowledge for that reading, it was done through the courts. As a result, the full impact in the United States is not known today. I don't think it will be known until 1985, if then, but there's no doubt that as a result of what happened in the United States and the divestiture by AT&T and creation of new local "Bells", as they're called - I think there are seven regions - and the introduction of competitive long distance only services, AT&T now being part of that, this will lead to a reduction in long distance revenues to the local companies. As a result, the local companies are asking for large increases.

To what extent that will occur in Canada is still unknown, although we seem to be going in a similar direction. The Federal Minister of Communications has indicated that he has a concern that there may be an impact on the local user, on home-owners, on small business, etc. I know the Federation of Canadian Independent Businesses, at a very recent conference, seminar, expressed great concern that the measured service, which they're talking about in the United States and which now has been implemented in the States in some areas, where local calls are measured in the same way that long distance is measured, the Federation of Independent Businesses has expressed a real concern about that because of the impact on small business. It may be good for the large large corporate users, the banks maybe happy with it, but certainly the small independent user is not happy.

The hearings with regard to CNCP interconnection, which is one of the key elements in Canada, is not until this fall, and really it depends on what happens at those hearings and whether CRTC does, in fact, permit CNCP to interconnect into Bell and B.C. territory with voice interconnection. If that does happen, then certainly it will affect the long distance revenues to every telephone company in Canada. It isn't a matter of competition, it's a matter of fragmentation of the market. If you've got to share the revenues with one more company, or two more companies, or three more companies, then obviously there's a shortfall in your revenues.

These are the problems which are facing telcos across Canada and, certainly in the prairies, the publicly owned telephone companies, they're facing it very very severely because of the policies and the philosophies of the three prairie telephone companies of maintaining low affordable rates. It's not a secret, it's been done for the last 75 years, using revenues from long distance and from discretionary services, to subsidize and maintain a lower residential rate. The question, therefore, is it going to happen here? It can't be answered until we know what's going to be happening in Ottawa.

The Alberta Government, AGT rather - Alberta Government Telephones - is now in the courts on the very subject, or the topic being, or the issue being who will determine what rate that an interconnect company

will pay, that CNCP will pay to tie into the Alberta Government Telephone Services. CNCP says it shall be CRTC; the Alberta Government says, no way, it's the Alberta Government Public Utility Board, but that's in the courts. I suspect it will go to the Supreme Court of Canada, no matter who wins that in Alberta, it will go to the Supreme Court of Canada.

So what we are really all waiting for is to see how this all finally settles down, whether it's going to take six months or two years. I don't know, nobody knows, because these things don't move slowly and appeals will be launched from court action to court action, of that I'm absolutely convinced, no matter how the Alberta judges rule, either for or against CNCP, it will go to the Supreme Court.

MR. R. DOERN: Mr. Chairman, I'd then ask Mr. Miller whether the provinces that own telephone companies, are they united on this particular policy? Are you all going in together at those hearings, in opposition?

MR. S. MILLER: You're talking about the CNCP hearings?

MR. R. DOERN: Yes.

MR. S. MILLER: It's my understanding that certainly Manitoba will be making presentation to the hearing, although it is a CRTC hearing and, because CRTC does not regulate Manitoba, in the past Manitoba stayed clear of hearings called by CRTC, just as Saskatchewan and Alberta did not want to acknowledge the CRTC's authority and, if you plead before them, you're in a sense recognizing their authority. But on this issue of CNCP interconnect, certainly Telecom has taken a position and it's my understanding that some of the other provinces will as well.

MR. R. DOERN: Mr. Chairman, from reading the brief and listening to the General Manager and the Chairman, they seem to identify CNCP Telecommunications as the enemy. That's obviously the first rule of warfare is identify the enemy.

MR. S. MILLER: It's the first one there.

MR. R. DOERN: What I wanted to ask was whether it is not also the case that there are other serious threats through business networks, through companies that are being established to cream off the golden triangle and come through us from Minneapolis, etc., work the cities, work through private networks, establish their own hardware, satellites, etc., etc., etc., although CNCP is a direct competitor and a direct threat that they are only one of many. Is that not the case?

MR. S. MILLER: Mr. Chairman, certainly I zero in on CNCP because there is an application before CRTC; that's the only one there is. I think what Mr. Doern is talking about is the ability of the new technologies to by-pass the system and that danger exists. What you're simply doing, Mr. Doern, is iterating what has been said in the Annual Report here, that there are events occurring, pressures from outside of our own jurisdiction, which will impact on the telephone system.

I think it was Mr. Enns or Mr. Orchard who mentioned the fact that the new technologies are creating a new environment and there's no doubt about it. The days when the telephone system could sit back and revenues would look after expenditures and it was a nice quiet operation - those days have ended. It's now a very different market; it's now a very different environment and MTS is adjusting to that environment, emphasizing different aspects of the operation, moving from just a straight service orientation to a marketing type of operation. This has to be done in order to meet the challenges that are there. How extensive they'll be, no one knows, but by positioning ourselves now we hope to be able to cope with them, or the MTS hopes to be able to cope with them as they arise, recognizing that a lot of these decisions are not within Manitoba's hands. They will be decided in forums beyond Manitoba and that is something that we cannot foresee at this time.

MR. R. DOERN: The report that was read by Mr. Holland says on the top of Page 11 that, "MTS presently receives approximately 40 percent of its annual revenue through its share of interprovincial and international services "It also sounds as if that figure will decline. I wanted to ask Mr. Miller whether he anticipated that those revenues might fall to 30 percent or 20 percent in the next decade.

MR. S. MILLER: Well, you know, Mr. Chairman, I could hypothesize and I could philosophize here, and I could say it may drop by 40 percent which case it may be zero. But you know, this is really guesswork. If Mr. Doern wants me to say that, 1994, the revenues are going to be down to zero or they're going to be 50 percent of what they are today or 75 percent, I'm not one to look into crystal balls. I have seen too many people who look into crystal balls and end up seeing clouds or seeing something that isn't there - blue skies. We don't know. The point is though, whether it's 1 percent or 2 percent, there will be an impact.

In the United States, apparently AT&T has been losing 1 percent a year of its long distance haulage to by-pass. Whether that will accelerate or not, I don't know. AT&T is now fighting back, but that's only to by-pass not to competing companies, to new technologies which by-pass.

Sure, I could make guesses, but I don't believe in guesses at a hearing such as this, because my guess might be right and it might be wrong. It would be, I think, irresponsible on the MTS's part to start making dire predictions or painting rosy pictures. We'll just take it as it comes.

MR. R. DOERN: Would the Chairman of MTS not agree that the whole thrust of the brief in this section is to suggest that MTS revenues are under serious threat from these new developments, and that it is likely that the share of long-distance revenues, which is the goose that lays the golden egg for the people of Manitoba, that that is being threatened seriously, and that the result will probably be considerable increases in monthly user rates, large increases for the residential user, for the rural user and for the remote user? That's the impression that I'm getting.

MR. S. MILLER: Mr. Chairman, certainly and that is what it's meant to convey. Otherwise we would be making an irresponsible statement here, or taking a position that is totally unrealistic. Of course, there are things happening in the system today which didn't exist five years ago or even three years ago. There is no question of that. But at the same time, to simply be alarmist about it and to say that it's going to go up 100 or 200 or 300 percent, as has been suggested in the United States, is really jumping ahead of oneself.

The MTS is coming to this committee and indicating what the problems are but, Mr. Doern, if you want me to say that your home rates are going to go up double in 1985, I'm in no position to say that. I doubt if they will. I very much doubt if they will.

There is talk of measured service, as I said, through local exchanges. There was quite a seminar on it in Montreal late last week. But I can tell you, although some of the American telephone companies are making a very strong pitch for it as were some of the privately owned companies in Canada, the conference ended pretty well on the basis that this is considerably down the road. There are many many problems, not least of which is the capital cost of installing measuring equipment and the billing costs when you start getting a detailed bill of all the calls you made at home.

So these are fine to look at, and it's important that MTS indicate to the Legislative Committee that, in fact, there are problems ahead. But, Mr. Doern, if you want me to sound an alarm and say to you, watch out, Manitobans, your rate is going to triple or double, we'll be here next year and the year after that. So to indicate it here in this report when, in fact, we know - we've already applied to the PUB - we know what the rates are going to be, hopefully next year, until we meet again. So I can't tell you what it's going to be in 1994.

MR. R. DOERN: Mr. Chairman, my concern is to some extent influenced by the brief itself which, I think, suggest those conclusions.

I want to ask Mr. Miller about what he just said, and his statements as recorded in the FreePress yesterday about the telephone user-pay system, the local measured service business. I'm one of those who very much uses the telephone. I have in my home two basic phones and four extensions. For my father in a small house in East Kildonan who is now 78 years old and my stepmother who is in her mid-seventies in a small home, they have one basic phone and two extensions which I . . .

MR. S. MILLER: Is he buying them or leasing them?

MR. R. DOERN: . . . bought for them as a gift to prevent them from running up and down the stairs, etc.

MR. S. MILLER: But you bought them.

MR. R. DOERN: No, I'm sorry. I beg your pardon. I have not bought any phones, nor will I. I have rented all of these phones from MTS.

MR. S. MILLER: Good, good.

MR. R. DOERN: I don't believe in junk products. Also in my own office, I have one basic phone and one extension. It's not a very big office.

But I think a lot of people would think that it would be a retrogressive step if we went to this type of system, which is being considered and implemented in the United States, where people will pay by the call or the length of call - that seems to be a turning-back of the clock - and I notice that in Montreal where Mr. Miller was, that the consumers groups, the disadvantaged and the elderly indicated they would fight this to the bitter end.

So I just really wanted to ask one particular point there of Mr. Miller, and that is that he said there were phenomenal costs in monitoring such a system. I just wondered whether he could confirm that is the case, that even if MTS ever made that decision - God forbid - that when one looks at the monitoring and the complicated costs of implementing it, it might discourage somebody from going in that direction.

MR. S. MILLER: Mr. Chairman, this came about as a result of some of the people who were on the various panels. What came through from the American - GTE I think it was - was where the systems still have step-by-step or electromagnetic switching systems that the cost to introduce LMS is prohibitive. It can be done on a digital system but many systems are still on electromagnetic and certainly large portions of systems are electromagnetic, so that it's only after they move it. As he was saying, if you try to then move to LMS and, therefore, invest in digital to scrap the electromagnetic, even though it's still functioning and it's okay, that makes it almost impossible to, referring to one of the economists there, to justify in any economic way because the cost of doing it is just too high.

As well, there was a cost associated with billing which was brought up and which they're grappling with in the United States. The reason I said that it's down the line in Canada certainly is that, although it met with some favour, as I say, by some of the telephone people that were there, other telephone people were not all that keen on it and, certainly as far as Manitoba is concerned, I personally, and I think I reflect the view of the board here, would look askance at any attempt that LMS for any attempt at measured service for basic telephone services. I'm talking basic telephone services.

What we have developed in Manitoba, or in Canada, is I think somewhat unique to Manitoba. As one of the American panelists said, well if you want to maintain a system for the public, good, you can do so, but in the United States it's a commodity and we sell it. The purpose in moving the way they have in the States is because they look at telephone service as a commodity to be bought and sold.

With regard to the usage sensitive they have figures to show that many people get 60 percent pay less. One of the economists says you can control your own costs, you just don't make phone calls. So in the case of the example you gave of a primary phone in your father's house with four extensions, since it's only one line, even though they may be five people on it, you're still not making more than one call. You know, you can't call out if one of the extensions is occupied. So that the whole idea of LMS is that people can control their own calling. I look with some jaundiced eye at that but that's beside the point. So that, in fact, in Manitoba we are not looking to introduce LMS on basic services.

MR. R. DOERN: Just one final area, Mr. Chairman. I just had a question on the stand-off on pay TV. I know this is a very large area but I just wanted a short report. I might say that having been a member of the board, which was a privilege and a very great interest of mine, I always looked forward to the time when Glover Anderson would appear at our meetings.

That view was not shared by everyone on the board. One particular lady always groaned when it was announced that Glover was coming, but I always rejoiced. I found it a very fascinating area, and him a very knowledgeable employee. So I just wanted to ask one of you if you could just give us a short summary of where we are. There has been a stand-off, there has been a battle going on. One of the cable companies has signed with MTS and the other has not, and where are we in that battle?

MR. G. HOLLAND: Mr. Chairman, the original 1967 agreements were to have terminated in early May, 1984. Since the replacement agreements have not been negotiated to this point extensions of roughly six months have been negotiated with both companies and we are continuing discussions and negotiations on a replacement agreement for the basic services. It has been agreed, as well, that if such a contract cannot be negotiated between the two parties, and if the differences can be carefully identified that both parties will submit to the Public Utilities Board for arbitration of any outstanding differences. On pay television, Winnipeg Videon Limited west of the Red River is offering one channel of pay television, and the other company is not offering such service.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Thank you, Mr. Chairman.

To the Chairman of Telephones. Under the operating revenues you have a lump sum figure, yet the Telephone System is involved in a number of separate service provisions outside of basic telephone service. It was always my understanding that those are separate accounting entities. Is that still maintained for, for instance, the cablevision plant and for ancillary services offered by the Telephone System, other than telephone network provision of service?

MR. G. HOLLAND: Mr. Chairman, for our formal Annual Report we do combine a number of revenue sources. For instance, our private line and data communications is broken out, and it is now at about \$20 million per annum, which is a new service. Our revenues from directories, broadcast services, are watched closely but they are included in our overall revenue reporting.

If you look at the Footnotes to the statement, Page 12, Other Revenues, and Miscellaneous Operating Revenue, Footnotes 2 and 4, there is a breakdown reported by different categories.

MR. D. ORCHARD: Right but that is not exactly my question, Mr. Chairman. Do you maintain separate accounting on enterprises undertaken with the Telephone System other than telephone service. For instance, the coaxial cable for cable television service, is that accounted for as a separate investment, return

on investment, and operating cost attributed to it so you know where you're making money and where you're losing money. That separate accounting, I understood, does take place. I'm not concerned about it being lumped in in total operating revenues, but I just want to confirm that it's still enterprise accounting, I think it was the term that used to be used. That still takes place?

MR. G. HOLLAND: Yes. Mr. Chairman, there are different types of accounting policies adopted here. MTX, for instance, is entirely separate, it is costed, it has its own financial statements submitted much in the same manner as MTS. We do have a number of cost centres where costs and revenues are isolated and maintained. One of the prime reasons, of course, is for regulatory purposes where a regulator may well require. Examples of that would be directory and broadcast, including cable services.

MR. D. ORCHARD: Then in that line - I forget, I think it was probably 1981 or maybe it was 1980 that we introduced the FAST system as an alarm system. Is that accounted for as a separate cost centre?

MR. G. HOLLAND: Mr. Chairman, capital investment and ongoing maintenance costs and revenues would be available for that. They are maintained in such a fashion that they would be available.

MR. D. ORCHARD: Okay, that's good, Mr. Chairman. Can the chairman recall what the - my memory is not good - but what was the market projection of penetration of the market with the FAST system? There were numbers, I believe, that were developed indicating where we would be and what the customer acceptance of FAST would be. Do you have those projections available, or could you make them available the next time we meet?

MR. G. HOLLAND: Mr. Chairman, I believe there was a business case done for that, and I assume those figures are available and could be provided.

MR. D. ORCHARD: Good. And I would take it from that, as well, there would be the revenue projection of the FAST system as well, as part of that?

MR. G. HOLLAND: Yes, Mr. Chairman.

MR. D. ORCHARD: The chairman may not have the information on the tip of his finger, but can you provide the capital investment breakout for the FAST system?

MR. G. HOLLAND: Yes, Mr. Chairman.

MR. D. ORCHARD: Okay. Now in entering into the FAST system, was there contractual obligations to suppliers of the hardware, if I am using the right terminology, to enable the FAST system to be delivered or offered to customers?

MR. G. HOLLAND: Mr. Chairman, there would have been contracts with Base 10, which has been the supplier of the system that we selected for that service.

MR. D. ORCHARD: Could the chairman be able to provide the terms of those contract obligations with Base 10, I take it is, and how closely those contractual obligations have been met over the three-year time frame that we have had FAST available?

MR. G. HOLLAND: Mr. Chairman, I assume that information is available and can be provided.

MR. D. ORCHARD: Thank you. Now, if I am a home-owner and I want to install FAST, and I appreciate I can't do that on the farm in Miami, Manitoba, but assume I am wanting to install FAST, what's the cost to the customer? Is there an up-front charge for initial installation cost of the alarm system hardware, coupled with a monthly charge?

MR. G. HOLLAND: Mr. Chairman, I think I should ask Mr. Wardrop to answer that question. Basically, there is a charge from MTS to the retailer of that service, and we do not retail the service directly; then he would compile his retail rates and those would be applicable to the customer. I could provide typical rates in that area.

MR. D. ORCHARD: When you mention the MTS provides services to the retailer of the FAST service, how many firms are offering the FAST service?

MR. G. HOLLAND: Mr. Chairman, I would have to validate this. My recollection is that there are three.

MR. D. ORCHARD: And any idea of how many customers that are on the FAST system in total?

MR. G. HOLLAND: Mr. Chairman, I would have to obtain that information.

MR. D. ORCHARD: Fine. Then, whilst we are getting this information, there is going to be a revenue breakdown attributable to the FAST system that you will provide as well.

MR. G. HOLLAND: Yes.

MR. D. ORCHARD: Now it's my understanding that Manitoba Housing and Renewal Corp. has undertaken a study of providing alarm services to their units in the City of Winnipeg. I believe it's just in the City of Winnipeg. Can the chairman indicate the status of that MHRC proposal to provide alarming services? I understand the FAST system is the one that they will, in all likelihood, be using.

MR. G. HOLLAND: Mr. Chairman, we have indicated that it would be MTS policy not to enter the retail market directly, but that there will be two exceptions in the alarming area generally. One is with governmental authorities, particularly emergency services; and even more particularly, fire services in centres, where MTS would provide the service directly. The other one is in public sector businesses where it is seen that we should provide such service.

Other than the emergency services, I believe that MHRC has adopted FAST as its system and it would be provided directly by MTS.

MR. D. ORCHARD: Now I might ask the Minister a question. Would this be a policy compliance that the MTS is now following where they are not in the retailing service but they make the subtle exception when direct government agencies are involved? Is that government policy?

HON. S. USKIW: I would think it's a matter of common-sense application of the way in which the government relates to its own Crowns. I don't see that as a major area of a policy, but it seems to make a lot of sense.

MR. D. ORCHARD: Since Autopac in the General Insurance Division has provided a package deal on home insurance to employees of the Civil Service, would the Minister then consider it to be a simple extension of this common sense to have MTS go direct to the MGEA and say we can provide an alarm service called FAST direct to the employees of the Manitoba Government Employees Association, MTS employees, Manitoba Hydro employees, Autopac employees, would that be a logical extension?

HON. S. USKIW: I don't believe that that's analogous at all, Mr. Chairman. I think that governments who own corporations of any kind ought to maximize the benefit of that ownership. I don't believe that the analogy that the member draws between MPIC and MTS is at all accurate. One is providing for a different kind of a service than the other. An extension of MTS services to employees somehow doesn't strike me as being comparable to what MPIC is trying to offer in a group plan, it's what they call group insurance packaging. We don't have group packaging for telephone users that I'm aware of, although I may be corrected.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, the Minister may not see it analogous but we've got the Telephone System going directly to the Crown corporations on provision of an alarming service. We've got another Crown corporation, Autopac, going direct to a group of people with a package insurance deal. I submit it would be the simple next step for MTS to do that with government employees.

My good friend from Kildonan says, no way.

MR. P. FOX: I'm not from Kildonan.

MR. D. ORCHARD: Well, where are you from now?

MR. P. FOX: Never mind.

MR. D. ORCHARD: Well, my good friend, Mr. Fox, says, no way. Would the Minister please say, no way?

HON. S. USKIW: I think it's an apple-and-orange situation here . . .

MR. D. ORCHARD: And wouldn't happen?

HON. S. USKIW: I couldn't imagine it, no.

MR. D. ORCHARD: Good.

HON. S. USKIW: That doesn't mean - and I should make the point - that government shouldn't maximize the value of its investment in Crown corporations where that can be done in a way that is reasonable.

I don't think that governments, for example, would want to go outside of their own Crowns to purchase services if, indeed, their own Crowns could make that service available to them. So it's the same as a private company, would sooner deal with its subsidiaries than to go outside their own corporate network for services or goods.

MR. D. ORCHARD: Could Mr. Holland provide, at the next sitting, the installation costs that are contemplated in the MHRC installation of the fast service and what the monthly charges will be per installation to MHRC?

Mr. Chairman, the Minister made an interesting comment about maximizing the kind of revenues. I'm looking for my letters here. Mr. Holland, you indicated earlier on that the Telephone System does not get into the retail service directly. The FAST system of alarming is offered by three alarm companies and there are many more alarm companies in Manitoba that don't offer the FAST system, but yet it was in one of the billings of MTS that MTS put out an introductory offer to the FAST system, that if one took it up they could get a \$50 reduction in the installation charges. It would seem to me that, in fact, that is MTS entering directly into the retailing of the system. MTS provides service to other alarm companies that don't use FAST, but yet their introductory offer would be applicable only to those using FAST and I question whether that was fair trade practice, if you will, for the Telephone System to use the monthly billing to promote a system that three companies offer and other companies don't offer.

MR. G. HOLLAND: Mr. Chairman, FAST, which I think stands for First Alert Safety Team, is a generic offering, a network services offering of MTS. As with most of our products and services we promote them through various marketing programs. If the consumer shows an interest in FAST, he is referred to a listing of private alarm companies who do offer the service and the customer chooses which of them he will contact.

MR. D. ORCHARD: Agreed, Mr. Chairman, but in this case the Telephone System said, here's 50 bucks off the installation of FAST. FAST is available to three companies, other companies couldn't even offer that, so my indication still is there, that that would be something of potential unfairness to other alarm companies using telephone services, but not necessarily FAST.

You've put them at a disadvantage, so I'd just like to ask another question in this regard. What commitments must an alarm company undertake to be able to offer FAST to its customers? Can they go in for a couple of customers? What kind of a commitment do they have to undertake?

MR. G. HOLLAND: Mr. Chairman, I've forgotten the number. They are required to commit to a minimum block of 100 numbers, I believe.

MR. D. ORCHARD: Given that they must undertake to install 100, is there a time frame, a time span that

they have to undertake this, over a two-year period, a three-year period?

MR. G. HOLLAND: Mr. Chairman, I'm sorry, my information is a little rusty. I'm just wondering if Mr. Wardrop would like to come up and answer those, he's been following FAST very closely.

MR. CHAIRMAN: Mr. Wardrop.

MR. D.H. WARDROP: The commitment is basically 100 and it is a commitment at the time you establish that contract with Manitoba Telephone System.

The actual installation of them, or turn-up of them, will depend upon the success of the particular alarm company in marketing those services. However, the contract with Manitoba Telephone System starts on the day that you commit for the 100 services.

MR. D. ORCHARD: Okay then, am I correct in assuming then that any alarm company, other than the three currently offering FAST, wish to take it on they've got to put up upfront money for 100 installations?. They have a sunk capital cost up front before they have a customer on line, is that . . .

MR. D.H. WARDROP: They would have a commitment for payment for the 100 services the day that they sign the contract. The actual installation costs associated with them would not be billed until such time as they were installed because there is a two-part cost here. There's the cost of installing versus the ongoing charge on a monthly basis, and the ongoing monthly charge would apply immediately.

MR. D. ORCHARD: The commitment that's signed to take on 100 units, is there a financial commitment that is undertaken whether a customer is available or not? In other words, is there 100 units worth of financial commitment at the signing of the contract?

MR. D.H. WARDROP: Yes, there is.

MR. D. ORCHARD: Would that information also be available next time we meet?

MR. D.H. WARDROP: We can give it to you.

MR. D. ORCHARD: My comment, my observation on that would be two-fold. Depending on the answer we get as to the size of the commitment, it may well be that the Telephone System is excluding, by the size of its up-front commitment - we won't know that until we get the figures and then we'll only be able to speculate as to whether 100 is two sizeable a number. Then the other question I'd like to ask is, has the system been technically functional? Has it been quite reliable?

MR. D. WARDROP: The system has been functioning since approximately October of 1982. It has been providing service to a large number of customers. Like any system, there are troubles with it from time to time. These are repaired and so on but, basically, the system has been functioning and providing alarm service from that time until the present and continues to do so.

MR. D. ORCHARD: It would seem to me that an alarm company - I'm only speculating here - given the fact that the Telephone System is willing to, from time to time, advertise an offer of free \$50 up-front installation charge, it seemed to me it would be a heck of a good alarm service to pick up but, for some reason, we've only got three companies. Now maybe they're the major companies and maybe they're going to put in the majority of installations, but it would seem to me that the FAST system obviously doesn't have the advantages, or may not have the advantages, because we don't seem to have the commitment to it by a number of alarm companies. When we don't have that commitment from a number of alarm companies, Mr. Chairman of the Board, I question whether we should be using the Manitoba Telephone System to promote to telephone customers the FAST system which other companies don't have, and the telephone service provides and derives revenues from those competitors who don't offer FAST, whether MTS is operating correctly in providing that up-front incentive and promotion for FAST when not all of MTS's alarm company customers are offering the service.

MR. CHAIRMAN: Mr. Miller.

MR. S. MILLER: Mr. Chairman, the Manitoba Telephone System is dealing with a discretionary service here. They're trying to increase the volume of its usage to the extent that its successful, then it will enhance the MTS revenue. We're always trying to look for ways and means to increase revenues from other than the basic services because we have to.

If the question is, is the initial charge or the initial commitment too high, I can't answer that question. I assume that it was established at a level where the MTS felt that there would be enough companies interested. Why there are only three and not five or ten, I can't really say. There are different kinds of alarm systems around. The FAST system, I think, is probably the most efficient there is; on the other hand, some firms are selling a very simple alarm system and the customers are not prepared to go to the more expensive one. That could be a factor, I think you'd have to look at the different kind of alarm systems and what they do. One may simply be something to trigger a bell outside the building, to whoever breaks, very loud. That's an alarm system, too, but it's a very simple one and probably a very direct one.

I know that a drug store in my vicinity simply has an alarm going off that will wake the dead. It wakes the neighbours, I'm not sure what it does to the thief, but I'm sure if it wakes the neighbours, who will in turn phone the police. It's worked three times in the last year very effectively. Even I phoned once on account of that. So that it's a question really of what do people want in the way of an alarm system. MTS feels FAST is one of the more sophisticated systems but a very good one. It could be that other alarm companies are simply not prepared to go into that kind of system, willing to sell a more economical and yet what they consider, and their customers obviously consider, is one that is very effective for their particular use.

So I don't know the answers to all your questions, you pose a few and certainly I'm sure the MTS in looking

for the answers, this will now be examined in the light of your question.

MR. D. ORCHARD: Just maybe a final remark before we leave this topic. One of the concerns that I have always had that I shared with the previous Minister to this one and with Mr. Miller last year, is the desire for revenue is a legitimate one in the Telephone System. But I guess there's the philosophical question of where that desire for revenue for the Manitoba Telephone System operating as a monopoly infringes on the private sector who are providing parallel services. That, gentlemen and ladies, I suggest is a very serious concern that we must have because if, on the one hand, we are providing the Telephone System with additional revenues with which they will cross-subsidize their basic telephone service, that is deemed good by the user of telephone services, but if as we are doing it we are putting private sector businesses out of business or curtailing their expansion in the employment that they may be able to create through expansion by direct competition with MTS, then maybe the net benefit to the economy of the Province of Manitoba is not there, the benefit is solely to the Manitoba Telephone System.

That is a philosophical question but clearly I think possibly when we get some answers to the questions on the FAST system, in other areas of enterprise in the Telephone System, it brings up some potential real problems, that once the Telephone System has made the commitment to undertake something or other, and if the projections are, perchance, not met, they've got sunk costs which are debt costs, which cost us money in our telephone bills. If they're not deriving the revenue from them that they anticipated then they have to go out and actively promote the thing, and that may be at the expense of a service provider in the private sector and our net gain for the province is not good. It may involve cost to the consumer that are not good. So I leave Mr. Miller with that observation, we've had this discussion before.

MR. S. MILLER: Yes, Mr. Chairman, we've had this discussion before and I agree that there's a philosophical overtone to it. On the other hand, setting philosophy aside, the MTS is a large employer, one of the largest in Manitoba. It has a big payroll; it does a lot of purchasing within Manitoba. It attempts in every case to buy what it can, both its services and equipment, in Manitoba. I would say it's a major generator of the economy within Manitoba.

I can't accept somehow that an employee working for the Telephone System is not contributing equally as much to the good and welfare of the province as an employee of a private company. In my opinion, they're both employed, they're both working, they're both contributing to the society in the way they can, they're both living here. To the extent that the revenues that MTS gets simply are translated into maintaining as low as possible telephone rate, then I say, in my view, that that is a benefit to all Manitobans. In fact, by maintaining low rates, whether the revenue comes from FAST, or the revenue comes from something else, but if the revenue flows in and Manitoba is able to enjoy lower rates than other provinces, then I think the social benefit to Manitoba is obvious. I think the

economic benefit is obvious, too, because the business rates are lower than elsewhere and the residential rates are lower than elsewhere and, in that way, business I think is benefiting and not losing.

MR. D. ORCHARD: Mr. Chairman, before we finish, might I ask just one simple question? Mr. Holland, could you indicate . . .

MR. CHAIRMAN: Order please. The hour is now past 12:30, what's the will of the committee?

MR. D. ORCHARD: I won't finish today, but I have one question I would like the answer to.

Thank you, Mr. Chairman. Mr. Holland, could you indicate what the number of employees in the Telephone System is as of March 31, 1984? That can be made available next week.

MR. G. HOLLAND: Mr. Chairman, we'll make that available.

MR. CHAIRMAN: Committee rise. The next committee meeting will be 10:00 a.m. Thursday.