



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-8648

VOL. XXXII No. 4 - 10:00 a.m., TUESDAY, 19 JUNE, 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
STEEN, 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, 19 June, 1984

TIME — 10:00 a.m.

LOCATION — Winnipeg, Man.

CHAIRMAN — P. Eyler (River East)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Evans and Uskiw, Mr. Brown, Mrs. Dodick, Messrs Eyler, Fox, Malinowski, Orchard, and Scott.

APPEARING: Mr. Saul Miller, Chairman of the Board
Mr. Gordon W. Holland, General Manager
Mr. D. H. Wardrop, Director of Corporate Development

Mr. S. G. Anderson, Assistant General Manager

Mr. D. J. Plunkett, Operating Officer, MTX

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone System.

* * * *

MR. CHAIRMAN: Committee come to order. We have a quorum. We are considering the Annual Report of the Manitoba Telephone System.

Mr. Holland, do you have some opening remarks regarding previous questions?

MR. G. HOLLAND: Thank you, Mr. Chairman.

There was a question: has the cost to the companies to whom MTS supplies FAST service changed over the last three years that FAST has been available? The original FAST service rates were \$10 per month, including the first alarm point; \$3 per month per alarm point for points 2, 3, and 4; \$2 per month per alarm point for points 5, 6, 7, and 8; and \$1 per month per alarm point for points 9, 10, and 11. The installation fee was \$75 and the termination fee \$55.00.

On the basis of experience in the alarm market and based on recommendations from the alarm companies, our customers, these rates were reshaped to meet the various customer classifications, such as, single-family residence, multi-family residence, commercial; and the various types of services, such as, fire intrusion and emergency.

This FAST rate restructuring effective December, 1981 resulted in the rates which were provided at the last meeting of the Public Utilities Committee.

MR. CHAIRMAN: What is the will of the Committee on how to proceed? Mr. Orchard, do you have any

further questions of a general nature or do you wish to go through page-by-page now?

MR. D. ORCHARD: Well, Mr. Chairman, there's a number of areas that are to be covered yet and I suppose we could deal with that first and then go page-by-page or just pass the whole report.

Mr. Holland, the question that I asked was not as to whether only the FAST services had increased in cost. I asked, also, whether direct wire costs had increased to the alarm company since 1981; you'd find that question on Page 35, middle of the right-hand column. Can you indicate whether the MTS facilities used to provide other types of alarm services have increased over the last several years?

MR. G. HOLLAND: Yes, Mr. Chairman, there were a number of other Hansards available here. The private line rates in 1981 were \$1.40 per month for each quarter mile of circuit; the minimum charge was \$2.80 per month. In July '82 these rates were increased to \$1.85 per month for each quarter mile; a minimum charge \$3.70 per month. Current MTS rates for private line service are \$2 for each quarter mile with a minimum charge of \$6 per month. Private line rates are part of the MTS regulated tariff and, as such, are subject to the approval of the Public Utilities Board.

Mr. Chairman, there was another question. Is MTS a distributor for any particular line of equipment in closed-circuit television. MTS currently uses RCA equipment to provide closed-circuit television systems. Miscellaneous start-up costs for closed-circuit television amounted to \$51,000.00. These costs were associated with items, such as, inventory and test equipment. Such costs would normally be amortized over a three-year period.

During 1983-84, MTS realized gross revenues of \$95,000 from closed circuit television. Cost of goods and other direct costs associated with these sales amounted to \$67,000.00.

There was a question, Mr. Chairman, how many graduates were hired during last year by MTS? During the 1983-84 fiscal year, MTS hired 19 graduates for regular employment. Eight of these students were from university and 11 from community colleges. Nine of these graduates were trained in computer science, five have engineering or telecommunications-related training, and four had business administrations skills. All but one of these graduates received their education in Manitoba.

MTS also hired eight additional graduates during 1983-84 for term assignments. All of these term students received their university or community college training in Manitoba.

Another question, Mr. Chairman, what are the rates for public mobile telephone service and automatic car telephone service? The current rates for public mobile telephone service are as follows: One time service connection, \$17.50; monthly network access charge,

\$20.00; usage charge, 30 cents per minute and the mobile rental, the terminal itself, are based on the cost of the units and the monthly rates are as low as \$28 per month.

For automatic car telephone service the rates are, one time service connection charge, \$17.50; monthly network access charge, \$20.00; usage charge, 25 cents per minute. The mobile rental again, the monthly rental is from as low as \$34 per month. In general, the advantages of the automatic system are the convenience of personal dialing and the privacy of conversations. PMTS, on the other hand, is available throughout Manitoba and offers operator service. They dial all calls for the customer.

Mr. Chairman, another question is, when is Zero Plus going to be introduced to Steinbach and the surrounding areas? The provision of Zero Plus is dependent upon two conditions. The office being considered must have automatic number identification or ANI capability and the operator traffic from the office being considered must be handled by a tops type operator position. Current plans indicate that most of the offices in the Steinbach area are expected to have the capability to offer Zero Plus service between 1986 and 1988.

Also, Mr. Chairman, there was a question, what is the royalty rate between MTS and General Instrument for the Omnitel technology? On September 29, 1983, MTS granted General Instrument a worldwide exclusive licence, except for Nabu, to use and manufacture the Omnitel technology. In return, MTS received a lump-sum payment of \$250,000, plus the right to receive royalties at a rate of 2.5 percent on gross sales of Omnitel-based products, up to a maximum amount of \$5 million.

We were asked about the extent of losses under fraudulent use of credit cards. Now during 1983-84 MTS experienced credit card fraud amounting to about \$16,000.00.

Another question, Mr. Chairman, was the extent of the expense increase for our commercial and marketing departments in 1982-83, as compared to '81-82. A number of factors produced a 13.4 percent rise in commercial and marketing expenses, compared to 6.4 percent increases in maintenance; 5.7 percent in traffic; and 5.8 percent in general and administration.

A major component was an increase of approximately \$1.2 million in directory costs primarily arising from paper and printing costs purchased from outside firms. This cost increase was more than offset by increases in directory advertising revenues.

During 1982-83 mobile operations at MTS began to operate on a contribution centre basis. At that time direct costs associated with mobile were captured and reported under the marketing directorate. This change tended to increase marketing costs, but not overall system costs.

Another factor was the increased marketing expenses for MTS developmental costs associated with the Hello Central Service. MTS undertook this project for Telecom Canada and most of the project expenses were recovered from Telecom Canada. MTS in that period also increased its regional marketing staff to ensure that customers outside Winnipeg are adequately served. These factors account for some \$1,979,000 of the total increase of \$3,025,000, and the remainder would be about a 4.5 percent increase.

Mr. Chairman, MTS undertook as well to review operator answer performance, particularly for calls originating from Manitou and Somerset. Prior to December '83 there were periods of unacceptable performance due to network failures which placed an unmanageable loan on Morden equipment and staff. These problems for the most part have been corrected resulting in significant improvements in service. An operational review of operator services in Morden has just been completed. This review indicated that staffing levels are appropriate to meet customer expectations under normal circumstances. MTS measures its operator answer performance regularly. Results in this area show that MTS has been meeting its performance targets during 1984.

MTS staff also conducted a survey of customers in the Manitou and Somerset areas. The results indicate that customers are satisfied with service, although a few customers did indicate that occasionally five or six rings were experienced before operator number identification, ONI, calls were answered and corrective action has been initiated in this area.

MTS undertook, Mr. Chairman, to review a concern regarding MTS policy on tendered backhoe work. Contracts for trencher backhoe work are assigned following receipt of tenders solicited through the standard system open tender method. A special effort is made to ensure the related specifications and tendering details will attract bids from both large and small business firms, as well as individuals. In the assignment of final contracts, lowest bidders are always considered first unless we have factual advice on unsatisfactory or unreliable service.

In the case identified by Mr. Orchard, 12 bids were received for the trencher backhoe equipment with five contracts being awarded. Bids ranged from the lowest of \$33.50 per hour to the highest at \$58.50 per hour. The individual who bid \$39.90 and the individual who bid \$40 have each performed four contracts previously for MTS. The service rendered by each of these bidders in the past has been fully satisfactory to MTS.

In light of the concern that was raised, a statement will be included in future tenders to the effect that previous experience and system performance may be considered in the final assignment of contracts. This tender provision will permit appropriate consideration of long-time or previous system experience.

Mr. Chairman, we also undertook to review MTS Manitoba Hydro policy on common trenching in new urban residential developments. This had to do with the use of front street versus rear lot construction and, specifically, a concern was expressed about a new subdivision in Morden. MTS and Hydro recognized that common trenching is usually the most economical method of providing telephone and hydro service to Manitobans in an urban environment. In new developments, MTS and Hydro normally discuss construction alternatives and agree on the method to be utilized. Rear lot construction, most often employed in the past, is preferred by developers, town administrators, and MTS, as it is the least obtrusive, most cost effective for MTS and minimizes the risk to facilities from construction and repair of gas, sewer and water lines.

Manitoba Hydro on the other hand, often prefers front street construction, as it results in significant cost

savings where ornamental lighting is provided. As a result of concerns identified by Morden residents, MTS has been searching for a technically-acceptable solution to the esthetics problem of front-street construction. Until a satisfactory solution is found, our preference continues to be rear-lot construction.

Initially MTS received correspondence from the developer indicating that he would incur a cost penalty if a common trench was not used. MTS has discussed this matter with the developer and Manitoba Hydro and the developer has been advised that no penalty will be applied. MTS will review the overall design and negotiate a mutually-agreeable solution for a service with the developer, the Town of Morden, and Manitoba Hydro.

MR. CHAIRMAN: Are there any further questions arising from those answers?

Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I thank the Mr. Holland for his answers.

The last one on the subdivision, it never occurred to me about ornamental lighting being a problem. I can see where that does, no doubt, fit into Hydro's consideration and I hope you're able to work out a reasonable arrangement with them.

Going back to one of your first answers - and I've lost my recent price sheet. I had it before I left the office this morning and I don't have it now - but that doesn't really matter, on FAST. You indicated private-line charges for provision of alarm services have had some changes in the pricing over the last several years. Now, do I recall from your answer that over that same period of time the charges for the FAST system have at minimum remained constant and possibly reduced over the same period of time that the private-line costs have increased fairly substantively?

MR. G. HOLLAND: Mr. Chairman, the private-line rates increased, as I indicated, in July 1982, and one further occasion, as approved by the Public Utilities Board. The FAST tariffs were restructured after some period of experience with the service and after consultation with our customers. They were refashioned from a straight point charge to type of service, residential versus commercial and so on.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: And that restructuring of the FAST rates, did that result in an increase or a decrease in the supplier charge by MTS for provision of an identical service, before and after, under the previous rate structure and then under the new one? The rates have increased or decreased?

MR. G. HOLLAND: The installation fee and the termination fee was unchanged. It's a little difficult to compare. For a commercial service, and for intrusion, the rate appears to be from \$10 to \$13, I guess it would be.

MR. D. ORCHARD: I'm sorry, I missed that.

MR. G. HOLLAND: From residential service, it was \$10 for the first alarm point and \$3 for each subsequent

for fire, the new rate is \$4.50 with three alarm points included, so that would be a reduction.

MR. D. ORCHARD: And then, could you once again run over the private line rates and what has happened to them for the years that you indicated in your answer there?

MR. G. HOLLAND: Mr. Chairman, in 1981, the private line rates were \$1.40 per month per quarter mile of circuit, minimum charge \$2.80. July '82, \$1.85 per month per quarter mile, minimum charge \$3.70 monthly, and the current charges are \$2 per quarter mile, minimum \$6 per month.

MR. D. ORCHARD: So, over a period of time dealing with minimum charges per month, the minimum charge on private line and for provision of alarm service has doubled, while the business cost in FAST has gone up possibly by 30 percent, and it appears to be a significant reduction in FAST service to single family residences from \$10 plus - I forget the figure - per installation point down to \$4.50 for three installation points.

Could you indicate, Mr. Holland, whether the FAST rates are subject to Public Utilities Board approval?

MR. G. HOLLAND: Mr. Chairman, the FAST rates are not subject to PUB approval.

I might comment as well, and I believe there has been a highly preferential rate for private line alarm services as compared with our tariffs for private line voice. That relativity has been questioned so there has been a trend to bring those more in line with our private line voice rental rates.

MR. D. ORCHARD: When you indicate that rate disparity has been questioned; questioned by whom?

MR. G. HOLLAND: Questioned from the point of view of equity by our rates analysts and presented to the Public Utilities Board.

MR. D. ORCHARD: So do I follow the process that internal analysis indicated that there may be what was perceived to be an inequitable system of charges that was discovered internally through the rate structure analyst people within MTS on the basis of that discovery - and I'm trying to establish a course of action at some point in time when before the Public Utilities Board that case was made and the Public Utilities Board said to the Telephone System - yes, you can remove that perceived inequity and bring the private line costs more in line for alarm service as they are for private line telephone service? Is that a fair analysis of what happened?

MR. G. HOLLAND: Mr. Chairman, I think on each occasion there have been very gradual changes in the tariff so as not to cause undue trauma to our business customers. But the trend obviously has been to bring these tariffs closer in line with our private line voice rates.

MR. D. ORCHARD: And this hasn't been at the insistence of the Public Utilities Board who perceived

an inequity? This has been by application of the Telephone System to achieve just as you've said, bringing costs more in line?

MR. G. HOLLAND: It has been representation by MTS, yes, to the Board.

MR. D. ORCHARD: Now, why aren't the FAST system rates controlled by the Public Utilities Board when the Public Utilities Board controls the rates that the Telephone System wishes to charge on other telephone facilities used for delivery of alternate alarm systems?

MR. G. HOLLAND: Mr. Chairman, there has been a long-standing convention that our competitive services should not be tightly regulated for obvious reasons. The mounting of an application to the Public Utilities Board and its public hearings and ultimate rate setting takes at least weeks, and probably months. And in a number of the competitive services this one particularly is a highly competitive area. Those have not been tightly regulated. The Public Utilities Board does expect however that all of the competitive services will contribute to overall MTS regular requirements.

MR. D. ORCHARD: Well, Mr. Holland, you make an interesting point that because it's competitive service it hasn't been tightly regulated but yet your competitors have been regulated. Over a two-year period you were able to successfully double their rates whilst your competitive service rate was dropping in some circumstances. That happened because the direct wiring in private line dedicated service for alarm service for other methods of alarm services was regulated by the Public Utilities Board.

This is the point I was making to the Minister the other day. Are we indeed having the Telephone System compete on an equal footing? I refer to the MHRC Agreement that was just reached a short while ago. I understand installation has been completed. The installation charges, the monthly rentals charged directly by MTS to MHRC are considerably less than what one of the five alarm . . . (inaudible) . . . with an alternate alarm system, other than FAST, they are faced with a regulated cost on a private line which has doubled over a two-year period, which is regulated compared to you going in direct in an unregulated rate quotation and saying, here is the deal. That's the point I was making to the Minister, in the long run, there are concerns that have to be expressed at this time about the FAST service.

The Telephone System, as a major investment, there is no control other than an internal control on what they charge potential customers for that system. I presume you could similarly approach that apartment block I'm looking at out the window here and offer to install an alarm service to them and your competitors in the private sector, if they were faced with direct wire costs, would have minimum charges that have increased and you could make the FAST price whatever was necessary to get the business. That may or may not be fair ball, but I think even this government has to be concerned with whether that is an equitable entry into the market for the Telephone System.

When possibly projections aren't reached that were developed showing that, over a period of time, we would

have a part market penetration of 5,500 customers and we would be at a net contributing position financially within a few years, and those projections don't take place, under the system one could say, well we've got the ability to solve that because where other alarm services, other than FAST, we can raise the rates because it's controlled through the Public Utility Board and they have, as demonstrated here, given you the approval to double the rate. At the same time, because we're not controlled with our alarm system, we can drop the rate and compete with anything that comes along.

It may not be that you end up achieving the end of providing net revenue to the Telephone System, but merely achieve justifying the market penetration that you said you'd be at and weren't able to achieve by any other way, other than a substantial reduction, an in-house deal with MHRC.

I make those observations and would have just a few questions on the FAST system, but if there was any response to what I've said I'll hold the questions until a short while later.

MR. G. HOLLAND: Mr. Chairman, we previously had pointed out that it has been our policy to offer FAST only to the alarm companies themselves. The exceptions to that that we have discussed with the Alarm Association would be for service in perhaps remote areas or public emergency type services where MTS is often expected to provide service, or in other public undertakings where we would be expected, by the nature of our corporation, to offer service.

So, it has been offered only through the alarm agencies and, again, as I mentioned earlier, that is a highly competitive situation. Our rates on FAST have to compete with their alternative methods, some of which involve MTS and some of which don't. Some involve private line configurations, but there is considerable discipline on our rate setting trying to keep our rates competitive and, at the same time work, toward a return on the investment for the service.

MR. D. ORCHARD: The revenues that you indicated last meeting of 82,000'82-83; 182,000 annualized'83-84, and projected 245 for fiscal year'84-85. Would those revenues include the installation charges, or are those simply the monthly charges that Manitoba Telephone System charges to the five alarm companies under the current year's projection to MHRC for monthly use charges.

MR. G. HOLLAND: Mr. Chairman, they include the installation charges.

MR. D. ORCHARD: At \$75 for an installation, and I'll deal with a residence here, there are three alarm points are included in that \$75 charge. Is the system operating, was MTS in undertaking that installation for \$75 operating at cost or is there profit involved in that \$75, or is there a loss involved in the \$75.00?

MR. G. HOLLAND: Mr. Chairman, the revenue from the installation, including the reduced offers for installation costs, taken with the probable in-place lifetime of the service and the lease revenues that produces would be profitable to MTS.

MR. D. ORCHARD: Well, I would certainly hope so, but do I assume from that that \$75 does not cover the installation costs?

MR. G. HOLLAND: Mr. Chairman, I believe that the \$75 would have been developed as a best estimate of actual cost of the installation service.

MR. D. ORCHARD: So then we get into difficulties when we start talking about cost calculations and profits. I suppose we'll have that difficulty over the next several weeks, but I want to be clear on what you're saying, Mr. Holland, but it's your opinion that the \$75 would closely reflect a cost to the system for undertaking the installation.

MR. G. HOLLAND: I believe that it would represent the average installer cost, yes.

MR. D. ORCHARD: Well then, I keep coming back to the MHRC deal, an installation cost of \$10.00. Would it be fair to surmise from your previous answer and the fact that the MHRC installation worked out to \$10 per subscriber terminal unit, and that each subscriber terminal unit had an alarm point in 11 different suites is my understanding? Would it be fair to assume that MTS costs were not recovered with that installation arrangement made with MHRC?

MR. G. HOLLAND: Mr. Chairman, the installation costs for a large customer, such as MHRC, with concentrated dwelling units, and so on, would obviously be much less than the individual visit to an individual business or residence. I have not seen the economic analysis here. My impression would be that the installation charges would not cover the MTS costs, but that those revenues taken with the least rates and the expected lifetime of the installation would be profitable to MTS.

MR. D. ORCHARD: I accept what you're saying, Mr. Holland. If that's the case then, indeed, there is a potential amount of tremendous profit from the ordinary installation because if I follow my calculations correctly there's \$17.60 monthly charge per STU, which services 11 customers, which would bring it down to, rough calculation, \$1.50 a month, compared to \$4.50 that you would be charging to a single family residence for three alarm points on a monthly basis. So you've got one-third the cost, and if that over a length of a contract is going to be profitable, given that there was an upfront subsidy on installation, then there should be substantial profits over the long run - which brings me to my next question.

The FAST system has been operating since 1981 under the enterprise accounting that the Telephone System undertakes. Could you indicate, Mr. Holland, over the three years that we've had the FAST system operating, what the revenue contribution, or loss, whichever it has been to the Telephone System by the FAST system?

MR. G. HOLLAND: Mr. Chairman, I believe we provided the revenue flow and the revenue trend last meeting. I could ask Mr. Wardrop if he has any further information here. Mr. Wardrop indicates that he doesn't have it

here. We did provide the capital installation and the revenue flow by year at the last meeting.

MR. D. ORCHARD: You see that's what got me into my next series of calculations on the FAST system. It would be interesting to see the enterprise accounting for the FAST system which would, not only demonstrate the revenues, but also the expenses charged to achieve those revenues. I don't expect to have that information today, but if it could be provided at a later date after we pass the report, that's fine, it'll be there for future reference.

But a couple of questions come up that are of interest to be answered right now. I understand there's \$4,562,000 of capital investment. Could you indicate, Mr. Holland, the retirement period that the Telephone System has chosen to pay down the capital investment? You indicated earlier on the closed circuit TV that you had a three year pay back. If you could provide what your pay back was on the capital, and then also indicate the interest rate assigned to the borrowing of that \$4.562 million we could then - I've done my own rough calculations and they're not good. They would show in the last three years, in my rough accounting method, close to a \$2 million loss by going into FAST because you haven't gained the customer revenues and your interest charges on \$4.5 million at 10 percent are \$450,000 per year. So if, Mr. Holland, could undertake to provide those kinds of numbers then we could better understand what FAST is doing.

Also, Mr. Holland, you mentioned last meeting that a business case was done to warrant the entry into the alarm market by providing a FAST system. Projections were done in 1981 which caused the Telephone System to increase the capacity of a system from 1,000 customer potential to 5,500 customer potential, and that led to the \$4.562 million investment. Could you provide the information on the performance of the FAST enterprise over the last several years? Could you also provide to me a copy of the business case on which the decision was made to go into FAST, which obviously must have demonstrated the market potential over the period of years we discussed last committee meeting?

MR. G. HOLLAND: Mr. Chairman, we'll do our best to provide that information.

MR. D. ORCHARD: The contract with Base 10. It's my understanding that Base 10 supplies you with the subscriber terminal units?

MR. G. HOLLAND: That's correct.

MR. D. ORCHARD: Now, when you entered the contract with Base 10 were you obliged to buy a given number of units or was it an open-ended contract?

MR. G. HOLLAND: Mr. Chairman, I'll have to ask Mr. Wardrop to answer that question if he has the information.

MR. CHAIRMAN: Mr. Wardrop.

MR. D. WARDROP: It was a fixed contract as to specifying the exact number.

MR. D. ORCHARD: Okay then I'd be interested in knowing the number of units involved and the period of time over which MTS was obliged to buy them.

MR. D. WARDROP: We can provide that in due course. It was a fairly short time period, however, and it was the 5,500. There were actually two contracts; first for 1,000, and then that was increased by another 4,500.

MR. D. ORCHARD: Okay. If also he could indicate whether MTS was able to comply with the contract and, if not, if there was any financial penalty such as higher costs or anything like that involved in the contract, I'd appreciate that information?

Well, Mr. Wardrop upset the mike, Mr. Chairman. How many customers are there in Selkirk, Brandon, and Dauphin? Have you had that information?

MR. G. HOLLAND: Mr. Chairman, the service was offered in Dauphin, and then our customer withdrew and the equipment was subsequently re-used in Winnipeg. The alarm service was introduced in June '82 in Selkirk; and September '82 in Brandon. In each case, there is only one customer providing FAST service and I would be guided by the Chairman or Mr. Orchard's advice. This would be confidential information in a competitive scene for our customers.

MR. D. ORCHARD: I don't want to expose the operation of private companies, I'm all for them. So we'll pass on that. Could you indicate, Mr. Holland, I understand there's capital investment necessary to enter the Selkirk and Brandon markets. Has the level of customer acceptance and customer enrolment in the FAST system been sufficient to recoup the costs in Selkirk and Brandon and in Dauphin and allow the system to operate at a profitable position in offering the FAST service in those three communities?

MR. G. HOLLAND: Mr. Chairman, I would prefer to provide data on that question with the other economic study. The characteristics of FAST and the alarm industry is that it is a slow growth but, of course, you do build the revenue-base ongoing as it grows. The depreciation costs also would be complicated, so I prefer to provide that perhaps with the overall economic study.

A MEMBER: Has Mr. Brown been on?

A MEMBER: No.

MR. CHAIRMAN: Mr. Blake.

MR. D. BLAKE: No, he had to make some calls.

One of the questions I notice here has come to my attention, too. It was our local exchange in the building here, changing from 944 to 945; I think they changed it about three times in the past two years and we all have business cards printed. I just received an order and now I've got to change the damn number again. — (Interjection) — Do they? Arnie just had it marked here. That was of interest to me also. I don't know what the reason was for changing it.

A MEMBER: MTS is going to print free business cards for everybody.

A MEMBER: Good idea.

MR. CHAIRMAN: Order please.
Mr. Holland.

MR. G. HOLLAND: We certainly regret that the further change became necessary, but early in '83 with the consolidation of the Provincial Government system into Centrex, it became apparent that the forecasts were considerably out, that is, the number of offices throughout the city coming on the standard system, the four-digit dialing and so on, that the forecasts were out.

We then faced a problem of either having to move one customer with a one-digit change or move 1,742 other customer lines involving by the way two Centrex customers, 24 switchboards, 21 businesses, 200 residences, 225 WATS customers, and we consulted with the Minister responsible and the general conclusion was that rather than cause that disruption with so many business customers that we could, using the blue pages and using public information advertising, that we could likely manage the provincial change with less disruption.

MR. D. ORCHARD: It's interesting because if my memory serves me correctly the decision to go to the Centrex system was made in 1981 and was based on projections of bringing all the government offices under the one telephone number for the very obvious advantages of transfers of calls, etc. etc.

Now, Mr. Holland, you've indicated that in 1983 you discovered that there was much more demand. Now, one of two things has to have happened, either the government put more offices that weren't originally considered for the 944 exchange, or else there has been an incredible growth in the government over the last two-and-a-half years the NDP have been in power. This would bring one to the question of what additional offices that weren't considered in the 1980-81 decision that now leads to the inadequacy of the 944 exchange because, if my memory serves me correctly when Warner Jorgenson and I were discussing this with the Telephone System and others, it was our understanding that the 944 exchange would last considerably longer than the two-and-a-half or three years that it's lasted in providing the Centrex service to the government. So what changed?

MR. G. HOLLAND: Mr. Chairman, the Province of Manitoba is a very large and a very complex customer taking into account the departments and boards, agencies, and commissions. This change involved switches from key sets and PBXs onto the Centrex system and I presume more of those conversions than what was expected requiring more Centrex lines.

MR. D. ORCHARD: Well, that's interesting that those conversions, changes and demands weren't identified prior to 1981 and surfaced in 1983. It is, I think, costing a fair little bit of money to switch that number; the stationery and all of the related costs of retiring old stationery and old forms and old business cards. However, the decision is made, the government's made it, so we'll move on to other matters.

MR. G. HOLLAND: Mr. Chairman, I would just like to add that MTS is working very closely with the

telecommunications branch using in intercept customer information, advertising the new directory, and all means to make the transition as easy as possible.

MR. D. ORCHARD: Mr. Chairman, I want to ask a few questions on the MTX. I note in the Annual Report that the share structure increased from 20,001 shares in 1982, to 60,001 shares in '83.

Could Mr. Holland indicate why the increase in share structure owned by MTS was necessary?

MR. G. HOLLAND: Mr. Chairman, the investment is \$1.5 million. That was the anticipated capital investment which would be made at different phases as the funds were required.

MR. D. ORCHARD: Was that just the growth?

MR. G. HOLLAND: Yes, as MTX developed.

MR. D. ORCHARD: Okay, so then the Manitoba Telephone System is the sole owner of some 60,000 shares in MTX that represents \$1.5 million of equity financing in MTX by MTS, is that a fair assessment?

MR. G. HOLLAND: Yes, Mr. Chairman, and investment by MTX in turn of 794,000 in Saudi Arabian Datacom.

MR. D. ORCHARD: Mr. Chairman, is 60,001 common shares the entire share structure of MTX, or is there capacity for additional equity investment by MTS into MTX?

MR. G. HOLLAND: Mr. Chairman, it would be quite possible for MTS, with the approval of the Lieutenant-Governor-in-Council, to increase its investment in MTX.

MR. D. ORCHARD: Has that been done in the last year?

MR. G. HOLLAND: No.

MR. D. ORCHARD: On Page 5 of the annual report, the bottom of the second column, the statement is made that there is a net operating advance of \$477,000.00. Yet, in Section 6 on Page 12, "Investments," the net operating advance identified for 1983 is \$712,000, not \$477,000 as indicated previously. Could you indicate, Mr. Holland, whether it is a printing error, or the reason behind that change in operating advance?

MR. G. HOLLAND: Mr. Chairman, my information is that the operating advance was 713,585 at March 31, 1983. I can't explain the difference.

MR. D. ORCHARD: Okay. Then could you undertake and provide the information by letter at a later date, whether that's a typographical error on Page 5 then, because they do both say, "net operating advances" and there is a fairly substantial difference between the two? If it's a typing error, fine, but if it's an error with some reason behind it, if you could please provide the reasons by letter that would be appreciated.

Now, Mr. Chairman, in dealing with Section 11, Page 14 of the Annual Report, MTX Telecom Services Inc. indicate in the body of that Notation 11 that during the year the system, and I would assume that's Manitoba Telephone System, purchased \$584,000 of new equipment from MTX. Could you indicate, Mr. Holland, what type of equipment was purchased for the \$584,000.00?

MR. G. HOLLAND: Mr. Chairman, this Note 11, of course, is showing transactions between the parent and the subsidiary. MTX has its own list of suppliers for the services that it provides, and those agreements normally provide that MTX may also make those products available to MTS at the negotiated supply terms. That would relate, therefore, to likely data terminals and perhaps computers, data products that MTX offers.

MR. D. ORCHARD: Once again, I appreciate that you may not have this information, Mr. Holland, but I would appreciate receiving what types of equipment comprise the \$584,000 of purchases and which company or companies supplied them to MTX, who in turn resupply them to MTS.

A question that I would have now is: MTX arranges a purchase of a computer and the unit cost is \$10,000.00. Do they sell that to the Manitoba Telephone System for 10,000, or do they achieve a markup in reselling that product to Manitoba Telephone System?

MR. G. HOLLAND: Mr. Chairman, perhaps in the previous question, I should have given an example. IBM is a supplier to MTX and, for instance, Displaywriters would be one example of products.

MTX charges an administrative fee to MTS. For the year ending March 31, 1984, sales to MTS were \$840,603 and the cost of sales was \$820,188. So the difference is the administrative fee charged to MTS for processing those products.

MR. D. ORCHARD: Well then when MTS purchases from MTX, there is no public tender to assure that the lowest price is achieved then? This is not an arm's length, free market purchase arrangement?

MR. G. HOLLAND: That is correct. Mr. Chairman, if MTS requires products from the supply list that MTX has available, then MTS assumes that MTX has obtained the best price available: the quantity discounts, the maintenance warranty provisions, etc.

MR. D. ORCHARD: Does MTX, when it purchases a given piece of equipment or a given line of equipment, do they do that by public tender, by open purchase tender?

MR. G. HOLLAND: MTX certainly keeps very well-informed on the international suppliers available for the particular products that they require, and will negotiate with them. They do not, to my knowledge, tender for suppliers. They will publish specs from time to time from those qualified suppliers, but they would choose based on price, the specific product requirement, and on their technological search internationally of the products available.

I might say that is one of the stocks in trade of MTX. Our Saudi Arabian partner is primarily looking to MTX for its skill and knowledge in the marketplace. That is one of the main things that they are buying from us.

MR. D. ORCHARD: Mr. Chairman, that is an interesting arrangement. We have the Telephone System with a wholly-owned subsidiary from which the Manitoba Telephone System will purchase certain items that the subsidiary may have for sale. They purchase them from the subsidiary at a cost plus an administrative markup which is neither here nor there because whatever MTX makes, theoretically, MTS makes.

What is troublesome is that whatever MTX makes, there are no guidelines as to whether they have made the most competitive purchase. It's not by public tender. To me, that is fraught with some problems. You are relying solely on the technical capability of your MTX purchasers that they are getting the best value. It is their judgment call that is, in fact, happening, but you've got essentially no touchstone to say whether that's right or wrong.

I would ask the Minister if he is satisfied that is the best arrangement to have this wholly-owned subsidiary operating in the purchasing market with.

HON. S. USKIW: Mr. Chairman, I think before I want to respond to that, I would ask Mr. Holland to respond whether the premise is correct.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, it is a complex question. The easiest way to answer it, I suppose, would be to go down the product list of MTX and discuss each one and show why it is impracticable to go to public open tender as MTS does.

One example, we have provided thousands of telephones to Saudi Arabia and elsewhere. MTX has been asked to Buy Manitoba wherever possible and, secondly, Canadian. We have chosen to purchase those telephones from a Manitoba supplier. There being only one such supplier in the province, this of course has had a number of by-product benefits to Manitoba. It is a good product; the price has been good. It has created ongoing jobs in our community. Our customer has been happy with it.

Another example is in the engineering of data communications networks, for instance, for banks in Saudi Arabia. That is a very highly competitive scene. The engineers are constantly seeking the best product, the best quality and low cost to compete. That generally narrows down the available list of components quite dramatically.

Mr. Anderson is an engineer, of course, and has had more direct information. I don't know whether he would like to add to that.

MR. CHAIRMAN: Mr. Anderson.

MR. S. ANDERSON: Mr. Chairman, I think in response to Mr. Orchard, we do actually purchase more than one type of terminal such as the IBM Displaywriter that was being discussed. We do and MTS do put out an RFQ to a number of vendors and, from the replies we

hit, we select a short list and we say Olivetti, IBM and others are acceptable. So we do buy terminals such as Olivetti and IBM. It happens that MTX holds a dealership arrangement with the IBM Displaywriter, so we get a quantity discount with that dealership.

Secondly, a lot of customers specify IBM Displaywriter or Olivetti or something else, so that's the other rationale. So I think we are always attempting to get the lowest possible price and the best product.

Thank you.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Well, it seems like the touchstone then is to have MTX become the distributor for given products such as the IBM-whatever writer. There is still no tendering. It's a decision to deal with one company made on the considered decision of the people within the system.

MR. S. ANDERSON: Mr. Chairman, I was handed a couple of other reasons which I forgot to mention. One was really our Saudi partners gave us pretty precise direction as to the type of product as well. That was another reason for having an arrangement with IBM in this area. It's technological. At the time, we had to move quickly and conclude this arrangement. We do supply the equipment in Saudi Arabia, and we are the agent in Saudi.

MR. D. ORCHARD: Maybe the Minister, after hearing the answer, would . . .

MR. CHAIRMAN: Mr. Uskiw.

HON. S. USKIW: Mr. Chairman, given the explanation from the two gentlemen that we just heard, I think that should suffice, that should put the matter to rest.

It appears to me that was a practical response to a market demand, given the fact that MTX is a subsidiary of MTS. In turn, that enables them to tap into whatever is available in the private sector market in Manitoba on a dealership basis, volume basis, which is beneficial to all concerned.

I suppose the member may have a point if one were not to monitor the extent of which arrangements are made in-house, if you like, and if there wasn't an accounting capability to keep the system honest, but I think that's the very purpose of this committee is to make sure that we keep the system honest.

Unless there is something that is discovered that should concern us, I think MTS should be commended for moving into that new area. Indeed, I would like to see 100 companies spring up, not just one subsidiary, because that means jobs for Manitobans. It means a career path for people in MTS. It's an opportunity that's out there, and either we will do it or some other company in the communications business is going to do it. So I think it's a good venture.

MR. D. ORCHARD: Mr. Chairman, the reason I was trying to determine the Minister is satisfied that the procedure is quite acceptable of MTX purchasing without having a tendering system by which to gauge the astuteness of their purchase, it brings me down to

an article - we dealt with it a year-and-a-half ago at that committee hearing. It's the sort of thing that the Crown corporations and the governments have to be above public suspicion on.

The reason I am bringing up this line of questioning is as an assurance that we don't have any cause for the public to become concerned about the operations of MTX, but Northern Telecom provided a seminar in Florida on a cruise ship at which MTS personnel attended. MTX could go to Northern Telecom and simply purchase equipment because they do it without purchase.

People in Manitoba would be not wrong in asking whether, indeed, that was arm's length dealing; whether indeed the best value was obtained. It is those kinds of circumstances, where you don't have the documents to lay on the table that MTX made the best possible purchase because here are the public tenders. When they are choosing their suppliers, one has to be very careful that you don't leave your flank open to the suggestion that a purchase was arranged from a company because that company provided a seminar in the south in January, and that is something I am sure the Minister doesn't want to have the System accused of.

HON. S. USKIW: I will have to watch a number of southern seminars.

MR. D. ORCHARD: That's right, especially when they are paid for by the supplier.

MR. CHAIRMAN: Mr. Miller.

MR. S. MILLER: Mr. Chairman, on that point, I would like to put it on the record, this goes back about a year-and-a-half, I believe, Mr. Orchard pointed out. The people who went from MTS to the seminar were just a small percentage of the total number of telephone companies that were at that seminar from all over North America, it was a major seminar.

I can point out that the MTS people paid their own flights to Miami. It was discussed with me before they went. They then attended the seminar; it happened to be on a boat rather than a hotel, but that is the only difference. It was a seminar which dealt with the foreseeable and distant future of changes in technology in the entire telecommunication field. It was a major one, it was written up; subsequently, I read a number of articles on the various things that were discussed and it's important for MTS to keep abreast of what is going on.

MR. D. ORCHARD: Mr. Chairman, I don't argue with what the chairman of the board is saying. There were indeed many personnel from many telephone companies there, but I am pointing out to you today that you have your telephone company, with a wholly-owned subsidiary who is routinely purchasing, without public tender, supplies from various communication supplies firms.

I think we want to all be aware of the potential for the kind of, some would call them sweetheart deals, that are possible when you don't have the public tender process there.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, I certainly agree with Mr. Orchard on the importance of having an open and fair tendering system. I think that MTS has had such for 76 years.

The MTX operation is different than MTS. They are seeking suppliers who will provide good delivery and timely delivery in other countries, adequate maintenance, competitive prices. Certainly, the supplier listing is filed with the board regularly and reasonable explanations as to why those suppliers have been selected.

As I said earlier, you really have to look at the list of suppliers and explain why in each case they would be chosen, and I would be delighted to provide Mr. Orchard and the Chairman with a brief explanation of criteria on which those supplies were selected . . .

A MEMBER: Confidential.

MR. G. HOLLAND: On a confidential basis, yes.

MR. D. ORCHARD: I would like to thank the Chairman for that information provided on a confidential basis.

The MTX Telecom Services breakdown of the financial statement indicates total assets and total liabilities. I don't wish to have them today but could you provide me, Mr. Holland, with a breakdown of what is the asset structure of MTX and what is their liability structure? I would assume that the shareholders' equity is the Manitoba Telephone System equity.

MR. G. HOLLAND: Mr. Chairman, I have the unaudited statements for March 31, 1984, and these have not been reviewed by the MTX board to this point. The total assets shown are \$3,824,000 and the total liabilities \$2,259,000 as at March 31, 1984. They report, subject to auditing, net income for the year of \$261,821.00.

MR. D. ORCHARD: Fine. Those are the global figures. Could you provide by separate letter what constitutes the asset value of 3.2 in the report, 3.8 roughly in the 1984 fiscal year figures, and what constitutes the liabilities of \$1.9 million in '83 and 2.25 million in '84. I don't expect you to have that detailed information, and I would be satisfied if that was provided at a later date.

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

MR. D. ORCHARD: Thank you. Operating expenses under MTX in 1983 indicated \$204,000.00. Is it fair to assume, under operating expenses, that would include office rental, salaries, utilities, the usual office expenses?

MR. G. HOLLAND: Yes, Mr. Chairman, salaries, travel, postage and stationary, etc.

MR. D. ORCHARD: In the Chairman's opening remarks, he indicated that staff was up to 11, I would assume for the fiscal year '83-84. I guess it would be fair to assume that the operations expense would be somewhat higher, because surely you wouldn't have 11 staff at the \$200,000 range.

MR. G. HOLLAND: Mr. Chairman, there are two elements of staff. That is those who are working full

or part-time or intermittently with MTX in Winnipeg, and those who are involved in preparation and proposals and engineering design and installation and so on. They appear under the item, "Cost of sales."

MR. D. ORCHARD: Okay. If you could provide, Mr. Holland, then the breakdown of the operations expense and the cost of sales expense, that would be much appreciated.

Now, Mr. Chairman, the . . .

MR. CHAIRMAN: Excuse me, Mr. Orchard. What years?

MR. D. ORCHARD: . . . the 1983 and possibly 1984 as well, if those are available.

Mr. Chairman, MTX as I understand it, if they make a profit, the profit is retained by MTS and becomes part of the revenues of MTS. What are the circumstance if they perchance lose money? Does the Manitoba Telephone System assume the total loss?

MR. G. HOLLAND: Mr. Chairman, the MTX operations are, as is obvious from the report, fully disclosed with the MTS Annual Report. MTX statements are also published separately. There is an accumulative picture shown for MTX.

If you'll recall that, in the first year of operation, MTX in partnership with the subsidiary Bell Canada and a subsidiary of AGT produced an expensive proposal on spectrum management in Saudi Arabia, and was not the successful bidder. That produced a deficit which continued through 1983, and which disappears in 1984. So that, if there is a loss in a particular year, that will be shown accumulatively under MTX's operations.

MR. D. ORCHARD: Now MTX has entered a joint venture, 50-50, with Al Bassan International. It's first fiscal year is ending December 31, 1984. We are free and open to ask for all details of MTX at committee. Will the same ability of this committee be with us for the joint ventures that MTX enters into? We're one further step away from MTS and MTX in these joint ventures. Will we, for instance, be able to request and receive the audited financial reports of Saudi Arabian Datacom Limited, as it will be made available at the end of its first fiscal year December 31, 1984?

MR. G. HOLLAND: Mr. Chairman, we've, I believe, answered questions in committee to the best of our ability on Datacom. We assume that the financial experience of Datacom will be available to members of the committee. The only hesitation is that, in this particular case, we do have a partner with 50-percent equity, but my recollection is that our requirements to provide full information to our Legislature were made known to the partner, and they understand fully.

MR. D. ORCHARD: So then would it be a fair assumption that at this time next year when we're meeting, hopefully with the same Minister not a different one as we've had the last three years, that if I were to ask . . .

HON. S. USKIW: It will be the same one for about 10 years if you want to make a deal.

MR. D. ORCHARD: . . . well, that's another deal you have to make with the public, which is not probable.

Mr. Chairman, this time next year, if I were to ask for the audited statement of Saudi Arabian Datacom Limited for fiscal year ending December 31, 1984, because Manitobans are directly involved, I would appreciate the assurance that we could receive that report and without any restrictions imposed by the Saudi Arabian partner, Al Bassan. You have indicated that the partner is aware of your requirements as a publicly-owned Crown corporation, and I would like to have the assurance that we would be able to peruse those joint venture financial statements as well.

MR. G. HOLLAND: Mr. Chairman, we fully anticipate that will be the case, but full information will be available to the committee.

MR. D. ORCHARD: Mr. Chairman, in the setup between Al Bassan and MTX, it's a 50-50 partnership. I take it that part and parcel of that would be that, if there were losses, they would be shared on a 50-50 basis, and profits will be shared on a 50-50 basis. Is that a fair assumption?

MR. G. HOLLAND: Mr. Chairman, it's a freestanding corporation with a commercial registration in Saudi Arabia with a 50-50 equity, so that would be the case - yes.

MR. D. ORCHARD: What do you think would be the position . . . and if I was in the House, I would get ruled out of order, Mr. Holland, but we'll pose it anyway because we're just one big happy family here. Let's say the Saudi Arabian Datacom Company ran into difficulties with its Saudi Arabian partner, Al Bassan International, folding its tent and quietly stealing away in the night. Would you think that the Manitoba Telephone System, by its contractual arrangement and its corporate structure in Saudi Arabian Datacom Company Limited, would be entirely liable for all liabilities contingent on the business operations of Saudi Arabian Datacom Limited?

MR. G. HOLLAND: Mr. Chairman, I wouldn't want to comment on that. I was taught at a very early age not to provide amateur legal opinions. I would have to get a legal view on that.

MR. D. ORCHARD: I would appreciate having that legal opinion as to whether, under the arrangements that have been entered into by MTX, whether MTX, hence MTS, hence the people of Manitoba, could be held entirely responsible for any potential financial disaster. I am not suggesting that's going to happen, but we are entering in this on the basis that it's going to make profits for MTS. I think we have to have an understanding of what the potential liabilities may well be, and whether the Telephone System is only responsible for 50 percent of any potential liabilities, or whether it could be open for the Manitoba Telephone System, through MTX, to assume 100 percent of the liabilities of the Saudi Arabian Datacom Company.

MR. CHAIRMAN: Mr. Miller.

MR. S. MILLER: Mr. Chairman, with regard to that question, I believe Mr. Holland is correct in that he doesn't wish to second-guess the lawyers. But in this regard, I do recall my own concerns and, although a legal opinion was sought in Manitoba on the entire contract, the board felt nonetheless that we should seek advice off-shore from legal opinion that had more experience than we have in Manitoba.

As a matter of fact, we sought legal opinion in England on the recommendation of the solicitors here in Winnipeg. They went over the contract, the agreement, and it is my understanding that, in fact, there would be no liability on the part of MTS or MTX. It is a freestanding company, licensed in Saudi Arabia. Therefore, there is no legal obligation beyond our participation is 50 percent. Therefore, that would include both the liability if something went wrong, and the sharing of the profits of 50 percent.

MR. D. ORCHARD: I appreciate receiving that opinion from the Chairman.

MR. S. MILLER: If I'm wrong, I don't want to be hanged on Portage and Main.

MR. D. ORCHARD: I wouldn't want to be there helping either. I put out the observation that in the international market, I would wonder whether it wouldn't be difficult for a Crown corporation, as representing a level of government, to ever renege on an obligation in a foreign country. I think the pressure would be pretty strong, even though it's a freestanding company, that MTX, hence MTS would be, I think, morally obliged, and it may be the terminology to use to honour any commitments. Appreciating the legal opinion you've got, I just ask the question whether there might indeed be enough pressure put on to morally have MTX, MTS assume more than 50 percent of the responsibility.

MR. S. MILLER: Mr. Chairman, this is a straight business deal. Insofar as a moral question is concerned, if in fact the Government of Canada felt it necessary to intercede, then by all means they can do so. So long as I'm on the board, I can tell you that my view would be this is an enterprise undertaken between one company and another company. If something were to go wrong, then we will meet the legal requirements. Insofar as a moral one is concerned dealing with international affairs, if the Government of Canada felt that it needed to do something, then it would do so. I would feel under no obligation, frankly, because it's a straight business deal.

MR. D. ORCHARD: Mr. Chairman, is MTX negotiating any other joint ventures, such as, Saudi Arabian Datacom Company Limited?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there are no proposals being considered by the board at this time.

MR. D. ORCHARD: There are no proposals before the board. Are there any negotiations by MTX with companies like Al Bassan in the international

communications market which are ongoing right now, and may lead to a similar Saudi Arabian Datacom company being formed?

MR. G. HOLLAND: Mr. Chairman, I believe that there are periodically discussions or approaches to MTX about involvement, but none of those having reached especially serious state that they would have to take them to the board for policy direction.

MR. D. ORCHARD: Is it fair for me to assume from that answer then, Mr. Holland, that MTX and its personnel consider the precedent of Saudi Arabian Datacom Company Limited not to be unique, but to be a direction in which they should proceed and are pursuing?

MR. G. HOLLAND: I would say, the situation at the moment is that MTX, with its limited resources, is extremely involved with Saudi Arabian Datacom and our supply arrangements to Telecom. They do have some very large contracts in Saudi Arabia that are being implemented, and that has engaged most of their attention for the past several months. They are hoping that by December 31, 1984, the first year-end, that Datacom will be in a profitable position and a substantial portion of the developmental costs recovered. So it has been an extremely busy period, and they've been concentrating on that partnership to this point.

MR. D. ORCHARD: You have, with your usual skill, avoided whether they are negotiating with any other companies, and I'll just wait and see, Mr. Holland.

The Province of Manitoba, by Order-in-Council, 1st June, 1983, established a \$4 million line of credit with the Bank of Nova Scotia via the Manitoba Development Corporation for MTX, if I've read this correctly. Has any of the authority under this loan guarantee been used by MTX to date?

MR. G. HOLLAND: Mr. Chairman, that authority has been used and perhaps Mr. Plunkett, who is the operating officer of MTX, could provide the details.

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, as of March 31, 1984, \$3.7 million under that authority has been used; currently, that has been reduced to \$3.3 million.

MR. D. ORCHARD: What is the purpose of it? Is that to secure supply purchases?

MR. D. PLUNKETT: That's correct.

MR. D. ORCHARD: So it's a line of credit to assure that MTX can purchase whenever and wherever.

MR. D. PLUNKETT: That's correct.

MR. D. ORCHARD: Mr. Chairman, somewhere in my notes I note that purchases were made of \$4.5 million. I believe it was in your opening statement, Mr. Holland. I'll find it here in a minute.

Under MTX Telecom Services, MTS placed purchase orders totalling \$4.5 million. The follow-up to the question that I answered on MTS purchases, were those \$4.5 million worth of purchases last year all purchased by negotiation rather than tender, or would some of them have been purchased by public tender?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Those would be the retail, the final revenues flowing to MTX involving equipment, engineering design costs, installation costs, or whatever was involved in the particular contracts or service. The products and supplies involved in that figure would have been obtained in the manner that we described earlier.

MR. D. ORCHARD: So the supplies would be purchased without public tender?

MR. G. HOLLAND: Mr. Chairman, the supplies would have been obtained from the approved list of suppliers to MTX, determined in a variety of ways, including requests for quotations and proposals, and built up in a variety of manners. We had earlier undertaken to briefly describe the criteria by which the current list of suppliers was developed.

MR. D. ORCHARD: When MTX sells equipment to Saudi Arabia Datacom Ltd., do they charge a higher administrative markup than they do to their parent company, MTS?

MR. G. HOLLAND: Mr. Chairman, sales to Datacom for the year ended March 31, 1984, were approximately \$2,854,000 and the cost of sales \$2,744,000.00. So the administrative fee would appear to be similar to that charged to MTS.

MR. D. ORCHARD: That, if I did a quick calculation and I was correct, would be somewhere in the neighbourhood of 2.5 percent. That's a pretty tight ship you're running there at MTX. Is there not room for more margin for error?

MR. G. HOLLAND: Mr. Chairman, there is a net to MTX of \$109,000 for that service. I suppose that is deemed as a reasonable return to MTX for its particular contribution. Datacom, of course, would write up those products in its proposals in Saudi.

MR. D. ORCHARD: One final question on MTX; is Mr. Aysan still in Saudi Arabia heading up the operation?

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

MR. D. ORCHARD: Mr. Chairman, I want to deal with an issue that is local in the instance but may well be affecting other telephone customers.

Mr. Holland, you might be familiar with the letter I sent to Mr. Uskiw some two months ago. It involved the expansion of the Morden Motor Inn, the circumstance being, for the record, that Morden Motor Inn exists as a motel and dining room and other services of a motor hotel. They are located at the junction of

Highway 3 and Provincial Road 240. They are a growing business; they can't expand on their lot. So they purchased a free-standing motel across Provincial Road 240 and added that to the Morden Motor Inn name and facilities.

In doing so, they of course had to tie in the 20 telephones, I believe it was, that were at the Riverside Villa, the motel they purchased, hook it into their switchboard in the Morden Motor Inn. The Riverside Villa was already hooked up. There's a pole, as I understand it, above-ground pole on the Morden Motor Inn property and there's an underground cable under 240 over to the Riverside Villa Motel. When the purchase was arranged, what was required was to take and add, I think it was three trunks - the number doesn't really matter - from the above-ground pole to the Morden Motor Inn switchboard and then the 20 units in the villa across the road would be hooked into the Morden Motor Inn switchboard and all one and the same.

There were a number of troublesome things and some of them were addressed. First of all was the request for service charges in order to hook up the Morden Motor Inn. The local area quoted the Morden Motor Inn a total of \$1,250 to run the cable, the above-ground cable, from the pole to the Morden Motor Inn switchboard. I drew that to the attention of the Minister, and the cost was reduced to \$250, a saving of \$1,000 to the customer.

The one issue that has not been addressed and I'd like to deal with today is that, not only is the Morden Motor Inn paying for the regular extension cost by having those 20 units in the motel across the road hooked into their switchboard, the same monthly rental rate that they pay in their phones that are inside the Morden Motor Inn rooms, but in addition the Telephone System is insisting on an off - and incidentally the 20 new locals cost \$9 per month to rent. But in addition, because the villa is across the road from the Morden Motor Inn, there is an off-premise extension cost of \$14.10 per month which amounts to \$282 per month charge.

We've got what I consider to be the bizarre situation where, when the villa across the road was a freestanding customer of Manitoba Telephone System and the Telephone System was renting them a switchboard and 20 telephones, the bill was approximately \$350 per month. Now that it has become one unit, one customer, one billing, one switchboard, the Telephone System is getting \$550 per month. It's because, I am told, there is justification for the off-premise extension of \$14.00. That's more than the locals cost.

Mr. Holland, I cannot for the life of me see why that charge is there other than the fact, and I'll be very blunt, that MTS has got a customer in a monopoly situation. He can't go to anybody else for telephone service, and the Telephone Company is charging more than the market will bear by charging this off-premise phone when they have already charged the customer a one-time installation service charge of \$185 to hook those 20 units of telephones into their switchboard in the Motor Inn by an above-ground cable. I can't see the additional cost that the Telephone System has gone into to justify this additional \$282 per month that they are going to take from this motel operation.

Could you indicate why the off-premise extension cost is there and has to be charged?

MR. G. HOLLAND: Mr. Chairman, Mr. Orchard has suggested that we commonly use our monopolistic position to flail our customers. As a former Minister, I hope he would agree that simply is not the case.

I do recall this particular case. The Minister asked us to look into it. We reviewed the tariffs that had been applied and, of course, each instance of this is each individual customer has his own individual circumstances. We reviewed the arrangements, the tariffs and the reasons for them with the customer, and I had understood that he had accepted that as being reasonable. If that is not so, we will go back and review it again.

I take it, the prime question is why the monthly charges have gone from \$350 to \$550.00?

MR. D. ORCHARD: No . . .

HON. S. USKIW: It's not the \$14.00.

MR. D. ORCHARD: Mr. Chairman, the prime question is: how do you justify charging the \$9 for a local in the room plus an additional \$14 because it's off-premise, when you have already charged the man \$185 to hook it into a switchboard? Because it's not adjoined in the same lot and it's across the road, you are charging this individual an extra \$14.10. That was one of the major concerns that I had when I wrote the Minister.

That concern was not addressed whatsoever in the Minister's reply. It said: "Accordingly, the quotation has been revised from \$554 to \$541.00. It further indicates that this arrangement would appear satisfactory to the customer, as I am advised that the order has been placed on that basis."

I want to assure you, Mr. Holland, the customer is not satisfied. He agreed to the hookup because the costs had dropped from \$1,250 to hook it up to \$250, something that he thought could be justified. He is seriously considering, and whether he would do it or not I don't know - I can't speak for him - that if this off-premise extension isn't either: a) justified; or b) removed, he may well pull the telephones out of there because \$550 per month he considers to be quite a lot of money to establish telephone service in that motel. He can't see the justification and, quite frankly, neither can I see the justification for that \$14.10.

I'm simply asking for that justification today.

MR. G. HOLLAND: Mr. Chairman, with that additional information we'll go back and review the tariffs that had applied, the rationale, and discuss that fully with Mr. Orchard and our customer.

MR. D. ORCHARD: Mr. Chairman, at one point in time, and I can't tell you where I got the information from, but it was indicated to me that the reason that this off-premise extension was charged is because it was a Public Utilities Board approved tariff. That appeared to me to be used as a reason why nothing could be done. In anticipation of that, I specifically asked the Public Utilities Board Chairman, when he was before the Estimates, whether the Manitoba Telephone System if they found a charge which was unfair or not good enough, they can go before the Public Utilities Board.

I am putting this on the record in the hope that I don't have this investigated, and then get the answer

back that, well we can't do anything about it, because this is a prescribed tariff by PUB; because the Chairman of the Public Utilities Board indicated that you could go there and, if this was an unreasonable charge, have it removed. I consider this charge to be unreasonable, totally unreasonable, and it's impacting upon a private business in Manitoba.

The analogy I would use is this building, as the head of Manitoba Government, as a customer of MTS, then every single telephone in the Woodsworth Building theoretically would be paying MTS \$14.10 off-premise charge, because we have got a wire going under the street; that doesn't happen with the Government of Manitoba. I don't believe it should happen to private entrepreneurs in the Province of Manitoba and I will wait for Mr. Holland to address that matter.

MR. G. HOLLAND: Mr. Chairman, certainly any customer has the right to request the Public Utilities Board to review an MTS tariff or charge. Certainly there is a rationale behind the tariffs that should be provided, other than just saying that they're in the approved tariff book. We will carefully look into it and report.

MR. D. ORCHARD: Just one final comment, I appreciate that a customer can go before the Public Utilities Board, but businessmen tend to be substantially involved in keeping their heads above water right now. They don't need the additional hassle of going before the Public Utilities Board to protest a charge that they consider unreasonable. I guess, to no small extent, that's what we are elected to do, and that's why I brought it your attention by letter on April 17th and then again today. So I'll look forward to our discussions. Thank you.

MR. CHAIRMAN: Mr. Brown.

MR. A. BROWN: Thank you, Mr. Chairman. I would also like to discuss a few local issues with the Telephone - larger exchanges. In the area that I represent we have a number of a small exchanges, that is area-wise. They possibly have the required number of people but, area-wise they are very small, and I am speaking specifically of Emerson and Gretna.

In Emerson, services are very limited within the town, it's a small town. Almost all the phone calls made by the farmers surrounding Emerson consequently are long-distance calls. I have brought this to the attention of the Manitoba Telephone System before, and I wonder has anything been done as yet; has this been enlarged?

Just north of Emerson, we have Letellier which is another very small exchange. Those people out there certainly would appreciate it if they could be connected up with one of the major towns - just about every phone call that they make is a long-distance charge - so that they could get away from these long-distance charges. Has any attention been given to that particular problem?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, briefly we have developed a multi-year program involving the smallest exchanges, and applying criteria that we think are fair and equitable to all the exchanges across the province.

Unfortunately, in the 1982 and 1983 economic circumstances, we had to delay that program so that we have only done Benito-Swan River and Cowan-Swan River to this point. But starting this year and through 1986-87, we will be doing about 21 expansions of free-calling areas.

Emerson is not on this first list, and we will take a look at Emerson, Gretna and Letellier, but I don't believe any of those communities are on this first priority list. We will take a look, and provide Mr. Brown with probable plans in that area and what our criteria are.

MR. A. BROWN: I would appreciate that. I would appreciate getting the information as to when these areas could possibly be expecting larger exchanges. I would ask them to put Gretna in on that list, too, because they're under a similar circumstance that almost all the calls that the farming community makes are long-distance calls. I believe that they have reason to complain because the costs of their telephones, of course, are considerably larger than what they would be in other areas.

Another question that I would like to ask is this, that of course we have all been spoiled when we come to Winnipeg and we can use the WATS line, it's an excellent way of communicating with our constituencies back home. When we're at home and we want to contact another town, or whatever, then you dial the operator and you ask for the number and then bill it to your office in Winnipeg. When I'm in Winnipeg in my apartment, I dial the number; put zero, first of all, dial the operator first and then dial the number, and then all I have to do is tell the operator to put it to a certain billing, whereas in the rural area you have to give the number. Can that be changed? Is that a difficult procedure to get that changed?

MR. G. HOLLAND: Mr. Chairman, that is the Zero Plus dialing feature that we discussed earlier this morning. We had a question last meeting about the Steinbach area, and indicated that we expect to introduce Zero Plus in the 1986-88 period. We can provide similar information for Mr. Brown's area as to when it's planned.

MR. A. BROWN: I thank Mr. Holland for that answer. It's quite a big concern to us, and we must give the operators an awful time whenever we're home, because usually you spend at least half a day on the telephone. More than likely the number you're calling is busy and you have to phone back five, six times, and each time you have to go through the operator. It is rather a cumbersome process.

What I do very often, I will just take a number of telephone calls and, in order to save time, if they're not urgent, then I'll just make those calls from Winnipeg. I'll drive into Winnipeg, rather than sit and bother the operators.

Incidentally, there seems to be quite a long waiting period before you get the operator sometimes. I'm wondering, has the staff been cut back in the rural areas?

MR. G. HOLLAND: Mr. Chairman, first of all, the Zero Plus feature comes with automatic number identification

and so-called TOPS positions, which is an operator-assisted automated system.

Just as an aside, I might say that our staff quite welcome the jobs and the workloads that go with the present system, and don't look forward with a great deal of enthusiasm to further automation. So that is one problem that must be taken into account in our planning.

We provided data earlier this morning, stating that there had been unacceptable operator performance answer times and so on through December of 1983, but in 1984 this has been corrected. We have done customer surveys in the area. We believe that, at this point, it is back to acceptable standards.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Holland, last year I broached the topic of 800 Service for border communities to provide toll-free calling for American customers to Canadian businesses along the border. Has there been any progress in instituting that service?

MR. G. HOLLAND: Mr. Chairman, the Canada-U.S. WATS service was introduced at the beginning of this year, I believe, the 800 Service. So that is now available and, I believe, we have sold a number of services.

MR. D. ORCHARD: I think, Mr. Holland, you received a letter from a constituent of mine who had an idea that never occurred to me before. I don't know whether it's workable or not, but I'll get your comments on it.

He lives in La Riviere and, where La Riviere is situated, there are people on the Pilot Mound exchange, people on the Manitou exchange and even some on, I suppose, Somerset and Snowflake. So anybody who looks at La Riviere, they have to go to Manitou, but not everybody is on the Manitou exchange that has a postal address at La Riviere. This can't be a unique situation. It has to happen practically every time you expand the exchanges.

Is his suggestion workable, of having La Riviere and people who use a postal address of La Riviere listed under La Riviere with Manitou 242 etc., etc., Somerset 744, etc., etc.? Is that a workable approach?

MR. G. HOLLAND: Mr. Chairman, our directory people are looking into that at the moment. We publish the address normally provided by the customer. He or she chooses what listing. That may involve an extra listing however, but it is being studied by our directory staff at the moment.

MR. CHAIRMAN: What is the will of the committee on how to proceed? Page-by-page?

MR. D. ORCHARD: Report-by-report.

MR. CHAIRMAN: Report-by-report, report be passed—pass.

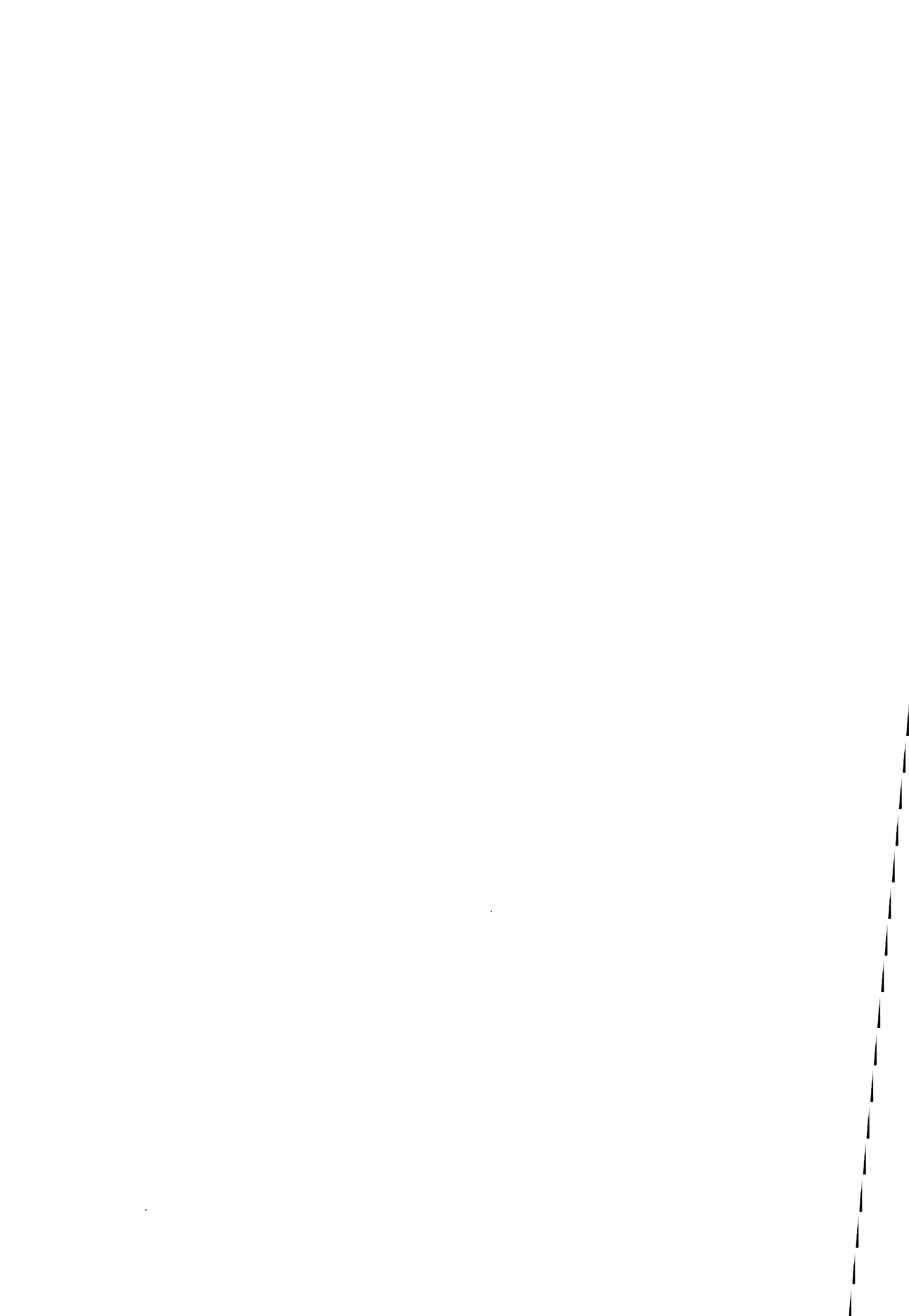
That concludes the consideration of the Report of the Manitoba Telephone System for 1982-83.

Committee rise.

1

2

3



 **Canada Post**
Postage paid Post payé

First class **Première classe**

F70