



Third Session - Thirty-Fifth Legislature
of the
Legislative Assembly of Manitoba

**STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES**

39-40 Elizabeth II

*Chairperson
Mr. Jack Penner
Constituency of Emerson*



VOL. XLI No. 1 - 10 a.m., TUESDAY, APRIL 28, 1992

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fifth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	Liberal
ASHTON, Steve	Thompson	NDP
BARRETT, Becky	Wellington	NDP
CARSTAIRS, Sharon	River Heights	Liberal
CERILLI, Marianne	Radisson	NDP
CHEEMA, Gulzar	The Maples	Liberal
CHOMIAK, Dave	Kildonan	NDP
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CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
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DOER, Gary	Concordia	NDP
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DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
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ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Clif	Interlake	NDP
EVANS, Leonard S.	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	NDP
GAUDRY, Neil	St. Boniface	Liberal
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
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MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
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MITCHELSON, Bonnie, Hon.	River East	PC
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ORCHARD, Donald, Hon.	Pembina	PC
PENNER, Jack	Emerson	PC
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REIMER, Jack	Niakwa	PC
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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON
PUBLIC UTILITIES AND NATURAL RESOURCES

Tuesday, April 28, 1992

TIME – 10 a.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Jack Penner (Emerson)

ATTENDANCE - 10 – QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cummings, Findlay

Messrs. Alcock, Dewar, Evans (Brandon East),
Gaudry, Laurendeau, McAlpine, Penner,
Sveinson

APPEARING:

Gary Doer, MLA for Concordia

Tom Stefanson, Chairperson, Manitoba
Telephone System

Oz Pedde, President and Chief Executive
Officer, Manitoba Telephone System

Bill Fraser, Vice-President, Finance, Manitoba
Telephone System

Barry Gordon, Vice-President, Network
Services, Manitoba Telephone System

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone
System for the year ended December 31, 1990.

Madam Clerk (Ms. Patricia Chaychuk-Fitzpatrick): Order, please. Will the Standing Committee on Public Utilities and Natural Resources please come to order. We must proceed to elect a Chairperson. Are there any nominations?

Mr. Gregory Dewar (Selkirk): Yes, I move that Jack Penner be the Chairperson.

Madam Clerk: Mr. Penner has been nominated. Are there any other nominations? As there are no other nominations, Mr. Penner has been elected Chairperson. Please come and take the Chair.

Mr. Chairperson: I would like to call this committee to order. Will the Standing Committee on Public Utilities and Natural Resources please come to order. This morning the committee will be

considering the December 31, 1990, Annual Report of the Manitoba Telephone System.

I would invite the minister responsible to make an opening statement to introduce officials present from the Manitoba Telephone System.

* (1005)

Hon. Glen Findlay (Minister responsible for the administration of The Manitoba Telephone Act): Mr. Chairperson, committee members, ladies and gentlemen, it is a pleasure to have the opportunity, here with the Chairman of the Manitoba Telephone System, Mr. Tom Stefanson; and President and CEO, Mr. Oz Pedde; and two Vice-Presidents, Barry Gordon and Bill Fraser, to review the 1990 Manitoba Telephone System Annual Report.

Members of the committee who were present at these meetings over the past two years recall that I have emphasized that MTS, with the government's encouragement, pursued a businesslike approach to its operations, has been able to report continuing progress in improving its financial performance as well as the quality and extent of its services.

The 1990 annual report of the corporation provides clear evidence of the prudence and the success of this approach because it shows that this progress has continued throughout the reporting year of 1990.

Moving away from the significant losses in 1986 and 1987, MTS reported net earnings of over \$15 million in 1988; another rise to over \$35 million in 1989; and the figures show in this report now before the committee, the net earnings at the end of 1990 were \$39,456,000.

The significant portion of MTS' revenues are, of course, derived from out-of-province long distance telecommunications traffic, revenues from which are shared among Canadian telecommunications carriers. MTS will comment on the relationship between long distance revenue sharing and the lowered net revenues achieved by the company in 1991.

Notwithstanding these effects and a general downturn in the economy, MTS still was able to report positive net earnings in 1991. We believe that this resilience is additional evidence of the wisdom of our earlier decisions to put MTS on a sound businesslike footing.

Just as MTS is affected by national economic trends, it is also affected by developments taking place generally throughout the communications industry. The most significant ongoing development is the growth of choice for telecommunications users.

Last year, I noted that CRTC was reviewing an application by Unitel which requested permission to compete with federally regulated carriers in the long distance telephone service market. The commission has yet to announce its decision.

During the CRTC's hearings, Manitoba took the position that it is not opposed in principle to the concept of competition in the long distance market, but urged the commission to ensure that any decision it might take protect the universality of service and the affordability of basic service for ordinary telephone users.

Our policies in telecommunications recognize that Manitoba telephone users want freedom of choice and that Manitoba businesses need to keep costs low in order to compete on a national or even international basis.

We have supported the introduction of greater competition in telecommunications markets. Last year, I announced a policy to permit Manitoba businesses that purchase or lease their telephone equipment from private suppliers to connect it to the MTS network. At the same time, I also announced a policy to allow businesses and indeed private intercity lines to have the choice of using Canadian carriers other than MTS. These policies were given effect following hearings by the Public Utilities Board of Manitoba. Consequently, the users of business terminal equipment are enjoying the benefits of choice, moreover because these products are subject to vigorous competition in the marketplace, where the regulator now sets prices.

By approving requested rates for access to MTS' network, the PUB also gave effect to our policy that affords business customers a choice of suppliers for private intercity lines.

In order to extend the flexibility and utility of this first step, we have expanded this policy to allow

interconnection for certain switched data services. An application with respect to rates for access to the MTS network has been submitted to the PUB.

MTS has been working hard to lower rates in out-of-province long distance services to other Canadian points, which benefits both residential and business customers. Since 1987 these rates have fallen by 47 percent. Over the past three years alone, they have dropped by 38 percent.

* (1010)

In January of 1991, the federal Minister of Communications and I signed a Memorandum of Understanding that sets a framework for the transition from provincial to federal regulation of MTS, which represents a solid accomplishment to address sensitive federal-provincial issues. However, I would note that the regulation of MTS by the CRTC will not take place until Parliament passes the appropriate telecommunications legislation, which was recently introduced in the House of Commons.

From a policy perspective then, we continue to work to anticipate the changing needs for Manitobans in the context of broad national telecommunications trends and developments. We also have shown that we are ready to respond quickly and constructively to initiatives taken elsewhere that will have an impact on Manitoba.

Over the past three years, we have tended to Manitoba's telecommunications needs as they exist within the province itself. Our major six-year program to improve telephone service for virtually all telephone users in Manitoba is continuing.

By way of a reminder, this program, at a cost of almost \$800 million, has these major elements: 47,000 multiparty residential business customers are being converted to individual line service; by the end of January nearly 16,000, or 34 percent of those customers, received this service under part of the program in 56 telephone exchanges throughout the province; over 4,000 customers, roughly 3,800 in Winnipeg and 260 in Brandon, have subscribed to Urban Unlimited service, enabling them to reduce greatly the cost of calling to these major urban centres.

Manitobans with physical disabilities now have access to a Special Needs Centre to assist them in their telecommunications requirements. Persons with hearing, speech, vision and motion disabilities

were able to find services and equipment to fit their needs, assisted by specifically trained staff.

Exchanges throughout the province are also being upgraded to modern digital switching technology.

The other significant element of this program, Community Calling, as you will recall, has been introduced as a means to respond to rural subscribers' desire for flat-rate toll calling to wider calling areas. Around the time the committee last met, this service which by then had been subject to two PUB hearings had become the subject of public debate.

Because a number of customers had reacted negatively when the service was initially introduced, MTS placed a freeze on further implementation pending review. Recognizing that Community Calling already had been the subject of intense public review, it was then the subject of public discussion. I spent some time last year before the committee discussing this service. I emphasized that because of the differing needs and desires of various customers in rural areas, it was not possible to design a complaint-free program but that it was our commitment to pursue the best available options.

I can report that MTS finished this review and made a revised submission to the PUB. After another round of hearings held in various locations in the province, the PUB approved the revised program, which is now being implemented.

I am pleased to be able to report that the number of complaints has fallen dramatically. I am confident that as the program is introduced to communities over the years, Manitobans in rural areas will take advantage of the obvious benefits of larger toll-free calling areas.

I believe that a fair overall assessment of the MTS 1990 Annual Report is that it shows the kind of strong and balanced progress that can be made possible through a sensible, businesslike approach to the operations of the Crown corporation.

Recognizing that MTS is subject to strong external forces and factors because it operates within the framework of a national policy and market developments, we believe that this approach will ensure that the interests of Manitobans will continue to be well served as the corporation faces a rapidly changing environment.

I would now like to ask Tom Stefanson, Chairman of MTS, to make a few comments.

Mr. Tom Stefanson (Chairman, Manitoba Telephone System): Mr. Chairperson, I am pleased to present my third annual report to your committee of the Legislature.

As the minister has noted, during this time the MTS board, guided by the general direction of the government, has been able to secure a business perspective to the finances, planning and operations of the corporation. This kind of perspective is a vital element in ensuring that MTS delivers high-quality service to its customers. In terms of positioning the corporation for the future, that perspective is in fact critical.

* (1015)

In his brief remarks, the minister provided you with a broad appreciation of the trends that are taking place outside Manitoba that have a direct and indirect impact on the corporation. It is essential for members of our board to have a clear and constant understanding of these developments because, in terms of service, technology, policy and regulation, MTS does not and cannot operate as an island unto itself. The MTS board, in carrying out its functions, therefore is keenly aware of the reality and acts accordingly.

Let me take a moment to share with you what the down-to-earth fact of the rapidly changing telecommunications environment means to the corporation.

For generations our primary consideration in the establishment of prices for basic telephone service has been that of affordability to ordinary Manitobans. To encourage what came to be known as universal service, the cost of basic service for residential, rural and remote service has been subsidized by other categories of service. Put another way, this means that residential telephone users receive basic service and access to the network at prices below the cost to deliver it and that long distance and business service have been priced at rates significantly above the cost of service.

Within the telecommunications industry the trend has been and will continue to be toward globalization and competition.

One important effect has been easy for all telephone users to see. Members of the committee will know that long distance telephone rates have

dropped dramatically and continually over the past few years. That means that the telephone companies, including MTS, face a particularly difficult challenge.

No longer able to depend to the degree that we once did on rich cross-subsidies from services such as business long distance and at the same time satisfy the need for more and better services at affordable local rates, we must pay particular attention to how we manage our finances of the corporation.

MTS is a capital-intensive company that has a province-wide service mandate and obligation. That dual role requires it to make ongoing investments in maintaining and upgrading complex and geographically widespread telecommunication facilities.

To deliver service to its customers on a day-to-day basis through that plant, it also incurs significant annual operating expenses. These are the costs that inevitably must be borne by any viable telecommunications carrier.

Because it acquires its needed capital through borrowing and because it now faces the pressures on its revenues I have described earlier, it is imperative that MTS keep its finances in acceptable order. No challenge is met by the mere recognition that it exists.

The MTS board therefore has set down clear financial goals. From my previous reports the committee will know that our long-term financial goals include a reduction in the corporation's debt-equity ratio and the full funding of MTS' pension liability by the turn of the century.

In order to achieve these goals, MTS must maximize its revenues from the Telecom Canada process and also maintain a high level of efficiency and productivity.

While MTS has not wavered in its commitment to these goals, it is equally committed to improving the fundamental quality of its service to its customers. These twin objectives then are continually balanced.

MTS' major service improvement program described by the minister is of course large, capital-intensive projects. Because it is now well underway and significant construction costs are being incurred, the corporation had higher borrowing needs in 1990. As a result, the

company's interest on long-term debt increased by approximately \$6.2 million.

Because of the ongoing implementation of our service improvement program, we recognized that we needed additional revenues to maintain the momentum of the progress we had made in our financial program. This was the fundamental reason we made an application to the Public Utilities Board toward the end of 1990 seeking general rate increases.

The PUB, we believe, accepted the basic premise that the corporation should pursue its financial objectives. However, it did not concur in granting the full requested increase. In making its order, the regulator, while acknowledging MTS' testimony that efforts were being taken to ensure high degrees of productivity and efficiency, encouraged us to do even more with the modest increase and revenues available to us. This is advice we took seriously and to heart.

Throughout 1991, as we faced the effects of reduced revenues resulting from competition and its impact on long distance revenues available for sharing among the telephone companies, the MTS board has called upon management and staff of the company to pare budgets and to stay within reduced means. In a difficult period, the businesslike approach we have adopted has served us well, allowing the corporation to report reduced but positive net income.

* (1020)

As prudent and as necessary as it is to control operational budgets and expenditures, the MTS board understands that as the challenges of the new telecommunications environment increase, it is necessary to explore innovations that can bring about fundamental improvements in efficiency that at the same time address the basic requirements of our customers.

It is this recognition that has prompted the board to give its strong support to the implementation of a continuous improvement program. This, we believe, is an important and exciting initiative that will be enthusiastically embraced by MTS employees and will yield positive effects in terms of service and cost control. Our president will explain more about this program.

I would now like to ask Oz Pedde, President and Chief Executive Officer of MTS, to make a few comments.

Thank you, Mr. Chairperson.

Mr. Oz Pedde (President and Chief Executive Officer, Manitoba Telephone System): I would like to acknowledge two other MTS officials in attendance this morning: Heather Nault, our Vice-President, Regulatory Affairs and Corporate Communications; and Roxanne Halverson, our Corporate Communications Officer.

Mr. Chairperson, this is my first appearance before the committee. I am pleased to be able to report on MTS' strong 1990 performance. A quick summary of the financial results in this reporting year is as follows:

Total operating revenues were \$541,708,000 compared to \$516,564,000 in 1989.

Total operating expenses were \$448,985,000 compared to \$428,804,000 in 1989.

Net income was \$39,456,000 compared to \$35,644,000 in 1989.

Gross construction expenditures were \$189,387,000 compared to \$174,056,000 in 1989.

The good net income reported for the period ending on December 31, 1990, was due in part to the continuing positive economic situation that was being experienced for the most part of the year. However, as has been noted earlier, we believe that our continuing commitment to building the financial strength and integrity of the company, founded on sound business practices, was an important contributor to this result.

Members of the committee no doubt understand the vital link between MTS' financial performance and its ability to maintain the quality and utility of its services to customers throughout the province. By building its financial base, the corporation is able to pursue its primary function, which is the delivery of the best service possible to Manitobans.

The minister and the chairman have mentioned that our major service improvement is the central vehicle through which we are creating the technological foundation for the delivery of high quality service over the long term. Considerable progress was made in implementing this program in 1990.

Members of the committee may recall that MTS officially launched the universal Individual Line Service program with the cutover at Darlingford in November 1989. By the end of 1990, universal

Individual Line Service was extended to an additional 4,877 customers.

As of March 1992, a total of 17,383 customers have been added to the program. Modern digital switches were cut over in various locations throughout the province, including four in the northern region, 11 in the western region and 44 in the eastern region.

MTS improved other of its current services during 1990. Here are some highlights.

In April 1990, MTS opened a new Business Centre in the Commodity Exchange Tower that is giving business customers a better way to see new telecommunication services and to understand how they can serve their particular operations. The centre not only includes exhibits of new products and services but also has facilities for demonstrations and seminars.

In June, the City of Winnipeg installed an enhanced 911 service that improves the speed, accuracy and responsiveness to emergency calls by supplying 911 operators with the phone numbers and addresses of callers.

During 1990, MTS also introduced a Payphone Crime Stoppers program which allows callers to report information free of charge from any Payphone. We are pioneers with this program, given that it is the first of its kind in North America.

*(1025)

MTS expanded Phone Centre operations in 1990. With the opening of the new centre in Grant Park, the corporation now has a Phone Centre presence in all principal residential areas of Winnipeg. Phone Centres also were opened in Morris, the Southland Mall in Winkler and in Gladstone. Phone Centre Kiosks were located at the University of Manitoba and the Garden City Shopping Centre.

MTS Cellular service coverage expanded in 1990 to reach from the Lake of the Woods to the Saskatchewan border as well as to most areas in southern Manitoba and along the Yellowhead Highway.

The quality of MTS service to its customers and to the community is highly dependent on the skill, training and commitment of the corporation's employees. In 1990, the corporation took a number of important steps to improve its human resource capabilities.

The company established a corporate apparel program for all employees who have direct contact with customers. This program, which has provided an improved image for the corporation, has been well received by both customers, who can enjoy an increased sense of security in dealing with staff who are identified by the corporate apparel, and employees, who report that they are pleased with the program.

Demonstrating its commitment to enhancing the skills of MTS employees, in November of 1990 the company opened a new Corporate Training Centre consolidating two previous facilities while providing better and more functional space.

MTS also launched a corporate-wide suggestion program designed to encourage and reward employees for their ideas to improve the efficiency of operation and the quality of customer service.

I am pleased to report as well that MTS participated in important community efforts in 1990. Many MTS volunteers worked to make the 1990 Western Canada Summer Games, as well as First Night, successes.

MTS also launched a telephone directory recycling program in co-operation with Canada Safeway and the Resource Recovery Institute.

In summary, then, 1990 was a very good year in terms of building the financial strength of the corporation while improving service and the capabilities of our employees.

These efforts have helped us into 1991, during which the company's financial performance did not match that of 1990. For the period ending December 31, 1991, we have the following results:

Total operating revenues were \$532,743,000.

Total operation expenses were \$462,648,000.

Net income was \$14,642,000.

In addition to the recession, an important contributor to this reduction is the effect of the kind of competitive forces described by Mr. Stefanson with respect to the long distance market. Responding to substitute services provided by alternate suppliers such as resellers, all major telephone companies have reduced out-of-province long distance telephone rates. These lower rates have not significantly increased calling volumes. Therefore, the pool of shared revenue available to companies is not expanding as was previously the case.

Because this pool has been a significant source of MTS' revenues, its stagnation in 1991 had a direct effect on MTS' overall financial performance. At the same time, because of the corporation's commitment to its major service improvement program, gross construction expenditures rose to \$211,069,000.

This year, in addition to a significant ongoing commitment to keep our budgets and expenses as low as possible, we have begun a long-term corporate initiative we call the continuous quality improvement program. The essence of the program is to engage the skills, knowledge and commitment of all MTS employees from top to bottom in a thorough, detailed and meticulous re-examination and rethinking of all our operations, processes and procedures.

The focus of this approach is to ensure that all we do is geared to satisfying our customers while minimizing costs.

The techniques we are employing are being adopted in other industries. The results being experienced are very encouraging. We are very gratified with the reception to the early phases of the program and are most pleased to have the participation of those who represent staff in organized bargaining units.

Based on what we know of this approach and what we have begun, MTS believes that this investment of our time, energy and resources will return important and significant returns in terms of productivity as well as customer and employee satisfaction.

Mr. Chairperson, I wish to thank the members of the committee for their attention.

Mr. Chairperson: Thank you, Mr. Pedde.

Would the member for the official opposition have a short statement to make?

Mr. Dewar: Yes, I would, actually.

For 84 years now Manitobans have enjoyed and have benefited, in fact all Canadians have benefited from a government-owned, government-operated telephone and telecommunications system. The current system provides service to all Manitobans. It is accessible, it is affordable, and it is universal. It links Manitobans north and south and east and west.

Of course, in many cases the telephone is the only link that individuals have with the outside world. For

people who are disabled and confined to their residence, it is the only link they have for emergency or any sort of outside communication.

As an example of that, just today on the front page of the paper they talk about a young woman who had her telephone disconnected and she had no way of reaching the outside world, so she gave birth to her child in her bathroom.

Manitobans are heavy users of the telephone system, and this is both for social and business purposes. Universality of telephone service, affordable residential rates for rural and northern Manitobans of course we feel should be the priorities of MTS.

Our system remains both universal and affordable basically due to the fact that local rates are subsidized by long distance revenues. Long distance service provides 52.8 percent of the company's revenues; 36 percent of long distance revenues are derived from calls made outside of Manitoba. We feel by allowing long distance competition, revenues from long distance would fall, thus eroding the base which helps maintain lower subscriber rates.

* (1030)

The profits on long distance revenues can be as high as 70 cents on the dollar. They have been used traditionally to keep basic rates low. If the CRTC allows companies such as Unitel to skim off these profits, this will have a negative effect, we feel, on local rates. The result will be rate hikes for individual users; particularly rural and northern Manitobans will be hit the hardest.

In 1984, during a similar debate, CN-CP was at that time seeking approval to compete on the long distance market. MTS then, operating as a Crown corporation rather than as a corporation run by the province, was strongly opposed to deregulation. MTS then rightly concluded that rates would rise for the vast majority of subscribers, again particularly those in rural and northern Manitoba.

In fact, a study by Bud Sherman in 1987 concluded that deregulation and competition would mean increased costs to 90 percent of subscribers; only 10 percent of the Canadian subscribers, the study showed, would benefit from competition in long distance rates.

There are examples of this of course. The privatization of the British telephone system in 1984 by the Thatcher government was one of a series of

public sector services that were deregulated and privatized which resulted in a number of changes which the public immediately felt. There were delays in getting telephones installed, crossed lines, calls being cut off and so on. The experience in the United Kingdom was a negative one when viewed from the perspective of the general public.

Another example of course very close to our own present situation was the breakup of AT&T in the United States in 1984. Again, it has been a disaster for the average American customer. Phone bills have increased, homeowners have to wait, businesses who live and die by the telephone system have to wait sometimes four to six weeks to get their telephone lines, and bills have become very complicated.

MTS, in its presentation to the CRTC hearings in 1984, drew a conclusion. There were few demonstrable benefits for Manitobans at that time. A decision of this kind, it felt, would represent a major restructuring of the industry. The effects of restructuring would be immediate and serious, leading to the erosion of the financial strength and integrity of MTS, thereby undermining the ability to meet its obligations to its shareholders, customers and of course the people of Manitoba.

MTS concluded and then therefore urged the commission to deny the application and retain current restrictions on resale of and sharing of services. It felt few Manitobans would benefit. Of course, we are disappointed that this present administration did not follow the same line.

There are a few bright points. We are pleased with the telephone directory recycling program. We are not particularly pleased where those telephone directories were printed, however. I believe they were printed in—not in our own jurisdiction. No, they certainly were not printed in Selkirk.

Floor Comment: Unless Selkirk joined Chicago.

Mr. Dewar: Another thing I am pleased about is individualized service. I know my parents for the first time now have their own private line. They no longer have the romantic notion of when the phone rings having to wait to decide whose phone it is and I am pleased with that.

Of course a few other issues—we do have some questions dealing with Community Calling, Urban Unlimited and of course the potential for further job losses.

So with those few comments, I will conclude my remarks and leave it to the Liberal Party.

Mr. Chairperson: Thank you, Mr. Dewar.

Would the critic for the second opposition party, Mr. Alcock, have a short statement to make?

Mr. Reg Alcock (Osborne): Short statement? What time do we have left today?

I will just give you a couple of quick comments to flag some things that I would be interested in hearing about today. There was some discussion the last time we met in committee about the federal intentions relative to long distance service.

There has been some discussion about, or at least discussions that we have made with the Minister of Industry and Trade (Mr. Stefanson), about increased co-operation on the Prairies and some ideas floated about greater collaboration among the three telephone services on the Prairies that I would be most interested in hearing some more about.

I am also interested in following up on a discussion that began in the committee last time about the operating cost guidelines at the Telephone System just to see whether or not they are in line with what the province is imposing upon its employees and operations.

So I will lay those three areas out and we will see how far we get this morning.

Mr. Gary Doer (Leader of the Opposition): Yes, I have some questions to start us off.

Mr. Chairperson: Just a minute, before we start, I should have asked the committee what the wish of the committee is, whether they want to consider the report on a page-by-page basis or whether they want to consider the report in its entirety. What is your wish?

Floor Comment: In its entirety.

Mr. Chairperson: Its entirety? Is that agreed? Thank you.

Mr. Dewar: Yes, I thank the three presenters before us today. They opened up a lot of areas in the 1990 report but, more importantly, in telecommunications, in the future of telecommunications and the Manitoba Telephone System, the future is changing rapidly, as we know, in this very, very intensive area.

I want to start with an issue that was in The Globe and Mail business section on April 2, 1992. It was

dealing with the changes at the BCE corporation dealing with corporate shuffling. There was a statement made by industry analysts in that business paper that stated—a person named Mr. Cunningham, as an industry analyst, speculated that BCE telephone corporation network will be approaching the "cash-strapped governments of Manitoba and Saskatchewan" and buying the government-owned public utilities of each province.

Mr. Chairperson, we would not deny the "cash-strapped" component of the analysis from the industry spokesperson, but we are aware that the Premier (Mr. Filmon) in 1988 made a commitment not to sell the Manitoba Telephone System. We noted that he did not make a commitment in 1990. We have since seen with the hospital bed closures that the Minister of Health (Mr. Orchard) said that the promise in 1988 was, we only had a good housekeeping voucher till 1990 because, quote, there was a new mandate from the government.

I want to ask the minister very directly to deal with this one person's assessment certainly to allow the government to respond to this. Is there now or is there intended to be in this mandate any objective of privatizing the Manitoba Telephone System?

Mr. Findlay: No, the individual that you refer to, Mr. Doer, has not approached me and to my knowledge has not approached the government, so he is making a statement on his own. It has nothing to do with what is the thinking in Manitoba at all, and I would hope that you would not take his thinking as in any way reflecting what Manitoba as a government might be looking at.

Clearly, as you know, the telecommunications industry is going through a lot of technological change. The challenge of supplying all customers with the quality and level of service and, I guess, windows of opportunity that they want is not an easy one.

* (1040)

We focused, as all three of us have said in our opening statements, on trying to be sure that we run the corporation in a very businesslike fashion, responding to the needs of our users and supplying them with the services they want. We want to have the best quality level of telecommunications available to all our users in the province right across the province at the lowest possible competitive price.

I use the word "competitive" because everybody wants the lowest price and they want to be sure that everybody who is supplying it, whether it is in a monopoly sense or not, is being cost effective and efficient in the delivery of service. So that is the approach we are on. We are pleased with the degree of economic performance we have had, the ability to lower the debt-to-equity ratio from 91 to 81.7 in this fiscal report of 1990.

We are progressing positively in terms of delivering the services and increasing the revenues and increasing the bottom line through to 1990.

That is our intent, to deliver, through MTS telecommunication, service to all users in Manitoba.

Mr. Doer: We obviously did not make a big deal of this, but we want the minister to have an opportunity to respond. Then the government has no intent to privatize or look at privatizing the Manitoba Telephone System in this particular mandate it now enjoys from the people of Manitoba?

Mr. Findlay: As I have indicated to you, that is not on our table. We are in the process of being sure that MTS is in a position to deliver the best quality services at the lowest possible price to all our users. That is our mandate, and any other issue is not on our table.

Mr. Doer: Moving along to a couple of other issues, and I will not tie up too much of the committee's time, but I want to deal with the proposed legislation before the House of Commons now. The members of the Telephone System, the Chair and the CEO, and the minister have referred to it.

Mr. Chairperson, could the minister or the representatives here tell us how the bill in their opinion coincides or corresponds to the Memorandum of Agreement that the government signed that the minister has referred to in discussing the bill?

Mr. Findlay: Well, certainly the federal bill has been a long time in development. In a nutshell, it captures many of the elements that were in the 1987 Edmonton agreement when Mr. Doer was a member of the government and the minister responsible at that time.

As he well knows, in 1989 I believe it was when Bill C-41 was brought in, three Prairie telecos objected to it and the federal government withdrew it. Then we negotiated the Memorandum of Understanding which contained a number of principles in it that we felt were important if we were

going to have a national telecommunications policy with a national regulator.

Some of the elements of that MOU were decentralization of CRTC and a commissioner resident in Manitoba so that decisions that affected Manitobans were made by Manitobans. It also indicated that there would be a council of ministers that would meet annually and that the federal minister would inform the provinces of anything of significance that would affect the provinces.

We believe that the present telecommunications bill embodies the essence of the MOU. Certainly, there is some discussion that has to occur as to be sure that the intent is absolutely as laid out in the Memorandum of Understanding. We will be making representation in front of both the Senate committee and the House of Commons committee when they convene to be sure that the intent of the MOU is going to be followed the way the bill is structured.

Mr. Doer: I would ask the minister, Article 3(d) of the MOU deals with the majority of Manitoba residents for purposes of inquiry panels. The proposed Section 74 of the bill does not require majority members of the inquiry panels to be from Manitoba if the commission decides to hold an inquiry. It empowers the CRTC to appoint a person.

We feel that this Memorandum of Agreement that was signed by the minister originally has been watered down significantly in terms of the input required under the Memorandum of Agreement. I would ask whether the minister concurs with this assessment and what action he will be taking on this very important issue of regional input into national decision making.

Mr. Findlay: We felt very strongly about Manitobans regulating Manitobans and that is why it is part of the MOU, as the member mentions, 3(d). In terms of our representation in front of committee, we will be making that point to be sure that the intent of the bill is not a watered-down version of 3(d) in the MOU. We are aware of it, and we will make that part of our representation, that we want the intent of the MOU in that direction followed to the letter.

Mr. Doer: Would the minister then concur that the bill Section 74 does not make it clear? It is not as clear as Section 3(d) of the MOU and therefore call on these very specific amendments to this act in this very important area.

Mr. Findlay: I can tell the member, we have some concern. As I said, we will be making that point in

our presentation, and if the explanation gives us some sense of comfort, so be it. If the explanation does not, then we may be asking, as he mentions, for some amendments that strengthen the commitment in the bill relative to the MOU.

Mr. Doer: Does the government or the Manitoba Telephone System have legal opinions on this section and other sections of the proposed legislation comparing it both with the Memorandum of Agreement and some of the corporate objectives of the corporation and the telecommunications policy of the minister? I am asking a macro question to a specific question, but I was wondering whether it has legal opinions and whether it would share that with the committee. The government has shared legal opinions before; they have a legal department.

I am sure something that has this significance for the Telephone System would have some kind of analysis, I just assume. If it is there, could that be made available to the committee at another occasion so we can join together on these regional issues?

Mr. Findlay: I do not have a legal opinion in front of me. Maybe I will ask the president or chairman if there is any legal opinion they have had in any context, but I do not have one in front of me.

Mr. Pedde: We do not have a specific legal opinion on the specific clause that was referred to, the cross-linkage between Article 3(d) and Section 74. We have lawyers engaged through Stentor or Telecom Canada in the overall assessment of the bill.

Mr. Doer: I appreciate that the unique nature of the Prairie telephone systems have sometimes provided us with unique positions based on our unique analysis and our unique history of doing things on the three prairie provinces in particular. Again, the Memorandum of Agreement arose from Saskatchewan and Manitoba to a large part basically raising unique issues to our situation here in the province.

I guess I would be very concerned about relying only on Telecom Canada's legal opinions. I would trust their technical expertise and probably their ability to hire pretty competent lawyers, but Manitoba has a unique role as does Saskatchewan at least. I am not sure where Alberta is going at this point, but I am not so sure they are sure where they are going either.

Having said that, it seems to me that it makes good sense for the minister to get a legal opinion in Manitoba. He has said in the House that he is confident the new bill is, and I quote him from March 11, and we are not here to get into sort of a partisan debate with the minister, but he has said in the House, the vast majority of the conditions of the MOU are addressed in the present telecommunications bill.

We think that this section that we have raised, and we will raise a couple of others, are not there in significant comfort for the minister's own comfort from his own Memorandum of Agreement. I would just leave as a suggestion the ability to have a unique legal opinion in our province to deal with our MOA. I just think it is very important that Manitoba and Saskatchewan again—and this is one area I think we should co-operate on quite a bit. I may disagree with the member for Osborne (Mr. Alcock) on all the telecommunication systems going together, but I just look at the lottery experience with all the head offices slowly moving to Alberta.

I do like the idea of a co-operative effort at minimum. I think it is very, very important that we work on our own unique position on this bill and not rely totally on Telecom Canada, which is dominated, as we know, by Bell Telephone Company.

Mr. Findlay: I would just thank the member for his input. We will take that advice, but I will tell him, there has been communication between Saskatchewan and Manitoba on specifically this point.

* (1050)

Mr. Doer: Just some other questions—we looked at Section 7 of the bill and we looked at the Memorandum of Agreement, of principles 2(a) in the Section 2 of the MOA that the minister signed.

It appears to us when we look at 2(a), on sensitive to regional needs, which is omitted from the bill; 2(f), the regulator must be accessible and responsible to users and providers of telecommunication facilities and services in every region; 2(h), telecommunication regulation, while taking in account questions of overall benefit to Canadians, must be sensitive to regional interests, local circumstances and provincial priorities for telecom development; 2(i), telecommunication policy, must provide industrial development that will build on the strengths and potentials of the regions.

Those are some sections that concern us relative to the proposed Section 7 of the bill.

It has some wording, you know, both urban and rural areas, but in all regions of Canada, but we think the Memorandum of Agreement that the minister signed and was part of formulating is much stronger in terms of Manitoba.

I would just ask the minister whether he has looked at this issue and whether he shares that view, because he was the author of the Memorandum of Agreement, and what we are asking for is to make sure in the bill that we get some of the things he was able to obtain. Through a telecommunication policy, we have been able to maintain in Manitoba over the whole decades of attempts to negate it, the Prairie populism of our telephone systems.

Mr. Findlay: I can say to the member that the intent of the representation to be made before the committee will take all these elements into consideration in terms of what we see in the bill and what we think are the shortcomings and, clearly, as the member has identified, there is not the strength of statement there that we might like to see relative to the positions we have put forward in the MOU. So it is an issue that needs to be taken to the committee stage.

Mr. Doer: I would ask also that the government look at Section 7(b), dealing with the whole issue of, and I have raised that before, the mandate again of 7(b) relative to the MOA. There are other sections that we would be certainly willing to share with the minister in the bill, but we just think all the areas that the federal government has weakened on the issues of regions, the Prairies, provinces, representation, et cetera, that we would encourage the government to review it.

We would encourage the governments to work together on this issue. I know as a former minister dealing with a Conservative government in Saskatchewan, there was a lot of agreement that I had with former minister Lane. Now he is, I do not know, he is one of those huge justices, I am sure, that was on the basis on merit, just before the last election, but I mean we worked together quite—Les Young was the minister from Alberta. We always worked together on our Prairie concerns and I know that the governments change, and we know that four years ago, governments change in Saskatchewan, but I would encourage the minister to continue the

Prairie common front on issues that are relevant to our history and more importantly our future.

Mr. Findlay: I thank the member for his comments. I would gather from his comments this morning that he basically supports the ingredients that are in the MOU, that they respect what we should be asking for in the prairie provinces, particularly in Manitoba.

I would ask him, all the specifics that he has concerns on in the bill, that he bring them forward to us in some fashion so that we can discuss them and be sure that we are basically in tandem looking at the bill so that it does reflect the principles we all agreed to in the MOU.

Mr. Doer: I had a slightly different strategic objective in mind prior to the MOU, wanting to get a federal-provincial agreement on competition in business communication, a statement that is often quoted from part of my speech I made, I might point out, but only one part of my speech at a conference in '87-88. I also thought we were working on a goal, and we were not able to achieve it, of an agreement on interprovincial long distance competition in exchange for some kind of logical, predictable competitive area for business communication. I always thought those things, we could try to get something together.

I am not so sure with Unitel and all these other applications going forward that we have been able to achieve that, so I want to make that point, that we were trying to achieve the changes in technology in the business needs with a quid pro quo if you will in '87.

We did have agreement from Saskatchewan at that point to have a rather made-in-Canada approach to it. I will not go over the history, but you asked me a question on the MOA. I do not want to be giving you a blank cheque, because I am sure you will read it back to me at some point in my brief and stark career.

I have two other questions before I turn it over to others on the committee. Cellular telecommunications—I was involved in the original Order-in-Council and the original business plan in the Manitoba Telephone System. I know also an old friend of mine got the franchise from Rogers Communication on the other side of the street working with Cantel. What is the approximate market share of the Manitoba Telephone System versus our competitor, and how are we doing?

I think '88 was the start of cellular. It is '92 now. The reach has really dramatically changed, as I thought it would. I am pleased to see we are border to border, and we are moving further north at all points and further south at all points to give Manitobans greater coverage.

Without giving all your market secrets, what is the bottom line? How are we doing in market share? How is the public telephone system doing against the private competitor?

Mr. Findlay: Well, I guess since we are in competition and that the member signed the Order-in-Council to set up the competition, it is a little dicey to be too specific. I will maybe ask the president to give some ballpark feeling, but I think it is maybe difficult to be too specific.

I would say that we have almost, I think it is, around 30 cell sites now in the province, covering 80 percent of the population, so we have very significant coverage. I think I would hold that record up against any of the other western provinces or any of the northern states in terms of cellular coverage. It is a great technological facility that anybody who has it knows all the benefits of.

I will maybe ask the president if he wants to comment any further, but I think just in a nutshell we are doing quite well.

Mr. Doer: I do not expect to get the ingredients of your market strategy. I would not expect Coke to tell Pepsi, but they will tell each other what the market share is, and I think that is a very important question for this committee.

Mr. Pedde: Mr. Chairperson, recognizing that this is a competitive world, the limited information that I will disclose I trust will answer the question.

Our best intelligence tells us that we have 65 percent of the market share, somewhere between 60 percent and 65 percent, and we attribute that to two elements. Number one, we believe we have better coverage in Manitoba than our competition. Secondly, we also give our employees credit for some excellent marketing strategies.

As some of the members of the committee will recognize, this is a long-term capital investment with paybacks coming in around year seven. Our pro forma financial statements were set up on that basis, and I certainly am pleased to report that we are outperforming our original intents in every respect: the number of customers; the amount of coverage; return on capital; and almost net income.

Mr. Doer: I am pleased to hear that. I was involved in the original business plan. It is good to see, and I applaud the MTS employees who are involved in the marketing strategy employed by them. I know that my friends on the other side of the street will argue MTS' natural advantages, but I think the creative advantages are what is doing it. I will have those arguments at another place.

Pension liability—again, I was involved—as members of this committee know, Duff Roblin in the mid-'60s stopped the employer contribution of public service superannuation pension contributions, in '66 I think it was. His assumption was, the public service would grow so much that the growth would always make up for liability, a rather interesting assumption. Duff has left us a lot of positive legacies, with the ditch being one of them, but pension liability is not his strongest suit, I would suggest.

The Crown corporations, some of them changed in the '70s. MPIC was set up to pay the liability, as I recall it. Some of the other new Crowns, Liquor, others, old Crowns, did put some money aside, but the Telephone System up until the early '80s had not put any money aside. At one point in the early '80s I believe they started putting aside the employer's portion—it may have even been when Len Evans was minister—but there was an ad hoc program of putting about \$20 million to \$25 million aside, over and above the surplus of each year to a pension fund. I remember we formalized it in about '87 or '88 to have a specific plan.

*(1100)

How much money was set aside, not for the employee's contribution portion, but employer's contribution in the last couple of years? How soon will we be at a point where the unfunded liability is covered by the Manitoba Telephone System? We put together a plan years ago and I just do not want to see it evaporate.

Mr. Pedde: Mr. Chairperson, if I may, I would like Mr. Fraser, our Vice-President of Finance, to answer that.

Mr. Bill Fraser (Vice-President, Finance, Manitoba Telephone System): As of December 31, 1991, there is \$216.4 million set aside covering the employer's portion of the pension liability. The actuarial liability as at that same date is \$313.3 million. There is slightly less than \$100-million difference between those two.

Mr. Doer: I have my material from the previous years. Can we find out how much has been set aside in terms of the unfunded liability in the '89 year and the '90 year to get us to that point, \$216.4 million? As I recall, it was well over \$100 million in the late '80s. It is now \$216.4 million. Are you setting aside about \$25 million to \$30 million a year, I would assume?

Mr. Fraser: Yes, we are. There are various components of it, but we are amortizing the unfunded liability between now and the year 2001 to have the pension liability fully funded. The interest that is earned and the dividends and so on that are earned on the funded portion of it gets recycled back into it. Including that there is about \$35 million. There is about \$25 million that covers current costs in terms of for the current year as well as about \$10 million for historical unfunded pension obligations.

Mr. Doer: I could not read it out of the financial report. I was trying to look for it, but it appears to me that the original plan in place is virtually in terms of contributions and a separate interest rate calculation and the goal of about 2000 is in place and the Telephone System is achieving that financial objective.

Mr. Fraser: That is correct.

Mr. Doer: I am just pleased to see that.

Mr. Alcock: Mr. Chairperson, perhaps I could start—I am interested in following up a bit on the minister's comments about the MOU, but maybe I could frame that a little bit by talking about a telecommunications research group out of Edmonton that was in to meet with us a little while ago. They are doing work in Edmonton under an agreement with the federal-provincial government on researching issues in telecommunications.

They also have a similar agreement with the government in Saskatchewan, the federal government and the local, and were in town looking for support from the Manitoba government to establish a research arm here in Winnipeg. I am unfortunately blanking on the name of the group—I think TRW or TRL?—TR Labs.

Floor Comment: TR Labs.

Mr. Alcock: I would like to just get an idea of what is occurring with them right now, whether they have had specific discussions with the government and whether or not the government is prepared to be

supportive of a telecommunications research organization that has arms in all three provinces.

Mr. Pedde: Yes, Mr. Chairperson, MTS has had discussions with TR Labs. The initiatives from our perspective are very, very positive. They involve government, they involve business, and they involve the university. The chemistry has not totally come together in Manitoba at this stage, but we are looking forward to presenting that to our board with a positive recommendation.

Mr. Alcock: Mr. Pedde, you made the comment that the chemistry has not come together just quite yet. Is the university involved in the discussions that are taking place here?

Mr. Pedde: Yes, it is, Mr. Chairperson.

Mr. Alcock: Has the university been supportive of that direction?

Mr. Pedde: Yes, it has, Mr. Chairperson. Perhaps I could ask, since we have Mr. Gordon here, and he is intimately involved in working with both the university and the provincial government, maybe he can elaborate on that issue.

Mr. Barry Gordon (Vice-President, Network Services, Manitoba Telephone System): Mr. Chairperson, the university and representatives of both the provincial government and federal government, specifically the Department of Communications, and ourselves have been discussing the prospect of a presence of TR Labs in Manitoba now for some number of months. TR Labs is a consortium of industrial sponsors, two levels of government, universities in the provinces of Alberta and Saskatchewan at this point. It is dedicated to doing precompetitive research in the area of telecommunications; it is very broadly based.

I could go into some detail about their current program, time permitting, but it is likely not the appropriate place.

The results of their work is available to all the sponsoring entities on a nonexclusive basis, so that an industrial corporate sponsor for example can take their work, which may be in the form of technical documentation or patents or whatever and commercialize those, again on a nonexclusive basis.

They are working at the forefront of telecommunications activity in a number of very highly technical fields like photonics and so on.

The other output that TR Labs has, and this is critically important to the way they are mandated, is trained people. They are accredited for example to collaborate in the degree-granting process with the University of Alberta, the University of Calgary and the University of Saskatchewan, primarily if not exclusively within the Faculty of Engineering.

For example, a professor from one of those universities may be seconded to TR Labs, work with a number of graduate students, do the practical work associated with the graduate program and then attain their degree from the university itself.

TR Labs' objective is not to have a lot of permanent staff. They want a lot of movement of people through. They see that as being the best way to deliver high-quality people to the telecommunications business sector, first and foremost within western Canada and downstream perhaps across Canada—very exciting. As Mr. Pedde has indicated, we are quite enthusiastic.

The thing that really has to come together to make TR Labs happen in Manitoba is that all parties have to be on board, because one party missing will cause the thing not to happen.

Where it stands as of this moment, the university is very enthusiastic, has obviously all the raw material in terms of people, and little money. The Department of Communications federally is very enthusiastic. They have been active in both other prairie provinces with respect to TR Labs.

The provincial government, in the form of Industry, Trade and Tourism, is working on the issue of how we connect TR Labs' output, both ideas and people, to the Manitoba economy, into the Manitoba telecommunications industrial sector. That is where the thing stands. That is being worked on by I, T and T at this point. MTS is enthusiastic and, as Mr. Pedde says, we are preparing to take a recommendation to our board to participate in TR Labs.

Mr. Alcock: How long has it been since TR Labs first approached MTS?

Mr. Gordon: Mr. Chairperson, subject to check, it is on the order of 15 to 18 months ago.

Mr. Alcock: Could I ask the minister if he has had discussions with TR Labs, either independently or with his colleague in Industry, Trade and Tourism?

* (1110)

Mr. Findlay: Not at this time. I have not had personal communication with them.

Mr. Alcock: Is that because he has not been approached directly, or is that because they have been directed to deal with some other department?

Mr. Findlay: In terms of the government involvement, it is fair to say, it is through I, T and T in terms of the ministerial involvement, but I have not been approached directly by them.

Mr. Alcock: Then to Mr. Gordon, there are three, in fact four partners when one considers MTS separate from the provincial Department of I, T and T. The university—I do not expect Mr. Gordon to speak for the university, but they do have this interesting problem of being willing to do much and nothing to do it with.

At some point some resources need to be forthcoming to underpin the operations of this. I have been impressed with the organizational structure of TR Labs for precisely the reason Mr. Gordon mentions in that there is this willingness to build a flexible and ever changing organization rather than to invest in a few buildings and a few specific individuals. Is MTS in a position and prepared to provide some of that financial support?

Mr. Gordon: Mr. Chairperson, the TR Labs have put together basically a pro forma for the participation of the various players within the province of Manitoba. Within that pro forma, there is a requirement for MTS to bring forward both dollars and services in kind. The services in kind, for example, might consist of people or real estate or lab equipment or whatever, but there is a very specific requirement that MTS bring forward dollars. I do not recall the exact number, but it is over a five-year funding commitment in excess of—well, it would be on the order of \$1 million.

Mr. Alcock: Is there a similar requirement that the university bring forward some funds?

Mr. Gordon: My recollection is that the university is not required to bring forward cash. They are required to bring forward services in kind which would tend to be professorial appointments, secondments, that sort of thing.

Mr. Alcock: In 15 to 18 months of discussion, is this because the discussions are moving ahead quickly, or have they been delayed in some way?

Mr. Gordon: Mr. Chairperson, TR Labs have undertaken their expansion planning very

methodically and very carefully. The early discussions with Manitoba, at least with MTS, have been on the basis of, here is what our long-term plan is, here is our long-term objective, we are changing our name from Alberta Telecommunications Research Centre to TR Labs for the very purpose of supporting a multiprovincial expansion, but we are going to concentrate first on Saskatchewan, and then we are going to bring our attention to Manitoba.

The Saskatchewan deal finally came together in, I think, September of last year. As a consequence of that, they have now essentially turned their attention to Manitoba. So it has been, if you will, back-burner discussions up until that time.

Mr. Alcock: I should state to yourself and to the minister, I have had no concerns raised by TR Labs. They are quite pleased with the discussions that have been taking place. I am not raising these questions out of any sense that they have any sense of urgency. I am just interested in the process itself.

What raises that interest with me is that the case that they made when I had the discussions with them was that attempting—this is very sophisticated, very detailed, very cutting-edge research, if you like—to be effective and to be competitive in this field, one has to achieve a certain size, that it is difficult on a small-lab basis to have the kind of volume of inquisitive minds looking at these questions in order to produce the kind of outputs that they would like to produce.

That led to their move into Saskatchewan and that has led them into discussions here, that their feeling was that the Prairies as a region, both as a population and in its underlying base, individually the prairie provinces were simply too small. They felt that in creating this sort of three-province organization that they could achieve a critical mass that would allow them to be truly competitive internationally, and that has led to this plan. It moved them out of Alberta, into Saskatchewan, and now here.

For me it was an interesting analogy to the kind of discussions that have been raised about the whole concept of the three prairie provinces integrating some of their operations in certain areas in order to develop that kind of mass of activity. I would be interested, from the minister's or from the corporation's perspective, as to what other areas in which the three utilities do work together and what areas in which they see opportunities for

co-operation, not just co-operation in terms of, we all respect each other, but joint activity.

Mr. Pedde: Mr. Chairperson, I guess we have had historic linkages and much more focused linkages more recently with the other Prairie telecos. Certainly one area where it has been extremely active is the directory preparation, directory production and directory circulation business. The economies of scale come to bear significantly in that area, and one fallout of that exercise may be that directories will certainly be published in Canada. It is one possibility. That is one deliberate one.

On the technical side there is considerable co-operation, because the type of cable that is typically plowed in Manitoba gumbo is the same type of cable that is plowed in Saskatchewan. So there is technical co-operation, not as structured, not as focused as in this area.

I should hasten to add that in terms of the directory issues, in fact, Edmonton Tel as a fourth company and B.C. Tel as a fifth company are also involved in the deliberations.

Mr. Alcock: It is interesting, you know, without wanting to be excessively simplistic and completely disregard the innovation and energy and talent of all those people that have gone before in Northern Telecom, but one of the suggestions that is made is that Northern Telecom grew out of its supplier relationship to Bell Telephone and that the lack of that kind of replacement manufacturing initiative on the Prairies has been a result of the small size of the various utilities.

In fact, it was one of the minister's colleagues, the former Minister of Energy, who makes the comment that we smelt copper in Manitoba, but we do not produce wire, because there is not simply a large enough local market for it but, if there were a Prairie-wide market for it, that there may in fact be another industry here, a replacement industry for items that we currently import.

I would just like to get a response from the corporation to that rather simplistic but, nonetheless, interesting comment.

Mr. Pedde: I guess, if I can respond, Mr. Chairperson, there are a couple of issues.

In terms of the totally big picture in terms of corporate effectiveness and the strategic linkage, I believe that the Prairies alone are not big enough to build their telecommunications strategy as both a

supplier of the technology and the deliverer of the services.

In the smaller context of very specific and focused products that come to market in the Prairies, it is highly logical that we co-operate and have an alliance. In fact, that is one of the reasons why Canada Wire and Cable is a manufacturer in Manitoba, and it is in those types of applications that the Prairie strength could be exploited.

That is exactly the reason that we are having a positive, perhaps by some people's views, a not total bottom-line outlook towards TR Labs coming into Manitoba. I am not prejudging the case. We are going to put it on a sound business case before we put it forward, but the sound business case will include the value added in terms of educations and the type of stimulus manufacturing or otherwise that you describe.

Mr. Alcock: I thank Mr. Pedde for those remarks and will leave that one for now.

Since the signing of the trade agreement, since the end of '88, early '89, has activity with the telephone company south of the border increased? Have there been discussions about similar sorts of co-operation and joint venturing with telephone companies south of the U.S.-Canada border?

* (1120)

Mr. Pedde: Mr. Chairperson, my understanding is—I believe we are talking about free trade, was that the question? Telecommunications per se is not part of Free Trade.

I guess, to the extent that additional business has been stimulated, business activity north and south of the border, it pulls along with it additional telecommunications activity. We have certainly seen that, but structurally in terms of the nature of our business and autonomy, authority or business relationships, nothing much has changed except our cross-border traffic is greater and we have adjusted our arrangements with AT&T, MCI and Sprint, the major carriers in the United States.

Mr. Alcock: There was a discussion though. I am not suggesting that telecommunications are included in the FTA. I was more wondering about the ancillaries of the business relationships as you are talking about developing links east-west, whether or not there are similar discussions going on north-south for secondary products and that.

There was a discussion I think at the last committee, certainly in Estimates, about the extent to which pricing is different between the two markets, the commercial traffic north to south versus south to north and statements made by at least two data processing concerns that it was more expensive to ship data from here to Emerson than it was to ship it from Emerson to Washington, D.C. Does that situation still exist?

Mr. Pedde: Mr. Chairperson, yes, it still exists, not to the same extent and, if I may elaborate, it gets to the heart and the nub of some of the fundamental and structural issues of our business.

If you recall, I think Mr. Dewar in his opening remarks alluded to the contribution margins from long distance, so if I expand on this a little bit, the matters are roughly thus: It costs us, incrementally, four cents to produce a minute of long distance. On the average, we collect 50 cents on that minute. All of that goes to local services. Three years ago, that was a dollar. Three years ago, it cost us roughly 11 cents, at least on the fully-embedded-plant basis, to deliver that dollar of minute.

In the United States, if we have that as background, typically an average long distance minute is down to 20 cents. Obviously, they have not done it just through efficiency. The local rates are higher in the United States.

On the data side, the situation is in some respects more severe. Our basic high-capacity data rates used to be 10 to 12 times the U.S. data rates. They are currently four to five times U.S. data rates.

Our choice in that regard is very simple: We get down to the United States data rates or we will have no data rates. There is no regulation, there is no government, there is no technology that can prevent that. We either get down to those rates or we will have none of that business.

Mr. Alcock: Well, I am actually pleased. I think Mr. Pedde has put it exceptionally clearly. How does that relate then to the attempt by the government to stimulate an increase in the use of Winnipeg as a 1-800 location through this sales tax forgiveness?

Mr. Pedde: I guess, Mr. Chairperson, principally we were comparing Canadian and U.S. rates. The issue in terms of 800 services, where I believe the government's intention is to attract Canadian companies, our rates generally compare favourably to other telecommunications carriers in Canada.

Mr. Alcock: What would have to occur for us to be competitive in 1-800 systems with U.S. firms?

Mr. Pedde: I guess, Mr. Chairperson, assuming that the discounts in 800 service relative to their basic toll are roughly the same, then for an 800 company to operate, to come from Minneapolis to Winnipeg would require roughly our toll rates to go in half.

Mr. Alcock: To come back to high-speed, high-capacity data transfer then, you have managed to drop the pricing significantly to less than half. You are saying that you have to go all the way. How were you able to bring about that drop in the past? Are you going to be able to achieve parity?

Mr. Pedde: Mr. Chairperson, I guess one could answer, with a great deal of pain, but the principal elements at play were technology as well as growth as well as modest increases in local rates. I say modest because consistently our local rate increases have been below inflation.

Mr. Alcock: In this high-capacity data transfer segment, you are saying it is the same kind of trade-off of carrying costs from data transfer to local service?

Mr. Pedde: Yes, there is, Mr. Chairperson, and the contributions are immense. The major advantage in the high-capacity systems in terms of being able to allow us to drop our rates is that the usage of that goes up typically by 25 to 40 percent a year and the stimulation of price-demand elasticity is still there. The major banks would not expand if we would not lower our rates or would route more of the traffic through the United States.

Mr. Alcock: Your concern about the loss of that traffic, given that you are still four to five times the U.S. base rates, is that something that has been flagged to you by the banks and the major users, the insurance companies, et cetera?

Mr. Pedde: Yes, Mr. Chairperson, the banks have appealed—well, not just the banks, the major data users have argued in front of the federal government as well as in front of federal regulators and even our own provincial regulator that they are competitively disadvantaged relative to the U.S. competitors.

Mr. Alcock: Do you have any time frame for getting down to parity?

Mr. Pedde: Yes, Mr. Chairperson, we have an overall term of reference to be in certain major segments to achieve parity by 1996.

Mr. Alcock: Can we clarify certain major segments?

Mr. Pedde: Without quoting the exact numbers, Mr. Chairperson, if a significant portion of your business expense is in telecommunications services and that significance is as a percentage and obviously would translate as an absolute amount in terms of expenses of your business, then the discounts would be such to achieve parity. I would guess that would translate to about 50 percent of the businesses.

Mr. Alcock: When I was a newly minted critic for MTS, I think at the first committee meeting I ever attended I asked a question about the NREN proposal in the U.S. At that point they were in the beginning stages of discussing building a very high-capacity, very high-speed network that would connect governments and major research facilities around the U.S. so that they could share, I think the goal is eventually, digitized video signals.

* (1130)

I asked the question whether MTS had been involved in some of those discussions and whether those were the kinds of services that we would see coming into Manitoba. I am just wondering what the situation is today, if that is something that is part of the planning that takes place in this province and in the Prairies.

Mr. Pedde: Mr. Chairperson, in terms of that specific product offering, I cannot contribute much. MTS' intentions in terms of its modernization, particularly in terms of its fibre optic installation and basically adding high-capacity infrastructure both for voice and high volumes of data transmission, we are involved in discussions with the province to build a very cost-effective voice and data information transfer network that the province can share with universities as well as hospitals and others, in fact make the province the biggest user of MTS' services and therefore achieve the greatest discount.

We hope through that mechanism to stimulate educational applications, whether in voice form or video form, facsimile transmission and other data applications.

Mr. Alcock: Calgary is beginning to make much of their plan to make themselves a—I am trying to think of the word they use. They have a term they use that implies that they are a wired city connected to the international community because they have been investing heavily in communications

infrastructure. Unfortunately the term is escaping me at this point. Are you aware of the project that they have underway there?

Mr. Pedde: Mr. Chairperson, there is one aspect that refers to a teleport dimension.

Mr. Alcock: That is the one.

Mr. Pedde: The teleport's economics are not quite what they are made out to do. I understand the teleport in Montreal is going through extreme difficulty.

What you touched on is the bigger question, wiring the infrastructure in the city. I am proud to say that Manitoba Telephone System, for cable television applications and for our voice and data networks applications in Manitoba, has made significant advances in totally fibring Winnipeg with rings. In fact, we had a couple of potential customers who explored coming to Manitoba and, when they looked at Manitoba, at first they were just sort of tire-kicking if you like, but once they recognized the infrastructure and technological capability, their eyes lit up and they are still looking much more seriously at Manitoba.

Mr. Alcock: The tires had glass fibre in them—is this the interest in it?

Another thing we talked about, I believe at the last committee meeting, was this proposal that Motorola keeps advertising, and that is the complete cellular service, international worldwide, this grid of I think 24 satellites or so. Does that remain simply someone's advertising dream or is there work progressing on the installation of such a system?

Mr. Pedde: Yes, I do not believe it has gone to the marketplace to any great extent, but Mr. Gordon may want to comment a little further on—

Mr. Gordon: Mr. Chairperson, I am not familiar first hand. The last conversation I had with my counterpart in Telesat, which goes back some number of months now, he very much gave me the impression that he did not see that as being a viable commercial undertaking.

Now, I do not know if that was his vested interest showing or just exactly what, but that is the best I can offer at the moment relative to that proposal.

Mr. Alcock: I do not think Coke much likes the planning that Pepsi does either.

The statement that gets made over and over is that what is currently under the ground will go above the ground, what is currently above the ground will

go under the ground, that television signals, as they become digitized, will start to make greater and greater use of fibre and very wide band width, and television and voice communication will increasingly go to satellite. Is that just someone's overactive imagination or is there some foundation to that?

Mr. Pedde: Yes, Mr. Chairperson, there are limited capabilities with satellites for voice communications. Just one hop creates echo delay or signal delays, two hops becomes unbearable, so satellites are a limited medium in terms of voice communications.

I guess I could elaborate on your question a little bit. What we see as the next wave of cellular is what some people call personal communications or personal mobility or microcells from the major cells, where basically a portable telephone or a personal number is all you will have, and you will be traced down with that no matter where you are. It will not require the batteries or the transmitting power of what a cellular phone today requires, nor the cost that goes with that. That is the wave of the late '90s, we believe.

Mr. Alcock: Now, are there not two issues there? I mean there is the personal identification. You will have one number that will track you no matter where you are; that will be your personal number, much as the post office is proposing around addressing. It is not microcell. I mean, the term first says to me, we will have a smaller footprint, but in fact it is the flip side of that, is it not, that we will have greater access through the one number and it is not a wired base? It cannot be.

Mr. Pedde: Yes, Mr. Chairperson, it will not be wired, but it will not be satellites either. It will be little antennae which may have a 500-foot footprint, and then these little hand-held telephones will access them. The intelligence will be in the network to trace you down. You keep on sending up your signal, I am here now, I am here now and, no matter where you are you will be hunted down, pardon the expression.

Mr. Alcock: I am hunted down today.

You see that as being something that will be commercially available by the end of this decade?

Mr. Pedde: Yes, Mr. Chairperson, in fact, it is in trial in a number of jurisdictions, and MTS itself is participating in trial within Manitoba on a limited basis, together with Alberta and Saskatchewan, to

bring out the Prairie alliance one more time, with two types of technologies in fact.

Mr. Alcock: When do you anticipate having that to market?

Mr. Pedde: Mr. Chairperson, I believe it is the summer of next year.

Mr. Gordon: Mr. Chairperson, there are licensing issues both related to the use of the radio spectrum. Also, the technology and the timing to some extent is going to be in the hands of the federal Department of Communications relative to those issues. Assuming that is not the pacing element, then second half of next year, I think, would be a good estimate for commercial availability.

Mr. Alcock: Can Mr. Gordon just elaborate on the issue as relative to licensing the spectrum? Is there a limitation on them now?

Mr. Gordon: Mr. Chairperson, yes, radio spectrum is a finite resource and has to be allocated quite carefully to the various competing usage interests, and so there have been bands identified as being appropriate to what will likely be a fairly rapidly growing service.

There are international implications to that too, because one of the things that I think will characterize this business will be very high-volume, very low-cost manufacture of the actual telephone itself. To do that I think major manufacturers are going to want to have as much universal international interchangeability as possible, and so the whole spectrum issue has to be dealt with at an international level as well.

The U.S. has picked a couple of slightly different slots as their prime candidates. There is a substantial debate going on south of the border relative to both that and the technology. In fact the U.S. may end up with two standards, which will then automatically mean that the economies of scale are going to be more or less halved, which is, you know, not a good thing from a manufacturer's perspective.

* (1140)

There are a number of issues related to that that are going to be instrumental I think in the timing.

Mr. Alcock: Did the U.S. not just go through a process of marketing spectrum load? I mean did they not change their process for allocating spectrum and take it out of their regulatory process? They freed up band and then sold some of it off, did they not?

Mr. Gordon: Mr. Chairperson, I am not familiar with their selling spectrum as a commodity, although that does not mean that it has not happened. I am just not familiar with it.

Mr. Alcock: Well, I will bring this to a close. That is a discussion we can have outside of this committee, and I will check my notes on it.

I guess the final question for today—we talked at one of the last committees about some of the operating cost increases that were being allowed by various utilities, and I understand that you go before the PUB for approval of this. I would just like to get a personal sense of just your straight operating costs. What are the percentage increases over last year, both in the salary settlements that were given to employees and in the overall operations?

Mr. Pedde: Mr. Chairperson, in terms of salary increases, we certainly are going to be endeavouring to be compliant with guidelines. Since we have not settled with any of the bargaining units, it would be premature for me to comment on that.

In terms of operating cost guidelines, we will be significantly under the guideline of 3 percent. We are shooting for less than 1 percent; in fact, we are shooting for a flat number and some modest increases in the cellular business, which is growing at better than 25 percent.

Mr. Alcock: Mr. Chairperson, I will bring my remarks to a close simply by stating that I am consistently impressed with the operations of MTS and pleased with the co-operation and service they provide.

Mr. Ben Sveinson (La Verendrye): Mr. Chairperson, I have just a couple of short questions.

Mr. Minister, is MTS expanding its cellular service to cover southeastern Manitoba?

Mr. Findlay: We will ask the president.

Mr. Pedde: Mr. Chairperson, we have added a couple cell sites in the southwestern quadrant late last year. We currently have under review how many more cell sites we will add this year, and it will likely be one or none.

Mr. Sveinson: One or none this year, you mean?

Mr. Pedde: Yes, Mr. Chairperson, as we discussed earlier, cellular is a very competitive business and the cell sites are being turned. They are very capital intensive. They used to be three-quarters of a million dollars a pop, and they were added where

the customer base was sufficient to justify the capital expenditure.

We were fortunate last year, through some unique arrangements, to add two cell sites in southwestern Manitoba, which was a major weakness. The major coverage is not totally resolved. If there is a sufficient customer base in that area, we will likely expand into there.

Mr. Sveinsson: There was discussion earlier, but I never caught some of that, and I hate to repeat, but have decisions or discussions progressed with the American cellular service providers to cover off duplication of service and to prevent additional charges?

Mr. Pedde: Mr. Chairperson, I am not sure I fully understand the question. If the question pertains to the coverage question at the border where U.S. signals are encroaching onto Canada and Canadian signals are dispersed, that is under debate between our respective regulators, the DOC and the Federal Communications Commission. That is an ongoing discussion and nothing is resolved in that regard if your question pertains to coverage.

Mr. Dewar: I was wondering if the minister could give us a brief retelling of his presentation before the CRTC regarding the Unitel application?

Mr. Findlay: Basically, just to recap the presentation that we made, we did not oppose competition provided the competition was supplied on a level playing field and that the CRTC took into account that the proper level of contribution to local services from any long distance activity that any competitor would get into and the ability to keep local rates affordable is also kept in context. We are looking for a level playing field and a continuous contribution from long distance toward supporting the cost of a local network, in other words, to keep local rates down.

Mr. Dewar: Does the minister agree with the Sherman Report of I think 1987, which states that rates will increase for nine out of 10 customers if the Unitel application is approved by CRTC?

Mr. Findlay: An awful lot has changed in the telecommunications industry in the last five years. Vast, significant demands have been put on the system by all the users. The demand and the necessity to have cost-competitive services, choice of services, is wanted by all users, whether it is the business community or whether it is a person living in Winnipeg or anywhere in the province.

A lot of changes have occurred and a lot of advancements in technology, and you have heard much discussion today around that as to what is available, what is needed, what is wanted. All providers of telecommunications are being significantly challenged in order to maintain that cost competitiveness.

We have done a very good job in the province of Manitoba over the last four years to keep local rates down. Our rate increase last year was 1.7 percent. This year's application, we expect a very low rate of increase, basically about inflation, whereas you see the Province of Saskatchewan increasing rates by 20 and 30 percent for private homes and for businesses.

I think in comparison to them we have done very well. There are only two cities in Canada that really comparably have a lower rate for telecommunications and that is Calgary and Edmonton. Otherwise, we are the lowest in the country in terms of basic telephone service cost.

Mr. Dewar: I do not think the minister actually answered the question. Will the rates increase if Unitel's application is approved?

Mr. Findlay: The Unitel application as is presently put before CRTC does not apply to Manitoba and the ruling has not come down yet. We have no idea what the ruling will be and what context the ruling might be, favourable or disfavourable to the application. We have already recognized, as I said in our submission, the request that they pay attention to the contribution and the contribution to keep local rates down and that it be on a level playing field.

Mr. Dewar: Local rates are subsidized of course by revenues received from the long distance market. If that is eroded by Unitel's involvement in long distance, would this not be a reflection upon local rates? Would not local rates increase if there was competition in long distance business?

Mr. Findlay: In terms of the history that has gone on with long distance rates, we have reduced them by some 47 percent in the province of Manitoba over the last four to five years, a substantive rate of reduction in order to be cost competitive with other suppliers of that service.

You heard earlier discussion about the much lower cost of transmitting information, particularly data, in the United States, so it is important that we recognize that and keep our rates down. There has

been elasticity in the system which has allowed the expansion of the use of long distance with lower rates. That has basically kept the total revenue coming in and growing even though the rates were going down until we hit the recessionary period that we are in right now.

There is growth in the system when you reduce the rates. There is a pent-up demand that is evident in the system. Maybe the president—I do not know if he wants to add anything, because it is a very complex environment that we live in, in terms of meeting the needs of all our customers.

* (1150)

Mr. Pedde: I guess the nub of the question is, Mr. Chairperson, if somebody competes in the long distance business that contributes to local service, will local rates go up? It almost naturally follows, yes, it will, but if an enlightened regulator encourages or orders the competitor to make a contribution to the telephone companies in an equivalent fashion to subsidize local rates then, even not considering any stimulation, local rates need not necessarily go up. The magic will be in the level of contribution that Unitel or any other applicant, if and when approved, will be asked to contribute to the local rates.

Mr. Dewar: Then the minister does accept Mr. Rogers' statement, the president of Unitel, that they will cross-subsidize.

Mr. Findlay: That is a statement they have made and I would believe they would live up to that. That is, I guess, the essence of their presentation that they made to CRTC, and we expect that to be maintained.

Mr. Dewar: I would just like to refer to a document I have here that I got from the Legislative Library: From monopoly to competition, telecommunications in transition.

It is a very procompetition document. From the article I want to quote from, it is Appendix A: The case for competition in public long distance telephone services in Canada. It says here—this article originally appeared as evidence No. 9 of Unitel's submission to the CRTC, application to provide public long distance service in this country, by W.T. Stanbury.

In it he states—I will quote directly from it: Entry by Unitel will guarantee much useful independent information on the cost for the CRTC. Why? Because Unitel has very strong incentives to

minimize cost, given the way it is regulated, because it cannot engage in cross-subsidization. It has no monopoly services. Unitel has every incentive to minimize its costs.

It states very directly in an article, a piece of evidence used by Unitel to back its case for long distance competition, that it cannot engage in cross-subsidization. Will the minister comment on that?

Mr. Pedde: I think, Mr. Chairperson, the way I would read that or understand that, we are talking about two different cross-subsidies. By saying that they cannot offer a monopoly business below cost to buy up market share and use revenues from other areas to subsidize this, that is a cross-subsidy internal to their business. The cross-subsidy that the regulator is talking about is the contribution that Unitel in its rate setting has to make to local telephone service. That would be my interpretation of that.

Mr. Findlay: Yes, they are two separate things, as the president has indicated but, clearly, if you are going to use somebody's network you have to make a contribution, a payment, for the use of that network. That is clear and simple.

The CRTC is all-powerful; they are the regulator. The regulator declares what the degree of contribution will be. That is what it is going to be or, otherwise, Unitel will not be in the system at all. The regulator is all-powerful in that regard, and what you have just read out will not apply to the application with regard to contribution for local service.

Mr. Dewar: Yes, I hope so. What is the minister prepared to do then if all his conditions are not met with regard to the CRTC hearings?

Mr. Findlay: Well, the CRTC hearings are still in progress. The ruling has not come down, and I cannot comment on the ruling. First, it has not come down and, secondly, it does not apply to this province at this time.

Mr. Dewar: My next question: What would be the financial cost to MTS if the application is approved?

Mr. Findlay: As I have already indicated, at this time the application does not apply to the province of Manitoba.

Mr. Dewar: Oh, sorry. I have this document again. It is from the Manitoba Telephone System Key Area No. 2, Competitive Preparedness for Message Toll Competition.

It says: According to the reference plan customers in Manitoba will likely see reductions in long distance rates by the end of 1986—residents a 2 percent reduction; small business 2 percent; medium business 38 percent; large business 59 percent. The reference plan translates into an approximate \$59.9-million reduction in MTS Cellular revenues by the year 1998, increasing to an \$108.6-million loss in Cellular revenues by the year 2002.

Can the minister comment on that statement, please?

Mr. Findlay: I will let the president comment, but I will just preface it by saying that we have already gone through a reduction of 47 percent in long distance rates, and none of that gloom and doom has occurred. I will ask the president to comment on the specifics of that particular bit of information.

Mr. Pedde: Mr. Chairperson, I am not sure exactly what version of this internal memorandum this document is, but one of the things that we have to come to grips with in terms of impact of one versus another. It is not like we are giving some money away that might be there. If we do not do some of the things described there, we will have none of the pie. We are just saying, we were prepared to live with a lower-cost pie in order to preserve the pie. That is the fundamental strategy.

In terms of some other impacts that I can comment on that we have absorbed and the chairman mentioned in his comments and I alluded to in my comments, sharing and resale is not allowed in Manitoba. Sharing and resale is happening in Ontario and British Columbia, and sharing and resale has cost Manitoba Telephone System \$12 million. Those are the types of realities we have to come to grips with nationally and internationally.

The shifting of revenue in MTS is practised and planned as a very extremely delicate balancing act of retaining customers with some healthy contribution margins versus having no customers at all.

Mr. Leonard Evans (Brandon East): I have a number of questions, but just on this business of Unitel, I was just looking at an article that was in the Thursday, March 26, edition of the Winnipeg Free Press, and this is really for my own information, but Unitel has been given the go-ahead by the Public Utilities Board following an Order-in-Council to start

providing fax-line service in Manitoba in competition with MTS. Maybe the minister could answer this: When was this Order-in-Council passed and exactly what did the Order-in-Council indicate?

Mr. Findlay: I cannot give you the specific date off the top of my head, but it was approximately six weeks to two months ago, which set in place an opportunity for MTS to go to PUB to set rates for interconnection.

Mr. Leonard Evans: If I heard the minister correctly, it was to give MTS an opportunity—

Mr. Findlay: To go to PUB.

Mr. Leonard Evans: Because the reading I have of this is as though the government was inviting competition from Unitel, asking Unitel to get into the business. How does that work to the advantage of the Manitoba Telephone System?

Mr. Findlay: Unitel is one of the suppliers that has applied for the opportunity to deliver switched data, in other words fax services. They will set up conditions of interconnection with the Telephone System, and the regulator will approve or disapprove of those rates.

Mr. President, do you want to comment further?

Mr. Pedde: I guess, Mr. Chairperson, the work does benefit MTS even though it creates a modest harm initially. Unitel is in that business in Manitoba, has been for many years. They have customers with fax machines. Previously we have said, well, if you want to talk to customers with fax machines that are on the MTS network, you better get a second fax machine and second service. So we are enhancing the universality of that service by letting Unitel's fax customers talk to MTS' fax customers.

Mr. Leonard Evans: So as I gather then, Mr. Chairperson, the president does not see this additional competition, this new competition from Unitel as being necessarily a threat to MTS in terms of the fax-line service that it has offered.

Also, can the president advise what—maybe he does not have that information or maybe he does not want to share it with the committee, but just to what extent has Unitel eaten into the potential revenue, the market revenue for fax service in the province?

Mr. Pedde: Mr. Chairperson, I just want to be clear, there are two aspects here. Since the interconnection between their services and ours, we are still in the negotiation stage, so there has not

been any business in that regard. I believe Unitel has roughly as much fax business as Manitoba Telephone System out there right now. The total numbers of the business, I am not aware of.

I can give Mr. Evans some comfort that this interconnection of Unitel to our network does not erode revenues significantly from MTS, and that was why it was fairly easy to do from our perspective. It made for a lot of happy customers.

* (1200)

Mr. Chairperson: Mr. Evans, were you finished?

Mr. Leonard Evans: I have a series of questions to ask, but if Mr. Laurendeau had something on this specifically, that is fine.

Mr. Marcel Laurendeau (St. Norbert): Not on this.

Mr. Leonard Evans: I have questions on various topics.

It should go without saying that the government has a responsibility to do everything to enhance MTS, and when you see a headline like this: Unitel gets called to compete with MTS in fax-line service—your initial reaction is, well, what are we doing, giving away the shop or part of the shop to would-be competitors?

I see the minister shaking his head. That is fine, because we keep on talking about competition and the need for competition, but let us face it, ultimately this is a monopolistic type of industry. Even if you do have competition, it is regulated. It is not as though you are out there selling bread or cookies or yo-yos, I mean, where you have more competition in secondary manufacturing. This is a communications business, communication industry, and it is essentially monopolistic. You will never get the kind of competition that you get in, say, manufacturing industries. Maybe that should go without saying.

That is why I smile every once in a while when they talk about competition, but it is regulated competition. It is competition within a very circumscribed universe.

At any rate, Mr. Chairperson, I wanted to ask some questions related to the statements made by the minister and the chair and the president, if I might, to get clarification of some of the comments made in these statements.

The minister stated that in 1990 the profits would be around \$39.5 million, or net earnings, which is fine. Can he or either the chair or the president

indicate how these net earnings would be utilized, or how they were utilized? I guess this is history now. How were the \$39.5-million net earnings utilized by MTS?

Mr. Findlay: I would like to comment, secondly, on that specific question. On the general comment that the member made earlier that somehow decisions made by government are eroding MTS, clearly in the overall principle of trying to attract investment to the province, to create jobs in the province, it is very critical that the people who come to look at Manitoba see Manitoba as a good place to do business.

In other words, in terms of telecommunications, that they have the same choice of services, relative cost of services that other jurisdictions in this country can offer them in terms of the changes we made, in terms of whether it is private line interconnect or whether it is business terminal attachment or whether it is this last issue of switched data, that just makes us on more equal footing, not completely equal, but more equal footing with other jurisdictions in terms of being able to indicate that the potential investor here has the same opportunities of choice and cost efficiency in those services that he buys, because now telecommunications is a very significant portion of doing business.

If we do not do those things, Mr. Evans, we lose the opportunity of bringing hundreds and maybe thousands of people to the province of Manitoba who buy homes and use telephone service in their homes. MTS becomes a net winner any time we bring somebody to the province in terms of attracting business investment. That is the bigger picture.

In terms of making \$39 million, clearly that is positive, showing the company is operated very well and very effectively. It is money that goes back into the corporation for use to decrease the amount of borrowings for next year. It helps to fund the pension liability, but it is all money that is used by the corporation to reduce its ongoing costs.

You will see that over the last four years the debt-to-equity ratio has gone from 91 down to 81.7, a rather significant improvement in the net position of the company. I think that is positive. Those net earnings go to those sorts of things, and maybe the chairman might like to comment further, but it is positive for the company. The money stays in the

company to reduce future costs and fund other liabilities that the company does have.

Mr. Stefanson: Yes, Mr. Chairperson, I think the minister has explained it very well. The \$39-million net income certainly goes to upgrading service in Manitoba, particularly rural Manitoba.

The debt-equity ratio is the debt relationship toward the assets of the company. The debt equity, as the minister has pointed out, was reduced by some 2 percent in 1990. In other words, that means that the company financial position is better by some 2 percent. I think that is very, very important. The debt-equity ratio of our company is still some 81 percent. The norm is somewhere below 50 percent. I believe SaskTel is somewhere in that neighbourhood.

It is very, very difficult for our management to operate when the debt is that high. Historically it has been that high and I presume since Day One we have had a philosophy in Manitoba that we finance the Telephone System to nearly 100 percent. If you take a look at the value of our plant, \$39 million is not a very substantial profit.

I hope I have been able to give you some explanation.

Mr. Leonard Evans: I did not imagine for one moment that the net earnings of \$39,456,000 would be somehow or other distributed to shareholders. I wanted some elaboration as to the utilization of those funds or that equivalent and, again, I appreciate it may not even be cash. I understand that.

The question is, and this is a question that the board and perhaps the minister has to make: To what extent do you use net earnings to keep rates low as opposed to using them for new investment in the corporation, new equipment and so on, for future growth or for future service. These are, I am sure, ongoing kinds of questions.

I was just wanting to get an indication on this year just what the emphasis was in this year that we are reviewing in the utilization of the \$39-plus million.

Mr. Pedde: Mr. Chairperson, I guess it becomes a little bit of putting everything into a rain barrel and then identifying where does this particular money go or not. If we earned \$39 million, say, \$40 million in 1990, we look at our plans for 1991—basically even in 1990, if we had a \$200-million capital program, then out of depreciation, say, we had \$120 million in funds, we added \$40 million generated out of net

income, that means we had to borrow another \$40 million to take care of our capital borrowing. That would be one way of looking at it. It is one source of generating funds, as is depreciation.

Mr. Leonard Evans: Just as an aside, how much borrowing did you engage in in this particular period of time? Can you give us some idea?

Mr. Pedde: I am sorry, I missed the question.

Mr. Leonard Evans: The president mentioned the borrowing as a source of funds for new investment. The question was: To what extent did you borrow in this period of time?

Mr. Pedde: Mr. Chairperson, Mr. Fraser will answer the question.

* (1210)

Mr. Fraser: Mr. Chairperson, in the annual report there is a statement which follows, it is on page 19, which gives the details of where funds were provided from and what they were utilized for. If you would like, I could briefly walk you through the highlights of that.

What that shows is, you will see net earnings of \$39.4 million as the first line on there. As well, the other major item in terms of cash provided by is depreciation of \$158 million.

So in total, from operations there was cash provided of \$200 million. Then, in addition to that, there was Cash Provided by Financial Activities—issuance of long-term debt \$217 million; repayment of long-term debt that had matured and was rolled over of \$183.7 million; and then some other less significant items including a sinking fund of \$10 million. In total, that financing group accounted for \$29.4 million.

Those are the two sources of funds. We have \$200 million from operations and \$29 million from financing activities. Those funds were used for investment activities; construction program expenditures of \$193.2 million; increase in investments held for pension obligations of \$37.4 million; increase in investments of \$1.5 million, and that relates to long-term disability plan and the costs of that, for a total cash used for investment activities at \$232 million. Then the rest is just a reconciling item to come back to the cash position of the corporation.

Mr. Leonard Evans: Thank you for that useful rundown. Of the \$193-million-plus construction program, could the representatives of MTS indicate

where the bulk of that money was used? Is there any major thrust that the representatives of MTS would like to describe for us?

Mr. Pedde: Mr. Chairperson, I will certainly try. I wish Mr. Gordon was here right about now, who would give it in quite a bit of detail.

We break our construction program along a couple of categories. First of all, it is growth or modernization or maintenance and then between the various services offered. The first is a demand requirement that we spend \$65 million just to allow for local service growth, \$15 million for toll growth, \$3 million in terms of movement by customers, and \$16 million in replacement of plants. The demand requirement was \$99 million, or almost \$100 million.

What we call the program requirement was \$98 million, and that is principally for purposes of continued service improvement and modernization such as individual line service. Roughly, Mr. Chairperson, it is \$100 million for demand and \$100 million for modernization like rural service improvement and Service for the Future activity.

Mr. Leonard Evans: I will not pursue that further.

I wanted to, on page 2 of the minister's statement—and he somewhat alluded to this item I guess in his earlier answer to my question. He states, I am quoting from page 2: "Last year, I announced a policy to permit Manitoba businesses that purchase or lease their telephone equipment from private suppliers to connect it to the MTS network. At the same time, I also announced a policy to allow businesses that need private intercity lines to have the choice of using Canadian carriers other than MTS."

Well, what has been the impact on the revenues of MTS because of this announced policy?

Mr. Findlay: We will let the president comment on specific figures, but I would just remind the member that in private homes they have had the option of buying their equipment from MTS or any other supplier for some time. Your government is the one that—

Mr. Leonard Evans: I announced that.

Mr. Findlay: —you are the one, okay, that allowed that to happen. This is basically an extension of the same option to the business community. It goes back to my earlier comment that those options are available in the vast majority of jurisdictions across this country, and if you are going to be competitive

in attracting businesses the same options need to be offered here.

I will ask the president to comment as to the impact in terms of MTS selling that terminal equipment or leasing it.

Mr. Pedde: Mr. Chairperson, firstly, I believe that there are certain elements of the telecommunications business that are no longer a natural monopoly, and this is certainly one of them, similar as in the residential market. Fortunately, these businesses have not been making inordinate contributions to keeping local rates down. We have just historically basically recovered our costs in this part of the business or maybe made a modest contribution to the other side.

The net impact, since I just reviewed it yesterday myself, has been in the order of 1 percent revenue erosion of that market, roughly 2.5 percent to 3 percent of the customers, but they are largely concentrated in the smaller size. Therefore, while it is 3 percent of the customers, it is roughly 1 percent of the revenue, and that is break-even revenue typically and not making any contribution to local service.

In confidence, since this is competitive business, not regulated, I can say that the total loss is significantly less than half a million dollars on an annualized basis.

Mr. Leonard Evans: Surely then there has been no advantage to MTS. Mr. Findlay, the minister, may feel that there is some advantage to overall economic development but let us recognize there is no advantage to MTS for this particular policy to be implemented.

I just wondered to what extent we have had some business arise out of this. The minister talks generally about, well, it is good for business. It will attract investment to the province for businesses to have this option, but just specifically what benefit have we received from this policy? We know definitely, we know specifically that MTS lost 1 percent of its revenue from this, but do we know on the other hand what benefits have accrued to the province's economy?

Mr. Findlay: I guess, just reflecting on the member's comments, he says, no advantage to MTS. I think it is fair to say that I look at MTS from the opposite point of view. The question is: Is it of advantage to the user, to the client of MTS? That is the person you must satisfy. You must satisfy the

client, that they have the level of service and the choice of service that is deemed necessary in today's environment.

We have offered that choice, and obviously MTS has done very well in terms of competing with whomever else comes along trying to sell terminal equipment. They have lost only 1 percent of the business in this area, not 1 percent of the revenue, but one percent of the business in this area. You know, that means that you maintain 99 percent, so that is rather substantive.

Mr. Pedde: Mr. Chairperson, I may have misled Mr. Evans. It is 1 percent of that revenue, of the business terminal attachment revenue, so it is .00-something of the total revenue base.

Mr. Findlay: I wanted to clarify that. I thought you had misinterpreted—

Mr. Pedde: One percent would have been \$6 million.

Mr. Chairperson: Order. I would ask all members to recognize the Chair or wait for recognition before you—otherwise, we will be into a fairly lengthy unorganized debate. Thank you.

Mr. Leonard Evans: Okay, that puts a bit of a different light on it. The minister still has not explained—I think he was just in the middle of this when he was helped by Mr. Pedde, I believe—as to what benefits there were accruing to the province's economy in terms of attractiveness to new business or whatever.

Mr. Findlay: There are two ways you can look at that. One, it makes the businesses that are now here satisfied that they have the choice that exists in other jurisdictions. In terms of their decisions to stay here or move to another jurisdiction, this is one more element out of probably 100 elements on a check sheet that they look at as to whether they will stay here or move elsewhere.

Secondly, of course, is when other businesses are looking at moving or considering moving to Manitoba as a place to do business. If they have a check list of 100 items they want to compare Manitoba to elsewhere, this is one that now they can say positively that we are on a level playing field with other jurisdictions in terms of having the opportunity of choice. If they choose to do business with another supplier of particular equipment, they can do it here. They are not restricted from doing it, so it is opening up an opportunity of the buyer or the

client to satisfy themselves that they can do business with MTS or somebody else.

* (1220)

As they reflect back in terms of the business element there that MTS had, they have retained 99 percent of the business.

I think that is pretty good success in a competitive sense, very good success. It is two-pronged; it is one that is maintaining the satisfaction of existing business clients and, secondly, to make it attractive for new ones to look at Manitoba as a place to do business.

I say it is not a single element by itself. It is on a check list of a lot of other elements that anybody making those comparisons has to do.

Mr. Leonard Evans: Well, it seems to me, Mr. Chairperson, we are still in the realm of theorizing. The minister has no hard evidence, hard data to show the advantages. He is simply theorizing that if you give business more choices, in this case of purchasing telephone equipment, then they are more likely to come than not although, as I think he implied in his answer, it is a fairly minor item in decision making.

Surely there are some more fundamental factors one would consider, such as the market for your product. I think the minister is theorizing. He does not have any factual data which says, these are the benefits that are accrued. He cannot point to that.

What I would like to ask is, which companies are now in competition with MTS to supply this type of telephone equipment to businesses?

Mr. Pedde: Mr. Chairperson, to the best of our knowledge, there are about 30 companies operating in Manitoba, ranging from Ma and Pa shops to a couple of sizable ones. I am not sure whether it is appropriate for me to name who our competitors are.

Mr. Leonard Evans: We have a choice now, businesses who want to install these more complicated pieces of telephone equipment have a choice. What I would like to know is, is there much choice in terms of price? What particular differences within the quality of the product—is it quality competition or is it price competition?

Mr. Pedde: I guess, Mr. Chairperson, there are some competitors who try to make inroads into Manitoba with inferior products, and we cannot prevent that. We pride ourselves, and I think our track record speaks for itself, our emphasis is on the

highest quality and good cost effectiveness and ongoing support, and that is how we retain the bulk of the customers.

I cannot comment on our competitors' strategy. Generally some of them have identical products; others have more diverse products; others have greater pricing options; and others have high-maintenance, low-cost, throwaway technology and all of the above.

Mr. Leonard Evans: I know the system has had a bit of difficulty with residential phones, and I know you have a policy, if there may be some trouble in an individual user's line, that you want to make sure that they have adequate equipment. I think it is in a pamphlet somewhere urging the person to disconnect purchased equipment and to see whether the line is still operating on that basis.

I do not want to get into all the technicalities, but have you experienced much difficulty in this area? Also, while you are at it, could you comment on the degree of difficulty you have had with residential phones?

Mr. Pedde: I am not that familiar with the history, but I guess whatever difficulties we have had with residential phones, we by and large have worked ourselves out of it. Our operating philosophy is, in the case of trouble, we try to obviously localize the trouble as being our trouble or someone else's trouble, both on residence and business.

The technology is in place to do that. When the customer, as you referred to, gets encouraged to disconnect his or her equipment and the trouble disappears, then we say, well, unfortunately the trouble is with your equipment, and if you ask MTS to solve that problem, from here on in there will be a charge applied against it.

It is not a major problem but, in fact, we have had win-back situations where customers have asked for the help of MTS to work themselves out of difficult situations. They appreciate our service and they say, I am going back to MTS.

Mr. Leonard Evans: We will be here a long time yet. What about the experience though with the business equipment, if I can use that term, as opposed to the residential equipment purchased from other than MTS?

Mr. Pedde: Mr. Chairperson, that is what I was alluding to in terms of the win-back situations. I am not aware of any significant difficulties, but we keep immaculate records as to what equipment is ours

versus somebody else's. We isolate the trouble, the customer insists on our coming out to repair or maintain non-MTS-provided equipment. We do that from time to time and apply a charge.

Mr. Leonard Evans: I would like to go on to another area then, Mr. Chairperson. That is—

Mr. Chairperson: Could I ask your indulgence then? I was wondering, Mr. Laurendeau, have you got something similar to this line of questioning or is it another matter?

Mr. Laurendeau: It is on two other areas.

Mr. Chairperson: Would you then, Mr. Laurendeau.

Mr. Laurendeau: They are just short, Mr. Chairperson. Number one, I would like to congratulate Mr. Pedde on coming to his first meeting. I have had lots of good news from my constituents on you who work for MTS. They said that you were the first president to come out to the Phone Centres and introduce yourself personally and give them all a little pep talk. They appreciated that, by the way.

One of my questions, Mr. Chairperson—do we have any revenues on the 1-800 numbers out of the province?

Mr. Pedde: Yes, Mr. Chairperson, we do, and if you permit me to elaborate a little bit, 1-800 service is like WATS service in the other direction. They are both toll discount services. When we have 800 service within the province of Manitoba, in other words, if you do subscribe to a provincial 800 service or WATS, then that revenue is all retained by Manitoba Telephone System.

When our customers subscribe to WATS or 800 services to adjacent member companies, i.e., Saskatchewan or Ontario, we share it once certain costs are removed on a 50-50 basis. When 800 service goes beyond two provinces, or out of the country or overseas, it all goes into one big pot and we take 4.5 to 5 percent of that action.

Mr. Laurendeau: Mr. Chairperson, then along the same lines, one of your competitors, the answering service on their cellular phone is always answered out of Vancouver. Do we then make revenue on the transferring of that call through the cellular into the 800 system to Vancouver?

Mr. Pedde: Mr. Chairperson, I am not sure I can precisely answer that question, because it depends on how the service is configured. If the competitor

has his own private lines to Vancouver and subscribes to Manitoba 800 services, and I am not even quite familiar about the rules of connection or interconnection, we may share in part or all of that revenue. I cannot answer the question specifically, but I would certainly be prepared to take the specifics and take the question as notice and provide a more detailed answer.

Mr. Laurendeau: It is just that I found it interesting that the answering service was actually based out of Vancouver for a locally called number on a cellular competitor of yours, I mean, where we should be beating the drum and having some home-grown employment here. Hopefully the public sees through the lines on what some of these other companies are doing.

My other question was: Seeing as we are moving to the electronic age, are we looking for environmental reasons at possibly putting the phone books on computer disks so that large companies could then access through disk versus all the paper that is there today?

Mr. Petty: Mr. Chairperson, we are certainly looking into it and examining the options. France certainly introduced that some years ago in Europe. Generally the focus group studies in Canada and North America say that customers desire a hand-held printed directory. I think we will be staying the course for a little while.

* (1230)

Mr. Chairperson: The hour being 12:30 p.m., what is the wish of the committee? Do you want to continue sitting?

Floor Comment: No.

Mr. Chairperson: If it is the will of the committee to rise, then I remind you that we will sit again on Thursday at 10 a.m. to continue consideration of the MTS report and also to consider the 1990 report of the Crown Corporations Council.

Committee rise.

COMMITTEE ROSE AT: 12:31 p.m.