

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

Tuesday, 30 April, 1985

TIME - 10:00 a.m.

LOCATION - Winnipeg, Manitoba

CHAIRMAN - Mr. C. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Harapiak and Mackling
Messrs. Enns, Fox, Malinowski, Manness, Santos
and Scott

APPEARING: Mr. Gordon Holland, General Manager
and Chief Executive Officer
Barry A. Gordon, Director - Engineering and
Corporate Information Systems
Maurice J. Provencher, Director - Finance

MATTERS UNDER DISCUSSION:

1983-84 Annual Report of the Manitoba Telephone System

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MR. CHAIRMAN: I call the Committee on Economic Development to order, in order to consider the Annual Report of the Manitoba Telephone System.

I'd like to invite the Honourable Minister responsible for the agency to make his opening statement and to introduce some members of his staff.

HON. A. MACKLING: Thank you very much, Mr. Chairman.

It is not my intention to make any lengthy statement at all, but rather to introduce Gordon Holland, Chief Executive Officer of the Manitoba Telephone System, who will, in turn, introduce staff and will be presenting the report to the Committee.

I would like to indicate my pleasure at being Minister. Some years ago - I don't like to reflect on the number of years now - I had a brief term as Minister responsible for Telephones and Telecommunications and enjoyed that very much; and I look forward to having an opportunity to serve as Minister responsible for the Telephones and Telecommunications policy for a much longer period of time than I had previously, and I'm not intending any heavy politics in that statement.

I believe that the Telephone System and Communications have proven themselves to be a vital part of the social and economic fabric of this province. Obviously, our predecessors wisely considered communications to be vital in our society and chose to ensure that a communication systems would be available to all at a very reasonable cost. Through that type of foresight, we have today a corporation and a system that is without equal, in my opinion, in North

America in service, and that it provides to the people of Manitoba; and it is with that kind of recollection of previous legislators having had the foresight to plan as they did for service to our people that I introduce the Chief Executive Officer who, as it happens, I think today is celebrating 11 years as Chief Executive Officer of the Manitoba Telephone System, a very excellent record of service, one that has seen a steady development of Telephone's policy in Manitoba, a steady progress in serving the interests of communities throughout Manitoba regardless of size and a system that now ensures that there really is no one in the province that cannot, in some way, benefit in a very real sense from the system which we as a people jointly own and administer.

With those few remarks, Mr. Chairman, I introduce you to Gordon Holland, the Chief Executive Officer.

MR. CHAIRMAN: I would appreciate some guidance from the members of the Committee. Shall we consider the report page-by-page or otherwise?

The Member for Pembina.

MR. D. ORCHARD: Mr. Chairman, I think it's been tradition for the last several meetings of this committee that we invite comment on all aspects of the report. I think if I can refer you to Hansard of April last year, April 3, 1985, at the completion of the committee studying - nope got the wrong one - but basically when we finished off, we passed the report, report-by-report. That has seemed to serve the committee quite well and I would recommend it to the committee again.

Tuesday, June 19, 1984, Mr. Chairman, says, "What is the will of the committee on how to proceed? Page-by-page?" The reply was "Report-by-report, report-by-report, report be passed—pass."

MR. CHAIRMAN: We shall consider very general questions and then consider the report as an entirety.

A MEMBER: Right, agreed.

MR. CHAIRMAN: Agreed.

I'd like to call upon the Chief Executive Office of the Manitoba Telephone System to offer a few remarks.

A MEMBER: No, it's to present the report.

MR. CHAIRMAN: To present the report.

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

I would like to introduce a number of officers of MTS who are present this morning. Ken Beatty, our General Counsel and Secretary of the Board; Brian McCallum, our Director of Operations; Morris Provencher, the Director of Finance; Barry Gordon, Director of Engineering and Corporate Information Systems;

Dennis Wardrop, Director of Corporate Development; and Brent Linton from my office; Nick Fedorchuk of our Marketing Directorate, our Rates Specialist; and Bob Vannevel, our Director of Internal Operations. — (Interjection) — A remark is made that they are almost the same faces. One of the reasons that my job at MTS is delightful is the career-type positions and the great experience that our senior people have.

With your permission, Mr. Chairman, I'd like to read a prepared statement and I think copies have been passed to members of the committee.

MR. CHAIRMAN: You may proceed, Mr. Holland.

MR. G. HOLLAND: The MTS Annual Report for the year ending March 31, 1984, was mailed to all members of the Legislature in November 1984 and tabled by the Minister in March 1985.

A brief examination of the financial statistics in the report shows that total revenues from all sources increased by 12 percent to reach \$309,757,000; total expenses increased by 12.7 percent and amounted to \$307,630,000; net revenue for that year was \$2,127,000, which compares with the net revenue of \$3,507,000 for the previous year and net revenues of over \$13 million in both 1979-80 and 1980-81.

Capital Expenditures during the year amounted to \$91,400,000.00. By the end of the year, the system had a total of 471,892 main telephones in service, an increase of 14,744 during the year.

The total investment in telecommunications plant reached \$1,37,519,000 at the end of March, 1984, representing an average investment of \$2,220 per main telephone, up from \$1,710 four years ago.

Some of the other highlights of 1983-84 included the installation of a new digital switch in Winkler and the expansion of the existing digital switches in Winnipeg and Brandon. MTS introduced toll free calling between Benito and Swan River and between Cowan and Swan River. New local broad band networks for the distribution of cable television services were constructed in Gimli, Leaf Rapids and Gillam.

In 1983-84, MTS also introduced an expansion to its Envoy 100 electronic messaging service, called EnvoyPost. EnvoyPost allows Envoy 100 users to send letters electronically to post offices in Canadian cities, where the messages are printed and delivered with the regular mail. As well, in conjunction with the other members of Telecom Canada, MTS announced the introduction of Conference 600, a satellite-based two way video conference service designed for medium to large organizations.

It has been customary to supplement information contained in the Annual Report with comments concerning recent and current activities. May I therefore comment on the System's major programs and activities for the period from April 1, 1984 to the present.

MTS filed an application requesting rate increases for selected services with the Public Utilities Board of Manitoba on April 3, 1984. The Public Utilities Board approved rate changes, effective July 17, 1984, which were projected to generate an additional \$5.4 million in revenues during 1984-85.

Even with those rate changes in effect, MTS monthly telephone rates remain among the lowest in North America.

The 1984-85 fiscal year has just drawn to a close the following preliminary year-end figures are subject to final review and audit.

MTS expects that Operating Revenues will be \$327 million, a growth of 11 percent over the previous year. Other Revenues will be \$15 million, producing total revenues of \$342 million.

Operating expenses, including depreciation and taxes, are estimated to increase by 9 percent to \$266 million.

Debt charges and foreign exchange amortization are estimated at \$61 million, compared to \$64,134,000 in the previous year.

Net revenues are expected to be approximately \$111 million for 1984-85, in comparison to net revenues of \$2,127,000 for 1983-84.

Any net revenues which MTS achieves are re-invested in the operations of the System to reduce borrowing, for the coming year and to improve the debt ratio. In order to improve its financial flexibility, MTS has had for some time a target of reducing its debt ratio by one percent a year through net earnings. It is estimated that MTS' debt ratio for 1984-85 will be approximately 82.0 compared to 84.2 in 1983-84.

MTS Series 1D, along with a portion of government advances 11A, 10J and 10E were retired.

The 1984-85 year was characterized by a number of challenges that were successfully met by MTS and its employees.

During 1984-85, MTS processed the largest volume of service work orders on record, almost 308,000 requests for installations, moves and changes in service. In an exceptionally active year, MTS also successfully met the special communications needs connected with the visits to Manitoba of Pope John II and Queen Elizabeth.

MTS was also challenged by the increasing demand of the marketplace, as Manitobans sought a wide variety of telecommunications services and products. During 1984-85, MTS introduced a number of new products and made significant network improvements to meet these demands. Among these successes was the introduction and energetic marketing of new residential telephone sets that stemmed the tide of losses in the residential extension market. MTS was able to maintain virtually the same number of residential extensions in 1984-85 over the previous year, as opposed to a loss of almost 7,500 extensions in 1983-84. MTS has been able to convince many Manitobans of the advantages of leasing, including the provision of ongoing, worry-free maintenance, and the ability to exchange or upgrade terminals at nominal cost.

In December, 1984, MTS released the results of a comprehensive employee survey, which gave MTS an opportunity to address employee concerns and perceptions. While the survey demonstrated many positive employee attitudes concerning the importance of their work and other issues, it also pointed out employee concerns about training in new services and products, and management performance.

To address these challenges, MTS increased its commitment to training during the year, resulting in a total of 16,600 student training days in 1984-85. New management courses included training in Industrial Relations and Effective Performance Evaluation.

Another course introduced during 1984-85 dealt with Effective Customer Relations and is aimed at instructing

MTS staff how to better serve our customers. This course is but one of a number of activities under way designed to improve the delivery of telephone service to Manitobans.

MTS continues to make the necessary investment in the province's communications infrastructure to ensure that Manitobans have available the highest quality network facilities and to meet the increasing demands of our customers. During 1984-85, MTS' capital spending amounted to some \$115 million.

New digital telephone switches replaced older facilities in five provincial locations - Virden, Stonewall, MacGregor, Woodlands and Teulon. Digital switches will be the backbone of what eventually will be an all-digital network in Manitoba, allowing more efficient transmission of both voice and data messages. This new switching equipment is much more flexible than previous generations of equipment, in that it can be expanded to handle new services or growth through software changes or minor physical additions, instead of major renovations. Operating in the same language as computers, digital switches handle the growing demand for computer communications with relative ease by comparison with older technologies.

MTS is also making improvements to its long distance network to improve the ease of calling for a number of its customers. During the year, MTS added equipment in seven communities to enable customers to 'direct dial' their long distance calls without having to give their numbers to an operator. Automatic Number Identification is now serving the communities of Garden Hill, Oxford House, Snow Lake, Swan Lake, Fisher River, Melita and Camperville. Twenty-six additional communities will have this feature added over the next few months, at a total cost of some \$725,000.00. ANI makes long distance calling more convenient for our customers and results in fewer billing errors.

MTS is continuing the expansion of free-calling areas of a number of smaller exchanges in the province. In March, 1985, the System, at a cost of some \$180,000, provided free-calling services between Camperville and Winnipegosis. This is the third pair of communities to obtain EAS in the current program that encompasses 23 Manitoba centres. In total, 120 of Manitoba's 235 exchange areas now have Extended Area Service. Criteria for selection includes the size of the telephone exchange, the objective of providing basic services without having to call long distance and the high amount of calling to and from a nearby community. The \$4.6 million program has been reviewed with the Union of Manitoba Municipalities so that MTS might have the Union's views in deciding priorities for the introduction of EAS.

During 1984-85, the System began the engineering and planning necessary for the construction of an \$11 million, 330 kilometre-long fibre optics system between Winnipeg and Brandon. This facility will expand and upgrade the existing microwave networks that carry cross-Canada and intra-Manitoba long distance traffic. As well, it will serve to meet the increasing need for calling capacity between Winnipeg, Portage la Prairie, Minnedosa, Neepawa and Brandon. The system will contain 12 fibres making available some 4,000 circuits.

This is but one example of the growing use of fibre optics cable as a high-capacity carrier for long distance purposes and for large volume inter-office networks

within cities. MTS currently has some 200 kilometres of fibre optics cable in use in the province with more systems planned where they meet the particular network requirements.

In 1984-85, MTS continued to explore new uses for its telecommunications facilities, as well as making strong marketing efforts to make Manitobans aware of the variety and extent of MTS services.

In September, 1984, MTS launched a trial in Manitoba on behalf of Telecom Canada to test the marketability of residential teleconference calling. Called "Get Together" service, the new offering is designed to test the Canadian market for conference calling among family members and friends. New, lower rates for this service outside of busy business hours are attracting a number of new customers who are using the "Get Together" call to keep in touch.

In September, 1984, MTS officially opened its Business Centre in the System's Administration Building. The Centre is designed as a display and sales area for business customers, who can obtain hands-on experience with business communications systems, communicating word processors and personal computers and a variety of other modern business communications equipment.

The establishment of such a Business Centre is in recognition of the growing variety of office products, created to meet the increasingly sophisticated and specialized demands of business customers. Many business managers recognize the critical role of telecommunications in the evolution of office equipment and are seeking to ensure compatibility and utility well into the future by building on the telecommunications network.

During 1984-85, MTS also introduced another service designed to take advantage of its network facilities. 900 service is a mass-calling system designed to allow the public, for 50 cents per call, to participate by telephone in national or regional vote-in programs, and to monitor special events, such as the radio conversations of the Shuttle astronauts with the Johnson Space Centre.

To meet the growing demands for data communications facilities in Manitoba, MTS recently expanded its Dataroute network to serve a number of data users in Flin Flon. The System added five Manitoba centres to the Datapac network - Portage la Prairie, Morden, Dauphin, Selkirk and Steinbach. Eight Manitoba communities are now Datapac serving areas, allowing businesses in these areas access to modern, affordable data transmission service.

Cable television service was introduced to Nelson House during 1984-85 in co-operation with Native Communications Incorporated and the members of the Nelson House Band. This project included a program to train local personnel to install and maintain the cable television and satellite receiving facilities. Using MTS security and control systems, the cable television operators in Thompson and Morden also introduced pay television to their customers during 1984-85.

In my report last year, I mentioned a trial that was under way which was allowing university courses to be undertaken by teleconferencing. This trial has since been reviewed by the universities and colleges and the University of Manitoba is proceeding to use teleconferencing as a regular component of its extension course program.

The university is now offering six programs to students in seven communities, who otherwise might be unable to attend courses at the campus. The university is also considering an expansion of the teleconferencing programs for next fall. MTS is continuing to work closely with Brandon University regarding education teleconferencing programs, which already serve a number of Northern communities under the Brandon University Northern Teacher Education Program or BUNTEP.

During 1984-85, MTS continued the successful marketing of its Fire Reporting Emergency Dispatch system or FRED, which is now being used in more than 20 Manitoba communities. MTS, in conjunction with provincial authorities, is working towards having FRED serve as a province-wide emergency communications system equivalent to the 911 system in place in Winnipeg and Brandon.

MTS FAST service, an alarm monitoring system that uses existing telephone lines, is now being used in 2,700 units of Winnipeg Regional Housing Corporation senior citizen housing in Winnipeg, acting as a medical alert system. MTS is consulting with the province and various municipal governments to expand the use of the FAST system for this purpose, allowing many elderly Manitobans the opportunity to retain individual residences while having the security of medical assistance on-call 24 hours a day.

An ongoing challenge to the telecommunications industry has been to serve our customers more efficiently, chiefly through the application of new technology to reduce costs and deliver our services at a lower cost.

In January of this year, MTS embarked on a pilot project in its Selkirk Business Office to test the development of its Customer Line and Service System, or CLASS. CLASS is an on-line, computer-based records system that will eventually allow MTS service representatives to provide customers with billing and other information in a faster and more complete manner. Presently, customer records are maintained on paper, making updating and retrieval cumbersome. It is envisaged that CLASS will, for the most part, eliminate the high level of paper activity involved with customer records - around 9 million pieces of paper a year at present level.

While the six-month Selkirk pilot project is dealing chiefly with customer records, long-term plans for CLASS application include the on-line mechanization of service order processing, assignment of telephone numbers, payments and collections, as well as other service functions.

As well as improving customer service, it is projected that the implementation of the CLASS system will result in cost savings.

In January, 1985, MTS introduced a new bill design that attempted to organize the billing information so as to be more readily understood by our customers. The new bill is printed on a new laser printer, and will generate savings in paper, postage and processing costs, in the order of more than \$370,000 every year. MTS annually sends out some 8 million bills to Manitobans.

I do want to note the contribution of MTS' 4,500 employees to the improvement of telecommunications services to Manitobans. Their ongoing efforts to achieve

efficiency in the operations of MTS and to deliver high-quality service to our customers have resulted in an effective, modern service.

On the national scene, the issue of new entrants into the long distance telephone market commanded the greatest public attention over the past year. This issue is of special interest to Manitoba telephone users and the MTS.

The principal focus of this issue revolves around the fundamentals of the telephone industry that have driven it for most of this century. Two of the most important of these are cross-subsidization and rate-averaging.

Cross-subsidization means that telephone companies, supported by their regulators, have traditionally priced basic services below cost and supported those services with revenues from discretionary services, like long distance, which are priced above cost. This pricing technique has been used for many years to keep local telephone service as affordable as possible for as many people as possible. There's no question that it has worked successfully in making telephone service available. In Manitoba, for example, it is available to 97 percent of our households. That availability, in turn, makes telephone service all that much more valuable to everyone. The telephone, because of its universal availability, has become virtually indispensable in our personal and business lives.

Rate-averaging, another technique in use, means that MTS keeps the rates the same for communities of equal size and circumstances, regardless of the cost of providing service to a community. If it didn't use rate-averaging, telephone service to many smaller, rural communities would be priced beyond the reach of most people.

In October, 1983, CNCP Telecommunications applied to the Canadian Radio-television and Telecommunications Commission, a federal regulator, asking for permission to interconnect with the local switching facilities of Bell Canada and British Columbia Telephone Company for the purpose of competing in the long distance market.

This application has raised many important questions, including the structure of the telecommunications industry, the pricing of services and the universal availability of telecommunications.

The CRTC began its hearings into the CNCP application in September, 1984. At the request of the Honourable Eugene Kostyra, the Commission agreed to hold a one-day hearing in Winnipeg. On short notice, 31 interveners made presentations; the majority expressed concerns, reservations and opposition to the CNCP application. Many of these pointed to the impact on local rates and the consequences for disadvantaged groups.

MTS also made its views known to the CRTC in a final argument in the proceeding and this statement is available on request.

The Federal Department of Communications has taken an initiative with respect to a new technology called cellular mobile radio system. These systems expand the capacity and flexibility of traditional mobile radio. They also have the potential of permitting the bypass of local public telephone switching facilities. In their initial application, however, they will have to be interconnected to local telephone company switching facilities.

The Department of Communications, in addressing the introduction of cellular service in Canada, has followed the U.S. model by agreeing to license two applicants for each significant urban centre, reserving the first licence for telephone companies. However, the department has also required that in order for telephone companies to receive their licences, they must agree to interconnect their local facilities with the cellular system of the second licensee.

With an interconnection of this type in Manitoba, the second licensee has the potential of becoming a second provincial carrier. Interconnectors of this kind hope to use costly facilities, purchased by Manitobans through their Crown corporation, in order to compete with the MTS and thereby threaten its revenues.

MTS believes that, because these and many related questions are important to all telecommunications users, it has a responsibility to encourage discussion and consideration of these important issues.

A significant event for MTS during the year occurred in January with the signing of an agreement with Greater Winnipeg Cablevision Limited for the introduction of Pay Television to GWCL's subscribers east of the Red River in Winnipeg. The new agreement assures accessibility to the coaxial cable network for other potential users while providing an expanded television selection for GWCL's customers.

In 1984, MTS also concluded arrangements with Greater Winnipeg Cablevision Limited to extend cable television to the Birds Hill area through the use of MTS coaxial cable facilities. That service is available now to interested Birds Hill residents.

Early in 1985, MTS signed an extension to the basic cable television agreements with both Winnipeg cable operators. Winnipeg Videon Incorporated and Greater Winnipeg Cablevision Limited signed 15-year extensions to the basic agreements, which were first enacted in 1967, covering the terms for the use of the cable networks in Winnipeg.

Other major events during 1984-85 included the visits of Pope John II and Queen Elizabeth, which required extensive preparation by MTS to ensure that facilities for communications, broadcast, security, health services and other purposes were in place. The visit by Pope John Paul II in September, 1984, resulted in the involvement of over 150 MTS employees at the Birds Hill Mass site and other locations to ensure that appropriate communications facilities carried the message of his visit across the world.

MTX Telecom Services Inc. is a wholly-owned subsidiary of the Manitoba Telephone System and was incorporated on January 15, 1982. MTX operates a jointly-owned subsidiary in Saudi Arabia, Saudi Arabian Datacom Limited and, in addition, undertakes contract work in North America and other locations.

MTX, overall, is anticipating a loss of approximately \$50,000 for the year ended March 31, 1985, compared to a profit of \$262,000 for the year ended March 31, 1984, and a profit of \$79,000 for the year ended March 31, 1983. These figures exclude net revenue to MTS in 1984-85 of \$117,000 from contract services provided to Bell Canada International in Saudi Arabia and \$258,000 in similar net revenues in 1983-84.

Through MTX, employment opportunities have been generated for MTS employees, further developing their competence, proficiency and satisfaction. Some \$4.8

million in orders have been placed with Manitoba companies since the incorporation of MTX.

MTX is also taking important initiatives in contracts elsewhere, thereby positioning itself for future growth in the telecommunications market. These contracts involve work in data communications, networks and "smart buildings", in which state-of-the-art systems in telecommunications and computers are employed.

It is anticipated that revenues in 1985 will be significantly higher than those realized in 1984.

Mr. Chairman, I hope that information will be helpful to the Committee and we'll try to answer any questions.

MR. CHAIRMAN: Are there any questions from the members?

The Member for Pembina.

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

Mr. Chairman, I note in the General Manager's remarks - if I can find it here - Page 3 for the current financial picture. Now, it's my understanding that MTS when they applied for a rate increase in April of 1984, that without a rate increase in '84-85, the system would have a net revenue of some \$300,000 and with the rate increase, if it was granted, would see approximately a \$6.5 million net revenue for '84-85. Now, I'm trying to find in here, the board allowed a 4.4 percent increase to residential and 7.6 percent to business and, I believe, that that - correct me if I'm wrong, Mr. Chairman - was a reduction from the request. Is that true?

MR. G. HOLLAND: Was it an amendment of the request? Can you just clarify the question?

MR. CHAIRMAN: Would the Member for Pembina repeat the question?

MR. D. ORCHARD: Certainly. The board allowed a 4.4 percent increase to the residential rate group and to business rates an increase of 7.6 percent. Is my understanding correct that that rate of increase was less than was requested by the application?

MR. G. HOLLAND: Mr. Chairman, the MTS application was revised, but I believe that the resulting dollars were essentially the same as we had requested.

MR. D. ORCHARD: Then, Mr. Chairman, the board rejected the MTS request for a flat rate increase of 25 cents for monthly billing per customer for all-rate groups and other flat rate charges and, instead, changed them to a percentage increase so as to avoid discrimination, in their opinion, against rural customers where, on a basis of a smaller telephone exchange, their monthly bill was less. Hence, 25 cents increase per month would represent a higher percentage of increase to smaller exchange users.

Now, is Mr. Holland indicating that that changed from a flat monthly application by MTS to the grant of a straight percentage increase had no impact on the projected \$6.5 million increase in revenues that the system indicated would occur from their original application?

MR. G. HOLLAND: Mr. Chairman, the Public Utilities Board did alter MTS' request, which has been made

in the last two applications, that the adjustments be made through a flat increase to all rate size groups. In the overall revisions to the tariffs that we submitted, the resultant revenue flow was not altered significantly.

MR. D. ORCHARD: If I can follow through the projections by the system that without a rate increase, their net revenue would be some \$300,000 without a rate increase, and 6.5 million on fiscal'84-85 with a rate increase for a projection at the time of some \$6.8 million of net revenue. Could the General Manager indicate what factors occurred in the year '84-'85 which would throw their estimates out by roughly \$9.2 million, in terms of their net position at year end?

MR. G. HOLLAND: Mr. Chairman, I'll confirm the financial projections provided to the Public Utilities Board. My recollection is that we were forecasting net revenues of some \$8 million and those have turned out to be \$16 million, which of course is a product of the rate adjustments and a very buoyant business situation.

MR. D. ORCHARD: Mr. Chairman, I'm using the \$6.5 million on the basis of the impact on fiscal year '84-'85 with an effective date of the rate increase July 1, 1984, which I believe occurred.

Your annualized increase was 8.6 which would presumably effect the system in '85-'86. '84-'85, the impact was 6.5.

Mr. Chairman, was the system able to maintain its projected level of expenditures over the fiscal year? In other words, were the cost controls as projected at the time of the application for rate increase able to be obtained?

MR. G. HOLLAND: Mr. Chairman, I'll check and see if we have that information here. If not, I'll obtain it and provide it to Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, is the system contemplating an application for a rate increase fiscal year '85-'86?

MR. G. HOLLAND: Mr. Chairman, we don't have the final financial statements for the year ended March 31, 1985, but we are analyzing financial projections for the next two fiscal years and will be presenting those to the board shortly for consideration.

MR. D. ORCHARD: So does that mean there will be the system's desire for a rate increase in '85-'86?

MR. G. HOLLAND: Mr. Chairman, there has been no decision taken to date in that regard. If there is such an adjustment, it'll be a very modest one.

MR. D. ORCHARD: Mr. Chairman, for the fiscal year '84-'85, I don't recall whether it was part of Mr. Holland's opening statement - yes, I believe it was but I can't find it. Here it is. "During '84-'85, MTS's capital spending amounted to some \$115 million." Was that the amount that was budgeted or was that in excess of the amount budgeted?

MR. G. HOLLAND: I believe it was less than what we had budgeted. The budgeted figure, again if I recall, was \$122 million.

MR. D. ORCHARD: I didn't get that last answer, Mr. Chairman.

MR. G. HOLLAND: 122.

MR. D. ORCHARD: \$122 million was budgeted, and was it an early fall that caused the system not to carry out its complete Capital Budget?

MR. G. HOLLAND: It was a combination of factors but I believe primarily to delay in delivery installation of digital switching equipment. Those are large projects

MR. CHAIRMAN: The Member for Morris.

MR. C. MANNES: Mr. Chairman, I'd like to ask two or three questions with respect to that part of the report that deals with some of the financial matters.

Mr. Holland, in your opening remarks you indicated that the value of the plant, on Page 3, the value of the Telephone plant was \$1,37,000,000 in 1984; and then on Page 12, I go into the Balance Sheet and I see where the value of that plant, of course, has been depreciated. What specifically is the value of MTS' plant assets? Is it the book value which has, of course, been depreciated or is the value the \$1 billion that was indicated or are the value of the assets beyond the book value?

MR. G. HOLLAND: Mr. Chairman, the figure in excess of \$1 billion is the acquisition cost of MTS' plant at the end of March, 1985. The actual value of the plant would be the depreciated value, although that could differ from replacement value and I don't know what that is.

MR. C. MANNES: I guess the point that intrigued me was the value of the Telephone plant, as indicated on Page 3, really that has been the total outlay to the system over all the years that it's been in place.

MR. G. HOLLAND: Yes, Mr. Chairman, that is a figure which has been faithfully reported to this community for many, many years, the acquisition of MTS' plant.

MR. C. MANNES: I would ask Mr. Holland, what is the depreciation rate? Is it straight line rate? I'm not familiar with what Manitoba Telephone System uses as its rate. Could he enlighten me please?

MR. G. HOLLAND: Mr. Chairman, the footnote 1.(d) to the financial statements on Page 15, is based on quite sophisticated engineering studies of lifetimes.

MR. C. MANNES: Mr. Holland then seems to be indicating that there are various lifetimes, with respect to various pieces of equipment.

MR. G. HOLLAND: Mr. Chairman, yes, a great variety of predicted useful lifetimes.

MR. C. MANNES: Mr. Chairman, I notice on Page 13, Reinvested Earnings of \$100 million which then seems to be, I suppose, the net worth or the equity, that we as Manitobans have in Manitoba Telephone

System. Taking that number over to Page 14, I'd like to ask a few questions.

First of all, with respect to the earnings of \$100 million you've been able to develop, Note 7 indicates that during the year the Board of Commissioners approved net contributions to the fund, and they're talking to the Investment Fund, of \$11, 830,000 and withdrawals from the fund of some \$9.3 million. Further on it says, "The fund is comprised of short-term investments held in trust by the Minister of Finance for the Province of Manitoba." Interest on the fund is recorded as income in the period as earned.

I look again at Page 14, that roughly \$9.3 million has been returned on the investment of 100 million. Does that mean that the Minister of Finance has paid roughly 9.3 percent interest for the surplus of funds held by him, but which are owned by the Manitoba Telephone System?

MR. G. HOLLAND: Mr. Chairman, I think those are two different topics. The investment fund was created some years ago by the MTS board to amortize unrealized liabilities on foreign debt. It was amortized in a straight line basis to the retirement date of those issues, so that when you see the addition to the fund during the year of 11.8 million, the withdrawal of 9.381 million was used to cover that premium on the foreign debt, the difference on exchange. That is the investment fund.

Retained earnings, as you state, is the equity in the publicly-owned MTS. That is used to determine our debt equity ratio which, as I mention in the paper, is 82.0 at the end of March, 1985.

The investment fund commenced in the fiscal year 1978-79 and has been continued throughout. It does mention, Mr. Chairman, as well, that the fund is invested with the Minister of Finance and interest earnings have previously been credited to current income.

MR. CHAIRMAN: Is the member finished with his line of questioning?

The Member for Morris.

MR. C. MANNESS: Well, I would ask Mr. Holland then, whether this 16 or 18 percent of equity, is it interest earning or is it, in effect, in the plant itself and therefore represents a saving because of money that does not have to be borrowed?

MR. G. HOLLAND: Mr. Chairman, essentially it has all been reinvested in MTS plant, of course, to the extent that the debt doesn't exist, savings accrue to our customers.

MR. C. MANNESS: Moving a little further down on Page 14, the decision was made in 1983-84 to make an \$11 million contribution to the investment fund and I can understand why basis Mr. Holland's earlier answer. But during that year the total funds provided for construction were down to \$91 million, and I understand by Mr. Holland's earlier remarks, that for 1984-85 this has now increased to \$118 million.

Specifically what happened in 1983-84 that caused the total funds to drop to \$91 million that was provided for construction? Was it a conscious decision to increase equity?

MR. G. HOLLAND: Mr. Chairman, briefly, no, but I could ask Barry Gordon, the Director of Engineering, who is in charge of the capital construction program to comment, if that would be helpful.

MR. C. MANNESS: That would be helpful.

MR. CHAIRMAN: Mr. Gordon.

MR. B. GORDON: Mr. Chairman, I believe the question is with respect to the difference in our total construction expenditure between the years of 1983-84 and 1984-85. The major reason for the increase is the fact that there were several projects from the 1983-84 construction program that were delayed for a number of reasons.

Our General Manager mentioned earlier the fact that the major digital switching undertakings have tended to be late for a number of reasons, supplier delays, and so on and so forth. This was the primary reason why the 1983-84 expenditure level of \$91.4 million was less than we had planned, and indeed some of the expenditures planned for that year occurred in the early part of 1984-85. There was no conscious endeavour to manage that construction program for any other reason.

MR. CHAIRMAN: Thank you, Mr. Gordon.
The Member for Morris.

MR. C. MANNESS: A final question with respect to long-term debt, Mr. Chairman. I haven't done an analysis to see when all the debt is due, but I'm wondering if MTS has prepared a review in five-block series, five-block periods, beginning in 1985 to 1990; 1991 to 1995, as to when most of the debt that's on the books now is due. I'm wondering if that could be provided.

MR. G. HOLLAND: Mr. Chairman, Note 8 on Page 16 sets out all of the outstanding advances and bonds and the maturity date and it also indicates the foreign exchange adjustment that has accrued since those dates. As I mentioned earlier, Series 10P and Series 10J were foreign issues retired during 1983-84.

MR. C. MANNESS: One final question and I dare say I could find this answer for myself, but is there any particular year over the next seven or eight years where a number of these long-term debts are coming due? Are there one or two years that are of concern to MTS at this particular point in time?

MR. G. HOLLAND: Mr. Chairman, in the lower right-hand corner, the year ending March 31, 1987 is a very heavy year. Over \$102 million of outstanding debt becomes due.

MR. CHAIRMAN: The Member for St. Johns.

MR. D. MALINOWSKI: Thank you, Mr. Chairman. Mr. Holland, I would like to ask you because you have stated . . . that we are involved in Saudi Arabia. Would you be so kind and tell me how many Manitobans or Canadians are working in Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, at this point at April 29, there were 24.

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MR. D. MALINOWSKI: Twenty-four. Would you specify, are they from all over Canada or they are just Manitobans?

MR. G. HOLLAND: These are all MTS employees.

MR. D. MALINOWSKI: MTS. I understood this is Manitobans. For how long do we have a contract with Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, typically, they are two-year contracts. Of course, there can be extensions. More recently, periods in Saudi Arabia have been shorter for many staff because they've been over there for, say, a three-month installation task and then they come back, so that is changing a bit.

MR. D. MALINOWSKI: I would like to find out what profit MTS have had in the last two years from Saudi Arabia? Sorry, did I cause you a problem?

HON. A. MACKLING: There is a copy of Mr. Holland's statement.

MR. CHAIRMAN: It's in the report of the Chief Executive Officer.

HON. A. MACKLING: On Page 16 there is detail of all of that I think, Mr. Chairman.

MR. D. MALINOWSKI: I am mixed up with those figures because this is \$50,000 we have on the end and then profit 262 - I am not quite sure - I would appreciate it very much if Mr. Holland will give me a definite . . .

MR. G. HOLLAND: Mr. Chairman, MTX per se, for the years ending '83, '84 and '85 had a profit of 79,000, a profit of 262,000, and a protected loss of 50,000 over those three years.

Then, we do note that MTS itself earned \$117,000 in the year ending 1985, and 258,000 in the year ending March 31, 1984. I can go back prior to that: 320,000, 270,000, 252,000, 388,000, and 151,000 as far back as '79.

MR. D. MALINOWSKI: So it means that we're making a profit?

MR. G. HOLLAND: Accumulatively, Mr. Chairman, yes.

MR. D. MALINOWSKI: Thank you kindly.

MR. CHAIRMAN: Other questions? The Member for Pembina.

MR. D. ORCHARD: Mr. Chairman, just to make sure I got the right answers from the last series of questions - as of April 29, 1985, there were 24 MTS employees working in Saudi Arabia?

MR. CHAIRMAN: That is correct.

MR. D. ORCHARD: Mr. Chairman, I think the General Manager can answer those questions, if you don't mind.

MR. CHAIRMAN: The General Manager had already answered the questions before.

MR. D. ORCHARD: But, Mr. Chairman, you miss the point. I didn't ask you for the answer to the question. I asked the General Manager.

MR. CHAIRMAN: The General Manager will answer again.

MR. G. HOLLAND: Mr. Chairman, as at April 29, there were 24 MTS employees working in Saudi Arabia in different capacities.

MR. D. ORCHARD: Now, does that include the permanent staff complement assigned to MTX in that number of 24, or are MTX employees in addition to the 24?

MR. G. HOLLAND: Mr. Chairman, MTX employees are additional. They are Winnipeg-based.

MR. D. ORCHARD: Mr. Chairman, could the General Manager indicate how many MTX employees there are in addition to the 24 MTS employees working in Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, either 3 or 4. I'll check exactly and provide that to Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, the 24 MTS employees working in Saudi Arabia - are they working full time so that full staff salaries and benefit costs are being assigned to their work in Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, their salaries are totally charged to the projects on which they're working, including benefits.

MR. D. ORCHARD: Mr. Chairman, of the 24, although they're working in Saudi Arabia, can the General Manager indicate what number of the 24 are working on and would have their salaries assigned to the operations of MTX and its related companies in Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, that would be 14.

MR. D. ORCHARD: Is it fair to assume that all 14 would have their salary costs assigned to the MTX operation?

MR. G. HOLLAND: No, Mr. Chairman, of the 14, 11 are charged to the joint venture in Saudi Arabia - Datacom.

MR. D. ORCHARD: Thank you, Mr. Chairman, which presumably would leave three salaried to MTX, 11 to Saudi Arabian Datacom Limited.

Now, of the remaining 10, they are MTS employees who are undertaking projects and work directly for MTS then?

MR. G. HOLLAND: Mr. Chairman, the 10 are under contract to Bell Canada International.

MR. D. ORCHARD: Mr. Chairman, is it fair for me to assume from the General Manager's opening remarks where he indicates in the second paragraph, Page 16, "This excludes net revenue to MTS '84-'85 of \$117,000 from contract services to Bell Canada International." Those net revenues are net revenues from these 10 employees on contract to Bell Canada International and have nothing to do with any of the operations of MTX or its related companies in Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, I suppose the experience that many of our employees have had under the Bell Canada contracts have had some impact on MTX and its planning, but we consider that revenues from that source should be credited to MTS, as opposed to MTX.

MR. D. ORCHARD: What impression is the General Manager attempting to leave with this last answer? Then are we to assume that these contracts with Bell Canada International have been arranged by MTX and not MTS?

MR. G. HOLLAND: Mr. Chairman, the contracts are arranged by MTS proper, in consultation with BCI.

MR. D. ORCHARD: And then are, in reality, a separate operation of MTS, independent from MTX. There should be no lumping of the two together, is what I'm asking the General Manager.

MR. G. HOLLAND: Mr. Chairman, I suppose they are part of MTS' activities, external to Manitoba, and again we have normally described those to the committee. Similarly, we have 32 employees typically at Telecom Canada in Ottawa under contract to Telecom Canada, so we normally report those activities to the committee.

MR. D. ORCHARD: Then one should not be confused and roll in the \$117,000 net revenues from contract service to Bell Canada International with the MTX operations in Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, I hope that they're very clearly described.

MR. D. ORCHARD: Mr. Chairman, I hope they are too, but when we deal with MTX Telecom Services Incorporated on Page 16 of the General Manager's opening remarks, it indicates that MTX is anticipating a loss of approximately \$50,000 and then immediately it describes profits of the previous two years and says that this excludes net revenue to MTS in 1984-85 of \$117,000 from Contract Services to Bell Canada International in Saudi Arabia.

Now if one were not here and read that statement, I think it would draw one to the conclusion that there shouldn't be a \$50,000 loss in MTX because there is net revenue of some \$258,000 and \$117,000; but the General Manager says he hopes that is clear that they are two separate functions. One is MTS; the other is MTX and they shouldn't be related.

MR. G. HOLLAND: Other than, Mr. Chairman, that MTX is a wholly owned subsidiary of MTS, so there is a close

relationship, and of course MTX was incorporated in January of 1982, where these other activities had been ongoing prior to that time and were not altered.

MR. D. ORCHARD: So that they were separate and continue to be separate operations.

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

MR. D. ORCHARD: Mr. Chairman, I've got another question on a different matter. In the '82-'83 Annual Report, Series 10P, which was retired, as indicated by the General Manager, in '83-'84, it does not indicate the retirement value of Series 10P in the current Annual Report we're studying. As of March 31, 1983, it was indicated that the outstanding rate on that roughly \$49 million loan in Swiss francs at the prevailing rates March 31, 1983, was over \$58 million.

Now could Mr. Holland indicate, when the issue was retired in November 1, 1983, what the exchange rate was and what the dollars required for retirement of that issue were to the system?

MR. G. HOLLAND: Mr. Chairman, Series 10P, the principal amount was \$49,122,000; the foreign exchange portion, \$8,389,000 and the total, \$57,511,000.00.

MR. D. ORCHARD: Mr. Chairman, I'm not sure I can glean from the Annual Report as to how long, like when that issue was taken out, was that a 10-year issue or a seven-year issue?

MR. G. HOLLAND: Mr. Chairman, Series 10P was issued on November 1, 1977, and the due date was November 1, 1983.

MR. D. ORCHARD: Has the General Manager calculated - okay, first of all, the original issue was \$49,122,000; foreign exchange added \$8,389,000 to the original loan. In addition to that, presumably interest was paid in Canadian dollars, or in Swiss francs, over the six-year period of the loan at a nominal rate of 4.5 percent; but I presume that the interest was payable in Swiss francs, not Canadian dollars. Could the General Manager provide information as to what the net effect of interest rate would be in calculating interest payments of 4.5 percent in Swiss francs and adding in and calculating as an effect on interest rate, the foreign exchange differential on that loan for the six-year period that it was in force?

MR. G. HOLLAND: Mr. Chairman, we'll undertake to estimate the effective interest on that.

MR. D. ORCHARD: Mr. Chairman, I'd appreciate having that information from the General Manager next time we meet.

Going to the Annual Report, Page 3, where we have the MTS dollar for where each dollar came from and where each dollar went, etc., Mr. Chairman, under the long distance service of 54.8 percent of dollar revenues for the system coming from long distance, can the General Manager indicate what percentage of the long distance share of revenue is extraprovincial versus intraprovincial?

MR. G. HOLLAND: Mr. Chairman, the intraprovincial was \$63 million and the interprovincial and international, 108 million.

MR. D. ORCHARD: Mr. Chairman, of the \$108 million that is composed - and correct me if I'm wrong - of two factors, first of all, calls originating in Manitoba destined to out of province and the revenue share to Manitoba of those; as well, that \$108 million is Manitoba's share of long distance revenues between jurisdictions in Canada.

Can Mr. Holland give a further breakdown of the \$108 million to indicate how much of that \$108 million is Manitoba-originated?

MR. G. HOLLAND: Mr. Chairman, there are really three sources of the interprovincial revenue: one is Adjacent East, this is an MTS-Bell Canada arrangement; Adjacent West, MTS-SaskTel, and all of the remainder comes from the Telecom Canada fund. We can, however, obtain the amount of originated toll revenue in Manitoba.

I can provide a further breakdown by source of revenues, if that would be helpful.

MR. CHAIRMAN: Does the member want the breakdown by source of revenue?

MR. D. ORCHARD: In terms of long distance?

MR. G. HOLLAND: A breakdown of the long distance revenue, yes.

MR. D. ORCHARD: Sure.

MR. G. HOLLAND: Intra was \$57.3 million; Adjacent East, \$30.7 million; Adjacent West, \$14.6 million; Telecom Canada, \$52.5 million and a private line, \$20 million, which would be distributed.

MR. D. ORCHARD: Mr. Chairman, in an answer a couple of questions ago, I have "Intraprovincial" written down at \$63 million and your last answer indicates \$57.3 million. Is there a technical difference between those two or have I got the figures wrong?

MR. G. HOLLAND: I believe that's the distribution of the private-line revenue. The private line is \$20 million and it comes from Intra, Adjacent East, Adjacent West, and so on.

MR. D. ORCHARD: But if I were to do a quick add on the five categories you've given me, that will come up with \$171 million of long distance revenue?

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

MR. D. ORCHARD: Okay. Now, Mr. Chairman, in the Intra of \$57.3 million - well, let's use the \$63 million because certainly some of the private line revenue would be private line extension presumably to rural Manitoba to connect direct line to Winnipeg from Morden, from Steinbach, from other areas. If we took the \$63 million, can MTS, can the General Manager provide me with an indication as to the percentage or the dollar volume that has originated from outside of Winnipeg, in other

words, long distance billed outside of Winnipeg whether it be private line or billed to the given exchange number: in rural Manitoba? I'd like that for all of rural Manitoba for Brandon, Thompson - just exclusive of Winnipeg

MR. G. HOLLAND: Just to confirm, Mr. Chairman, Mr. Orchard is looking for a breakdown of the intraprovincial toll revenues originated by Winnipeg and other locations?

MR. D. ORCHARD: Yes.

MR. CHAIRMAN: That is correct.

MR. G. HOLLAND: Mr. Fedorchuk indicates we should be able to get a very close estimation.

MR. D. ORCHARD: Mr. Chairman, that would be fine if those figures aren't available today, next Thursday would be fine.

Mr. Chairman, under the source of revenues again we have "miscellaneous." What all is included in the miscellaneous revenues?

MR. G. HOLLAND: Mr. Chairman, is Mr. Orchard looking at the chart still on Page 3?

MR. D. ORCHARD: Yes.

MR. G. HOLLAND: Miscellaneous revenues, less uncollectible, plus other income is used in that piece of the pie. Note 2 on Page 15 gives a comparison for the years ending March 31, 1984 and 1983.

MR. D. ORCHARD: Okay then. Mr. Chairman, if one were to take operating revenues of almost \$300 million for 1984 and apply 11.8 percent to that figure, you would end up with a calculation, roughly, in the neighbourhood of \$35 million. There is \$20 million in Note 2. Where would the other \$15 million approximately, come from in Miscellaneous. What I'm indicating to Mr. Holland is that Miscellaneous, at 11.8 percent of total revenues of \$294 million does not equate, not unless you're adding in other revenues, Note 4?

MR. HOLLAND: That is correct.

MR. D. ORCHARD: Mr. Chairman, where in the revenue pie, if you've got Long Distance Service, Miscellaneous, which has Directory Advertising, Rentals and Attachments and Other, and then Interest on Investment, Surcharge on Accounts, Interest on Construction, Net Recoveries from Foreign Contracts, Miscellaneous Net of \$2 million, where presumably is the revenue contribution from the MTS retail service operations?

MR. G. HOLLAND: Mr. Chairman, it would be under Note 4, Other Revenues, Miscellaneous Net.

MR. D. ORCHARD: Mr. Chairman, can the General Manager indicate to me what product lines would be included then under the Miscellaneous Net categories? I should have brought a telephone book with me to

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see what numbers of those 11-page centrally placed advertising were included in there, if not all, or at least what portion of them; but could the General Manager indicate what categories of services are contributing to Miscellaneous Net?

MR. G. HOLLAND: Mr. Chairman, Maurice Provencher, the Director of Finance, has some figures here. May I ask him to review them?

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: Mobile radio, sale of terminals - it's Teledon terminals, electronic typewriters, closed circuit TV, interphone, loud speaker paging systems, wide area paging systems, IBM Personal Computers, Phone Centre Miscellaneous outright sales and IBM Display Writer sales.

MR. D. ORCHARD: Mr. Chairman, where does Commodore 64 come in and Texas Instrument Speak and Spell and those products?

MR. M. PROVENCHER: They would have been under the Phone Centre Miscellaneous that I identified.

MR. D. ORCHARD: Mr. Chairman, we've had discussions in the past about Enterprise accounting, in that these various off-shoot operations, which are not directly attached to provision of telephone service per se or data transmission per se. There has always been an indication that these are Enterprise accounted, so that each must stand on its own merits and contribute profit to the system.

Given a diversity of product supply and service supply, a lot of it in direct competition to many of our small business retailers in the province, can the General Manager indicate whether any of these operations, in terms of their Enterprise accounting, are losing money, are not contributing net income and are being cross-subsidized by other enterprises within the Miscellaneous Net category?

Mr. Chairman, I don't care who answers it.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, I think I should undertake to provide information to Mr. Orchard on that. I note the FRED Service is one item that is not profitable at this stage, but I will check the others and provide that information.

MR. D. ORCHARD: Mr. Chairman, in establishing, basically, the Enterprise accounting system for each of these varied retailing operations, I note that the General Manager has indicated on Page 8 of his report that in September, 1984, MTS officially opened its Business Centre in the Systems Administration Building. Now that's a fairly sizable dedication of space and probably personnel to a lot of the competitive retailing services that MTS is offering to all Manitobans. Can the General Manager indicate if the rental and building costs, etc., so that the space costs are allocated by Profit Centre from that expansion and newly opened Business Centre?

MR. G. HOLLAND: Mr. Chairman, that has not been done precisely, but it will be done for the '85-'86 fiscal year.

There were other reasons for establishing the Business Centre and, very briefly, it was the increasing cost of providing marketing services directly to the premises of some 30,000 or 35,000 different businesses. This was getting to be very difficult, plus the fact that with the increasing array of terminals and services, it became important to be able to review those with the customers and display the features in a working mode; so the MTS rationale for the Business Centre was quite broad. We do plan after five or six months experience with it to put it on an accounting base such that we can follow the trends of business volumes and activity.

MR. D. ORCHARD: Then I take it that the intention is to definitely assign those costs and that would, presumably, include personnel costs which may be additional because of that newly opened business centre.

I just looked this morning at the last MTS Winnipeg Directory where you have approximately 11 or 14 pages in the centre of the Directory indicating all of the retail products available from MTS. Is that advertising sold on a competitive basis as the Yellow Pages are sold in order to cost-account it and assign the costs of that kind of advertising to the various profit centres in the retail product domain of MTS?

MR. G. HOLLAND: Mr. Chairman, no, costs are not allocated and likely a good case could be made that they should. Again, the rationale for the catalogue was to assist the service reps taking customer orders over the telephone to work with the customer in identifying the particular items. This has become very, very complex and it has been a great assist to the service representatives in our business offices to be able to refer the customer to a certain page in the catalogue and see the illustration, the colours, the appearance of the product.

MR. D. ORCHARD: Well, Mr. Chairman, that is very persuasive rationale and very advantageous to MTS but, however, not without cost.

If one is to determine the net contribution to the Telephone System, presumably, one should assign to them the cost of that kind of display advertising. I don't know, but I would suspect that if the offer was made to some private sector suppliers to have that kind of advertising profile in the Telephone System, complete with their business phone numbers, is part and parcel of that, that you may well sell that space and not assigning costs to it gives added weight to the growing argument that MTS is an unfair competitor to many small business people in the business machine retailing sector. The general manager has heard this complaint probably ad nauseum for the last several years and rather than becoming a lesser complaint, it is probably becoming a greater complaint. When you have that kind of an advertising advantage through the Telephone System to every potential customer, I submit, in Manitoba to receive a colour catalogue in the middle of the telephone book is a substantial advantage. If it's not costed appropriately, then the Telephone System

can continue to indicate to the present Minister and to the government that we should be in these competitive retailing operations because we can contribute net income.

Well, that's a persuasive argument, but unless you have full accounting of your costs, I don't think the government or yourselves can make the decision as to whether you are, indeed, contributing a great deal of net income to the system.

Furthermore, there is always a cost to the provincial economy in general, presumably, to these retailing services. Because if you put any small business retailer out of business because of the kind of competition that the Telephone System is able to muster, then you have directly lost employment in the private sector; tax revenues in the private sector, including the payroll tax even if the company is not making net income; certainly property tax - if they're no longer in business, they don't pay property or business tax to the City of Winnipeg.

Mr. Chairman, we've discussed this with the general manager on a number of occasions during the last three years that we've reviewed the financial statement of MTS and always the answer is the same in that they justify their existence in competition because they need the revenues. There is a growing concern amongst the Manitoba business community that some of this competition is, indeed, becoming unfair and very difficult to deal with. I would ask, I guess, the Minister responsible if he considers there to be a problem looming from this kind of competition to our retailers?

Before I close off, I'd just like to finish with the final comment to the General Manager that I look forward to the presentation of the Enterprise Accounting on these various retailing operations to indicate what sort of costs are assigned to the retailing operation and what sort of revenues are derived from them to see which ones are operating on a profitable basis and which ones may not be. Of course, cost assignment is a pretty important consideration.

So, if the Minister could offer his thoughts on whether MTS is a fair competitor in this private sector retailing, it would be appreciated.

MR. CHAIRMAN: Mr. Minister.

HON. A. MACKLING: Well, I think that the General Manager has indicated that when it comes to accounting it could well be that more refinement of accounting and costs may be appropriate in respect to the commercial operations of MTS. I agree with that. I think we have to know as closely as we can what our actual costs of operations, any aspect of our operations are.

On the other hand, I think that any initiatives that the corporation maintains are designed to facilitate the users of the services, the taxpayers in Manitoba, to the extent that they can by utilization of marketing devices that complement the work of the corporation, naturally, not only is it an assist to the corporations, it's an assist to all of the users of the system.

For example, the argument that existed in times past about the rental and the continuing operation of the corporation in renting equipment, so long as that equipment is useful and necessary for the services, why shouldn't the corporation be out there providing that

equipment? To the extent that any net revenue obtained by the rental of that equipment, it reduces the overall costs of the service to individual customer I think that is highly desirable.

There may be marginal areas where the corporation should not be competing because of the scope of the operation, that it really isn't an area where the corporation should be involved. That's something that we always have to look at, but by and large, I don't think that anyone should be philosophically hung up or trapped into thinking that the corporation should not act in the interests of Manitobans and look at ways in which the corporation can serve Manitobans more effectively, and I think that's the underlying philosophy that we approach marketing of devices through the corporation.

MR. CHAIRMAN: The Member for Lakeside.

MR. H. ENNS: Mr. Chairman, it's an opportune time to further the general discussion on the subject matter that my colleague from Pembina raised. As he has indicated it's been with MTS for awhile.

Let me put it on the record, certainly the opposition share and are supportive of the government's effort to see that the very important revenues accruing to MTS and to Manitoba telephone users are not jeopardized by current applications before CRTC-CNC interconnection. We are very much concerned about those kind of matters and have expressed those concerns in a resolution currently before the Chamber.

I suspect that most Manitobans and most of us in the opposition surely will support the general contention that Manitoba Telephone Service requires to be constantly challenged to expand its revenue base simply to keep the level of service where it's at and to cope with inflation and to hopefully bring about the improvements that we all look for in our service.

I'm also aware of the fact, of course, that we're got a lot of energetic and enthusiastic people working at MTS that like to play with all the new gadgets and toys and computers, all the nice things that . . .

HON. A. MACKLING: You're just jealous, Harry.

MR. H. ENNS: . . . develops and that is an attraction to itself. I just put that on the record.

The issue really does come down to though whether or not - and that is the issue that is being presented to us in most cases - that this expansion of revenue and expanding MTS' activity into other fields is justifiable on the basis that we never lose sight of the fact that we want to provide the basic communication the basic telephone service at the most affordable rate for Manitoba, and we accrue MTS privileges.

The Member for Pembina just pointed out one, free advertising privileges in your own directory that aren't costed out in the normal business manner on that basis I think it's extremely important though that we begin to take a hard look at some of these activities. I have the unfortunate experience in my own constituency, don't particularly like to raise wholly parochial matters on these occasions, but because it fits into the concern a growing concern with MTS, we'll cite it. I believe your director of whatever service it was indicated that mobile

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re services was one of these services that was not contributing to the revenues of MTS, and thereby it was being subsidized by the telephone user.

I have a very unhappy situation in the communities Fraserwood and Inwood, Mr. Chairman, and it really deserves to be answered. You see the people of Fraserwood and Inwood are going to end up paying out three times as much for the mobile service than they ought to. Manitoba Telephone is not getting any revenue from it. That means I have to, as a telephone user, subsidize it and we have denied the opportunity, in this case, of private business concern to conduct normal business in the province and everybody really sets up a loser on that basis.

I'm understanding that the Manitoba Telephone System has put in mobile equipment at no cost for the community, being, told the community and told the LGD, here, and thus effectively creating a problem for them: whose going to refuse free equipment? Have they signed a contract with Motorola and Motorola has every intention of keeping them to the contract.

On the LGD of Armstrong, which is not a wealthy community - it's part of the Interlake country, communities Fraserwood and Fraserwood - is going to buy and have to accept, I think they've accepted the delivery, of \$10,000, \$20,000 worth of mobile equipment which I think will gather dust in their LGD offices, while they're using - cost free - a mobile service being provided by MTS.

Now at some point I would assume that MTS will provide for a reasonable rent, or a lease, or indeed a charge, and that will provide them a return for this service. And at some point make it possible for the General Manager to come to a committee like this and say that, yes, that service is in fact adding to our revenues and making a portable phone possible in the Province of Manitoba.

But I fail to see whether this is a particular instance or that's the case and I'd be pleased to know from the General Manager or from any of his staff, really what basis do you justify that kind of business activity?

G. HOLLAND: Mr. Chairman, I think persuasive arguments have been made on the use of the directory and I will undertake to study that and report back on the occasion.

A number of references have been made to products and services in the Business Centre. We discussed in committee before the fact that there are many more terminals out there these days than the black-line telephone and PBXs. People are communicating different ways and using a great many different technologies and we feel as a telecommunications company that we must be in a position to offer our customers business solutions. — (Inaudible) — quarterly require terminals of different types.

We had mentioned earlier that the FRED system is not profitable to MTS. Many of our services are not and that of course is a very important public emergency service and we have been involved for decades with municipal authorities in the 911 and other emergency services.

I was pleased to hear Mr. Enns express concern about a CNCP application. That is one form of

interconnection to our network and I suppose the public issue must rest much more with the MLAs than the hired hands of MTS. In my report this morning we discussed the cellular radio which is another form of system interconnection and also represents a threat.

With regard to the LGD of Armstrong, that is an emergency service and MTS would not want to prolong any discussions in that case. We would want to provide emergency services to those communities quickly under whatever conditions we can arrange.

Motorola is perfectly free to sell their products in Manitoba. They've been doing it for many years, but in this case they want to interconnect that equipment with a plant that we earlier pointed out is now over the billion dollar mark and that is another form of interconnection; so it does raise that issue and I know that this is being discussed in the Legislature at this very time.

MR. H. ENNS: Mr. Chairman, to the general manager, I don't believe the Telephone System will be able to stand at the bridges. Horatio once did, and staved off all the modern advances of technology. I rather suspect that really isn't your intention. I rather expect that you should be looking as hard as you can for ways of allowing reasonable interconnections, certainly those that are not injurious to your system.

I would ask the question, is Motorola equipment injurious to your equipment? But, more importantly, make those kind of business arrangements that return to the system a reasonable and fair return in revenue for the use or the partial use of part of the plant that the general manager alludes to, both in his report and just in his reply right now.

Certainly it's my impression that reputable established business interests such as Motorola are quite prepared to pay a reasonable fee or a service charge for some interconnection privileges. Now it could be based on size of the operations, the number of mobile units involved, and I'm a layman, I don't know what a reasonable fee would be, whether it's \$100 per units, or \$200 per units. What I'm suggesting to MTS is that there are ways, I think, of benefiting by the choice that this kind of opportunity creates for Manitobans and at the same time, improve our revenue base. Not answered specifically in the Miscellaneous was, for instance, the revenues accruing through Manitoba Telephone System's, through the cable television networks. Perhaps the Chairman could supply the Committee with some idea of what kind of revenue MTS derives from its cable contracts signed, principally here in the City of Winnipeg. That would do for starters.

I note in your opening statement that you have renegotiated arrangements for a further 15 years, and I know that of course has been an issue, an interconnect issue, of some long standing. I would appreciate hearing from the general manager whether or not, in his opinion, MTS has signed an acceptable agreement for the next 15 years, acceptable from the point of view that the revenues so earned by allowing the cable companies to interconnect with MTS or use part of the electronic highway of MTS, is that that revenue is in fact helping my senior citizen in Woodlands have an affordable black phone.

I'm assuming that we're not losing money. I would not like to think that I'm contributing to Mr. Moffat's

income or Mr. Comack's income, that we are the recipients of some revenues from those interconnections. I realize that I'm covering a broader field here, but I am not really satisfied with the answer that the general manager gave me. The question specifically involving Inwood and Fraserwood was not a matter of responding to emergency service. In fact, there was no response at all from Manitoba Telephone System for the simple request of supplying those firehalls with telephone service, partly because of a rivalry that you were creating for yourself, knowing that the LGD involved was talking to your competitors.

Quite frankly, I think MTS used pretty heavy-handed techniques in pushing out their competitors in that particular case and I'm simply putting on the record, sure, that was accomplished, but my constituents are paying considerably more than they normally would have had to, even if they would have got your equipment in, in the first instance. They have, I understand, in speaking to the reeve, serious concerns about the legal obligations that they wittingly or unwittingly entered into with your competitor, in this instance, to provide a service that they had initially requested.

MR. G. HOLLAND: Mr. Chairman, the negotiated arrangements with the Winnipeg cable companies are highly beneficial to both parties to those agreements and we'll undertake to provide Mr. Enns with the revenue projections and they also, I believe, satisfy policy positions.

I had understood that the supplier of equipment in the LGD of Armstrong wished to interconnect that equipment with our network and I was not aware that they wished to negotiate an agreement under which they would pay some fair recompense for so doing, but certainly if they will come, we'll talk.

MR. CHAIRMAN: The Member for Wolseley.

MS. M. PHILLIPS: I think the member has raised the important question which I think ties in with previous comments.

I don't think that we can talk, on one hand, about being in a new technological age and how serious the problem of interconnect is; and at the same time, when MTS is looking at alternatives and ways of preparing to meet those contingencies, talk about them in terms of being playing with toys and being in areas where we shouldn't be. I think you can't do both, with respect to the Member for Lakeside.

Interconnect is the problem, whether we set a precedent — (Interjection) — You're quite notorious for doing that, Harry, but I think when you talk about interconnect in a small way, in this situation, the outcome of it is the serious issue of interconnect and the CNCP application and what kind of negotiations we get into with cable companies, the cellular mobile, all those kind of things are all part of the same package and that is the serious issue that we're contending with, whether it's a small way or a large way; and the issue of MTS dealing with modern technologies, with business computers, with all the different voice and data communication possibilities, through our Business Centres at this point is a very serious one that we have to look at for alternative revenue to take into account whatever contingencies come in the future.

It's not playing with toys; it's recognizing the technological age we're very, very quickly moving into and how the telecommunication system is changing and how MTS, as a major telecommunication network in the province, has to be prepared for that and have to look, in the long run, at our revenues so that we can end up providing basic telephone service to everyone in the province at a reasonable rate. I don't think, seriously, the Member for Lakeside has any disagreement with that. I think he understands full well what we're up against.

MR. D. ORCHARD: Mr. Chairman, in establishing the FRED system, could the General Manager indicate whether he can make available to committee for the next time we meet, or prior to it preferably, the business case that was presented to the system upon which they made the decision to enter the FRED service as part of the programming services available to Manitoba communities?

MR. G. HOLLAND: Mr. Chairman, I can certainly provide a chronological history of FRED, starting with resolutions by the Union of Manitoba Municipalities in the late Seventies. This is one of Manitoba's very critical problems of providing emergency services, particularly fire, outside of Winnipeg and Brandon.

We have been involved with municipal authorities and provincial authorities extensively for the past seven or eight years determining those requirements; one of which, of course, is seven-day-a-week, 24-hour-a-day reporting capabilities.

We have designed a plan which is quite capable of serving the entire province, which respects the spectrum and provides proper spectrum management, so that overlapping interference is avoided, and 20 municipalities so far have taken advantage of the service.

We will provide economic facts involved in the development of that service, but we have never designated that as a profit centre program. It is one where MTS feels that it must respond to those requests.

MR. D. ORCHARD: Mr. Chairman, I missed the comments that my colleague from Lakeside made, but it is my understanding that the Motorola-type equipment is No. 1 compatible with the system; No. 2 is considered in a lot of cases to be a superior product to the FRED system and with the advent of a full-scale implementation of FRED will probably not be part of the availability of choice that municipalities will have. Because if, in perusing the business case or the numbers involved in making the decision to get into FRED will find that the system will probably have to expand their service offering and we may end up with a circumstance similar to the FAST Alarm Program. So, Mr. Chairman, I look forward to seeing those figures.

On another area of retailing, could the General Manager indicate whether MTS is the exclusive Manitoba supplier of Midland Radio Equipment?

MR. G. HOLLAND: Mr. Chairman, yes we are.

MR. D. ORCHARD: Mr. Chairman, this is one of the areas that truly aggravates the small business

community throughout Manitoba. We have a circumstance where the Telephone System is the exclusive supplier of Midland Radio Equipment in the province of Manitoba and departments of government, or whatever reason. Now whether it's an expert selling by the MTS personnel who are responsible for that particular profit centre in mobile radios have convinced at least one department of government that Midland radios are the ones to go for.

The Department of Energy and Mines has tendered on November 29, 1984 for an order of Midland Radios. They sent the tender out to various supplying firms when MTS is the only supplier. The tender is a joke that Government Services need not have sent out the tender. All it did was aggravate people and reinforce the case that when you have the Manitoba Telephone system entering into competitive retail operations, that they have the government's ear automatically and exclusively.

If there needs to be a more concrete example of how that system works to the advantage of MTS and to the disadvantage of the private sector, one only has to look at this Manitoba Government Services' tender, tendered on behalf of Energy and Mines, for radios that only are supplied by MTS. It's actually bordering on insulting that Government Services would send this out to the other supply sectors in Manitoba who have no access and no ability to supply that radio.

Mr. Chairman, the Minister might offer a comment.

MR. CHAIRMAN: Mr. Minister.

MR. A. MACKLING: I'm not familiar with the tender and I will take that as notice and consider the concern that the member has raised.

MR. D. ORCHARD: Mr. Chairman, I would appreciate and anticipate the Minister's response on that area.

Mr. Chairman, possibly before I get into this next line of questioning, I might ask the General Manager if he is able at our next sitting that hopefully we'll be able to deal at some length with the MTX operations next Thursday?

I thank the General Manager for the information that he's provided me to date in terms of the balance sheets, the income and returned earning statements of MTX Telecom. Those are for March 31, 1984. My several questions to the General Manager, is it possible to have preliminary indications? I realize the General Manager has indicated that there's roughly a \$50,000 unaudited loss at this stage of the game for fiscal year March 31, 1985, but I wonder if the General Manager might be able to provide me with some basic information as to accounts receivable at year end March 31, 1985 for MTX; accounts payable; cheques issued in excess of funds on deposit; and other outstanding commitments in MTX?

As well, Mr. Chairman, I wonder if the General Manager might be able to provide and, once again, this would be ideal if it was able to be provided to me prior to Thursday so I had an opportunity to peruse it. Last year, we discussed the possibility of dealing with the audited statements of Saudi Arabian Datacom Limited for the 50-50 joint venture company that MTX is involved with in Saudi Arabia. Newspaper information

would indicate that the partnership's First Annual Report for the 18 months ending December 31, 1984, will be presented to MTX directors in Winnipeg in April.

Last year when I inquired as to the availability of those financial statements for perusal of the committee, Mr. Holland indicated that they fully anticipated that that information would be available to the committee. I wonder if he might want to make available prior to - well, even today if that was possible in anticipation of Thursday's Public Utilities meeting dealing with MTX and its subsidiaries.

MR. G. HOLLAND: Mr. Chairman, we'll make available any information we have at this date to Mr. Orchard as quickly as possible.

The financial statements are not available yet and that board meeting has not been held. The President of MTX is in Saudi Arabia. With that difficulty, we'll try and provide as much as possible.

MR. D. ORCHARD: Well, that would be appreciated, Mr. Chairman.

Mr. Chairman, last year during the perusal of the MTS Annual Report, we dealt at some length with the FAST system, the Manitoba Telephone System's entry into the alarm service industry, and I note that Mr. Holland made reference to the fact that some 2,700 units of Winnipeg Regional Housing Corporation are now using the FAST system.

Mr. Chairman, the General Manager provided me with a series of information in July of last year, following questions I posed to the telephone system in last year's perusal of the Annual Report. The information provided on the FAST system took us to fiscal year 1983-84.

I wonder if the General Manager might be able to provide 1984-85 figures in terms of revenue, operating expense and capital purchase for FAST; as well, Mr. Chairman, it would be interesting to have a breakdown of the operating expenses charged to the FAST System. If that was available for this Thursday, that would be much appreciated.

I asked a question of the General Manager last year as to what interest rate was assigned to funds borrowed for FAST. The answer indicated that it ranged from 10.35 percent to 15.25 percent for the period of time in which MTS invested in capital purchases for the supplying of the FAST service.

Now, Mr. Chairman, my question to the General Manager is, in view of the fact that they have a \$4,562,000 capital investment in FAST, could the General Manager indicate what the yearly interest rate is on that capital investment as charged back to the FAST system, and whether indeed that interest charge becomes part of the operating expense as broken out in his answer of July 23rd? I appreciate that the General Manager, in all probability, doesn't have those answers at his fingertips and will supply them at a later date.

Mr. Chairman, I also want to thank the General Manager for providing me with the business case that led to the decision to enter into the alarm reporting service with the FAST system. In perusing that, a number of interesting questions come up, and I hope I can get them in before we end.

Could the General Manager indicate the number of customers that are currently on the FAST system, and

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as I indicated earlier the revenues and expenses and capital expenditures for 1984-85? In addition, could the General Manager break the revenue down to indicate how much revenue the telephone system is receiving from some 2,700 units that are now supplied with the FAST alarm service in the Winnipeg Regional Housing Corporation and indicate who pays that monthly bill or yearly bill, whatever the circumstances are?

Mr. Chairman, I would also appreciate receiving a breakdown on the 4.562 capital investment figure as to what is involved in MTS' investment in the STUs versus the computer versus other abilities or other equipment needed to provide the service.

Mr. Chairman, also, in perusing the business case as provided by the General Manager, can the General Manager indicate whether the new alarm company - it's my understanding that this FAST system was brought in on the basis that, preliminary investigations indicated that a new alarm company was prepared to undertake a contract with MTS for installation of up to 1,000 STUs; in other words, have 1,000 customers on the FAST system if MTS provided it. That alarm company was Telegard Limited.

Could the Minister indicate, to date, what the customer penetration of Telegard has been if that is not disclosing confidential information, but more importantly later on in the business case that's made, whether or not - I'll read a sentence from the business case. It says, "However, MTS' initial customer, Telegard, is being asked in a contract to accept a bond to protect the system's preliminary investment." My question to the General Manager is whether MTS has had to, for any reason, exercise any of the conditions of that bond which was designed to protect the system's preliminary investment in FAST?

Furthermore, Mr. Chairman, as a comment, I note on Page 5 in the list of recommendations "Recommendation No. 3 indicated that the issuance of a letter of intent to Industrial Programmir Incorporated of New York," those are the people who are supplying the STUs, "... for the purchase of 1,000 units for the sum of \$615,000 U.S., subject to board approval with a cancellation clause of up to \$60,000 should the board not approve." My question to the General Manager is, is that a normal method procedure to enter a contract with a cancellation clause which would cause the system to pay \$60,000 if the board didn't approve? Is that the normal step-by-step process of entering into contracts, in other words basically have the system committed so that the Board has to make the decision to accept the recommendation of going into FAST; otherwise, they will have lost \$60,000 for failure to carry on with the purchase of, in this case the 1,000 STUs.

MR. G. HOLLAND: Mr. Chairman, we'll undertake to provide as much information as is available.

MR. CHAIRMAN: This Committee on Public Utilities and Natural Resources will continue its deliberations on the Annual Report of the Manitoba Telephone System at the next meeting of this Committee scheduled in Room 255 on May 2, 1985, at 10:00 a.m., this coming Thursday.

The time being 12:30 post-meridian, what is the pleasure of the Committee?

HON. A. MACKLING: Committee rise.

MR. CHAIRMAN: Committee rise.