



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

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

42 Elizabeth II

Chairperson
Mr. Jack Reimer
Constituency of Niakwa



VOL. XLII No. 5 - 7:30 p.m., TUESDAY, JUNE 8, 1993

**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
CUMMINGS, Glen, Hon.	St. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	NDP
DOER, Gary	Concordia	NDP
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	Liberal
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
GRAY, Avis	Crescentwood	Liberal
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda, Hon.	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
ORCHARD, Donald, Hon.	Pembina	PC
PALLISTER, Brian	Portage la Prairie	PC
PENNER, Jack	Emerson	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
STEFANSON, Eric, Hon.	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary, Hon.	Fort Garry	PC
WASYLYCIA-LEIS, Judy	St. Johns	NDP
WOWCHUK, Rosann	Swan River	NDP
<i>Vacant</i>	Rossmere	
<i>Vacant</i>	Rupertsland	

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES
Tuesday, June 8, 1993

TIME — 7:30 p.m.

LOCATION — Winnipeg, Manitoba

CHAIRPERSON — Mr. Jack Reimer (Nlakwa)

ATTENDANCE - 10 — QUORUM 6

Members of the Committee present:

Hon. Mr. Findlay, Hon. Mrs. McIntosh

Messrs. Alcock, Dewar, Laurendeau,
McAlpine, Pallister, Reimer, Sveinson, Ms.
Wowchuk

APPEARING:

Tom Stefanson, Chairperson, Board of
Commissioners, Manitoba Telephone System

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

Heather Nault, Vice-President, Corporate and
Regulatory Affairs and Corporate Secretary,
Manitoba Telephone System

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

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

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone
System for the year ended December 31,
1991

Annual Report of the Manitoba Telephone
System for the year ended December 31,
1992

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Mr. Chairperson: Will the Standing Committee on Public Utilities and Natural Resources please come to order. We have before us the following reports to be considered: the Annual Report for the Manitoba Telephone System for the year ending December 31, 1991, and the Annual Report for the Manitoba Telephone System for the year ending December 31, 1992. Copies of the reports are available to the committee members on the table behind me.

I would invite the honourable minister responsible to make his opening statement and introduce the staff present this evening.

Hon. Glen Findlay (Minister responsible for the administration of The Manitoba Telephone Act): Mr. Chairperson, if the committee is willing, we can pass it right now.

Mr. Chairperson: I doubt that they are.

Mr. Findlay: Okay. I would like to introduce the Chairperson of the Board, Mr. Tom Stefanson, and President and CEO, Mr. Oz Pedde. They will each be making opening comments.

We have here to consider the '91 and '92 Annual Reports of MTS, which are the documents officially before the committee. It is our intent to comment on the contents of these documents and to answer questions about them.

However, members of the committee will recognize that telecommunications is one of the most dynamic industries in the world. Because much as happened in the field, we will be bringing you up to date on recent and significant developments.

As far as the '91 report itself is concerned, I believe the members will observe the corporation did not enjoy the strong net earnings of the previous two years. The net earnings continue to be positive, but dropped from \$39.4 million to \$14.6 million, and the 1992 annual report shows positive net earnings once again but a reduction as compared to the previous year, net earnings in 1992 being \$6.1 million.

Despite reduced net earnings, MTS nevertheless was able to make progress on the support and service initiatives such as implementation of a universal Individual Line Service Program and network modernization. Mr. Pedde will give you the highlights and the progress on this particular program.

The change in the financial results of the company over the past two years resulted from a number of factors. One, of course, is the ongoing effect of national economic downturn. The other

notable factor was the impact of lower long distance rates established by Stentor and MTS in response to customer service. Mr. Chairperson, I can report that over the last four years, long distance rates have gone down by over 50 percent.

When I represented the company's annual report to you last year, I explained that MTS was being affected by developments taking place generally in the telecommunications industry. I noted in particular that the federal regulator, the CRTC, was reviewing an application made by Unitel Communications Inc. and other companies seeking authorization to compete directly in the long distance telephone service market.

I also noted that Manitoba's position in these proceedings was in support of competition provided that the commission protected the universality of service and the affordability of basic service for ordinary telephone users.

Members of the committee will know that after having held weeks of public hearings, receiving tens of thousands of documents and hearing testimony of many expert witnesses, the CRTC issued a decision on June 12, 1992, just about a year ago, and this historic ruling, labelled CRTC Telecom Decision 92-12, will allow full competition on the long distance market in most areas of Canada.

The essence of the decision was stated this way, and I quote: The commission has concluded that increased competition subject to the appropriate terms and conditions would be in the public interest. In arriving at his conclusions, the commission determined that toll rates should be reduced to increase affordability of toll services; in general, competitiveness of Canadian business, in particular, and to maximize use of Canadian telecommunication facilities.

In the view of the CRTC, competition in long distance will have many benefits. The decision notes that, and I quote: The commission considers the competition permitted in this decision will increase pressure on the telephone companies to minimize their costs. More importantly, competition not only can be expected to increase pressure to reduce rates, but increase choice and supplier responsiveness, particularly in terms of the number of price and service packages tailored to address specific needs and applications of a greater variety of user groups.

The CRTC, in concluding that long distance competition to serve the public interest recognized not only the telephone companies would have to respond to competition by reducing their costs and becoming more productive, but also that new competitors would have to contribute their fair share in support of local service.

It determined that, with such support, there would be no significant impact on universal, affordable basic service. The decision reads, and I quote: In the commission's view, competition need not add any significant increases in local rates if contribution payments are adequate. The market expands and the respondents increase efforts to minimize costs in order to capture or retain market share. The commission is satisfied that the terms and conditions it has established will address these issues.

The decision appeared to satisfy the position we put before the commission in asking to protect universally affordable, basic service. Five months later, after legal challenge to the decision that followed their course, I issued a statement announcing that Manitobans would join the telephone customers in eight other provinces by gaining access to competitive telephone service in the province.

There are compelling reasons for taking this course of action. The first and most important one is the question of equity. Most Canadians have begun to enjoy the benefits of competition and will have a choice of suppliers and all of the other benefits that competition can provide.

We concluded that there is no way anyone can or should say to Manitobans, you must not have advantage of the long distance telephone competition that is available to the vast majority of Canadians.

The second reason is, as a matter of general principle, we believe that competitive markets serve the public interest, because they encourage the efficient and economic delivery of innovative goods to consumers.

One company cannot do everything in this expanding business, given the rapid proliferation and diversity of the telecommunication services being employed. These were the main reasons my government previously decided to allow competition in business terminal equipment and private lines in this province.

The CRTC's decision has provided a competitive model that is appropriate for the long distance market, and that will produce the desirable effects competition offers in other sectors of the economy.

Third, we are satisfied that the general terms and conditions identified by the CRTC will ensure that basic, local service will continue to be universally accessible and affordable.

As a matter of policy then, long distance telephone competition is coming to Manitoba. However, in setting our policy, we also recognized that we should not assume that the CRTC's decision, in all the specific elements, applies perfectly to the conditions that exist in this province.

Therefore, we issued an Order-in-Council directing the PUB, using the CRTC's decision as a model, to review suggested rates, terms and conditions that apply to companies connecting to MTS facilities for the purpose of providing competitive long distance service.

The fundamental intent of this review is to ensure that these terms and conditions reflect Manitoba's needs and circumstances. The PUB began its public hearings on June 7 of this year. When that process is complete, we will receive its report and give official authorization to MTS allowing it to connect its facilities with those competing long distance carriers.

Mr. Chairperson, we recognize that this step is the most important one we have taken to date in the telecommunications industry. However, MTS has, for several years, been making adjustments to address the continuing changes in the industry. Our previous policy decisions have helped the company to prepare for these upcoming changes by requiring that the corporation run itself in a businesslike fashion and to accept higher levels of competition in other markets.

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We do not suggest that the changes the company has made in the past have been easy, or that those it must make in the future will be any less difficult. What is obvious and undeniable, however, is that change in telecommunications is part and parcel of what the industry is all about. Of equal importance, telecommunications is a national and global business—when significant changes take place anywhere, they eventually take place everywhere. Manitoba is not an island that can or should resist change. Our government is intent on

ensuring that Manitobans will be able to reap all the benefits that these inevitable changes will permit while giving MTS the policy direction and support that will allow it to succeed in a new environment.

I have asked Mr. Stefanson and Mr. Pedde to provide you with a brief description of what the corporation is doing to adapt to these realities of change.

Mr. Tom Stefanson (Chairperson, Board of Commissioners, Manitoba Telephone System): Mr. Chairperson, this is the fourth time I have had the pleasure of presenting MTS' Annual Report to the committee.

In his comments, the minister has provided you with an overview of the momentous changes that are taking place in the telecommunications industry. He has underscored the fact that these changes are inevitable and that MTS is being asked to adapt to them, not only since it must, but also because those changes have overall benefits for telecommunications users in Manitoba and the economy of the province.

One of those benefits can be seen in the pages of the annual reports now before the committee. We have explained in previous years that MTS is responding to the general trends in the industry, and one of the things it has been doing is reduce its out-of-province long distance rates. While there have been local rate increases, the effect on the bills of residential customers has been negligible.

There is a chart on page 5 of the 1991 report that shows what this means. It demonstrates that between 1983 and 1991, while the consumer price index rose by nearly 45 percent, the average residential telephone bill did not rise at all. Moreover, while total revenues were down in 1991, long distance calling increased by 6.4 percent. Taken altogether, this means not only that cost increases for consumers have been modest, but also that long distance is now, more than ever, an important part of the telephone use by residential customers. Competition in long distance service therefore will bring clear and tangible benefits for Manitobans.

As the minister explained, however, all who are involved in the industry recognize that there is an important link between long distance service and local service. Last year, I told members of the committee that with reductions in long distance rates, we as a company are 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. It is generally understood that the cost of providing basic local services is substantially higher than the prices charged to the consumers. It is the cross-subsidies like long distance that in the past have made up the difference between the cost and the price of local service.

The CRTC understood, and the minister appreciates, that the knee-jerk and simple response to the loss of these cross-subsidies cannot be substantial increases in local rates. While modest rate increases in local rates are likely to be required in the future, as they have in the past, we recognize that the corporation has an obligation to demonstrate to its owner, its customers and its regulator that it has taken all necessary steps to utilize its imagination, energies and resources to control its costs and to generate new revenues before it asks the public to accept higher local rates.

The company takes the position that over time the best way it can protect the interests of those it serves is to get its financial house in order. In 1992, I emphasized to members of the committee that we must pay particular attention to how we manage the finances of the corporation. I said that the MTS board has set a number of long-term financial goals, the main ones being a reduction in the corporation's debt ratio and the full funding of the company's pension liability by the turn of the century.

In the light of changing circumstances, we are staying the course on the funding of the pension liability but have decided to strive to accelerate and intensify our efforts to reduce the corporation's debt ratio. It is our intention to reduce it from its current level of about 80 percent to roughly 70 percent over a period of five years. The need to take these measures is readily apparent. As we face the challenges of change and competition, we will require all the financial strength and flexibility we can muster. With high debt loads and the consequential burden of servicing, the corporation will not have the resources available that are needed to address a competitive market.

The increase in intensity and the nature of competition add to the urgency of addressing the debt issue. The answer is not to turn the

corporation's back to the reality of competitive forces, nor can it ignore the reality of its debt obligations. The plain fact of the matter is that the corporation's debt obligations are high, and competition or no competition, they must be paid. If the burden grows, members of this committee know full well who will bear it—future generations.

Our intent, therefore, is to take gradual and prudent steps in reducing our debt ratio in order to avoid the inevitable dramatic rate increases that would be required in the future if we do not adopt reasonable measures now.

The evidence of the corporation's commitment to control its finances is reflected in the 1991 Annual Report. Despite the fact that total operating revenues declined as compared to 1990, the long-term debt increased, MTS was able to maintain its debt equity ratio.

Facing continuing service obligations as well as increased competition, the company in 1991, and with even vigour in 1992, has been controlling its costs. I can assure you that the board has been requiring that the corporation get the most out of its available resources. We are demanding that management challenge every expense. Budgets have been cut and then cut again.

While no one enjoys this kind of restraint, we recognize that our customers are making these demands of themselves. We can demand no less of MTS. Our success is demonstrated in being able to keep the growth of our expenses below the inflation rate.

In addition to addressing the debt ratio and controlling our expenses, we are also working to reduce the structural costs of the company. One of these initiatives has received some attention in the press. The need to downsize has been recognized by companies in every industry and by most governments throughout the world. MTS is no exception.

Last year, we announced that the company would be reducing its staff complement by 1,000 positions over a period of five years. As a result of modernization and improved equipment, fewer people are needed to run the Manitoba Telephone System. Our present plan is to reduce the size of our staff complement through normal attrition and early retirement programs. We are optimistic that our goal can be met by these means.

Recognizing that we must live within our means and retain only those resources that can be justified, MTS has taken steps to enhance its long-term productivity. We are implementing a corporate-wide process that over time will help us to work more efficiently while improving the quality of our service.

The board, management and staff of MTS corporation accept the reality of change. We understand that the adjustments that the corporation must make will challenge us, but at the same time, we are confident we can make them. Mr. Pedde, after describing some of the highlights of the 1991 and 1992 annual reports, will be telling you about the strategies we are pursuing that we believe will ensure our success.

Mr. Oz Pedde (President and Chief Executive Officer, Manitoba Telephone System): Mr. Chairperson, this is the second time I have appeared before the committee, and I would like to begin my remarks by giving you a brief overview of both the 1991 and 1992 annual reports. First, however, I should point out to those who have jumped to the five-year review on page 24 of the 1992 report, that they will find that there is a difference in the numbers for three items listed for 1991 and before on that page as compared to the same numbers as shown in the 1991 report.

The figures for 1991 and earlier years regarding total operating revenues, total operating expenses, and other revenues in this listing, as pointed out in a footnote, have been restated to conform to the 1992 presentation. This means that adjustments have been made to reflect a different way of presenting uncollectibles and the interest earned on pensions. This new presentation will appear in all future reports.

Working on the 1992 format the highlights are: Total operating revenues were \$527,498,000 in 1991, which is a decline from 1990's figure of \$537,027,000. Total operating revenues were nearly flat between 1991 and '92. Total operating expenses were \$444,122,000 in 1991 compared to \$435,213,000 in 1990. In 1992 total operating expenses were \$449,307,000. MTS' net income in 1991 was \$14.6 million as against \$39.4 million in 1990. In 1992 it was \$6.07 million. Net construction expenditures were \$193.189 million in 1991 while they were \$193.278 million in 1990. In 1992 they were \$171.976 million.

The minister noted that during the reporting year the corporation was able to mark continued progress in its Individual Line Service Program and the modernization of the network. These are the details: 9,711 additional customers in 26 communities were provided with individual line service in 1991. In 1992 it was implemented in 30 exchanges covering 7,686 customers. In 1991 digital switches were installed in three exchanges in the Northern Region, nine exchanges in the Western Region, 16 exchanges in the Eastern Region and 10 in the Winnipeg Exchange.

In 1992 digital switches were installed in an additional 20 exchanges in rural areas. Digital switching also was made available to an additional 20,000 customers in Winnipeg. With these upgrades, nearly 87 percent of all MTS lines had digital capacity by the end of the year.

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On the day after the reporting period, January 1, 1992, Urban Unlimited was launched, adding 27,000 customers to the Winnipeg Exchange and 6,500 to the Brandon Exchange. Through this program, customers in the exchanges adjacent to Winnipeg and Brandon have the option of subscribing to a flat-rated calling plan for the calls they make to those urban centres.

Community Calling, which provides expanded toll-free calling areas, was extended to an additional 20 exchanges in 1992.

Additional service improvements were made in 1991 and 1992. These included the following: The corporation applied to the Public Utilities Board to conduct a yearlong trial of Call Management Services in Brandon. That application was approved in early 1992, and the trial was completed in February of this year. The trial exceeded expectations and the corporation has received many requests from customers. Therefore, MTS has applied for authorization to implement the service in other parts of the province, starting in Winnipeg. The PUB approved this application for implementation on June 1, 1993.

In 1991, MTS added to the value and utility of its Custom Calling Services through the addition of Cancel Call Waiting, Toll Call Forwarding and Teen ring.

Late in 1991, the company introduced the Invisible Answering Machine. This is a residential

voice messaging service which has been enthusiastically received.

In 1991, MTS constructed 29 cable television distribution systems through agreements with Westman Cable TV and A1 Cablesystems.

In 1992, the company extended its fibre optics network to Flin Flon and Thompson from The Pas.

The company continued its aggressive expansion of payphones in 1991, adding to their number by 20 percent in three years. The 7,000th payphone in the province was installed during the year in Steinbach. MTS also installed five teletype payphones to assist deaf and hearing- and speech-impaired persons. This is the highest number of any Canadian telephone company.

Initiatives were also taken to enhance telecommunications service of interest to business users in 1991 and 1992. These included: a low-cost entry level 800 service, as well as a general restructuring of 800 coverage; two long distance discount programs called Advantage Canada and Advantage U.S. for high volume users; FaxCom, a discount plan for long distance fax users; Local Digital Channel Service, which provides for the transfer of data without the use of a modem; the expansion of coverage of cellular service making it available to nearly 80 percent of all Manitobans; Megalink, which is an Integrated Services Digital Network service—serving large business, it allows voice, image and data on the same channel; new features and rates for WATS, Advantage and 800 service.

While the events of 1991 and '92 are important, clearly the rapid developments of the past several months are of particular interest. As the minister and the chairman have said, the advent of competition in one of the company's major markets is bringing with it challenges that in many ways are unprecedented in the history of MTS.

It goes without saying that we are doing hundreds of specific things to prepare ourselves for the changes taking place. What I would like to focus on are the broad-brush initiatives we are taking, and the best way of explaining these to you is to give you the same picture we painted for all MTS employees at meetings that took place in February of this year. We told those who work for the corporation that MTS is part of a global industry in which competition is the order of the day and where the monopolies of television companies are

rapidly becoming as distant a memory as rotary dial payphones.

Choice, we explained, is what competition is all about. We said, when customers can choose among suppliers, they decide who succeeds or fails in the marketplace. This means, in turn, that high-quality service is not merely an important part of what we do, it becomes the only game in town. It separates the losers from the winners.

MTS, we emphasized, knows exactly on which side of that equation it intends to land. That is why we have laid out a plan we call Strategies for Success. In short form, this is how we described these strategies to MTS employees.

Looking to the future, MTS is focused on leveraging the most out of its network infrastructure for revenue generation. This means advanced network offerings such as Call Management Services, Advanced Intelligent Network Services, such as Telephone Number Portability and Voice Messaging Services, which add to the bottom line of MTS while, at the same time, offer our customers the highest quality of service from a modern telecommunications network.

While looking toward these revenue opportunities, we intend to excel in sales and service. To do this, we will orient our sales efforts away from just selling to one where we look for ways and means of making customers successful. Some of the specific initiatives we will take will include continuing to work with Stentor in reducing long distance rates and improving our billing systems. Our purpose, overall, will be to meet or exceed what our customers expect of us.

Given the national and global nature of our industry, and in order to excel in sales and service, we will need more than our own resources to do the job. Therefore, we will be seeking strategic alliances with providers of services as well as major suppliers. We also will be forging a partnership in progress with our unions by involving them more in our Strategies for Success. Indeed, MTS' unions played a key and constructive role in the recent meetings with MTS employees.

The chairman gave special attention to another one of our strategies, which is to improve our financial position. A critical element of that position, he noted, is the improvement of our debt ratio.

The last, but not least, of our Strategies for Success will be to implement what we are calling Quality Focus. This is not a program, but rather a process that we will adopt as an ongoing part of everything we do. The intent of this process is to improve, on a continuing basis, the quality of the service we provide to the customers who use our service, as well as the internal service we, as employees, provide to one another as a means to deliver service to the public. The goal, in all cases, always will be to achieve customer satisfaction. If we can make our customers satisfied, we have no doubt that we will be successful in a very different kind of telecommunications world.

Mr. Chairperson, and the members of the committee, MTS understands the magnitude of challenges it is facing, and it is not kidding itself or anyone else that the path will be smooth. For a company that has worked for generations in a monopoly environment, and in that time has accomplished much and given a great deal to Manitoba, dramatic and far-reaching transformations do not come easily, but conditions are with us now that call for transformation.

We must change, and will change, to meet them. MTS has had to remake itself in the past, facing earlier challenges to technological innovation as well as economic adversity and high customer demands. Each time the company did what had to be done. It improved itself and, as a result, was able to be a better provider of service for its customers. So after 85 years of distinguished service to Manitoba, we truly can say, once again, we have only just begun, and with equal conviction, we have reason to believe that the best is yet to come.

Mr. Chairperson: Thank you. Does the critic for the official opposition, Mr. Dewar, have an opening statement?

Mr. Gregory Dewar (Selkirk): Mr. Chairperson, I only have a short statement, and that is, of course, I just wish to thank and welcome Mr. Stefanson and Mr. Pedde to the proceedings this evening. I look forward to their answers to our various questions.

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We have a number of concerns on many issues associated with the operation of the Manitoba Telephone System. We are concerned that the Manitoba Telephone System is no longer representing the interests of ordinary Manitoba and

that the government, with its wholehearted endorsement of deregulation, competition, all these other Conservative buzzwords, that they are now representing the interests of large business users.

We were speaking earlier about competition. I do not think that the competition that we talked in earlier statements is a fair or true competition. I do not think that Unitel will be offering long distance lines between Selkirk and Winnipeg or Winnipeg and Ste. Anne, for example. It is more likely to be offering services between Toronto and Winnipeg, taking away the cream of the long distance revenues.

Mr. Marcel Laurendeau (St. Norbert): Is Selkirk still long distance, Gregory?

Mr. Dewar: The member for St. Norbert asks if Selkirk is still long distance. As a matter of fact, it is. I believe we contribute significantly to the revenues of the Manitoba Telephone System. I know I do.

We have other questions related to the 10-day layoff, the service for the future, the directory, many, many questions we are interested in raising. We will be doing those throughout the proceedings this evening.

Mr. Chairperson: Thank you, Mr. Dewar. Does the critic for the second opposition, Mr. Alcock, have an opening statement?

Mr. Reg Alcock (Osborne): Mr. Chairperson, I feel a little bit like I have heard from the future and the past now.

I am actually looking forward to the discussions tonight. I really appreciate the written statements from Mr. Pedde and Mr. Stefanson in addition to the minister's.

It is a really interesting time for the corporation and, frankly, from the operating statements and the PUB application, the corporation seems to be in relatively better shape than I would have expected it to be given some of the pressures that you are experiencing.

I would like to frame some of the discussion, though, that I would like to have tonight. I am interested in the impact of some of the CRTC changes on the debt position of the corporation right now.

I am particularly interested in what is going to happen as you downsize. You mentioned a thousand employees, and I think that is a very

significant concern, I am sure, for the corporation and it certainly is for the House. I would like to have a sense of how that is being implemented and what sort of negotiations are taking place with the employees, what sort of services are being provided to them.

I talked briefly about the debt, I mentioned the debt position of the corporation. I am also concerned about what seems to be a growing blending of the roles of the CRTC and the PUB and wondering if that does not put the corporation into a somewhat more difficult position, if the regulatory environment becomes more difficult.

We will get into that. I mean, there are a number of specific questions we can get into. I would like to say at the outset that I am pleasantly surprised and I am rather impressed with the work that has been done by the corporation. I think that all of the staff should feel pretty positive about this report, given the very, very difficult times over these last few years.

Mr. Chalperson: I would appreciate some guidance from the committee. Shall we consider each report separately or pursue a general discussion on both?

Mr. Alcock: If the minister is willing, I would like to pursue this in a general broad-ranging discussion of the two reports and whatever other areas that people are prepared or willing to get into, and perhaps we can wrap this up rather quickly.

Mr. Chalperson: Is it agreed? [agreed]

Mr. Dewar: I would like to begin tonight's discussion with a question to the minister. I was wondering if the minister has any plans or government has any plans to privatize the Manitoba Telephone System.

Mr. Findlay: Over the course of time, Mr. Chairperson, we have introduced a number of policy decisions which have introduced competition from whatever, whether it is private line interconnector or the long distance competition, whether it is terminal attachments for the business community.

In terms of the specific question of privatizing, these are changing times. It is not anything we have any intent on at this time, but one could not rule out what decisions might have to occur down the road as to the changing telecommunications environment. I can assure the member that there

is no consideration in that regard at this particular time.

Mr. Dewar: I would like to ask the chairman of the board, has the board discussed the issue of a potential privatization of the Manitoba Telephone System?

Mr. Stefanson: The board has not discussed the issue of privatization. We view any discussion on the privatization of MTS as being a government matter, and we see our role as being more in setting the policy and the direction of the corporation and not discussing whether the owners should be selling their assets or not selling their assets.

Mr. Dewar: In terms of your own personal opinion, do you think MTS should be privatized?

Mr. Stefanson: At this given point of time in 1993, I would say that the corporation is doing well, as Mr. Alcock has suggested, as a Crown corporation. The corporation, I believe, is very, very important to the economic development needs of the government in Manitoba. From that point of view, I think that if the people in Manitoba own the corporation in this period of time when everybody is scrambling for economic development, as the minister has stated—I think my personal opinion is that I could not say what my position would be five, 10 years down the road.

Mr. Dewar: I am just going to ask some questions of Mr. Findlay on deregulation and specifically Bill C-62 which is currently before the House of Commons. I was just reading an article in, I believe it was, the Globe and Mail where the bill is not passed yet. I want to know what happens if the bill is not passed. How would this impact upon the Telephone System or the direction taken by the corporation?

Mr. Findlay: Well, the member misuses a word right at the beginning of his comments. He uses the word deregulation. Telecommunications in Canada is not going through deregulation—introducing competition in a regulated environment, and CRTC is there as the regulator. In the course of looking at whether competition should or should not happen in this country, we advocated that it should not be two companies, duopoly in competition. It should be open to any business, any entrepreneur who wanted to get involved in supplying competitive services. So I wanted to be very clear on that. He continually misuses the

word. It is not a fair assessment of what is going on.

Bill C-62, it has been in the works for years and years, as long as I have been minister, some elements of it, and it is in front of the House of Commons right now. All intentions would indicate that it is going to pass, but until it does—I have waited many months in the past for it. I assume it will, and if it does, we have a Memorandum of Understanding, the transfer of regulation that is in place, and some amendments have been made to the bill that put into effect certain dates that were in the original MOU that are more workable in the revised bill that is in front of the House of Commons.

Mr. Dewar: Last year, in the Estimates, you made note that you would be making a representation to the Senate committee and the House of Commons committee on this specific piece of legislation. Did you make that representation?

Mr. Findlay: A member of my department did on behalf of the government, yes.

Mr. Dewar: Could you give us a review of the comments made by that individual?

Mr. Findlay: Generally, we supported the bill. As I said earlier, it had been a long time in preparation. Certainly my staff and staff from telecos across the country worked on it for many, many years. We certainly recommended provision for regional sensitivity in policy principles of the bill.

In our presentation we requested four amendments. The first amendment was that the date in which the act has to come into effect for MTS would be set at December 31, 1993, or such earlier date as requested in writing by the government of the province of Manitoba. The second amendment, that the date specified for the end of the transitional period during which a jointly selected method of economic regulation can be tested would be December 31, 1997. The third request was to ensure the provincial ministers enjoy at least a 10-working-day advance notice before the federal minister acts. And the fourth one is that any reference to research and development in subsection 7(g) to apply throughout Canada, not just within Canada which was what was in the bill.

* (2010)

Mr. Dewar: So you are satisfied that the MOU you signed in January of '92—how does that relate to the current piece of legislation?

Mr. Findlay: It sets the terms and conditions for the transition of MTS from PUB regulation to CRTC regulation. Bill C-62 enacts that.

Mr. Dewar: As you mentioned, the regulator for the Telephone System is still the PUB. I believe this week it is hearing representations from different groups concerning competition in long distance. Has MTS made a representation to the PUB as of yet?

Mr. Pedde: Yes, we have.

Mr. Dewar: Would you mind giving us a review of the presentation, please?

Mr. Pedde: Relative to the interconnection hearings that are before us?

Mr. Dewar: Yes, please.

Mr. Pedde: Mr. Chairperson, the essence of our presentation is to present the terms and conditions of interconnection for competitors in a Manitoba environment or a Manitoba-specific environment, but applying in broad terms the rules as declared in CRTC decision 92-12, which introduced toll competition in the rest of the country except Saskatchewan.

Mr. Dewar: In part of your presentation were you not to make some comments about cross-subsidization?

Mr. Pedde: Yes, Mr. Chairperson, but only indirectly. There is a mechanism not so much pertaining to cross-subsidization.

As the minister alluded to, the game in Canada is different than in the United States. There is no divestiture. There is no deregulation. There is competition, and part of the competition is preservation of universally affordable local rates. Therefore, there is a mechanism by which the competitors are to contribute to sustaining local service.

So what is under debate is agreeing on the arithmetic, how much the competitor should contribute based on the Manitoba-unique situation, but the methodology is à la 92-12 decision so that is what we commented on.

Mr. Dewar: I was reading in the paper today where I believe the Telephone System is requesting 4.2 cents per minute.

Mr. Pedde: Yes, Mr. Chairperson, and I guess that is probably the simplest way to distill a fairly complex formula or mechanism, but it says the debate is raging in the arithmetic whether 4.9 cents

a minute is the correct number or 4.3 cents is the right number. Our competitors are saying 4.3 cents and obviously we want the bigger number 4.9 cents. We will probably come down the middle, I hope.

Mr. Dewar: If it takes the less amount, what effect would this have upon the ability of MTS to maintain subscriber rates as they are?

Mr. Pedde: Mr. Chairperson, we do value each and every dollar, but in the overall scheme of things, we are close to a \$600-million revenue company and this would be a fraction of a percentage impact if we lose or if they win 4.3 cents a minute.

Mr. Dewar: Who is paying for the PUB hearings?

Mr. Pedde: Mr. Chairperson, the rules for the payment of the Public Utilities Board are through provincial government legislation and the payment mechanism is on the basis of a fixed cost and a variable cost. The fixed cost is all the companies that are subjected to the Public Utilities Board on a pro rata basis pick up a portion of the fixed cost.

The variable cost pertains to the cost of very specific hearings. Normally there are no absolute guidelines. Normally the applicant pays for the bulk of the variable cost. Of course, we have made the argument, and probably it is falling on deaf ears, that since in this case we are not the applicant, we should not pick up the cost of the hearings, our competitors should, but I trust the wisdom of the PUB will see what the right answer is.

Mr. Dewar: I would like to refer to a document, if I may, the Manitoba Telephone System Key Result Area No. 2, A competitive preparedness for message toll competition from March 1991, and part of the Executive Summary.

Again I quote: Message toll competition will have significant financial and operational impacts on the Manitoba Telephone System. Capital expense resource requirements are expected to increase dramatically, while subtle revenues experience a substantial decline. The following points summarize the impacts. Network and information system modification loans were required at an estimated \$88.75 million to \$89.65 million in additional capital expenditures. Is that still correct?

Mr. Pedde: Mr. Chairperson, I am not sure if I know of the exact numbers, but the costs to

prepare the Canadian telephone network for the competitor is in the hundreds of millions of dollars, and to look after the interface devices for the next 10 years, that has been acknowledged by the regulator and there is a repayment mechanism for that cost.

The repayment mechanism is on the basis as whoever has the bulk of the market share will pay that mechanism. I do not know what the exact number is. If that is germane, I was remiss earlier in being a little nervous, not introducing our team. If I can do that right now, and then Mr. Gordon can provide the specific numbers.

We have our Vice-President of Finance, Bill Fraser; Mr. Barry Gordon, Vice-President, Network Operations; and Heather Nault, Vice-President, Corporate Communications and Regulatory Affairs.

The specific number, I think it is in that ballpark, but that is the first up-front capital plus the ongoing support up until the year 2002, I think. Barry, if you have a more correct number, I do not have it, but it will be in that ballpark.

Mr. Dewar: The next quote: Subtle revenues are expected to decrease by \$70 million in 1998, dropping to an estimated \$118 million loss by the year 2002, assuming a competitive situation in the 1994 time frame. Is that correct?

Mr. Pedde: Mr. Chairperson, yes, that is correct, but it has to be put in the context that we know what kind of dollars we are describing here, because it is saying competition is here. The regulator has said if competition is good for Canada and Canadian consumers, then we have to create an environment that at least the smart competitors can thrive.

They said, our view of the world is that by the year 2002, there should be in the neighbourhood of 30 percent of the business should be to the competitors. So you look at our toll business and say, what is the number, take 30 percent of that, and that is probably that number.

Now it is driven by a number of things. It is also driven by the price reductions that we impose on ourselves, so we do not lose even more to the competition.

Mr. Dewar: What impacts would \$118 million loss have on the Manitoba Telephone System in the year 2002?

Mr. Pedde: It depends on whether we sit by and do not do anything about it or we aggressively find

new revenue opportunities, as I mentioned. We have made some great strides in some areas and we are going to continue to do that. We are not going to just roll over and play dead in terms of losing that revenue.

Secondly, as I mentioned earlier, the competitors will have to make a subsidy to make up for what they take away from us.

* (2020)

Mr. Dewar: At the conclusion of the document, it mentioned that sort of a reference plan, indicating which customers in Manitoba will see the following reductions in long distance rates. They have a market share on one side, and then the assumed reductions on the other. Residents, which I again make the assumption is you and I, would see rates go down by 2 percent. Then we get into businesses. Small businesses will see their rates go down by 2 percent; medium businesses will see their rates go down by 38 percent, and large businesses will see their rates go down by 58 percent. Are these assumptions still correct?

Mr. Pedde: No, they are not. In fact, I think, as the universe has unfolded, we have discovered that toll competition is of benefit right across the spectrum. In fact, the Public Utilities Board just recently approved toll reductions across the board and even further reductions on very modest monthly subscription amounts. As an example, even for a single phone call from Thompson to Winnipeg, you get a 33 percent reduction in the bill.

Mr. Dewar: You were mentioning that some of the net negative revenue impacts would be made up by other services. I have noticed, I guess it was, the recent PUB ruling that allowed the Manitoba Telephone System to now charge 65 cents for Directory Assistance. Is that the way the corporation will be picking up its lost revenues?

Mr. Pedde: Mr. Chairperson, this particular example was one element out of a package of five elements, and the strategy unfolded thusly. Certainly, the interveners and the Public Utilities Board agreed with our strategy. It said our local, our intraprovincial rates, our long distance rates are too high. For us to reduce them, even after stimulation, and get them into comparable rates required about \$10 million. We also knew getting \$10 million just out of local rate increases is not on—we said, well, one of the services was co-management services. Another service was

making touchtone a universal standard, and a third element was Directory Assistance charging. It was a user-pay philosophy.

Particularly, we thought it was appropriate, and again, the regulator agreed with that because, when we had the toll market to ourselves, then it did not matter whether we charged appropriately for the use of the Directory Assistance operator, but if Unitel's customers use our long distance operator and we do not charge appropriately, they are getting a free ride on the service. Therefore, we did not increase the rate, although we have an application now to increase it from 65 to 70 cents, but we said that should be a user pay except for very, very special exceptions, the visually handicapped and some other special exceptions.

Mr. Dewar: I agree with you that Unitel should be paying to use the service, and it was my understanding that they were getting it free before, but unfortunately residents in my constituency are having to pay the 65 cents. As you can imagine, very few of them have access to a Winnipeg telephone book, and it is not the policy of Manitoba Telephone System to issue every single member of the rural areas a telephone book. I was wondering what would be your comment on that kind of a scenario.

Mr. Pedde: We have two answers to that, and I believe they are reasonable. Firstly, if you are an occasional user, you can pay for the 65 cents. If you are more than an occasional user you can pick up a book. Alternatively, if you make more than \$20 of long distance calling in Manitoba a month, we will give you the Winnipeg book for free.

Mr. Dewar: Of course, you could also give us long distance access to the city of Winnipeg, and that would take away that need, but I do not think that is about to come.

I was reading in one of your publications, ECHO, and it says: Customers win as Public Utilities approves MTS applications.

One is the directory assistance charge. I do not know how customers can win when they have to pay 65 cents for a service that once was provided free by the Telephone System. The other thing is the ownership of inside wires is transferred to the customers. Inside wires will be guaranteed for one year—

Floor Comment: It was not free; somebody paid for it. Somebody was paying for it, Greg. It was not free.

Mr. Chairperson: Order, please. The member for Selkirk is asking a question.

Mr. Dewar: Could you explain that to me please about the ownership of inside wires transferred to the customer?

Mr. Pedde: On how that was done, or the underlying reasoning behind it?

Mr. Dewar: Both of them.

Mr. Pedde: Well, basically we have a central office switch. That is the node where the logic functions and gets you rooted to the world. From that switch is typically a dedicated cable pair, unless you are a cellular user, that gets you to the house. Then there is a protector block outside the house and from the protector block outside the house is another set of wires called the inside wire that gets you to the telephone jack and the telephone behind it.

Once we decided, and I think that decision we should have made some time ago, that the nature of our business and the nature of the technology made us not much different from the hydroelectric company, that we get you to the house and you plug in and the rest is up to you.

But once we decided that the instrument should be at your choice, we will lease it to you, we will sell it to you, but if you want to buy it somewhere else that is fine. Then we needed a point of demarcation to test where the trouble is with the telephone network. Residents and business consumers say: MTS, sometimes we do not want to buy from you, we do not want to lease from you, and that not only was the extension but also the main set. So once you decide that the inside wiring is then in no-man's land, and we need a point of demarcation to test whether the trouble is in the MTS network or in customer-provided equipment. Therefore there was no rhyme or reason to retain the inside wiring.

Secondly, a lot of people wanted to install their own inside wiring, and we just said: No, you cannot do that. We have an MTS policy, we will do it for you. So that is the reasoning.

Mr. Dewar: If anything goes wrong with the wiring inside, how does the customer get it repaired?

Mr. Pedde: Mr. Chairperson, we have a number of options. First of all, with the new policy, for the first year to facilitate the transition we will totally look after the wiring whether you own it or not. In fact, you own it as of June 1.

After the first year, you have a choice to make. If you say, I will fix it myself if the trouble occurs—and the trouble occurs very rarely, typically once every 20 years—then, you will pay for it. If you feel unsure, and you want the protection policy, that I do not want any hassle, for a dollar a month we will give you peace of mind and comfort. That is the third option.

Mr. Dewar: I have a memorandum from Mr. Reg Bird, President and CEO of Manitoba Telephone System, directed to the Honourable Glen Findlay. In it he makes a number of—this was written on June 12, 1989—he made a number of significant points. One of them was that competition in long distance services result in higher telephone bills for most business and residential subscribers, 90 percent will be losers, 10 percent, mainly large businesses, will be winners.

* (2030)

He goes on to talk about the U.S. experience, and competition has resulted in a decrease in interstate long distance rates by 30 percent but an increase in local rates by 48 percent. Overall telecom prices have climbed by 17 percent. [interjection]

Mr. Chairperson: Mr. Dewar, to continue his questioning.

Mr. Dewar: I was wondering if you could make some comments on this particular memorandum, Mr. Findlay.

Mr. Findlay: Well, the member refers back to 1989. If he had paid attention in my opening comments, we had indicated that MTS, as well as other Stentor members have reduced long distance rates by over 50 percent in the last four years. Revenue from that source has remained relatively flat over the course of time. So if the cost has gone down half and the revenue is the same, that means by and large people have doubled their use.

Projections back at that point in time are really not relevant to what is happening today. MTS has applied for rate increases on an average phone bill of 1 percent each of the last two applications for rate increases. So 1 percent is well below the inflation or CPI. So the comments in terms of the

fear of higher rates in the future have not been borne out, in fact, to this point in time, and they are not expected to be in the future.

I would like to raise the issue, now, of the 10-days layoff, or the 3.8 percent reduction in MTS employees wages. I was wondering what action MTS has taken to deal with Bill 22, the reduced workweek.

Mr. Pedde: Mr. Chairperson, we did not deal with Bill 22. We dealt with an environment where, if you pardon the expression, we had a signal that restraint in public sector wages was an appropriate approach and policy to the Manitoba economy. We confronted that head on and tried to sit down with our management and our union and said this is an easier way to control our costs than to lay off people. Therefore, we hammered out days that were appropriate for the nature of our business that would have virtually no customer impact.

I would be a fool to say that they have zero customer impact, but it has not significant customer impact. We have approached it and have had the union membership pick the days, with some guidance on our part, and we picked 10 dedicated days, and for those people that are in essential positions, they picked different days. We expect 50 percent of the people will be in the dedicated days and 50 percent in random days that they work out with their management.

It is not a pleasant pill, but it is generally well received as a good approach by both management and the memberships at large, employees at large.

Mr. Dewar: I would just to like ask you, Mr. Pedde and Mr. Stefanson, are you taking a 3.8 percent cut in pay as well?

Mr. Stefanson: Yes, I can speak for both Mr. Pedde and myself. We are both taking a 3.8 percent. In fact, every person in the corporation is taking 3.8 percent.

Mr. Dewar: I would like to enlarge further on this particular topic. I was wondering how will this affect MTS' competitive mandate, or the competitive aspirations of the Telephone System, closing down 10 days in a year?

Mr. Pedde: Mr. Chairperson, there are two elements at play here in terms of, roughly, the 10 days off translates to the equivalent of 150 full-time positions. The first assumption is that we can get our work done with 150 less people, and I think the

creativity of our management has demonstrated that we can do that.

The second part is to pick those days where customer service is not impacted. We have other days. We have Remembrance Day and Easter Monday, and we have days around Christmas time and New Year's where a lot of people are celebrating and maybe not contributing all that much.

I am not a fool to say that it has no impact, but generally, I think, we can manage it as long as you start with the assumption that we can get the job done with 150 less people.

Mr. Dewar: How are you going to inform your customers about this decrease in service?

Mr. Pedde: Perhaps Ms. Nault can come forward and describe the specifics, but generally we are going through radio notifications, through newspaper notifications, to identify to the public what those dates are. We will have recorded voice messages.

As I mentioned, the nature of the plan is such that we do not want customers impacted, so that any customer service—our Phone Centres will be open. Our repair offices will be open. That is why we cannot fully effect 100 percent of the savings because the essential positions have to be maintained. The operators, it does not matter, are there whether we declare it a special day or not. It is the same way on Mother's Day and Christmas and Boxing Day and New Year's, but we will have written notice, radio notice and we will have voice messages on the equipment, and then we will have human beings that calls will be forwarded to that can take care of our customers. Heather, maybe you want to give me the exact specifics.

Mr. Stefanson: Mr. Chairperson, I do not believe that it is fair to say there will be a decrease in service. At least from my point of view our service will be as good as it ever has been. I view the 3.8 percent as an opportunity. I believe it is an opportunity for us to reach our financial goals that I talked about earlier, and I think it is a good way to do it, in other words, let everybody share a little bit rather than layoffs.

If you translated 3.8 percent into layoffs, you are probably talking the equivalent of, say, 150 people laid off, and I do not think any of us want to see 150 people laid off. I think we would rather work our programs through this way. When the board made

the decision to proceed with this program and asked the management to come forward with a proposal, I might also suggest that I believe very strongly that management did an excellent job of coming forward with a proposal. I think they really put an awful lot of thought into it. You see the way they have structured it. If we were to go into the details I think you would be quite impressed, Mr. Dewar.

Ms. Heather Nault (Vice-President, Corporate and Regulatory Affairs and Corporate Secretary, Manitoba Telephone System): I would just like to confirm basically what Mr. Pedde has informed you of. MTS will be placing ads in the Winnipeg newspapers with respect to operations of Winnipeg local facilities. We will be placing ads in community newspapers outside of Winnipeg informing them of details of operations in the less urban areas. In the case of Phone Centres outside of Winnipeg, they will carry on their premises notices of closing days some period in advance of those days.

We will be using Voice Mail to inform our customers who try and access departments which are closed on the specific days about the fact that we are closed, that we are closed in alignment with the province's initiative in this area, that customers will have two options, they can either leave a message and our staff will call them on the next business day, or we will be providing emergency numbers should they require emergency assistance.

Mr. Dewar: I thank you for that answer. Again, I just have some concerns about the 10-day layoff. We know that there will definitely be some days where the Telephone System will be closed. Will Unitel be open on Fridays? I am certain that they will be and this is going to be your main competitor.

* (2040)

Mr. Stefanson: I think Mr. Pedde had pointed out a little earlier that the company will not be closed down, that there are two different programs. There is one for where you can, which will be the employees—and that is approximately 50 percent will be required to take the 10 days as specified. In other parts of the company, like Phone Centres, for example, or operators, there will be a different program, and service will be delivered as usual. I do not believe that there is going to be any decrease in service. In regard to Unitel, I have no

idea how they will operate their business. I feel very confident though that our people will match them in all areas of service and will certainly strive to outperform them on all fronts.

* (2040)

Mr. Dewar: Thank you, and I wish you well.

I would like to speak briefly about some of the job layoffs. I believe Mr. Pedde had made reference in past discussions of the right-sizing program, or I would call the downsizing program. It was mentioned prior that it would be around approximately a thousand employees laid off. Is that correct?

Mr. Pedde: Yes, Mr. Chairperson, but I would like to correct this. We are very specific that we are achieving this not through layoffs but through attrition, on voluntary retirements, and retirement incentives, and I guess if there are layoffs it is for part-time and casual work, but our regular employees, to date, we have not had to resort to layoffs to achieve our objectives.

Mr. Dewar: How many employees took the early retirement prior to I believe it was an incentive package on May 15?

Mr. Pedde: This year?

Mr. Dewar: Yes.

Mr. Pedde: 49.

Mr. Dewar: Thank you for that answer.

Is it true that the Telephone System is not hiring any staff at the moment?

Mr. Pedde: Mr. Chairperson, we are not hiring any full-time or permanent staff. We have casual work, construction workers, and the hiring authority for regular full-time employees rests with me, and in the last two years we have hired three people.

Mr. Dewar: Did the Telephone System hire any summer staff, any student staff?

Mr. Pedde: We certainly did, Mr. Chairperson.

Mr. Dewar: May I have that number, please?

Mr. Pedde: I will have to get it substantiated, but I think it was 120 the last year, and, I am not sure, it will be a significantly lower number this year.

Mr. Dewar: The Telephone System implemented a policy of continuous quality improvement, TQI. Would you give me an idea of the total cost of that program?

Mr. Pedde: Yes, Mr. Chairperson, if you take the energy and effort of the people involved in the training, and being trained, we are working on a program which probably subsumes about half a million dollars a year.

Mr. Dewar: What benefits then have you realized from the program so far?

Mr. Pedde: Mr. Chairperson, I am glad we have got Mr. Gordon here to talk about that in detail, but I think, to talk in terms of benefits, I should describe firstly what the program is.

It is not a program, it is a process and we are trying to get every employee to be subsumed with a notion that continuous improvement and customer satisfaction is a way of life. It is like breathing and eating and that you do not have to think about it.

So the key program elements are that we measure customer satisfaction, we educate ourselves, and then implement work simplification and processes that require 100 steps and 16 people to do, we try to do with 20 steps and 14 people and so on.

So we reduce errors in that process and we benchmark and compare ourselves what we call against the best of breed and not only in the industry, but anybody who has similar processes. We are saying if others can do it, we can do it with the same low cost and same simple processes.

The organization has been practising this for a while and now we really try to get the steam engine rolling throughout the entire organization through a number of processes, but we have had many, many success stories before it fully rolled out. Maybe Mr. Gordon can talk about some of the specific successes, but the best is yet to come.

Mr. Barry Gordon (Vice-President, Network Services, Manitoba Telephone System): It is important to recognize that the practice of quality, as Mr. Pedde said, has been something that has I think been endemic in the telephone industry for a long time. It is only with the relatively recent publication of the whole concept of TQM that the people have brought a new focus to it.

As Mr. Pedde said, the objective is to get all our employees thinking in terms of customer requirements and customer satisfaction and the best way to deliver those measures that the customer uses to determine whether or not they are satisfied. We have any number of modest

examples which, taken together, are really quite dramatic.

For example, you may remember it rained quite significantly last night. Five years ago, that rain would have caused us a tremendous number of customer trouble reports as a result of wet cables.

We just coincidentally happened to have our executive committee meeting at our McGillivray building where the outside plant construction people, the repair people, actually are headquartered. We met with them for coffee at 7:30 this morning. The indications were that there were very few customer trouble reports coming in as a result of that rain.

That is a consequence of a dedicated effort on behalf of an awful lot of engineering and construction people to bring the outside plant network up to modern standards, and indeed, in some instances, the best of breed as measured by our benchmarking activity.

We have instances, for example, where customer-led teams have taken an enormous number of steps out of processes that are involved with customer service delivery and some of the most notable successes there have come in our regional areas.

For example, in northern region we had a team led by employees that took a whole, I cannot remember the number of steps, but it was dozens and dozens of steps, out of the service provisioning process which reduced the time from customer order to customer service delivery substantially. We have any number of examples of those.

The trick for us is to find ways in which we can enlist the brains and the commitment of our employees in driving towards customer satisfaction and finding the best ways to deliver on that.

As you may be aware, we have a letter of understanding, a Memorandum of Understanding, with two of our three unions. They very clearly map out our collective commitment to this and an undertaking from the company that as people work through improving processes, and indeed do themselves out of a specific job because they are no longer required on that process, our commitment is that they will not lose employment as a result of that effort.

As a consequence of that, we have got pretty good buy-in from our employee body. We are in the process of training everybody in the tools and

techniques, and going forward, we anticipate significant benefits, again on behalf of our customers and thereby the company and thereby the employees.

Mr. Dewar: I understand that morale is quite low at the Telephone System. Is that correct? Would you mind commenting on that, please?

* (2050)

Mr. Pedde: Mr. Chairperson, I appreciate it is a serious question, but it is very, very difficult to measure morale. Every organization, every corporation tries to quantify that. Morale as measured as one barometer reading, I believe, is—I am not saying it is low, but it is not a measure. It is like taking an EKG reading. The only value of a morale reading is if you compare it to the year before. If you ask the same questions and get from the same sound statistical sample year over year, then you can talk about morale, any one reading, depending on how you ask the question.

I would submit that certainly there is a lot of anxiety in the corporation because of the uncertainty about the future and that. That is why our Strategies of Success is trying to address, look, we have a plan for the future, we are committed to that plan. You have a role in that plan, so come and work with us and let us build a better future.

Mr. Dewar: I want to talk about the printing of the phone book. Could you tell me where the phone book is currently being printed?

Mr. Pedde: Mr. Chairperson, the printing this year, I am proud to say, is being moved from the United States into Canada at a lower cost. The place in Canada, I think, is either in Vancouver or in Edmonton—[interjection] It is somewhere in Alberta.

Mr. Dewar: We are obviously very pleased to hear that. I was wondering if there is a printer in Manitoba that could perform a similar function.

Mr. Pedde: Mr. Chairperson, we, too, are working—there is a printer in Manitoba. Unfortunately, that printer does not have the capability in that cost.

What I am pleased to report is that our directory people bent over backwards and worked with a printer and the reason that we, firstly, could get a better price out of Canada than we could get out of Chicago is that the western prairie telcos got together and said, we are going to do a bulk purchase. Everybody had a buy-in and our

Manitoba printer was left high and dry. They just did not have the capability.

They had another unique capability and that was the directory covers. As a result of that, we got them the directory cover business for all of the western telcos and they are very proud of that.

Mr. Dewar: I would like to talk a little bit about the Service for the Future program. I understand that is very successful and very well received in rural Manitoba, as I know my parents now have individual line service for the first time in 30 or 40 years. I congratulate the government on that as we did in the past.

I was just wondering if the president could give us a progress report on that particular program.

Mr. Pedde: I certainly would be pleased to. I guess we think of the program in three elements, and that is why we talk of the network modernization. I noticed in my address I talked about digital switches. You may be bored with that, but that is the guts and essence to deliver some of the capabilities, and that is where the bulk of the money is.

The other element is what we called community calling, and the third element is urban unlimited. Lastly and the most important one, as you mentioned, is to bring the rest of the province to individual line service, so those customers also can avail themselves of fax machines. That is the only commercial I am going to make.

The program as of the end of April this year has converted 102 exchanges to individual line services, and a total of 57 percent of our customers have been converted to individual line service. So out of a 46,300, there have been 26,333 customers converted.

Mr. Dewar: Thank you very much. I am very pleased to hear that. It is a program of significant financial magnitude. I believe it is in the range of \$800 million?

Mr. Pedde: Mr. Chairperson, that is correct. The original plan called for \$800 million. That may be the good news and the bad news, but the good news is that we believe we can bring the program in for significantly less than that, closer to \$730 million and maybe even slightly better than that, and there are three variables at play.

First of all, the economy is such that you can do a lot more buying, lower, more cost-effective buying

decisions of the equipment, of the people who do the installation or the plowing in that. And lastly, Mr. Gordon did not take credit for one of the areas in the engineering family. They have streamlined their design processes as part of a CQI initiative, and that has also saved some money.

Mr. Dewar: I had some conversation recently with some MTS employees, and they were telling me that they felt that, if the Telephone System was under a competitive environment when this program was introduced, MTS would not be able to undertake such a huge capital project because of the anticipated losses and decrease in revenues. Would that be correct?

Mr. Findlay: Mr. Chairperson, that is a very hypothetical question because he is trying to say "if" in the past, which did not exist. So it is a very hypothetical question. I do not think it is a fair question to ask the president to comment on.

Let us talk about the facts and reality of what is happening. The program has been underway. It will be a seven-year program. It will upgrade everybody to private lines and digital switches, and it is a very positive program. It is underway, so do not ask, if this would happen, it would not take place. The fact is, it has taken place, is ongoing, on target, and all Manitobans, as the member for Selkirk indicated, are very happy about it. It is a very hypothetical question that is not relevant.

Mr. Dewar: In the opinion of the president, would the Manitoba Telephone System be able to undertake such a huge capital project in the future?

Mr. Pedde: Mr. Chairperson, I believe that is the same question, and I guess I will answer it slightly differently.

The question depends on what rate of return one wishes to wrestle from that undertaking. We are in that part a monopoly utility, and we are implementing a policy initiative, long overdue, that gives every Manitoban individual line service. I guess the way we are regulated is in an overall context of affordability in terms of our balance sheet and our net income statement, and our regulator is watching our dollars just as closely as we are to make sure that we can afford this program.

Mr. Dewar: Well, what are some of the capital projects that you see coming in the future?

Mr. Pedde: In addition to Service of the Future? Well, I think our capital program will always be what

the engineers call rearrangements, that people move and offices move and businesses move.

Then there is modernization. You must always replenish yourself and modernize yourself. Then, thirdly, there is growth. The growth is twofold. There is growth in terms of more customers, and there is growth in Manitoba in terms of customers. Businesses grow or individual homes take out two lines or three lines or a fax line.

Then lastly, the nature of the telecommunications business is that the old clunker switches have turned into computers which have software and the intelligence sits in that software and all the vertical services that come with that, as I mentioned, the Number Portability, the Call Management Services, Voice Messaging Services, video dial tone and other such services. They do not come for free. They are software based and software nowadays costs more than hardware, and that is where the money is going to be demanded.

Mr. Alcock: Mr. Chairperson, let us pick up on some of the discussion about the employees and the projections for the downsizing. If I understood you correctly, you said that the intention was to deal with as much of that as possible by offering some incentives for early retirement, some restructuring within the organization, hopefully some attrition and that, and you made mention that some 40-some-odd people had taken advantage of early retirement.

* (2100)

I will just frame the question. You can think about it, then answer. The question really is, how far along with that are you? What is your anticipation in terms of the protection available to the thousand employees overall that will be affected by this change in the corporation? Have you explored other opportunities for the corporation that might make use of the talents of those employees?

Mr. Pedde: Mr. Chairperson, I wanted to position the 49—the question was asked in a very, very specific question, but the 49 is only one small sample in a bigger number. We are well beyond the 600 number of the total 1,000, but that is both regular, full time, part time and casual.

Yes, the approach is both in terms of early retirement incentives, some retire on their own volition; part-timers, we just do not renew their contracts; and we redeploy full-timers to other

areas. In fact, we currently very proudly just redeployed, on the voluntary basis, 30 employees to the construction program. They are going through extensive training in Mr. Gordon's area. That afforded us again, indirectly, a 30 reduction.

What was the other element of your question? [interjection] Oh, yes.

We do have areas of growth but, as our chairman mentioned, generally we can deliver the same job functions with less people because of the technological investments and the CQI initiatives and others we have made. We have growth in cellular, a significant and magnificent growth in cellular. We have, as a result of these, what we call, vertical services, Call Management Services, Voice Messaging Services, advanced intelligent network.

Call Management Services was introduced in Winnipeg on June 1. The good news is that it was an overwhelming success. The bad news is our customer response index suffered badly because we could not staff up for the demands. We just could not fulfill the demand. I think we will meet our one-year's target in the first two months.

Those are the sort of services. They are highly profitable and they subsidize local service. They require people. They require a different breed of people. They require people that understand this product, that can administer it, that can sell it, that can rearrange the software for it, that can key in the order so the customer is identified on the switch that, yes, you have that service and so on. It is a different breed of people. We have a human resource development program to redeploy the major pockets from one area to another.

We are also working with Stentor to have work done on behalf of Stentor here. There is one particular project that unfortunately is not in its full fullness of time that will bring some work here. We are also working with our sister companies across western Canada for a number of reasons. In that, we are exploring some possibilities to bring work to Manitoba, but the driver for all of us there is we cannot continue with the existing cost structure. We just cannot afford to continue with the existing cost structure, but we are exploring some work specifically that we believe we can do for British Columbia very effectively in Manitoba, but I am not at liberty to talk about it yet.

Mr. Alcock: I do not want to push too far on that. But what I hear you saying though is that, of the reduction of a thousand positions that were identified over a five-year period, already 600 of those have been accomplished with no layoffs.

Mr. Pedde: No layoffs of regular full-time or regular part-time employees. I do not want to mislead anyone, Mr. Chairperson. Term and casuals were not rehired. If you call that a layoff, then there were layoffs.

Mr. Alcock: Does this put you ahead of your schedule for the full thousand positions?

Mr. Pedde: Yes, Mr. Chairperson, modestly ahead of the schedule.

Mr. Alcock: In the remaining 400, how many of them would be involved in the conversion to single-line service and will become subject to layoff as that program begins to wind down?

Mr. Pedde: Mr. Chairperson, we hope they will not be subject to a layoff, but the numbers involved—Mr. Gordon and I have had an argument about that—are somewhere between 120 and 140, in that range. Some of those will still be required all the way out into 1996. Some of them are very well skilled and easily deployable people into a number of areas. Some of them are part timers and others will retire.

Mr. Alcock: I am sure that what I am about to ask is not going to be news to the corporation or something that has not already been raised with you, but I am interested in exploring the answers to it a little bit.

One of the elements of faith, when you come into the Legislature as a new member with the current government in place, begins with a catechism that starts off: In the sands of Saudi Arabia. You hear this term, it is usually spoken at least once a day by some member of the government.

One of the suggestions that has come out of some groups is that, as you have mentioned already, you are talking about selling services to Stentor and to British Columbia and others. One of the concerns is, as a result of that experience early in the '80s, that the corporation may be constrained from seeking other opportunities overseas, and that the corporation is unable to explore other possibilities. I would just be interested in knowing whether or not that is true.

Mr. Pedde: Well, Mr. Chairperson, there are a couple of variables at play. We are—

Mr. Chairperson: Excuse me, I would ask you to get a little closer to that mike.

Mr. Pedde: Oh, sorry, Mr. Chairperson.

A couple of variables at play. These exciting times certainly focus management's attention to the issues at hand. So that is just simple operating principles that we had better not deflect too much management attention outside of the province.

But opportunities, from time to time, get presented to our doorstep. We do have certain capabilities, and if we put good judicious use to that, and we have reviewed that subject with our board, and our board has given us some fairly prudent guidelines and principles to pursue this. First of all, the first rule they said, well, this baby had better start walking before it runs, and therefore no equity injection for ventures outside of Manitoba.

The second one was do not deflect from your service delivery capability in Manitoba. If you do this, the ideal way would be to work with some other Manitoba company and provide its services. If you get asked yourself and pursue this venture—maybe venture is a bad term—but this opportunity, then make sure that your bills get paid and you know you get paid for your services, but do not risk any capital outside the province. So we are not handicapped, but I must add right now where I do not want management's attention deflected too much, and you cannot just assume that this will automatically manage itself.

Mr. Alcock: I certainly appreciate that there are a number of challenges that confront the corporation. I guess the concern is, and maybe I should direct this to the minister rather than others from the corporation, it is interesting how unwilling we are to accept any level of failure on the part of anything that has to do with public service or public management. I mean, MTS is not the first large corporation that has tried a new venture in the hopes of gaining greater revenue and had it go awry.

I am wondering whether the government is prepared to see the corporation move in those directions again, to explore a little bit. There seem to be tremendous opportunities around the world for people that have the kinds of skills that some of the employees of the corporation have, and I would

hope that we have gotten past that particular experience and that the corporation is free from government direction to make the decision.

* (2110)

Mr. Pedde makes the point that this may not be the time for the corporation, and that is a legitimate decision. I would hope that it is being made though based on sound management within the corporation and not because of a fear that one more time we will talk about the sands of some other country.

Mr. Findlay: Mr. Chairperson, I think the member has heard the president describe it fairly accurately, and that is that, yes, they have skills. You have identified they have skills, skills that could be contracted out to some individual or some country. There are many countries in the world who do not have any telecommunication system. I see opportunities, there is no question.

I think it is fair to say, as the president has said, investing capital would not be the desirable route, but using skills or selling skills or contracting out skills under some kind of a contract would be appropriate. The president has indicated very clearly they want to focus on the challenges at hand at this point in time. I am sure that both the executive of the corporation and the board, if the appropriate opportunity came along that was attractive and they felt that the buyer could pay the bills, they would look very carefully at it.

Mr. Alcock: I appreciate the minister saying that. I guess my specific short-term concern—although I think it is a longer-term concern for the corporation, my short-term concern is with these remaining 400 employees. Downsizing is always difficult. The first part of it is always the easy part, because you can identify some slack and some flexibility, but these last 400 may prove to be more difficult than the first 600. If there are opportunities that would allow these individuals to be productively employed rather than laid off, I would hope that we could find ways to do that.

Mr. Stefanson: I think in a short answer to Mr. Alcock's question, the answer is yes in regard to our human resource expertise, that if we are able to save jobs by the sale of our expertise, the board has mandated that management can bring such proposals forward to the board. As Mr. Pedde has pointed out, we have said in no uncertain terms that we would not make any capital investments. We

have no money to make capital investments. We have already I think discussed the very serious debt situation at MTS.

I think that there certainly are opportunities out there. You are probably right that we probably have, because of past experiences, maybe lost some opportunities in this area. We certainly will not entertain anything where we have to invest in equipment where it becomes part of a package sale. If we can joint venture it with Northern Telecom or some equipment supplier and they are to do it and we are only to supply the expertise and we think we have a fairly safe investment in regard to our human resource services we are offering, yes, bring forward any proposal.

Mr. Alcock: I appreciate that, Mr. Stefanson. I look forward to seeing what occurs with those last 400. I do feel some responsibility and some concern about them.

Let us talk about the debt for a minute. Mr. Stefanson made the comment about the serious debt problem. Just step me back a little bit. Help me understand how MTS became the telephone service with the highest debt-equity load in the country. How did it get into this position?

Mr. Stefanson: Well, I guess it is basically through history. I guess that the owners of the corporation through regulation, PUB, have worked in an environment whereby it was fashionable to have MTS levered. Historically, we have been regulated by the PUB, and we have been able to do our business plans and our financial projections and go to them and ask for whatever was required. For many, many years, there were no rate increases required. So the debt in recent times has always been there.

In 1988, the debt-equity ratio was something like 92 percent. When I and some others came on the board at MTS, we recognized this as a top priority, to start working the debt down, and we have knocked it down some nine points. I think it was 91 percent in 1988 or '87 and now it is roughly around 82 percent.

It is very unfortunate that it was there. I would say, throughout history it has been there. I cannot speak back 25 years ago, but I can certainly speak back over the last 15 years or so. I suspect that is the way it has been. The financing, I guess, we have always had preferential financing from being backed by the government of Manitoba and it

probably did not seem like a bad way to go for past governments over the last few decades.

Mr. Alcock: So then, if I understood the response, it is a function of government policy, not current government policy, but government policy over a period of time. I look at some other telephone companies that would certainly be both larger and have a much lower debt equity ratio—and smaller—that have a much lower debt equity ratio, so it does not seem to be a function of size, although I note that our neighbouring service in Saskatchewan also has the second highest in the country. Is what you are saying—just so I am clear on this—is that as a result of government policy going back over the years, some 15 years you referenced, that the corporation was allowed to and, in fact, encouraged to assume more debt as a mechanism for keeping rates level.

Mr. Stefanson: Mr. Chairperson, I think that is a fair statement. I do not think that I would identify or suggest that it was intentional. I think that throughout the years the emphasis has been to keep local rates down and it has been pointed out earlier that local rates have been priced much lower than what the cost of them is.

To get back to your question as to how far it has gone back, I would be well advised to ask Mr. Fraser, our V.P. of Finance, he could probably give you more specifics on that.

Mr. Alcock: I am not interested in a point in time. I am more interested in how it is that this one, this utility in Manitoba, ends up in this position. If it were sort of methodologies or operations or pressures that telephone companies were having to face at particular points in time, you would expect, or I would expect at least some commonality in the debt load across various—it might look different based on size but you expect some commonality across the country. Yet Manitoba is so far out of line with what seems to be the norm in other provinces. I just look at this little chart that we have in your PUB application. Is it simply because in this province we had a different policy relative to debt and rate setting going back over a number—

Mr. Stefanson: Mr. Chairperson, I would say that it comes down to regulation methodology. In Manitoba and Saskatchewan we have been regulated by provincial regulation, whereas the CRTC has regulated the private companies in

Ontario, Quebec, the Maritimes and B.C. The rate of return has been the basis for regulation in those jurisdictions, so rate of return is based on equity. So the more equity you have, the more profit that you are allowed. Companies in general, not only in this industry, usually try to operate at less than a 50 percent debt equity ratio. In fairness, it was not the problem at that point in time that it is now.

I am not suggesting for a moment that competition has really changed anything. It is a new world. We are going to be regulated federally. If we have very low equity, you can imagine the difficulties we have with rate-of-return regulation, and that is very likely the methodology that we will be under when regulated by the CRTC.

* (2120)

Mr. Pedde: Mr. Chairperson, maybe this will help to expand on that, and this is absolutely and categorically not a political statement of any sort.

The Crown corporations across western Canada all had higher debt-equity ratios. If you had Alberta before privatization it had a higher debt-equity ratio than Manitoba. It was driven by, as you correctly alluded to, borrowed capital is cheaper to work with as long as somebody guarantees the borrowing.

The problem is that 50 years ago all the provinces were not deficit financed and did not have to worry about guaranteeing the debt. Right now, Alberta, Manitoba and Saskatchewan—Mr. Fraser just was with Moody and Moore today, and they have never asked about little old MTS and its debt crisis before, but they are asking the question now.

So historically, when your revenue streams were guaranteed and the borrowing up front was guaranteed and the provinces had a healthy balance sheet, it was easy to guarantee the borrowing of the Crowns. That is sort of the history behind it.

Mr. Alcock: I appreciate that and certainly one has to look at decisions that are made within the operating environment of the time. I am not proposing this critically one way or the other, I am just interested in that difference, because presumably New Brunswick and P.E.I. and Newfoundland and Nova Scotia had the same possibilities open to them.

If I understood Mr. Stefanson correctly, the one variable there is that they have been federally regulated for much longer and the western

provinces were locally regulated through the PUB. This may be as clear a reason for this difference as anything else.

Mr. Pedde: Yes, the federal regulation is one variable, but the other one is, if you are a private corporation, you have a few other stakeholders in return for the shareholders and other dimensions at play. Therefore, their balance sheet, there is an optimum use of capital for a corporation depending on what returns you have to satisfy for the various shareholders.

Depending on the nature of their business, that usually gravitates in the 40-to-60 or 60-to-40 range, depending on the type of business, so that is the other dimension at play, not just a form of regulation.

Mr. Alcock: Now we come to the problem, which is, as you move into a more competitive environments, debt equity becomes a greater consideration and you are working hard to get that down. You mentioned that it was at some 91 percent and it is now at 81.7 percent, and you have a goal to get it down further over this next period of time, but now you are moving into federal regulation, and I think, Mr. Stefanson, you referenced some of the difficulties in doing this in the short term.

Have you had discussions with the CRTC about this what is a relatively unique case, given the various telephone companies. Are you anticipating being able to move on this?

Mr. Pedde: Yes, we are, Mr. Chairperson, and I think the minister can probably expand on that. The province, as part of this Memorandum of Understanding, took the initiative to ensure an adequate and proper transition from provincial to federal regulation. One of the elements was what the appropriate regulatory regulation mechanism was to be, as the chairman alluded, because of an 80-20 debt equity ratio, if we were to be regulated on the return on that measly 20 percent equity that it would not get sufficient net income, and we would be slowly stepping deeper into the hole.

Mr. Alcock: I am sorry. Your sense is that this will be accommodated within the regulatory regime of the CRTC?

Mr. Pedde: Mr. Chairperson, there is a transition phase even though federal regulation kicks in on January 1, 1994, assuming C-62 passes, of course. Then there is going to be some

mechanism by which the appropriate form of regulation for a corporation like Manitoba Telephone System will be pursued. It will not likely be rate of return of regulation.

In fact, if I can deflect slightly, the whole question of regulation for the telephone companies in Canada is presently under review under something called 92-78 Structural Hearing, I believe. It is recognized by the telecos, by the regulator, by the federal government, by the competitors that rate-of-return regulation is no longer appropriate, but what is not recognized is what the right solution is.

Mr. Alcock: I believe we will see what that produces.

What now happens—assuming the bill passes, and I think there is some reason to make that assumption—in the relationship with the PUB? Will you be going before two regulators now? Maybe this is a policy decision for the government, or will your relationship with the PUB change substantially?

Mr. Findlay: Mr. Chairperson, the process of transition will occur right now, as I mentioned in my opening comments, January 1, 1994, unless we agree to have an earlier date. An amendment of Bill C-62 has accommodated this. We expect the PUB application to be completed over the course of the remainder of this year, and then everything is in place under PUB.

Regulation is more or less grandfathered or assumed to have been accepted by the CRTC and we move into a transitional period of about five years. A group of experts have done an analysis and reported in '92 that the Crown corporations have, as we already mentioned, financed themselves with debt, with government backing. They are not in as strong a position as the privately owned companies and are going to need a different form of regulation, particularly in the transition period before they get under full CRTC regulation using the process of rate of return.

In the transitional period, a methodology of regulation will be used that reflects the reality that Crown corporations have an unusually high debt load.

Mr. Alcock: I am not certain if I completely understood or that completely answered the question.

I understand the transitional problem, and there are going to be discussions with the CRTC as to how you accommodate the debt equity problem. Are you saying over the five-year period of time that the telephone company's involvement with the PUB will cease completely?

Mr. Findlay: It ceases as of December 31, 1993. We will move from PUB to CRTC. There is no overlap.

Mr. Alcock: That is what I would have assumed. So the five-year phasing you are talking about is more relative to the rate setting and that as opposed to any kind of regulatory involvement.

Mr. Findlay: Well, it is the process of being regulated by the CRTC.

Mr. Alcock: I have just a couple of perhaps smaller questions here. You mentioned in one of the opening statements the use of 800 numbers and the changes to 800 service that you have brought in. The government passed a tax provision relative to 800 service some two budgets ago, I think it was. I am wondering what sort of an impact that has had on service.

Mr. Pedde: Mr. Chairperson, I am not sure what specific difficulty it has had. One of the companies that was, I believe, contemplating to come to Manitoba—and I only have that from hearsay—would not have come without that reduction. We like to think that the reason our 800 service is catching on so phenomenally is because we sell very well and we also have restructured and repackaged it.

As I mentioned, one of the entry vehicles, almost any little small butcher shop can get 800 service now with a nominal monthly fee, so that is at play. I am not sure that I can sort of get the right drops out of the rain barrel which was government policy and which was our marketing, which was our price setting and so on.

Mr. Alcock: I am certain it is attributable to both, of course.

As I understood the move that the government made, it was an attempt to attract some of the large 800 companies, the central sort of customer service companies that some locations in the States have worked hard to attract that kind of business and that this was sending a signal, if you like, to the larger business community that this is a place to come and set up because you can get some tax advantages for using the 800 service and

then, of course, the very fine services of the Manitoba Telephone System.

What has been the increase? What is the nature of the increase in the use of 800 service, leaving aside for a second the small butcher shop that is now using it or my friend in Winnipeg Beach who is now using it? Has there been a significant uptake? Has there been significant growth in it?

Mr. Pedde: Mr. Chairperson, by our standards 800 service has experienced phenomenal growth in all sizes, shapes and forms. I do not have the exact number. I can make that an undertaking, but it certainly has been double-digit growth in the last couple of years.

Mr. Alcock: That is fine.

* (2130)

Mr. Chairperson: Ms. Wowchuk. Oh, pardon me. Mr. Alcock to continue. I am sorry. I thought maybe you said that is fine.

Mr. Alcock: Oh, no. Another issue that arose in the discussions about Unitel, and I am interested, frankly, at just how modest the projected impact from Unitel appears to be certainly in your overall operating statements. I mean, you are not showing huge changes as a result of Unitel coming on-line.

The hookup costs, can you give me some sense of how that arrangement works with Unitel? They are paying you a fee for hooking onto your service?

Mr. Pedde: Mr. Chairperson, I guess again the difficult part is and one we always have to be careful that what numbers we throw around that we have the comparable numbers. What we do not know is what the rats would have behaved like with a different recipe.

We do not know what the revenue would have been in the other circumstances. So who knows what the difference was? What we do know is that revenue has been impacted by resellers in other jurisdictions. Revenue has been impacted by the economy, and revenue has been impacted by lower prices, but I defy a genius to say which is which, and so on. We know what the total result would be, and we do not know what it might have been.

That was just the preamble. I lost the question.

Mr. Dewar: Hookup.

Mr. Pedde: Okay. The hookup, as Mr. Dewar mentioned, Mr. Chairperson, is the capability, the physical capability for our competitors to get out of

their network or their customers into our network so they can fully avail themselves of the infrastructure that we have built. When the hookup is of the nature, and that is where the big money is, such that they can dial under the North American numbering plan, they can get into our network with 10 digits or one plus 10 digits, the area code and seven digits, as opposed to 16 or 17 digits which they cannot do in Manitoba just yet.

That is, for Canada, over 10 years of the capital and the ongoing support is a \$1.2 billion figure. Our component of that is that we are not sure, depending on how it evolves, and if I seemed evasive to Mr. Dewar, I do not know the exact number until we get into it.

I think the initial capital for our first two-year plan is \$10 million of that plus an ongoing running cost related to that. The recovery of that will come through the contribution from the competitors.

Mr. Alcock: Well, let me deal with a couple of small ones before we come back to the financial statements.

There is a discussion, and actually I raised this question with the minister in the House about, I do not know, I guess last week some time. It came out of the Manitoba school trustees as they are attempting to get school divisions and individual schools hooked up onto the fibre optics system, I think was one that was specifically referenced. They had expressed a concern because MTS apparently had taken the position that it would not negotiate with the school system as a system, that it would negotiate school by school or school division by school division, but that it would not enter into a broad negotiation with the educational system in the province as a method for lowering overall costs per individual hookup.

In fairness, I should say that the minister responded in the House that MTS was a corporation and operated in a competitive environment and had to make its decisions in the best interests of the corporation, and the schools and the education of the future citizens of the province could just be ignored in all of this. I think that is how you editorialized it, was it not, Mr. Minister?

In fairness, I should not play. The question, though, why would you not? As a public service, why would MTS not negotiate collectively with all school divisions?

Mr. Pedde: Mr. Chairperson, I am not sure that we would not. I think what we would not do is, somebody has to pay for this, and we worked with the Department of Education who wanted sort of an overall plan rather than once—there is no point in going to a school division and saying, this is what we will do for you and then they have to run to the Department of Education for financing.

So we have done it on a test basis, but we very consciously—we pursued this very aggressively, and we did some aggressive pricing with the lowest possible, least amounts of margins over cost to make sure that the whole province uses our facilities where they are appropriate. But if somebody came to us—I do not think anybody has told us that somebody came to us—and said, we have money and we would like you to hook up this fibre and give us remote video-telecommunications capability, we would dance to that.

Mr. Alcock: Except I think the complaint from the school trustees is that you would only deal with it on a school-by-school, location-by-location basis, and would not negotiate—their assumption, of course, is that there are some considerable savings due to scale, if all the school divisions in the province or all the school divisions in a given region of the province are able to negotiate as a body.

Now, are you saying that there are no savings due to scale, other than that you are pricing this at the lowest possible level and everybody is going to get the same rate? Or is there a policy decision not to even entertain?

Mr. Pedde: Well, Mr. Chairperson, I believe that is what precisely it is we are doing. We are working with the Department of Education to make sure that the priorities as seen by them, and the funding as seen by them, and therefore we can provide a most cost-effective solution for the province. I stand to be corrected, but I believe that is precisely what we are doing.

Mr. Alcock: Mr. Chairperson, I will send the memorandum from the school trustees over to Mr. Pedde. Maybe it is just a matter of communicating more clearly with them or helping them understand.

Mr. Pedde: Mr. Chairperson, I believe there was, in fact, a press conference between the Minister of Education in our facilities, and the various groups were tied in. In fact, I was supposed to speak that, but unfortunately the minister held me up too long,

but Mr. Gordon was there. Barry, do you want to clarify? Am I missing something here?

I have nothing further to add.

Mr. Alcock: Another one. When we talk about capital investment in the system, what is the extent of fibre in the province right now? Are we upgrading?

Mr. Pedde: Mr. Chairperson, I believe Mr. Gordon can take the rest of the night to describe our fibre program. We are very, very proud of our fibre program in the province. Unfortunately, we are not as advanced as we would like to be, but certainly, coming out of the blocks a little late, we have bought the technology much more cost-effectively, and we have provisioned more cost-effectively, but Mr. Gordon can provide you the specifics in capital terms and reach and location and so on. [interjection] The 10-minute version.

* (2140)

Mr. Gordon: Mr. Chairperson, perhaps I could ask, to give me an opportunity to hear the question in terms that I can, maybe, respond in a 10 minute—

Mr. Alcock: I would hope you could respond in even less than 10 minutes. I think it may elicit other questions.

The first is, you are investing in single line services and a variety of other improvements in service throughout the province. One of the changes that I believe we discussed the last time we were here was the extent to which fibre is replacing copper. I would just like to get a sense of, how extensive is that replacement and how available is a fibre hookup to people now?

Mr. Gordon: Mr. Chairperson, the initial application of fibre, of course, is in the long-haul network to replace things like microwave radio and so on. We have made very extensive use of that.

For example, I believe Mr. Pedde mentioned in his opening remarks that we now have fibre to The Pas, Flin Flon, Thompson and so on. We are carrying CBC and CTV television using digital facilities to those communities.

So we have a very extensive backbone fibre network in the province. Probably every community of 1,500 people and up has fibre access.

However, the question with respect to the replacement of copper is one that is probably

coming a little more slowly than most technical prognosticators would have guessed. We are using fibre, for example, in the distribution network, which is the network between the central office and the residents or business, fairly extensively in both Winnipeg and Brandon.

In Winnipeg we have two fibre rings downtown that allow us to cover probably 80 percent of the large businesses downtown off of very high band width services, and we have essentially got fibre to their doorstep.

The same situation exists in Brandon. We have a fibre ring in Brandon which literally encircles the core area of the city, and gives us the same kind of capability.

The next challenge is to take that yet the next step, particularly in the residential areas. As a matter of fact, in that regard, just today we have launched an initiative with Stentor, who are putting together basically a trial application program for fibre to the curb, which is a kind of euphemism for getting it further and further towards the residence, involving a number of prospective manufacturers.

We are in the process of making a pitch, based on our experience. It goes back quite a long way with respect to broad-band facilities in the distribution network to have a piece of that action. That will give us hands-on experience. We are looking on applying it in a small, new development, perhaps in an apartment building and perhaps in a rehabilitation application as well.

We are optimistic that we will be able to collaborate with Stentor, the other Stentor companies to do that. So that will give us a real good feel for the technology, what it means in terms of the capital cost to apply, the operational administrative aspects of it and so on.

It is coming, it is probably coming a little more slowly than some of the technological seers would have you believe at this point, however.

Mr. Alcock: So at the current time, most of the operational capability is in the commercial districts around these rings downtown; and the second question, just projecting out, any sense of how long it will be before we have it in the residential areas?

Mr. Gordon: Yes, the application, as it relates to fibre to the building or to the point-of-service delivery, is primarily, I guess exclusively, in the downtown area today. We are at the point where, if we were to have a large medium-to-upscale

residential community subdivision development undertaken—if Lindenwoods were starting again, for example—I think it is safe to bet that we would look very, very carefully at fibre at least to the pedestal or some point in the distribution network within a few hundred metres of the individual homes.

Unfortunately, the way in which our economy is, we are not seeing those kinds of developments. We are seeing in-fill, we are seeing onesies, twosies, so we do not see the opportunity to apply it in a sort of a fresh piece of paper application. It is not cost-effective yet in rehabilitation or growth, overlay-type growth.

Mr. Alcock: So if I understand you correctly, then there is no current planning to replace the copper in older districts, River Heights, Tuxedo, Charleswood, whatever.

Mr. Gordon: No, that is quite right, we have no plans. As a matter of fact, in respect to that, there is an enormous number of technical advances being made in signal processing, which is allowing copper to carry higher and higher bandwidth signals. There is a school of thought that says, with some signal-processing capability based on large-scale integrated silicon circuits, we will be able to deliver full motion, full colour television over a copper loop of maybe a kilometre and a half or two kilometres.

Stentor, again, is undertaking a trial, this time with the University of Ottawa and Carleton University to actually deliver some image-type material, within their educational environment, on copper, using signal-processing techniques. So it is not entirely clear that we will not have a couple of alternative solutions to high band with service delivery.

Mr. Alcock: Is that one-way digital, or is that interactive?

Mr. Gordon: Mr. Chairperson, in that particular instance, it is one way. The upstream signal is a much lower bandwidth, but there is also another technology which is not being looked at for the subscriber loop so much, it is more being looked at for interoffice or private business applications, which is in fact two way.

Mr. Alcock: It is interesting, I harken back to a meeting I was at, I think in 1975, where the Telephone System, at that time, was getting into

the discussion with the CRTC relative to the cable companies' delivery of video services.

The telephone companies were making, at that time, the pitch that there should be a single carrier; that they are the ones that should provide the hookup to the home; and that the cable companies and others should purchase the pathway, the backbone if you like, for the delivery of their services and they would deliver their programming around one of those loops.

As we hear more and more of the availability of interactive services, and I had assumed with the arrival of increased fibre that we might revisit that discussion. Is that a discussion that is currently active with the telephone companies now, or have they conceded that ground completely to the cable companies?

Mr. Pedde: I think, Mr. Chairperson, if I can rephrase the question or try and attempt to answer it slightly differently. From the business perspective, Manitoba Telephone System as almost any telephone company is principally in the information movement business. I keep on telling our employees, what our job is is to be the Reimer Express of the information movement, where we do not need to own the parcels, we do not even need to sometimes own the highways, but the trucks—not the content in the truck.

Now, if you take that analogy, we are in the business of moving information. The beauty of the information is whether it is voice, image, data, facsimile or video when it is digitalized you cannot tell any difference. So you move it, you store it, you massage it, you manipulate it, you route it, you bill for it and you get it to the other end. That is our business.

So I answer the question, just let me play in the area of the movement of information. I do not want to be in the content business, never have been except for Yellow Pages, and that is lucrative business so we are not about to give that up. But, generally, we are not in the content business, but in the movement of information business.

Therefore, video information, our view of the world, we would like to move video information either for the cable companies or the television companies or for Joe video rentals if he wants to move a video into the residential home over our—it does not matter whether it is coax, fibre or twisted

pair, copper, in other words, that really does not matter.

* (2150)

So any type of information movement and even video information is digitized. That is the business we are in, and that is the business we want to be in.

Mr. Alcock: I appreciate that—

Mr. Pedde: I did not fully answer your question.

Mr. Alcock: No, actually you restate, I think, the position of the telephone companies for as long as I have been involved in some of these policy questions.

But the limiting factor has been your access, your pathway into the house has not been capable of delivering some of those services. What I hear Mr. Gordon saying is that rather than going to the expense of the capital upgrading to put the fibre in, that you might be able to do it on the existing copper system.

One cannot discount the advances of technology. Anything I have seen on that though has not suggested that you are going to have the kind of broad-band interactivity that is currently being discussed, certainly in some of the test markets in the U.S. I mean, we do not need to get into this discussion here.

My question was just on the degree to which we are going to upgrade the fibre. If I understand Mr. Gordon correctly, there is no plan to replace existing copper in residential districts, that you would look at that if a contractor were doing that in a development, but at the current time there is no plan. I would assume from that then, that despite your desire to deliver these services that, in fact, as we revisit the discussion of the relationship with the cable companies, that you will not be competitive in that market in the short term.

Mr. Pedde: Yes, Mr. Chairperson, I do not believe there is a simple yes or no answer. It is a push and pull of the marketplace. It is a push-pull of the technology capability, and it is a push-pull in terms of the demand. It is not only demand of video services that want this wider band width or this greater bit or throughput capability, it is also other data applications.

There are, and again Mr. Gordon can describe that, some of these synchronous transfer mode requirements which is millions or gigabits of information going into the household in a matter of

seconds which require a lot of band width. Again, it is the most cost-effective structure in terms of fibre, coax or twisted pair will be implemented. Right now, fibre is coming down and cost is coming down. Copper cost is not coming down, but the ability of transferring more information because of electronics over copper is again indirectly driving down the costs, and they are contending technologies more than anything else.

Mr. Alcock: I appreciate also that a small telephone company like MTS cannot be a leader given the rapid changes that take place in technology, and the desire is always to be a fast follower in these changes. The debate at times comes around how quickly you are following and how far behind you are falling.

I am not certain, Mr. Pedde, that you answered the central question because part of your ability to be competitive is having—because your infrastructure is the linkage to the home, you do not control the coax. You are either copper or fibre. Right now, the coax is controlled by the cable companies. If you are going to be competitive with the cable companies in the delivery of some of these services, you need to have a pathway that can deliver the kinds of products to the homes, to allow you to be in that position of competing with them.

Mr. Pedde: Again, Mr. Chairperson, I truly am not being evasive in not answering the question but, as a matter of fact, we do own the coax in Manitoba, but it is almost irrelevant to the gut issue of your question, because it depends on the nature of the business we are in. We own the coax for some, whatever you call it, peculiar quirk or somebody having more ability to find capital to finance the undertakings for whatever reason. In fact, in Manitoba, we do own the coax.

The question for us becomes it is not the ownership of the coax, it is our ability to ensure that we can cost-effectively have the technology at our disposal to deliver the information movement capability. That is key for us.

Mr. Alcock: Are you telling me at the current time that you can sell services over the coax, or are you just providing the coax for the use by the cable companies?

Mr. Pedde: I guess it depends on your definition of services. Our service is the movement of bits over that coax. We are not in the content business, so

whoever has a content which we translate into bits and move it over the coax, that is our business.

Mr. Alcock: It has been time then. So if I come up with a company that has a product to sell that can be transmitted over coax, you have the capability of selling me access to the coax hookups that the cable companies currently use, or are they restricted to the use of the cable companies?

Mr. Pedde: Mr. Chairperson, the coax is not restricted to the use of the cable companies.

Mr. Alcock: Is that decision yours or would I have to go before CRTC?

Mr. Pedde: I may be on weak ground, but I believe that the decision is ours. We in fact have over that coax, we have one example, I am not sure whether it is still on over the same coax. We tied together the St. Boniface and Health Sciences Centre. They fed video information over that. We charged a modest sum and it was discontinued when they discovered that they were transferring blue movies over that video channel.

Mr. Alcock: I shall not pursue that.

Just one question before we move on to a bit of stuff on the financial statements. You mentioned in the discussion around new services that were being offered—I am not sure whether they were part of the current package or into the future, but you mentioned number portability. Is this a service that is available now?

Mr. Pedde: No, Mr. Chairperson. This is my second marketing pitch. The number portability will be promoted like crazy in the month of June. Unless we have another software glitch, it will be fully available on July 15.

Mr. Alcock: Can you give me a quick marketing pitch on number portability, the capabilities of it here in this province. Is this on the lines or is this strictly a cellular service? I mean, we have some of that now.

Mr. Pedde: Mr. Chairperson, the answer is yes, but Mr. Gordon can describe it much better than I can.

Mr. Gordon: Number portability service is going to come in a number of different flavours. We are calling it Prime Line, by the way, and that is actually a Stentor name, and this will be what we are doing and will be doing in the month of June and July as part of an overall Stentor initiative. We think we are going to be fairly near the front end of that,

however, with respect to making those services available here before some of the other provinces.

The basic Prime Line service is going to allow you to have a prime number. This number can be applied to a number of different phones that you would use during the course of your day. The very most basic service will allow you to have an alternate number and what we are calling a kind of last stop number. The last stop number is one that you would expect always to be answered. It could be a voice messaging system or an answering machine, or a telephone answering service or whatever it happens to be, but we would expect it to always be answered.

The alternate number is one that you can program either from the location where you are, in other words bring the calls to the phone where you are, or in fact you can do it remotely. So you could send the calls from where they are currently going to another number, but the only thing that people who call you would have to know is one number. That is the plain vanilla version.

* (2200)

The more exciting version gives you four alternative numbers and a last stop number and allows you to manage those numbers through two what are called reach lists. You can have a reach list for the business day, for example, and a reach list for the weekend. In that format, we would see people mixing their business line, their home line, their cellular number, perhaps paging, and even fax. We have the ability with this Prime Line service to essentially offer a single number that will cover all of those capabilities. It is up to the user to develop the reach lists and override the reach lists so that they can, in fact, interact with the reach lists in real time to cause calls either to come to or go away from where they are and be handled by, again, messaging systems or whatever.

There are a couple of additional options which allow, for example, priority calls. This will allow you, for example, to give somebody a priority code and they will be able to override the fact that you do not want to receive calls from anybody except that priority code.

Mr. Alcock: Right, but one number?

Mr. Gordon: One number.

Mr. Alcock: How do they access the priority code then?

Mr. Gordon: There is a fair amount of voice prompt interaction for both the calling and the called party which we believe it will be such that will make this easy to use and very user friendly and so on.

Mr. Alcock: I am fascinated by that. I will not take a lot more time—

Mr. Gordon: The price is right, I have to add.

Mr. Alcock: I am sure it is. I had this vision, though, of phones all over this province blinking twelve o'clock at people most of the time.

I appreciate that. I may want to chat about that a little further. You said it is available soon?

Mr. Pedde: July 15, Mr. Chairperson.

Mr. Alcock: Okay, just a few final quick questions on the financial statements if we—

Floor Comment: Ah, we are going to get to the report.

Mr. Alcock: I would like somebody just to clarify something for me. The unfortunate thing about producing two annual reports, '91 and '92, is that when you begin to look at them, you can then compare across the various years.

I look at the audited—these are audited financial statements, and for the year ended December 31, '92-91, Statement of Operations and Reinvested Earnings, page 18, if I could just refer you to that, and it shows for the year ended 1991, long distance service, local service, miscellaneous services for a total \$527,498,000. Yet when I look at page 18, Statement of Operations and Reinvested Earnings for the previous year, 1991; 1991 is shown as \$532,743,000.

Why would two audited financial statements for the same year have two different numbers?

Mr. Pedde: Mr. Chairperson, as I mentioned in my opening remarks, and Mr. Fraser will expand on that, it is a restatement of the annual statement. One of the elements, as I mentioned, was on where do you net out bad debt first? Another element was interest on pension funds and how you treat that in the annual statement.

Both the auditors and Mr. Fraser and his people have concluded that the better way to present that is consistent with the way other people represent it. So revenue is revenue as defined by the same ground rules as everybody else.

It does not make either one correct or incorrect. It is just a restatement of the revenue, but Mr. Fraser maybe should expand or clarify.

Mr. Alcock: Maybe I could just enlarge upon the question then.

Is this a change in accounting that has taken place in this year, or are accounting systems evolving each year so that they require this kind of reconciliation? Is this something that happened just in this one year?

Mr. Bill Fraser (Vice-President, Finance, Manitoba Telephone System): Mr. Chairperson, it is a change in accounting policy that took place in 1992 with the support and concurrence of our auditors to make us more comparable with other telephone companies in terms of the way that they classify and present their information. Mr. Alcock mentioned earlier that we have audited financial statements for '91, and then the numbers are restated in '92, and there are some changes as Mr. Pedde indicated in his opening remarks.

The accounting policy change took place in '92. The audited financial statements and the substance and results for '91 stay the same. There is no financial difference. It is a formatting difference in '92, and in order to have the '92 numbers comparable to '91, the '91 numbers have been restated in the '92 report on a comparable basis. I do not know if that maybe gets a little confusing, but the '91 report stands as it is, but because of those changes, and there were basically two changes that took place. One of them is that bad debts was previously reported as an operating expense as opposed to a reduction of revenue, and so there is a change of \$500,245,000 that has moved from operating expense into revenue as an offset against revenue.

The other item relates to our pension funding, and basically what happens with our pension funding is that whatever interest and dividends we gain on our investments in the pension fund are rolled back into the pension fund so that it shows up both as a revenue and expense. Therefore, in order not to mislead the reader and to have comparability with other telephone companies, that revenue and expense have been netted together in the 1992 statements, and the '91 numbers have been restated to be comparable in terms of looking at it on a comparable basis.

Mr. Alcock: I notice the same difference occurs with the '90 numbers also when you look at the—go back another year. You just went back and reconciled all the years to reflect these changes?

Mr. Fraser: In the statement at the back, the five-year summary, yes, the numbers have been restated so that they are done on a comparable basis.

Mr. Alcock: Just to go further with this, the question on pension there. I mean, the statement 7.(a) in the notes to the Financial Statements, it talks about, "Employees of The Manitoba Telephone System are pensionable under the Civil Service Superannuation Fund and make contributions to the Fund at prescribed rates. The Fund maintains a defined benefit final average pension plan which covers substantially all of The Manitoba Telephone System's employees."

So the MTS plan is a fully funded plan?

Mr. Fraser: Again, as the chairman indicated in his earlier remarks, there is an unfunded liability at year-end which is identified in item (c) of that note 7 which indicates that the liability at the end of December 31, '92 was \$325 million, and the funding at that point in time is \$243 million. So you have about an \$80 million unfunded liability at that point in time.

Mr. Alcock: I will just wrap this up right now. I do not think that I have any other questions, and I am quite prepared to allow these to pass when the other critics have had an opportunity. I would again just like to reiterate my, frankly, admiration for the corporation and their ability to manage in what have been very tough times. Rather than simply tightening up the string between the cans that they operate, they are actually providing a wide range of very interesting services. I think it is to their credit. I would like to see fibre at 379 Churchill Drive.

Ms. Rosann Wowchuk (Swan River): I have a few questions that I would like to ask following up on the questions from Mr. Alcock and Mr. Dewar. I too find this all very interesting, and we talk about much new technology, but there are people in Manitoba who still do not have telephone service, even the most primitive kind of telephone service, as I understand it. What percentage of people in Manitoba do not have telephone services and what efforts are being made to get services into those areas of the province?

Mr. Pedde: Mr. Chairperson, Mr. Gordon will probably dig out the exact figures if we have them handy, but I believe we are at the 98 percent level of telephone service of one form or another to 90 percent of the permanent homes in Manitoba. From what we can determine, the other 2 percent probably just do not want them and it is not an issue of price. There is no particular location in terms of permanent residents that we do not reach.

* (2210)

There are some seasonal remotes that are, say, like fishing camps or something that we only go in with satellite or some other means, but we do not consider those permanent residents. I am not aware of any permanent residence or permanent location in Manitoba where we do not have the capability to provide telephone service. The 2 percent that do not have them do not want to pay their \$8 a month or something like that.

Ms. Wowchuk: That is fine. That is what I was looking for, whether there were maybe—and I am thinking about remote northern communities. What I was getting at was whether there might be some communities that did not have access to service right now and I am pleased to hear—

Mr. Pedde: Through the luxury of satellite technology, in fact the telephone service is more difficult to provide than television service. It is hard to comprehend how you can have 100 full-colour video channels, but it is a one-way capability and it is that uplink that is so very expensive, as opposed to the downlink and the uplink for telephone connections. I remember in my last reincarnation with MTS the cost difficulties we went through to get to Brochet and Lac Brochet, and those were the few remnants left in Manitoba that did not have telephone service. If one of those subgroups splinters off, I think we still have a capability of a satellite dish to get to them.

Ms. Wowchuk: Just for clarification, are there some communities then that have access only by radio phone? Is that what you are saying? Or is there actual telephone service? I did not quite understand what you were saying about radio phones.

Mr. Pedde: No, Mr. Chairperson, my understanding is that even though it is via satellite, it is still like a full-fledged telephone service. The satellite will down link the signal. It would be just like hard wire coming down and then to a local

switch, and then you would fan out to all the residences to provide telephone service.

Ms. Wowchuk: One of the areas that I have a great amount of interest in, as a rural person, is cellular service. As I look at the two reports, I see an increase from serving 80 percent of the population up to 85 percent in 1992.

I would like to ask Mr. Pedde then, in which area did we see an expansion in 1992? Were there additional towers or services provided in 1992? Further to that, where are the proposed expansions for cellular service in the upcoming year?

Mr. Pedde: Yes, Mr. Chairperson, in fact, we are not quite sure, but as the minister mentioned, it is a competitive business. We do not consider cellular as a right of every Manitoban, unless we get instructed otherwise and somebody finds the money for it. Therefore, ourselves, like our competitors, are deploying various marketing strategies to satisfy our customers to provide the best possible coverage. Whenever we sniff out a location where we can afford another cellular site, we jump in there with both feet.

Cellular now currently reports to Mr. Fraser as part of our downsizing exercise, and one of the things we currently have under review is to see how to best deploy capital and still make money. It has taken us four years to finally make cellular profitable. We want to keep it on that track, and in fact, make some contribution to basic telephone service through cellular.

There has been some cost breakthroughs in some of the ways we can deliver cellular and the coverage capability we have, and we are looking at whether we can afford to both expand Winnipeg, because there is a lot of growth in Winnipeg, and Brandon and reach into some other areas.

We have some coverage holes around the Riding Mountain area, and we do not know how far we are going to go past the Riding Mountain area and into the Interlake area, and we still have some coverage problem in southern Manitoba.

The maximum I can say that we can truly afford over the next time period is going to be at best four cell sites, but it is strictly in the planning stage, but it is going to be a solid business decision. It is both additional customers that we bring up or customers that travel those routes and say, like if you do not give us coverage in that area, we are going to go to the competition and the competition is going to be

there. Well, we will be in there too, but our plans are not firm, but we are tending towards expansion in the northern or central area, but nothing firm.

Ms. Wowchuk: I asked about were there cell sites put in last year. I thought I heard somewhere along the line that there was a new site going in at Onanole or in one of those regions. Were there any new sites put in last year?

Mr. Pedde: Yes, Mr. Chairperson, but not in the context of overall full brand-new sites. It was more in Onanole, in Riding Mountain, we had bad coverage because of the terrain and so on. We found sort of a beef-up technology, if you pardon that, and tried that, and then I think we actually created a new cell site to expand the signal.

We also had some problems in the southern part of Manitoba. For a couple of reasons the way the signal strength is regulated across Canada and the U.S., we could not bleed too much signal into the U.S., but the Americans were bleeding too much signal into Canada, and we had bad coverage if you had a hand-held unit as opposed to a car-mounted unit, and our competition was stealing customers from us by providing better coverage with the hand-held unit. So we were in there with both feet with hand-held units because we were losing too many customers.

Ms. Wowchuk: I guess you will know the area that I have the most interest in is the Dauphin-Swan River area, and there are many people in that area that have an interest. In fact, I believe there are people who have contacted Manitoba Telephone about service in that area, and I want to ask if any studies have been done, any work has been done into looking at the possibility of expanding the service into that area.

We at one point talked about expanding the service on the towers, using the existing towers. There were some hints that it might be able to work that way, so I am very interested for my own personal use, but also for the use of many people in the area.

There are many farmers in the area who have expressed the interest and also business people who travel up into the area who are very interested. So, has any work been done, and what is the possibility of having it extended into that area?

Mr. Pedde: Mr. Chairperson, I guess I can take that as an undertaking in terms of a general interest.

We have communicated to most of the communities north of the Riding Mountain area of why it is a prohibitive venture at this time. In the old days it used to be \$750,000 for a cell site and then you sort of said, well, how many years is it going to take to get your money back? If it is 100 years we just cannot afford to do that.

There is newer technology where you can piecemeal it, and there are also some other breakthroughs coming in the what is called PCS as opposed to cellular, and it may not necessarily help you, but some people call it poor man's cellular or smaller cell site.

So you might put a little antenna on a pay station in Dauphin if you like, and you would get a slightly smaller coverage area but you could still be reached. So that is another capability.

In fact, I have my coverage map here, and we are looking at the possibility of 12 locations, and we are going to zero in on those, and then maybe somewhere between zero and four if we can afford them and we can get our money back in some reasonable sound business fashion out of those locations. North of Riding Mountain is one of the areas, but we are also looking at a few other pockets. Believe me, if we have a minimal capital resource and we are short, people cannot get on the channels in Winnipeg, that is where we are going to spend our money, because we will get the money back much more quickly.

Mr. Findlay: It certainly is an interesting topic. I understand why the member for Swan River would like to have the service up there, although this will not help you in this particular instance. But I have travelled outside the province, particularly in the northern States, which is about the same kind of population distribution between urban and rural, and we have far superior service in the rural, or outside the urban areas, than what I encountered there.

* (2220)

I mean, you got 10 or 15 miles away from the city and you had no service, so in a comparative sense, service has been provided to rural Manitoba very well, but there are certainly, as the president has said, cost limitations to how fast you can get to that other 15 percent, particularly the next 10 percent of people. A lot of that is in the area you are talking about, and they are using the appropriate

guidelines to measure when and how they can deliver that service.

Ms. Wowchuk: Certainly, and I can appreciate that, and I know that in comparison to other countries and other areas we do have good service, but when we talk about modern technology and we talk about providing service I understand that you want to, as a corporation, make money, but we also have to look at providing services for people, and I would hope that would be taken into consideration, that when you are looking at areas that are more sparsely populated that you allow for a greater length of time to recover the costs, because that is only fair that we look at that. We do not expect to have the same services in the rural areas that we have in urban areas, but I think that as a government and as Crown corporations there is a responsibility to look at providing services for all people.

Mr. Pedde: Mr. Chairperson, I did not want to communicate it in that fashion. We absolutely are, on monopoly services, not exclusively driven by the bottom line. We are driven by cost. But on discretionary services we have an obligation to be profit oriented or business, bottom-line driven.

Ms. Wowchuk: Just a couple of areas that I want to touch on as well. We talked about distance education, and this is very important to the rural area. As our population decreases and we have a more difficult time providing the opportunities for our children to have access to as many programs as urban children do, school divisions look at other options of how they can provide this education. I think it is very important that we provide these opportunities for rural children as well as urban children.

I want to know whether the Manitoba Telephone System, the corporation, is looking, working along with the Department of Education, doing any studies on how we will be able to provide the services. Have you been given any direction by any department of government or is there any co-ordination between the Manitoba Telephone System and Department of Education on working out along with school divisions how we are going to get the equipment and the necessary lines in place that we can provide the educational opportunities for rural children?

Mr. Pedde: Mr. Chairperson, as I have mentioned earlier to a previous question, yes, very definitely.

We have a trial on right now in the Evergreen School Division. We are currently contemplating a trial in the Swan River School Division. It is a different trial, and there are potentially two or three others, but as I have said, we have the technological capability in terms of the delivery, but you would need a camera at one end, and you need a monitor at the other end, and you need the curriculum, that, working with the Department of Education and I guess the Department of Government Services is also involved. They are trying to build an infrastructure that creates the capability province wide, and I guess they are also trying to sort out the funding for this.

But from our perspective, we have the infrastructure and our component can basically be delivered at cost and a modest profit. We are in there with both feet trying to make it happen. We are trialing it, as I mentioned, in one location and attempting to trial it in a second.

Ms. Wowchuk: In that trial location and in the other locations, is it going to be set up that there is two-way communication or will it be just the delivery one way?

Mr. Pedde: Mr. Chairperson, the former, an absolutely full-blown, interactive, full-colour, full-motion video capability.

Ms. Wowchuk: Just a couple of other areas that I want to touch on, one of them being in Community Calling and the expanded area. The minister had indicated that Manitobans are happy with this, and those areas that have this service right now, indeed, are happy with it. Our own community got hooked up just this last year.

The minister said we were on target in getting this program in place, and I wanted to ask if that was an accurate statement. Are we on target? My understanding, if I recollect correctly, it was going to be set up in about three years. Has it now been delayed for a longer length of time? Are we on target with this program?

Mr. Findlay: The original announcement was in 1989 with the idea that the program would be delivered over the course of 1990 to 1996. Some of the individual line activities actually started in 1989, so it started a little bit ahead of schedule and the president can comment further as to the degree of being on schedule. My understanding basically, in terms of the original plan, it was over six, seven

years and basically that is my understanding, on schedule, but the president may comment further.

Mr. Pedde: That is correct, Mr. Chairperson. As the minister mentioned, the program was announced in 1989. This chart was drawn up that year, and it is colour coded by year and that is how the \$800 million was come up with as one component. We have never changed that, and we are sticking to this colour chart, and we are right on schedule, in some areas, slightly ahead of schedule and below cost.

That chart was drawn up in 1989, and nobody has ever changed, not to my knowledge, the colour coding on this.

Ms. Wowchuk: I wonder whether it might be appropriate to ask about a particular community that has a concern about their Community Calling, or might it be better to call someone?

Mr. Pedde: Well, we will take it and follow up on it.

Ms. Wowchuk: The community that has raised the concern is the community of Ethelbert. They tell me that all the other communities around them that border onto the Dauphin municipality now have Community Calling into Dauphin, and Ethelbert is the only one in that area that does not have Community Calling. They feel that they are being unfairly treated and for some reason they are being left out.

I would like to know if there is some particular reason why Ethelbert cannot get that service. They were told because they do not have all the individual lines in there yet, but there are other communities close by that do not have individual lines but are hooked up to Dauphin.

Mr. Pedde: Mr. Chairperson, as I mentioned, there are a number of elements at play. Sometimes it is copper, sometimes it is fibre, sometimes it is the switches, and just because you see a plow train going down the highway, that cable is intended for somebody else. So we cannot just splice off a few customers.

Ethelbert is sitting by itself, but I noticed, in fact Dauphin will have a very large free calling area, all the way up to Camperville in 1995, if my eyes do not deceive me about the color.

The reason that Ethelbert is quite a bit further from Dauphin though than either Gilbert Plains or Sifton or Fork River, who had previously what we called EAS free calling, but Ethelbert, in 1995,

when they have individual line service, will have free calling to Ochre River, Dauphin, Gilbert Plains, Sifton, Fork River, Rorketon, Winnipegosis, Waterhen, Camperville and Pine River.

* (2230)

Ms. Wowchuk: But they have the individual lines in there right now, do they not? That is the question that they ask about. They say they have the individual line service, but yet they do not have the hookup and the other communities in there have.

Mr. Pedde: Mr. Chairperson, I do not know the precise engineering, but my guess would be for them to have individual line service; that means they have probably a digital remote in Ethelbert.

Now you need the physical facilities to get to Dauphin. That may be a fibre that is coming or a coax or a microwave that is coming. I do not know. Mr. Gordon maybe can mention, but he does not know the specific plans.

When you lay out, pardon the expression, a master plan of \$800 million you try to stage the army in such a fashion that you do it cost effectively and you cannot do everything at once and you cannot rearrange the plan.

That is why the plan has not been rearranged. Some of the equipment has to be ordered two years in advance. The people have to be sourced and it has to be done. I can undertake to get the specific answer why the Ethelbert customers currently, if they think they have a capability, cannot do EAS with or free calling with Dauphin.

I think it is some technological—

Ms. Wowchuk: I would appreciate if somebody would get back to me on that, because there seems to be some confusion on that issue and maybe just a phone call would clarify it and then we can get the message back to them.

I want to follow up on something that Mr. Alcock was raising and that is about selling services outside the country. There has been lots of controversy about the previous incidents, but I want to ask the minister, during the Agriculture Estimates, we talked about many trade missions into other countries and that there are several coming up in this year.

I wonder whether, having the responsibility for Manitoba Telephones and for Agriculture, while you are on these missions, whether there are any

efforts being made to pursue markets in those other countries for the services, for the expertise that we have here in this province?

Mr. Findlay: I have been to Japan, who obviously has the technology. We do not know much we could sell to them, but I have been to Ukraine and to Russia and, clearly, they desperately are in need of the infrastructure of telecommunications.

There was one conversation with one particular group we were meeting with about that, and as I recall, it was around about whether the federal government would be putting in AID money in the direction of telecommunications. I think the federal government had done such a program in Poland, if I am not mistaken, put AID money in for telecommunications.

Where people raise it, yes, I talk about it. I have talked about it with a particular incoming mission from China. It was here on an agriculture mission talking about infrastructure for telecommunications in a particular part of their country. So where and when possible, yes, I raise it. If anybody raises it, I talk about it.

As we have mentioned earlier, where there is an opportunity to sell expertise and the buyer can pay, or a contractual arrangement that MTS is comfortable with, they will be able to look at it. As the president has said earlier, concentrating on the mission at hand locally to deliver services and meet all the demands of the Manitoba clients—but you can rest assured there are no restrictions from government on terms of accessing opportunity where and when it is financially reasonable, and I am sure that it is fair to say that is the way the board looks at it too.

Mr. Pedde: Mr. Chairperson, before this undertaking, if I may reverse the tables and ask a point of clarification, the specific question was: Why can we not provide Ethelbert free calling to Dauphin at this time? That is the question the way I understand it.

Ms. Wowchuk: Yes, the people that raised this with me in Ethelbert said that all the other communities bordering on the Ethelbert municipality can call into Dauphin toll free, no long distance, Community Calling, and they are the only community bordering on the Ethelbert municipality that does not have this service. So if we could just find out why.

Just getting back to the discussion we were having, I would hope that the minister would seriously pursue that. There certainly are opportunities and places to invest, and I hope that we will not shy away from those opportunities.

I have only one more area that I would like to touch on this evening, and that is in the area of downsizing. Both Mr. Dewar and Mr. Alcock mentioned those, and we were talking about 400 positions being left that had to be—further downsizing them. The president mentioned the casual and term positions, many of them who were not called back, but he talked about other people being placed in. Some of the casual people that I talked to have worked for Manitoba Telephone for many years, probably a few of them. I think there was one about eight years. So they also have a lot of experience and skills there as well.

Is there any effort being made to provide employment for these people who are on contract or on term positions if the opportunity should arise, or because they are on contract or term, are they just lost off the system?

Mr. Pedde: For us to manage Manitoba Telephone System most cost-effectively, we need a combination of full-time and term employees by the nature of shift work and various other things, and seasonality. So there will always be a requirement for those. Our downsizing, the way it has taken place, it is roughly 50-50. Three hundred have been regular, full-time employees, and 300 have been casual or term employees, or whatever the right term is.

We still have hundreds of those and will continue to have hundreds of those. We visualize that the next phase of this ongoing phase, we will probably eat into both areas.

Ms. Wowchuk: A great part of the employment right now is the installation of the individual lines. Is that a contract offered? Is there a tender let go for that contract for those individual line services?

Last year my understanding was that there was a contract. The contract was given to a company in Saskatchewan that did the work, or a better part of the work, particularly in our area. I want to ask on that. When you hire a contractor from out of the province, is there a Manitoba hiring clause? Are they required to hire so many people from Manitoba, or is there not any such requirement?

Mr. Pedde: Mr. Chairperson, to position that, there are three different dimensions in here. To do the rural service improvement, the major part of the work is done by MTS employees. It is not contracted out.

Mr. Gordon will correct me that in the plowing, there is heavy-duty equipment required and that is generally contracted out through the tendering process. Two years ago, I believe, of the eight contracts let, two went to Saskatchewan. I think this last year, one went to Saskatchewan. So it is a part of a part.

First of all, the bulk of the work went to Manitoba companies when it was tendered, significantly. I think one or two went to Saskatchewan companies. Now, they in their tender describe a certain amount of Manitoba content. I am not sure to what extent they then hire Manitobans or bring people in. I honestly do not know.

Ms. Wowchuk: I only have one more question. The only other question I have is does MTS have an affirmative action policy on hiring? I think about aboriginal people, are there any efforts made to hire aboriginal or Metis? Is there an affirmative action policy within Manitoba Telephone System?

Mr. Pedde: Mr. Chairperson, I do not think we call it affirmative action, but we call it employment equity. Employment equity is very strongly practised in Manitoba Telephone System, but when you are in a limited hiring mode, it begs the question what type of people we hire.

We have gone through some cultural changes within the organization of, first of all, sensitizing the employees to various minority issues and we have quite a proud success story, in fact, also on the women in management.

In fact, if you read the Free Press on—was it a Monday or a Saturday?—our Mona Katawne was instrumental in creating a course for women managers at the university. She is also the custodian, if I can call her that, or a mother hen is probably a bad term, but the chief manager, the major manager in terms of practising employment equity. Again I can get Mona to tell you about our program.

Each vice-president annually is accountable to describe what progress they have made in terms of deployment of minorities and including females in management ranks, but it is not on a quota basis or not on an affirmative action basis.

* (2240)

Ms. Wowchuk: I am pleased to hear that there is that policy in place because we do have a changing culture, a very multicultural province, many different ethnic groups. When you have a Crown corporation that is serving people right across the province, I am pleased to hear that this corporation is making an effort to see that the needs of all cultures are met and that we do have a policy that will address those needs.

I have no further questions.

Mr. Chalperson: Shall the Annual Report for the Manitoba Telephone System for the year—I am sorry, Mr. Dewar.

Mr. Dewar: I was wondering if Mr. Pedde would provide me with a schedule of exchanges that will be receiving individual line service?

Mr. Pedde: In '93?

Mr. Dewar: The whole schedule over the next number of years, if you could just provide it to me by mail.

Mr. Pedde: Yes, Mr. Chairperson, we will undertake to do that. If Ms. Nault has a copy of it here, we could do it right now.

Mr. Dewar: Thank you. Are there any plans to expand the 911 service to Selkirk?

Mr. Pedde: Mr. Chairperson, that is a subject that is near and dear to every Manitoban in every community, in fact. We have had some modest breakthrough in the technology and in some of the options, and we are having a meeting with the Union of Manitoba Municipalities in the minister's office to review that subject a little further.

I cannot comment on Selkirk specifically, but we are looking beyond Winnipeg and Brandon. I think that is the important part.

Mr. Findlay: Certainly, I can tell the member the intent is to, in some fashion in the not too distant future, be able to deliver 911 province-wide. It has been on that agenda now for some time, and digital switches province-wide is an integral part of that process, so service of the future serves well to eventually have province-wide 911.

Mr. Dewar: I was speaking recently to an MTS employee who—actually he called me. At one time I believe an employee could buy from the Telephone System used or discarded equipment. The practice has changed, is that correct?

Mr. Pedde: The way I understand the history, it did tend to become a political football when somehow it looked like the employees were featherbedding the things themselves by declaring equipment surplus too early or something, so I believe we instituted a policy that just says any surplus equipment, whether it is computers or vehicles, are going to be subjected to public auction or be disposed of by other means, so that we seem pure in terms of doing our business activities.

Mr. Dewar: My final question, I was admiring the attractive pictures you have in the back of the annual report. Which one of these smiling faces belong to the labour representative on the Board of Commissioners? I will ask Mr. Stefanson that.

Mr. Stefanson: There are no labour representatives on the Board of Commissioners.

Mr. Dewar: Maybe I can ask the minister that. Why not? I remember last year when I asked you the question, you said it will happen in due course.

Mr. Findlay: Mr. Chairperson, the last labour representative resigned his position on the Board of Commissioners.

Mr. Dewar: Why has that position not been filled by a labour representative? I know you were talking earlier about Total Quality Management and other issues associated with labour and promoting a good labour environment. Yet there is not a labour representative on the Board of Commissioners. I find that sort of strange.

Mr. Findlay: In terms of dealing with labour, the president commented earlier on TQI in dealing with

10 days off this summer, they are working with the unions. That is the appropriate and effective method of the executive to work with labour is to work with the unions, three of which are involving employees of MTS.

Mr. Dewar: Are you going to appoint the labour representative to the board?

Mr. Findlay: We will see in due course. At this time there are really three vacant positions on the Board of Commissioners.

Mr. Chairperson: Shall the Annual Report for the Manitoba Telephone System for the year-end December 31—

Mr. Findlay: Mr. Chairperson, just before you do that I would like to thank and congratulate the president and the chairman, Mr. Fraser and Mr. Gordon for their excellent contributions here tonight. I think what they have done here is demonstrated the high degree of technology that is going on in the industry and the dedicated performance of all employees of the corporation in terms of delivering services to Manitobans. On that, I would like to congratulate them all.

Mr. Chairperson: Thank you. Shall the Annual Report of the Manitoba Telephone System for the year ended December 31, '91—pass.

Shall the Annual Report of the Manitoba Telephone System for the year ended December 31, '92—pass.

The time being 10:45 p.m., committee rise.

COMMITTEE ROSE AT: 10:45 p.m.