

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES
Friday, 20 March, 1981

Time — 2:00 p.m.

CHAIRMAN — Mr. Warren Steen (Crescentwood).

MANITOBA TELEPHONE SYSTEM

MR. CHAIRMAN: Committee come to order, please. On a nice spring day like today, on a Friday afternoon when the sun is shining and everyone wants to go home early, maybe we could start off by having Mr. Holland read into the record some answers to questions that were asked of him the other morning.

MR. GORDON HOLLAND: Mr. Chairman, there was a question on costs of the Grassroots Project. The total capital cost to MTS is estimated at \$189,000.00. During the trial period, there will be forgone revenue of \$110,000, and of course, there is a possibility that the project will develop into a commercial offering in a year or so. I should mention here that MTS is offering this trial project in connection with Infomart, which has a substantial Winnipeg operation, presently 12 people on their staff and they hope that will grow to 20 by the end of the year and with their Toronto headquarters, they are able to provide a great deal of R and D support to this particular project.

Mr. Chairman, a question was asked as well on Project SAM. The overall cost to MTS is \$110,000; \$40,000 of that is for Earth Stations, which Telesat Canada has agreed to purchase from MTS at the end of the one-year demonstration, at the original purchase price. Forty thousand of that total is for recoverable and reusable hardware and \$30,000 for nonrecoverable engineering and installation time. In addition, in conjunction with the project, there are several contributions being made. Approximately \$50,000 of T.V. sets and videotape recorder equipment has been loaned by Sony of Canada Ltd., and about \$10,000 worth of steel carts for T.V. sets and videotape recordings by Custom Steel Products Inc., of Winnipeg. The satellite channel capacity, up-link facilities and expertise and co-ordination is being offered by DOC, the Department of Communications, and Telesat Canada. The provision of time and expense of teachers to be trained and then operate the system at the classroom level, by the Fort Garry, Beautiful Plains, Western, Interlake and St. James School Divisions, and the time and skills to visit all the schools and demonstrate the equipment operation is being contributed by Advance Industrial Electronics. Of course, the Ontario Educational Communications Authority is allowing access to their educational material for this trial.

A question was asked, Mr. Chairman, by the number of staff employed by Interdiscom at the time of the tender. ISL had eight employees at the time of the tender, all of whom shared their time between the activities of this new high technology company and Coyne Associates, a consulting firm from which

ISL emerged and evolved. This small staffing complement has been historically typical of the new and innovative technological enterprises in the industry. They are characterized as being skill-intensive rather than labor-intensive. In other words, their value resides in ideas, concepts, and technological expertise.

ISL's assets at the time of tender: The approximate value of physical assets at the time of the tender was \$20,000.00. This consisted of some minor items such as furniture and equipment. Much of the more expensive items, such as laboratory and test equipment, was rented. The principal assets of the company at that time were the concepts and ideas that its technical and professional personnel had developed. Many of them were contained in documentation preparatory to patent applications.

A question was asked about what ISL patents are presently held and it is our understanding that applications for three patents have been filed, Number 350913, a distributed network synchronization system; 350914, a video distribution and control system; 350915, a video and data distribution module with a subscriber terminal. In addition, proprietary rights are maintained to protect software packages, that is, customized computer programming.

We were asked on what basis was the contract awarded. The board considered a wide range of factors when it awarded the original contract to ISL. It examined both long- and short-term costs, the viability of the eight companies submitting tenders, the risk factors involved and above all, the objectives and goals proposed for the research and development project. A weighing of all these concerns led to the conclusion that ISL's proposal most closely approximated the intent, design criteria and specification envisaged by the tender. Moreover, the ISL plan was seen as the lowest cost long-term solution submitted by the tendering companies.

I believe, Mr. Chairman, those were the principal questions asked at the last meeting.

MR. CHAIRMAN: Do any members of the committee have any questions or any comments pertaining to Mr. Holland's answers that he has just given?

Mr. Walding.

MR. D. JAMES WALDING (St. Vital): Mr. Chairman, just to review a couple of the answers that Mr. Holland gave us. The three patent applications that were mentioned, the numbers and various descriptions given of them, I would like to ask Mr. Holland whether these three packages, or prototypes, or whatever they are called are in use under Project IDA and are they a vital and necessary part of the project?

MR. HOLLAND: Mr. Chairman, due to the engineering complexity of these systems, I wonder if I could ask Mr. Anderson to comment on it from his knowledge of the IDA network.

MR. CHAIRMAN: Mr. Anderson, please join us at the table.

MR. S. G. ANDERSON: Mr. Chairman, the answer is yes, related to the project IDA that was put in and turned up late December.

MR. WALDING: In the event that these three prototypes, for want of a better word, were not available to the system, would Project IDA still be able to function?

MR. ANDERSON: Yes, it would.

MR. WALDING: Do I assume from that that the project would utilize other electronic devices from a different source or of a different nature?

MR. ANDERSON: Mr. Chairman, if the company continues and the product is produced the company is viable, then they would make a product employing these patents. If the company doesn't continue to exist, or we exercise our rights through the debenture, then the patents become ours and we can see them utilized by getting other suppliers or other people to produce them, or embody them in products.

MR. WALDING: That wasn't quite the question. If for some reason these three technical prototypes were not available to Project IDA, and Interdiscom didn't allow you to use them, are there other electronic devices available from other sources or other manufacturers that could be used, or would the system Project IDA itself simply come to a halt?

MR. ANDERSON: Well I guess if these patents weren't usable or couldn't be used, then there would have to be other designs undertaken. These are design patents, Mr. Walding, which would appear in a product, which could either be produced by Interdiscom or others.

MR. WALDING: Are there products made by other manufacturers that could be used satisfactorily in Project IDA?

MR. ANDERSON: Well not in the same context. If these patents are approved then it is unique, and it would be some different type of product in some different type of configuration. That's really what I am saying.

MR. WALDING: Then let me ask you, if the project was successful and another province or somewhere else on the continent wanted to do a similar type of job in their particular area, would there be other materials and devices they could use, or are these three particular prototypes the only ones that could be used to do such a project?

MR. ANDERSON: Well there might be something, Mr. Chairman, but not the same way or with the same techniques employed here; it would be an infringement of the patent. It couldn't be done that way.

MR. WALDING: I am trying to grasp some indication of the value of these patents both to the company and to MTS and to Project IDA, and similar projects in the future.

MR. ANDERSON: Mr. Chairman, that's a pretty difficult question to answer, just a judgment value

that the value of the patents were worth the amount we had to put up to secure them in terms of the debenture.

MR. WALDING: No, I'm not talking just in dollar terms. I am talking about the future of projects such as Project IDA, either expanded throughout this province, or developed in other provinces, or throughout the continent. Would similar projects hinge upon the use of these prototypes as patented, or can some other company come along and say well we've got something that will do the same job that we produced.

MR. ANDERSON: Well to do it in this manner, it would hinge on these products. That's my answer to that question, at the present time; in this manner.

MR. WALDING: Thank you. Mr. Chairman, I do have a few other questions I wanted to ask of Mr. Holland, but my colleague from Churchill, I believe, has a number of questions on a different topic and he has to leave a little early. I would like to concede the floor to him and perhaps come back to this a little bit later.

MR. CHAIRMAN: To Mr. Cowan, are you going to direct your questions to Mr. Holland, or do you want both Mr. Holland and Mr. Anderson to answer them?

MR. JAY COWAN (Churchill): I think Mr. Holland could probably answer the questions; they are of a general nature.

MR. CHAIRMAN: All right, proceed please.

MR. COWAN: Thank you, Mr. Chairperson. I believe Mr. Holland will recall that we had spoke previously in this committee to the provision of telephone services to four remote northern communities which are in my constituency, the community of Brochet, Lac Brochet, Tadoule Lake, and Shamattawa. We have addressed the issue, I think now, for three years' running. Those are the four communities to my knowledge that are not currently served by any sort of telephone system outside of high-frequency radio telephones.

When we first addressed the issue a number of years ago, you indicated that it was your anticipation at that time that something would be done shortly. You were looking at satellite broadcasting, rebroadcasting and signals as a possibility in that area. It was suggested at that time that the extension of the microwave system into the communities would be prohibitively expensive, so satellite was being reviewed. The next year, which was last year, I believe we discussed it, there was some discussion about any progress which had been made and at that time it was suggested that we should anticipate some information coming forward in the near future in respect to provision of telephone services to those communities. However I know that the Manitoba Telephone System representatives have gone up into the communities, have discussed this with community leaders, but to date there appears to be no commitment to provide those communities with telephone service.

So first, I think it would be appropriate to ask you if you can provide us with an update as to the status

of your investigations in respect to provision of services to the communities of Brochet, Lac Brochet, Tadoule Lake, and Shamattawa, and also at the same time if possible, give us some commitment as to when telephone service, other than radio telephone service will be introduced in those communities.

MR. HOLLAND: Mr. Chairman, that information is all quite correct. The communities are presently served with HF Radio Service, which is unreliable and subject to weather and atmospheric interruption. We have visited each of the communities and consulted with them and surveyed their requirements. Our staff have been working with the Federal Department of Communications for some months with these requirements.

Our hope was that we could develop a co-operative satellite system in co-operation with the Department of Communications and using the spectrum that they have available. For a combination of reasons, available satellite time, the reliability and availability of the ground terminals and the funding required, that has now been abandoned. The situation approximately is that there are 300 households requiring service in the community and the costs are something like \$1 million per year to serve those families.

At the present time with the co-operation assistance of the Department of Northern Affairs, we have made proposals for telecommunication services in the communities with hopefully, support from the Government of Canada, for which I believe there is some precedent.

Mr. Cowan is quite correct in that these are the only communities remaining unserved and, in fact, in the 1982-83 year, we will be adding additional telefacilities in 10 communities in the north and local exchange service, the volume of usage dictating the enhanced facilities.

So at this point in time, we are very hopeful that there will be some form of assistance for the communities which can justify speedy provision of service.

MR. COWAN: Mr. Chairperson, I don't have the Hansards before me from the Committee hearings of last year, but my recollection is that the only new development is the initial review of working out a satellite system has been abandoned because of lack of available time and funding and, as well, some consideration having to do with, I believe, ground stations; and that there are now new negotiations or new conversations and discussions ongoing with the Federal Government for a different type of Federal support for the provision of these services.

I would ask the Minister if they are now looking at a direct grant or a direct cost-sharing agreement with the Federal Government in order to reduce the financial impact, which would amount of \$1 million per year for the continuation of the service. Is that the situation as it stands now?

MR. HOLLAND: Mr. Chairman, the facilities will almost certainly be satellite facilities. It is unlikely that we would extend terrestrial service to the communities. The remaining problems are financial, as I have described.

MR. COWAN: I apologize. I had misunderstood Mr. Holland's remarks previously then. You are still

working with the Federal Government to develop a co-operative satellite system and you are now going beyond your initial discussions and actually talking money, and the amount of money that it would take from the Federal Government to assist the province in providing services to those communities. Is that correct?

MR. HOLLAND: That is correct, Mr. Chairman, with support and assistance from officials of the Department of Northern Affairs.

MR. COWAN: Perhaps I should ask then, when the Department of Northern Affairs became involved.

MR. HOLLAND: Several months, Mr. Chairman. It's the past several months this has been pursued and the complete history reviewed with them and our consultations with the Department of Communications.

MR. CHAIRMAN: Perhaps, Mr. Cowan — I see the Minister of Northern Affairs at the table and he has indicated that he would like to participate.

Mr. Gourlay.

HON. DOUG GOURLAY (Swan River): Thank you, Mr. Chairman. With respect to the four communities that the Member for Churchill refers to, I might point out at this time that negotiations include those four communities with respect to improved telephone service, in the new Northern Development Agreement. I can't say at this time whether we can complete that arrangement with the Federal people, but certainly those negotiations to include that type of service with the Telephones, is currently on the negotiating table.

MR. CHAIRMAN: Mr. Cowan.

MR. COWAN: Basically what we have then is the Department of Northern Affairs negotiating with the Federal Government in respect to taking a part of the allocation for the continuation of the Northlands Agreement, which the Minister referred to as the Northern Development Agreement, and applying that specifically to the introduction of telephone service into these communities. Is that a correct assessment of the situation?

MR. GOURLAY: That's correct.

MR. COWAN: I am tempted to ask the Minister how optimistic he is in respect to these negotiations, however, I am not going to because I know that puts him at a disadvantage when negotiating with the Federal Government. All that I can say at this time in respect to that is, we do want to see telephone service in those four communities, that the system as it is now is inadequate and unacceptable and Mr. Holland has pointed out the deficiencies in relying upon H.F. radio-telephone linkages. They far too often are affected by environmental conditions and do not provide any sort of reliable service.

When you are talking about communities which are as isolated as the four communities under discussion, you must acknowledge that communication is essential to the well-being of the residents of those communities. If an individual

should have an accident, if an individual should become accutely ill, then it is necessary to call in an aircraft in order to evacuate those persons to more appropriate areas where medical assistance is available to them. Now, with the lack of the MU-2 and the fact that they have a radio-telephone system which is not always as co-operative as it should be, they are being placed in some jeopardy.

So if I offer an encouragement to the Minister of Northern Affairs and the Minister responsible for this portfolio as well, that encouragement is to do something very quickly. I am going to avoid commenting on the appropriateness of including this under the Northern Development Agreement. I would like first to have an opportunity to review that situation further before making a value judgment on that process.

However, I do think it is important that after three years of discussing this matter, that something be done very very quickly. The situation is not improving. As a matter of fact, if anything, over the past couple of months it has gotten worse and I hope that is only a temporary situation which will, in fact, be dealt with by the Minister of Highways and Transportation as soon as is possible. But the fact remains that they do need that service and they are becoming somewhat impatient. I am becoming somewhat impatient along with them, because it does reduce my effectiveness as their MLA, if I have to rely upon radio-telephone transmission to announce my arrival in the community or to talk to them about problems which they are experiencing. It makes it difficult for any elected official or for any representative of the government or for anyone who is having a business dealing with that community, to take on those sorts of dealings in any sort of a systematic way, because you're always waiting for that — and I'll avoid using a derogatory term — but you're always waiting for that radio-telephone system to work better than it has worked in the past, and it just doesn't. It's not an effective means of communication for those communities.

The inclusion of these communities into the system overall is long overdue and I hope that my words here today have had some effect, some effect in respect to encouraging those persons who are dealing with this problem, to speed up as much as is possible, that process.

I notice that the General Manager in his annual report, talked about the electronic highway, which extends to all areas of the province. Well the fact is, it doesn't extend to four areas of the province, or at least four communities of the province at present, and I think it should be. I believe that those persons have a right just as much as any other individual in the province, to have that electronic highway extended to their doorstep. So, we look forward, I think I said this last year too, to coming back next year in whatever capacity and discussing just how effectively that new satellite system is performing for the people of that community. I sincerely hope that we are able to do that and that we don't have to go through once again, the discussion of the inadequacies of the system as it exists today.

I would like to make one other point while I have the floor, and then I do have to go to another meeting, and I do appreciate the Member for St. Vital and the Committee co-operating with me to

allow me to make these comments at this time. I hope to be able to come back after my meeting and be able to pursue some of this in greater detail, if the Committee is still meeting at that time.

However, before doing so, I would like to relate to the General Manager a number of complaints which were expressed to my colleagues and I, when we travelled through the North last summer, on what we called a Northern Task Force, and by way of explanation, it was the Leader of the Opposition, several Northern MLAs and one MLA from the city came up. We went to each community, or went to 10 communities and we are extending that system or that process over the next couple of months, we asked people to come forward and to provide to us a list of their criticisms and complaints which they felt we might be able to assist them with, and as well to provide to us some suggestions, ideas and concepts on how they felt that government could better serve them.

One of the complaints which originated out of the communities of Lynn Lake and Snow Lake, specifically, but were not be any stretch of the imagination confined to those communities, was the difficulty they were having with their telephone service. They had been told that it was because of an overload on the microphone system — now I'm not a technician and don't know if that's the case or not, but they had been informed and they so informed us — that they had made complaints to the telephone system. They had been told that the problem was, there were just too many calls going through the system at that time.

The complaints were being cut off in mid-conversation, the phone just disconnected. That was the most prevalent mistake. The other mistake was having to wait a great deal of time in order to get an operator, for an operator-assisted call, sometimes not being able to get an operator and just a poor level of service on occasion. I highlight the words, "on occasion", because it was not an overall poor level of service, but intermittently it was poor, and it was poor on enough occasions to cause them some concern.

People in Northern Manitoba and especially of those communities, have a great deal of patience with systems, because they know that they suffer some disadvantages by isolation. So they're not going to bring forward these types of complaints frivolously. They're going to try to deal with it at the local level; they are going to be more patient then say a person in Winnipeg would; and they are going to as a matter of last resort, make their complaint known.

They have made their complaint known and for that reason I would hope that the General Manager, the government and Manitoba Telephone System would take it seriously. It is a significant complaint and I would like some reaction, if I can at this time, from the General Manager in respect to his knowledge of the problem and what activity the MTS has undertaken in order to deal with that problem.

MR. HOLLAND: Mr. Chairman, I'm aware generally that there have been shortages of facilities in our Northern region. It's a function of our forecasting of facility requirements and those being exceeded, which has been quite common in the Northern region. I mention for instance, that we're going to

have to place additional toll facilities into 10 communities because the usage is higher than what was forecast. Mr. Anderson again could explain the engineering phenomena that take place at busy hours, busy times of the day, when the facilities are inadequate, otherwise I could undertake to provide a status report to Mr. Cowan on the two specific situations, the two communities that he mentions.

MR. CHAIRMAN: Mr. Cowan, which would you prefer, to have a report submitted to you by the General Manager or to have Mr. Anderson comment at this time?

MR. COWAN: I think we can probably have more comprehensive information in a report and not take up the time of the Committee. I'm trying to be as considerate as I can, it being a Friday afternoon and I know all of us don't want to be here any longer then we have to.

I would ask however, that in that report several things be included. Number one is the number of complaints over the past five years in respect to the service. What action has been taken in response to those complaints. What action is anticipated by the department in respect to dealing with the situation.

At that time, I will undertake further correspondence and further communication with the appropriate persons, in order to provide any insight and suggestions which I may have, and as well in order to ensure that information is communicated to those persons who made the complaint to our Northern Task Force in the first hand.

They may then wish to get in contact with the MTS personally, and I just want to make the point that I would like to see that information and that I will be passing that report onto individuals who have approached us in this request, so that you know that and can make an appropriate report.

In closing I would just then like to once again thank the Committee and especially the Member for St. Vital, for allowing me this opportunity to bring these concerns forward. I hope I can come back after my meeting and perhaps discuss them in more detail.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: Mr. Chairman, the Provincial Auditor in his report for last year, indicates that at the time the first contract was let to ISL that there was no performance bond required. I would like to ask Mr. Holland whether MTS has a policy on requiring performance bonds or under what conditions would a performance bond be required, and why a performance bond was not required in this particular circumstance.

MR. CHAIRMAN: Mr. Holland.

MR. HOLLAND: Mr. Chairman, I don't think I have that information at hand. I'll try and have it before the afternoon is out. Mr. Beatty can describe our general requirements for performance bonds.

MR. CHAIRMAN: Mr. Walding, would you like Mr. Beatty to . . .

MR. WALDING: That would answer one of the questions, perhaps, Mr. Chairman, having to do with

the general policy of MTS in requiring a performance bond.

MR. CHAIRMAN: Mr. Beatty, would you join us at the table please?

MR. J. K. BEATTY: Mr. Chairman, I'm not sure I caught the whole question, but I gather it related to the system's requirements for performance bonds, Mr. Walding.

MR. WALDING: Yes, the Provincial Auditor indicates in his report that a performance bond was not required at the time of letting the contract to ISL. The questions have to do with MTS policy on performance bonds generally, and why one was not required in this particular instance.

MR. BEATTY: Unfortunately, Mr. Chairman, I find myself like Mr. Holland vis-a-vis this specific case, and we'll undertake to obtain that information.

Generally the System requires performance bonds under its various contracts with contractors of different sorts. It is not always required, I should underline. There are jobs of such a nature that either they're so small or the contractor is unable to acquire, so we look for other kinds of protection for the System, without having small contractors eliminated from the possibility of doing these jobs. But in an overall sense, yes, we tend to look at a performance bond as a protection to the System in letting various contracts.

MR. WALDING: Would a contract for \$875,000 be considered a small . . .

MR. BEATTY: No, I wouldn't personally consider it small, Mr. Walding, and if I said small that's one criteria perhaps to it. The other is the potential of a contractor either being able to obtain a performance bond or not and whether there are alternative ways to protect the System beyond that. I didn't mean in the sense of the size of the contract itself.

MR. CHAIRMAN: Perhaps, Mr. Walding, Mr. Holland can attempt to answer the other portion of your question. Mr. Holland.

MR. HOLLAND: I was just going to point out that the Provincial Auditor added, "But a provision was made in the contract for MTS to take control of the project should this become necessary to protect its interests".

MR. WALDING: That's right, and I was wondering whether that was the reason for it or whether there was some other reason. Did it come under the definition of smallness either of company or of contract, or again was there some other reason?

MR. CHAIRMAN: Mr. Beatty.

MR. BEATTY: Mr. Chairman, I would think that may have been, as I suggested earlier, an alternative to the possibility in lieu of, if you will, a performance bond.

MR. WALDING: Sometimes the Provincial Auditor will put things in his report without explanation and leave us to find out the reasons for it.

I did raise a number of questions on Tuesday about what enquiries MTS had made about the company. It occurred to me since then that there are companies such as Dunn and Bradstreet which provide information on companies and I would like to ask whether the System made that sort of enquiry with one of these reporting firms, and if so, which one?

MR. CHAIRMAN: Mr. Holland.

MR. HOLLAND: Mr. Chairman, I am not aware that one of the corporate credit reports was obtained on the firm. I think I mentioned at the last meeting that the board did receive assurances that other reasonable funding sources had been explored, and of course those potential funders were aware that ISL, through Project IDA, was in the process of developing a product and their interests normally would come when that product is available and demonstrated.

MR. WALDING: I was speaking of the time that the first contract was let, not at the time of the loan. But if you tell me no, I'll accept that.

The thing that you did mention on Tuesday, Mr. Holland, was that much of the reason for awarding the contract in the first place was the confidence that the System had in the ability of the principals at that time. Can I ask you whether you personally were knowledgeable of the principals? Did you know them personally?

MR. HOLLAND: Mr. Chairman, I think Mr. Anderson would confirm that our engineers were quite familiar with the backgrounds, experiences and expertise of the principals of the firm, and we have indicated again that was of course weighted when we looked at the eight proposals that came before us.

MR. WALDING: So part of that decision to rely on their expertise was from your engineering department and not from you personally.

MR. HOLLAND: Mr. Chairman, yes, we must rely on our professional advice in those areas.

MR. WALDING: That's fine. I would like to move now to the meeting of March 10th, which I presume was a board meeting, and I asked a number of questions on Tuesday about that and you weren't sure at the time, Mr. Holland whether you were actually present at that meeting. Have you been able to refresh your memory on that matter?

MR. HOLLAND: Yes, Mr. Chairman, I was present at the March 10th, 1980, board meeting.

MR. WALDING: Do you recall if the sorts of questions that I was asking were in fact raised at that time?

MR. HOLLAND: Mr. Chairman, I think that Mr. Walding asked whether or not the board had reviewed all reasonable funding alternatives, whether or not those had been thoroughly investigated and considered by SL and it's my view that the board was given assurances that those various sources had been looked at.

I think I mentioned the other day as well that Project IDA was at a certain stage of development and was in the midst of the process of developing a system or a product at that time.

MR. WALDING: Can you confirm that there was a background paper with a recommendation in it that was put before the board as is usual in these cases?

MR. HOLLAND: Mr. Chairman, yes, there was a discussion paper. I must say it was one in a sequence of regular reporting to the board on the project and it recommended from the point of view of Project IDA considering the merits of the project, the total known and potential costs. The recommendation was that they should proceed with this debenture rather than either abandon the project or at the very least, set it back several months.

MR. WALDING: Is that a confidential document or could it be circulated to the Committee to give us more information on this matter?

MR. HOLLAND: Mr. Chairman, that would be the direction of my board. I don't suppose that they would have severe objections. Let me say again, the difficulty is that the board had been kept well informed from the onset of the project, so there was an accumulative set of information pieces provided to the board; there were reports provided at all board meetings, as a matter of fact. Subsequently, the board established a sub-committee to take particular interest and an overview on the project.

If it would be helpful, Mr. Chairman, I think it would be necessary to prepare sort of a chronological sequence of events on the project, this particular report forming only one part of that.

MR. WALDING: Mr. Chairman, such information would have been very valuable to us before this meeting began on Tuesday, or even at the meeting on Tuesday, so that perhaps we could read some of these things for ourselves instead of having to ask questions and questions and go on for such a long time trying to get the sort of information that we were looking for. It wouldn't save all the questions, I am sure, but probably some of them.

I wanted to ask now about that loan of half a million dollars. I understand it came to the attention of the Provincial Auditor at some time after it was made and that it also came to the attention of the Public Utilities Committee, who reviewed the matter informally, and I would like to ask Mr. Holland whether there was any concern raised or any advice given from the System's own auditors after the event, or whether they were consulted before the loan was made?

MR. HOLLAND: Mr. Chairman, the project was discussed before our regulator in 1978 as a part of our revenue analyses and projections and discussed quite thoroughly at that time. It is my view that the board considered it quite appropriate for MTS to be undertaking relatively modest research and development projects, primarily for the development of its staff and exposure of our staff to the burgeoning technologies and systems that were becoming available. The external auditors and the Provincial Auditor, of course, have access to all

information that they require, including our Board's Minutes, and the Provincial Auditor's remarks have been published with the Public Accounts. I don't recall our external auditors providing any special comments on it.

MR. WALDING: Did you consult your auditors, in advance of making the loan, for their advice on the matter?

MR. HOLLAND: Not to my recollection, Mr. Chairman. The external auditors come in at certain time of the year to do their pre-audit and, when the year closes, their final audit, and prepare their report. But I don't recall having consulted them.

MR. WALDING: Was the Provincial Auditor asked for his advice prior to the making of the loan?

MR. HOLLAND: Not to my recollection, Mr. Chairman. The Provincial Auditor does a post-audit of our affairs and, of course, has the responsibility to observe on anything that he chooses on behalf of the Legislature.

MR. WALDING: Can I ask whether the Minister reporting for the System was consulted before the loan was made and did he give his approval to the move?

MR. CHAIRMAN: Mr. Walding, are you asking that question to Mr. Holland or to Mr. Orchard?

MR. WALDING: I believe to Mr. Holland, Mr. Chairman, because this Minister wasn't the Minister at the time. If he can answer it, that's fine with me.

MR. CHAIRMAN: Mr. Holland.

MR. HOLLAND: Mr. Chairman, I am confident that the Minister at that time would have been aware of Project IDA. There was considerable discussion of it in 1978, certainly a good deal of public interest, both in local media and technical journals, so there has been a good deal of publicity on it. Again, it was a decision of the MTS board to proceed with the different steps that were taken as the project proceeded. I think I mentioned the other day that by its very nature, research and development, you are testing concepts and theses and as you proceed through it findings emerge and you have to react to those in many different ways.

MR. WALDING: Mr. Chairman, I am sure that the Minister would have been aware of Project IDA, and that wasn't the question. The question was, did the Minister become aware of this unique loan before it was made or after it was made?

MR. HOLLAND: I don't think I could answer that definitively. I suppose I could ask him his recollection of the sequence of events. Certainly the Minister is very well-briefed and informed on all MTS matters but I can't recall the answer to that.

MR. WALDING: But you are not aware of a specific move by the System to acquaint the Minister in advance of this decision?

MR. HOLLAND: Mr. Chairman, no, I can't recall any specific meetings or the dates, other than to

generalize. As Mr. Walding is well aware, there is very close consultation with the Minister responsible for our Act at all times.

MR. WALDING: I am aware of that, Mr. Chairman. The Provincial Auditor also reports that a recent opinion of the Attorney-General was sought and given as to the legality of the loan itself. He doesn't say who asked the Attorney-General for his opinion on the matter. Was it MTS or did it come from some other party and if so, can Mr. Holland tell us who it was?

MR. HOLLAND: Mr. Chairman, it was not MTS, as I mentioned earlier, our agreements and contracts were all done in consultation with our own legal advisors. I believe that request came from our then Minister.

MR. WALDING: Would you have any idea of how recent that opinion was, or the request for the opinion?

MR. HOLLAND: Mr. Chairman, I could undertake again to get the date of the request; is that what's required here?

MR. WALDING: I did ask a question or two about the expiry of the original contracts with ISL, and I don't recall precisely as to whether they have terminated or terminated in as far as payments by the system to ISL are concerned. And, could you just clarify that for me, please, whether MTS is still paying off any of the original contract or additions to it as listed in the report?

MR. HOLLAND: Additional to those payments cited in the Provincial Auditors Report?

MR. WALDING: No, additional to the first one. There was one of \$875 and then he list \$360 and \$64,000 and 300 to a total value of \$1,599,000.00. Now, have those amounts all been paid to ISL and if so as of when?

MR. HOLLAND: Mr. Chairman, I'm advised, yes they have all been paid to ISL, by December, I believe.

MR. WALDING: By December of 1980, which was the original sort of termination date of the original contract.

MR. HOLLAND: Which was the essential completion of Project IDA as defined.

MR. WALDING: Has the system entered into any new contracts with ISL since the beginning of this year?

MR. HOLLAND: Yes, Mr. Chairman. There are two; one is for ongoing maintenance of the IDA Project during the calendar year 1981. We intend to continue the demonstration over the calendar year. That contract is \$115,000; and the second one is that ISL has been retained by MTS to work with our engineering staff for a four-month period through May for a total contract of \$480,000.00. The purpose of that contract is to review the prototypes, the field system, the software, the original concepts and

insure ourselves that we obtain maximum value from the research and development project.

MR. WALDING: We're looking here at an amount of around \$600,000 for 1981.

MR. HOLLAND: \$595,000 for the two contracts, yes.

MR. WALDING: I have a couple of press clippings which indicate that the crunch should come, as far as ISL was concerned, in January. I have one clipping dated the 15th and one dated the 7th which indicates that there were negotiations going on between the company and the system but ISL was teetering on the brink of bankruptcy at that time. Would that have been about the time these new contracts were entered into with ISL?

MR. HOLLAND: Mr. Chairman, the first contract for \$115,000 was entered into on January 7th, 1981 and the second on January 29, 1981. I might say that in the interval, in the Christmas - New Year's period, there was also an evaluation of the project done by people external to MTS. They took a concerted and detailed look at the project and it was partially on their recommendation that this kind of detailed review of all elements was clearly merited.

MR. WALDING: Was that the Kinsner Report

MR. HOLLAND: That, Mr. Chairman, is known as the Kinsner Report.

MR. WALDING: Was that Report commissioned by the System or by the Government?

MR. HOLLAND: Mr. Chairman, it was commissioned by the System.

MR. WALDING: Is that a public document, Mr. Holland?

MR. HOLLAND: Mr. Chairman, it has not been made public, but I'm certain if any member of the Committee expressed interest we would be delighted to make it available.

MR. WALDING: I'd like to express an interest right now and I would appreciate receiving a copy and would look forward with interest to receiving it and reading it. Mr. Chairman, the other press clipping that I have indicates that an MTS spokesman confirmed, and I'm quoting "that the Board decided this week to negotiate a work agreement with Interdiscom for evaluation of the project ". Would that be the maintenance program for the year, the \$115,000 program?

MR. HOLLAND: No, Mr. Chairman, it would be the other contract.

MR. WALDING: The President of the company is quoted in this second clipping that I have that their financing comes from the System and loans from the Toronto-Dominion Bank. He says, "our bankers have been very patient but their neck is definitely out on this". So, something would seem to have happen between March of last year, when the company couldn't get any financing from anyone but MTS, and

the date of this article of January 7th. Can you advise the Committee what financial interest the Toronto-Dominion Bank has in ISL?

MR. HOLLAND: Mr. Chairman, I don't have that at hand. I just know that in our agreements we specified regular cash flow reviews with the company to ensure that our payments were being applied for services for which we had contracted. So, we likely would have that information.

MR. WALDING: Do you know if it's a nominal amount or a more substantial amount, perhaps matching MTS's investment?

MR. HOLLAND: Mr. Chairman, maybe Mr. Anderson is aware of the figure. At that time it was \$250,000.00. Mr. Walding, did you get that answer.

MR. WALDING: I think I heard \$250,000, given as a figure. Would that have then been a loan that was secured by the company subsequent to March 10th, or is this a much longer standing loan?

MR. HOLLAND: Mr. Chairman, I think I would have to obtain that information from the office. Mr. Chairman, would you like Mr. Anderson to answer that?

MR. CHAIRMAN: Mr. Anderson, could you please join the table?

MR. ANDERSON: Mr. Chairman, I think in the March timeframe that Mr. Walding is talking about, it was probably \$100,000, bank indebtedness, which has grown to about \$250,000 and might be higher at the present time; the Toronto Dominion Bank.

MR. WALDING: So they now owe \$750,000 altogether made up of two-thirds to the system and one-third to the bankers.

Mr. Beatty indicated to us on Tuesday that the MTS loan was fully secured. Can I ask for confirmation of that and that the System's loan would take priority over the loan to the Toronto Dominion Bank?

MR. ANDERSON: I can't answer that, Mr. Chairman.

MR. CHAIRMAN: Mr. Holland.

MR. HOLLAND: Mr. Chairman, I think, that probably we should give an undertaking to describe that in precise terms, that is the amount of the loan and the relationship of the MTS debenture to that. I wouldn't like to quote the detail from memory.

MR. CHAIRMAN: Is that all right with you, Mr. Walding, that they send it to you in writing?

MR. WALDING: Yes, Mr. Chairman. I did get the clear impression on Tuesday that something called a floating charge debenture — I believe was the expression, I may be wrong — that would make the System beneficiary of all of the assets of the company in case of a failure by the company. The question has to do with, where does the bank's claim fit in with all of that?

Another press clipping indicates to me, Mr. Holland, that the official opening of Project IDA was

on February 18th. Did that proceed or was it cancelled?

MR. HOLLAND: Mr. Chairman, there has been no official, official opening, other than the fact that we have been welcoming a series of visitors both from within and without the province; those who express interest in visiting the demonstration home and talking with the engineers and computer people that have been involved in it.

I think I mentioned that we also had an intensive evaluation under way which will go on through May which will give the board a final evaluation of the project itself. So that has been under way since February.

MR. WALDING: A columnist by the name of Roger Newman indicates that the official opening — kick-off ceremony is the phrase he used — was scheduled for February 18th. Can you confirm that?

MR. HOLLAND: Mr. Chairman, a good deal of thought has been given to having two or three official openings. As I say, we have not done that to this point other than welcoming the residents of the area who have participated very enthusiastically in the project. Children in the local school have been involved in projects and have seen it, and as I mentioned earlier, a stream of visitors from within and without Manitoba to it. So we have not yet held a formal official opening.

May I say however that the display home is there in south Headingley and we would be delighted if any members of the Committee would visit and see the project.

MR. WALDING: But would not the System normally have an official opening for a new project? The little bit of publicity that it would gain would certainly not hurt the System, I'm sure.

MR. HOLLAND: Mr. Chairman, this is really the first such project that MTS has had so we have no precedent or tradition to follow. In the case of Elie which is upcoming, there will be four major sponsors involved and again I assume they'll set their own pattern for that project.

MR. WALDING: So there is no date set for an opening ceremony for Project IDA, then?

MR. HOLLAND: Other than responding now to all of the people that have expressed interest in the project, and telling them that they are most welcome to visit the display home and meet our staff that have been involved and ISL staff.

MR. WALDING: Mr. Newman suggests in his column that any official opening is awaiting confirmation from the government. Can you confirm that or is he quite wrong in that?

MR. HOLLAND: Mr. Chairman, any such official opening would involve our Minister so I think it's quite obvious that we would have discussed that possibility with him. He participated yesterday morning in another MTS announcement having to do with our alarm system in Winnipeg and Brandon so we would obviously consult closely with him.

MR. WALDING: Mr. Chairman, perhaps I can direct a question to the Minister and ask him whether he is responsible for any delay in the official opening of Project IDA.

HON. DON ORCHARD (Pembina): Mr. Chairman, the Project IDA is not in the normal mainstream of telephone service that we would, from time to time, have openings of phone centre stores, of the alarm system, as we did yesterday. Project IDA is in somewhat of a different category, in that it is a research project designed to give the MTS system experience in the electronic highway concept, in the provision of services on that highway and the technologies that are involved there as an experimental trial. It is rather indefinite, if you do decide you want to have an official opening, what do you officially open? Do you officially open a home? It's not as if you can go, as we did to the St. Boniface Cathedral, and have an opening of a service that we are making available to all other Manitobans, not to other Manitobans but to other Manitobans.

MR. WALDING: Well, Mr. Chairman, the Minister really didn't answer the question, but I'm sure it would not be beyond the width of the Minister, nor of the System to find some places to put a ribbon across to be able to cut with a pair of scissors or some other appropriate implement.

I'd like to ask Mr. Holland now what the Board's plans are for Project IDA. Is it considering any plans for expansion, or for closing of Project IDA, or is it the intention simply to maintain Project IDA until the end of the year, and at that time abandon it.

MR. HOLLAND: Mr. Chairman, our objective will be to make sure that MTS benefits from the project, to the greatest extent possible. The original purpose, as I've explained, they were to provide hands-on exposure to our engineers and planners and computer experts in some of the technologies involved in it; to provide a developmental scene for many of our people and to sensitize them to the likely requirements of networks and service requirements in the Eighties.

We think that it has been very successful in contributing to those original objectives for it, and through the present study which is carefully retracing all assumptions and tests and whatever that, again, that will enhance our knowledge level and experience level and so on. There have been some bi-product benefits of project IDA, one of which was the alarming service that we've mentioned. One of the original purposes of the project was to test coaxial cable and its facility for alarming services, and that has gone off and been developed in one other fashion.

We've mentioned the Videotex service and project Grassroots, which is possible because Infomart located in Winnipeg and is providing computer files, pages of information. They are doing that on the IDA trial and they're extremely interested in expanding that service and we'll be working with them to explore how quickly and to what extent the Videotex service area will proceed.

I believe I mentioned to the committee, as well, that our engineers are reviewing the existing Winnipeg coaxial cable networks, in consultation with

our major clients there, and hopefully will determine in a short period of time the nature of the upgrade of the Winnipeg plant, which requires expanded capacity and again, I believe, that the IDA project will have helped our staff immensely in following the technology being developed elsewhere and knowing of its limitations and the most desirable aspects of it, to use in the future.

MR. WALDING: I'd like to ask if the System has had any indication from the 100 households presently receiving Project IDA, whether they would be prepared to pay an economic price for this system were it not being done as a demonstration project for them?

MR. HOLLAND: Mr. Chairman, basic cable television services were brought to the area through Project IDA and the CRTC has licensed an operator for north and south Headingley. Service is being extended throughout those areas during April. All residents, including the Project IDA residents, are being asked to pay for the basic cable service.

On the Videotex Teledon offerings the reaction that I have heard is that it requires many more pages of information. The children and the families quickly become familiar with the mere 8,000 or 10,000 pages that are there at the moment, and they tire of the games that exist, so there's a great desire for expansion of that service. They, of course, have had basic telephony, so that carrying telephony in digital format over the coaxial cable doesn't represent a new or novel service to them.

There has been high interest in the alarming service. Headingley does not have water and that's always a matter of concern in the community, so the interest has been high there.

One other interesting spin-off, of course, is that the OECA educational programming was brought to the schools and homes in that area. I think that has been appreciated and with that experiment, of course, we extended it to the so-called project SAM and some seven high schools now are receiving that information and it's under evaluation. So I would regard that as another spin-off benefit of the original project.

MR. WALDING: Mr. Chairman, I will ask the question again. I am just looking for some information that I had that indicated a certain price range or value for an alarm system and a usual sort of price for a Telidon-type service. Unfortunately I can't find it immediately. There is one indication here. Someone is quoted as saying that, "Americans are paying \$8.00 to \$15.00 a month for pay T.V. and \$10.00 to \$15.00 for automatic alarm systems. Market studies indicate people would be willing to pay \$10.00 to \$15.00 for a videotex service like Telidon.

Now, the question is, did you have an indication from the 100 people who are now on Project IDA that they would be prepared to pay these sorts of monthly payments for the sorts of service that can be provided through Project IDA?

MR. HOLLAND: Mr. Chairman, I don't think that we can draw any hard and fast marketing conclusions from the limited number of homes that are on the services. Not all 100 Headingley homes have all

services; those have been distributed amongst the homes.

What we will be doing, co-operating closely with Infomart, is observing consumer reaction to this service. We'll be following other national and international demonstrations. I believe Time Life has proposed to extend Telidon service to an area in their region, and we'll just be attempting to gauge the marketplace and the most probable users of the service and be in a position to react to that.

I believe that the information providers, which we are not and which Infomart is, feel that the first major market will be in so-called closed systems, that is larger companies, and enhancing the communications flow within their corporations. In the meantime, Infomart is regularly expanding their data base, both here and out of Toronto, and they are proposing to extend their service to a number of markets.

MR. WALDING: I would like to ask now whether MTS is considering a proposal to extend Project IDA to a further 5,000 homes?

MR. HOLLAND: Mr. Chairman, it has been suggested that a marketplace of 800 to 1,000 homes, I believe, would be desirable in order to get accurate consumer reaction and testing of tariffs and usage rates and network usage patterns and many other things. Such a proposal has not yet been considered by the MTS board and would not until the current evaluation and stocktaking that is under way at the moment, is completed. Even then, of course, there would be other questions to be answered, namely, is ISL able to interest other manufacturers in providing the product of a standard and in quantities that MTS would need for that purpose? Or would they be able to move into production themselves? Those are all unanswered questions at this stage. Again, our engineering group is looking at all possible technologies and all potential suppliers in trying to develop our own engineering plans for the next five or seven years.

MR. WALDING: Do you say, it is not true that there is a proposal at some stage, to spend \$10.5 million to extend the service to another 5,000 homes?

MR. HOLLAND: Mr. Chairman, again I can only say that that has not been recommended to the MTS board at this stage. There has been a great deal of interest, speculation and proposals in connection with the project, but I think for the reasons that I have just described, that would take some very careful analysis and considerable progress before that could be seriously considered.

MR. WALDING: Mr. Chairman, the indication I have is that this proposal is currently before the Cabinet, which has not yet made a firm decision on it, so perhaps I can direct a question to the Minister and ask him whether he has taken to Cabinet a proposal or a suggestion that a sum of some \$10 million be spent to extend Project IDA to another 5,000 homes, or has there been some other project that is now being considered by Cabinet?

MR. CHAIRMAN: Mr. Orchard.

MR. ORCHARD: Mr. Chairman, the Cabinet considers many projects. The information that the

Member for St. Vital has as to the alleged fact that the Cabinet is currently considering a \$10.5 million expenditure, is incorrect.

MR. WALDING: Mr. Chairman, then I will pose the question a little differently and ask the Minister whether he has taken to Cabinet a proposal to extend Project IDA?

MR. ORCHARD: Once again, the information that the Member for St. Vital has is incorrect.

MR. WALDING: Mr. Chairman, I didn't make a statement, I asked a question of the Minister. Can the Minister tell me whether he has taken to Cabinet a proposal to increase, or further extend Project IDA?

MR. ORCHARD: No, Mr. Chairman.

MR. WALDING: Can the Minister then tell us that the matter is not presently before Cabinet for a decision?

MR. ORCHARD: There is no matter before the Cabinet to extend Project IDA at this time.

MR. WALDING: Can I ask the Minister whether he or his predecessor, because I am not sure when he assumed his new duty, were involved in the decision to arrange these two latest contracts with ISL?

MR. ORCHARD: Mr. Chairman, those last two arrangements, I assume, are the \$115,000 and the \$480,000 contract. Those were decisions made by MTS and the Board of Commissioners to further the experiment at IDA.

MR. WALDING: I would like to ask, I think perhaps to Mr. Holland, whether these two contracts were approved with ISL in order to save the company from bankruptcy, so that a decision would not have to be made either to allow the company to go into bankruptcy or to expand into the suggested 5,000 homes, and that that in fact defers any decision to at least the end of the year?

MR. CHAIRMAN: Is that question directed to Mr. Holland?

MR. WALDING: Or to the Minister, whomever wishes to answer it, Mr. Chairman.

MR. CHAIRMAN: Mr. Orchard.

MR. ORCHARD: First of all, the member is basing his questions on an assumption of a further 5,000 homes being brought into the IDA technology. Where that assumption the member is using comes from, I don't know, and any questioning based on that assumption is just not relevant right now, Mr. Chairman.

MR. WALDING: Mr. Chairman, I will quote from a press clipping, which I normally don't do. This is by one Roger Newman, who has had some background in this province and is usually well informed and he says just in part, "Some members of the Provincial Government are getting cold feet about being the

Canadian pioneers of a new technology. They are further perturbed about the high cost of the next phase of the project, a sum of \$10.5 million to extend the service to another 5,000 homes."

In another part of the same article, "The government's waivering over further involvement is somewhat excusable in that neither politicians nor the public know very much about two-way T.V. The technology exists to enable people to dial a computer data bank and call up everything from university courses to the latest news on their T.V. sets, but the marketing of the new media has fallen behind technical development. Not only is there little present demand for the services, many people are still not aware that they even exist. So it is understandable that the government is cautious about opening its wallet, as it should satisfy itself that MTS has done its homework and is really on to a good thing."

MR. CHAIRMAN: Would you indicate where that quote comes from, and the date, please?

MR. WALDING: Free Press, the 6th of March of this year. I wonder if the Minister would care to comment on the quotation.

MR. ORCHARD: Mr. Chairman, one has to put Project IDA into context. Project IDA was undertaken, and I believe the general manager will confirm this, that Project IDA was undertaken to allow the System to get some first-hand experience with the kind of technology that is rapidly being developed in electronic communications.

For instance, to give you some examples, should someone come along with a product which is envisioned or purported to be able to provide a number of electronic communications functions, be they alarm, be they Telidon, be they cable T.V., be they pay T.V., whatever, you are talking a world of capability that very few people understand and to assess how that technology would fit into your own system takes some first-hand experience. I believe that is the real benefit of Project IDA, in that it has given MTS personnel the first-hand experience to enable them to look into the future, to better assess what is becoming available in the new technology of communications, and to assess the suitability and the adaptability of those technologies to the Manitoba circumstance and to the Manitoba Telephone System circumstance in Manitoba.

If one wanted to take articles by Mr. Newman, certainly at some point in time there's probably no doubt about it, that as advances are made in electronic communication, that the whole province, every home and every business with fibre optics and changes that are on the horizon, may well be wired into the new electronic world and have available at your fingertip any number of electronic services. That's not too difficult a thing to postulate about.

I think that before the turn of the century we will no doubt have that kind of communication capacity available in Manitoba. However, I think it's very fair to point out that technology is very quickly changing. There are new products coming up, all claiming to have certain capabilities and certain uses, in order for a system such as MTS to make the proper kind of investment judgment on where to proceed with developing the electronic highway in Manitoba, to

utilize its capability requires some firsthand experience and that is the kind of experience I think that by and large, has come out of Project IDA.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: Mr. Chairman, I wonder if the Minister would be prepared to give us his personal opinion of whether he thinks that Project IDA will blossom into a real substantial benefit for Manitoba, or whether it is likely to wither and be abandoned.

MR. ORCHARD: I don't know whether a personal opinion would be of any value. There has to be a number of things come out of IDA; patents for one thing; a product that is marketable; a product that other — not only the Manitoba system will need — but a product that theoretically can go into and be used and bought by other jurisdictions, because the North American continent and the world is indeed the market in electronic communications. So it may well be that the technology at IDA is the best in the world.

It may also be that the technology doesn't have a commercially viable application, we don't know that at this stage of the game. When that becomes more evident, this decision-making process in the future of IDA and on the technology coming out of it will become more evident.

MR. WALDING: Mr. Chairman, we've been talking about this particular subject for about four hours during the last two meetings and I address my remarks to the Minister, since he is responsible for Manitoba Telephone System; noting however, that he was not the Minister at the time that this happened and he has been appointed to his present position only very recently. So as much as I'd like to blame the present Minister, he is clearly not in a position to bear any of the blame for it, except that under our System it's the present Minister that answers for the department and the responsibilities and not the previous Minister, who is not here anyway.

I've been most disappointed that it has taken us all of this time to draw out the information that we wanted, much of which appeared not to be available on Tuesday morning, despite all of the publicity that's been in the press and despite the fact that the Provincial Auditor has devoted just over one page of his report to the matter of the contract and the loan with Interdiscom Systems Limited.

The Minister I'm sure knows by this time, that he has the responsibility for a very efficient and a very well run Crown Corporation, one of the largest employers in the province and a company that recognizes its corporate responsibilities and generally it does things in a very efficient and careful manner with the required amount of planning. I'm not in a position to say that the work that was done on Project IDA and with Interdiscom Systems is wrong or bad, and I certainly cannot say that the money was wasted.

What I do question is the manner in which it was done, which seems quite at odds with Manitoba Telephone System's general level of competence and foresight. We see a contract that was entered into a couple of years ago with a company that had been dormant, which was a new company. There were apparently no checks made of the management and

financial ability of the company. There is no figure given of the total worth of the company. There was indication that we were given today, but not available to us on Tuesday, of assets of some \$20,000 and no indication that the assets had improved to anywhere near \$.5 million as of the date of the loan.

I'm a little bit surprised that the General Manager should come to the meeting on Tuesday, apparently not expecting a good deal of questioning on this whole matter. I would have expected a man with Mr. Holland's great experience, to have made himself very familiar with everything having to do with Interdiscom, and have come equipped with background papers, information of all types, yet he was unable to tell me on Tuesday whether he was even at the meeting on March 10th, that approved the loan. I had to ask and repeat and repeat questions having to do with specific actions that the board had taken, or had failed to take and, Mr. Chairman, it was like drawing hen's teeth to get information.

As far as the loan itself was concerned, as I have mentioned before, this was something unique in the System's history, yet it seems to have been proceeded with, likely and with very little foresight and checking with other authorities. The very least that we would have expected to have happened, would be that the board would have checked with the Minister, that they were considering doing something as novel and new as extending a loan to one of its suppliers whose assets were apparently minimal and whose prospects of paying back the money were considerably questionable. It appears that didn't happen. The Provincial Auditor only found out about it afterwards. The Public Utilities Committee only found out about it afterwards, and whether it was due to the publicity or the questions in the House, even went to the Attorney-General to get a legal opinion on it.

So, Mr. Chairman, I have to conclude that it was most uncharacteristic of the way that MTS has operated in the past. I hesitate to blame the Minister for it because he obviously had no responsibility for it at the time. He is the Minister of the day and as such, reports for it. Had he been the Minister involved at the time, I would invite him to resign over this matter but I'm not going to with this Minister. I know that it's a technical matter and that he probably does not have any better understanding of the technical aspects of it than I do. So that's as far as I want to go on this particular topic, Mr. Chairman, we've taken enough time already.

I'll simply say again, I am very disappointed with the System, with the way that it has carried out this matter, with its apparent lack of answers when it appears before the committee, and apparent lack of foresight in being even prepared for the Committee. We've even had to ask questions today, which we were not able to get answers for.

Mr. Chairman, I do have other questions of a minor nature of the System that we might get to later this afternoon, but I understand my colleague from St. George has a few questions of his, so I'll yield the floor to him.

MR. CHAIRMAN: Mr. Uruski.

MR. BILLIE URUSKI: Thank you, Mr. Chairman. In the report that you presented to the Committee, Mr.

Holland, dealing with rural service improvement in terms of the dealing with the multi-party line loadings that the System has since 1976, reduced the average line loadings from 5.6 to 2.88, with an expenditure of \$3.4 million during the year of 1980-81. Has that program been virtually completed throughout the province? If it has not, what areas have yet to be improved?

MR. CHAIRMAN: MR. Holland.

MR. HOLLAND: Mr. Chairman, the program will be complete this year, except for the ongoing adherence to those guidelines, that is, as there is growth in a particular exchange there will be further projects to maintain that standard.

I can provide an indication of the areas that will be complete by September 1981. Lac du Bonnet is scheduled for June; Langruth in March; Manigotagan in March of this year; St. Adolphe in March; St. Pierre, Sandy Lake in June; Shoal Lake in May; Stonewall in April; Tilston in March; Vita in July; Waldersee in April and Winkler in May.

MR. URUSKI: That will virtually complete all the rural loadings, reducing the rural loadings, that will fairly well complete the entire system?

MR. HOLLAND: Yes, Mr. Chairman.

MR. URUSKI: You also reported that an additional \$2.1 million was spent on providing individual line service to 2,200 customers, or will be spent in this coming year.

Does that service, or is that service provided during the time communities are being serviced on the multi-party line cutover? In other words, are you doing both simultaneously during the time that you are upgrading the service to those communities, or is the individual line service something that you do completely separate of the other rural work?

MR. HOLLAND: Mr. Chairman, the two programs were undertaken jointly and have been carried on in parallel — this covers the smaller centres down I believe to 50 customers if the density is relatively low — and it's done and it's engineered in parallel with the upgrade of service.

MR. URUSKI: In other words those 2,200 customers that you show or you indicate in your report here, will be out of those communities that you have yet to complete the service on in the multi-party line work. Am I correct in that assumption? Those communities that you just gave me the names of that will be completed in 1981, part of those communities will be the 2,200, or the 2,200 customers on individual lines will be also from those communities?

MR. HOLLAND: No, the 2,200 are customers in the smaller centres who are receiving individual line service for the first time. If the Morden area is being done, it would be the rural customers only because Morden obviously has individual line service now; but if it is a rural area with a small centre in it, that would be done at one time and those people in the small centre would get individual line service for the first time.

MR. URUSKI: I see. Do you have a list of communities? You mentioned the amount — was it

communities of 50 persons — that you will now be servicing with individual line service? Are there many communities to do in the Province of Manitoba, to provide this individual line service?

MR. HOLLAND: Mr. Chairman, our criteria actually is where there are 15 customers per mile and a minimum of 15 in that area, that is the general criteria for offering individual line service. Typical communities are Arnes, Bellsite near Mafeking, Bethany, Birnie, Blumenfeld, Blumenort, Bradwardine, are typical communities which are to be done this year.

MR. URUSKI: Is there any different recovery from the cost of service other than the increased monthly rental charges in these communities to those customers, other than I would presume that in the event someone in the rural area wanted an individual line service, they would be charged on the basis of mileage from the point of the exchange, plus the monthly rental rate? Is there any difference for the small communities? It is strictly by the increased monthly rental, am I correct?

MR. HOLLAND: Yes, Mr. Chairman, and exchange size.

MR. URUSKI: And exchange size, yes. Mr. Chairman, is the system intending to make any improvements to requests that have been made, I presume, from various areas of tying smaller exchanges together into a wider area service, the example I could give, I presume in the early Fifties or Sixties the exchanges of Arborg, Riverton and Vidir in my immediate area were tied initially into, although they were separate exchanges that the people in the entire area were afforded the opportunity to call in that area with no long distance charges, which goes back now probably two decades?

There are other areas, and the one immediately that I happen to reside in and I've had many requests, of the Poplarfield, Fisher Branch and even the possibility of Fisher River exchanges, of being brought into a similar type of service, and there are others as well I'm sure that many people look forward in the Interlake on the west side of the Eriksdale-Lundar exchanges and the like.

Is there any program that you are embarking on in terms of every year that you do one or two exchanges or more than that and what is your criteria? Is it the obsolescence of the equipment that is in place in many of those exchanges, and when you have to upgrade, that is the time you have the opportunity to swing over into a more modern system such as this, or can you give me some advice on that?

MR. HOLLAND: Mr. Chairman, we chose four or five years ago to embark on the General Service Improvement Program all through the rural areas, that is, the reduction of party lines and the introduction of individual lines in the smaller centres along with by the way, a substantial improvement in quality and buried cables and so. Now that the program is nearing completion we are developing proposals for the board at this stage to look at the exchange size and the free-calling areas.

The criteria that we tend to look at is assurance that each customer has reasonable access to his

trade area and his physician and veterinary clinic and other important services, the schools and whatever. There's been dramatic change obviously since the exchange boundaries were first devised, so our attempt would be to try and discern the traffic patterns and customer calling patterns and reconfigure in that fashion.

The program likely would have to be implemented over several years. It's a costly program because while we are investing substantial capital in increasing facilities, because calling incidents increases quite dramatically, we are also losing the toll revenue. So it is a costly program, and as I say, at the moment we are developing proposals for the board's consideration. I would think this year we should have a pattern developed.

MR. URUSKI: Has the System say over the last three, four years, or even five years, done any of this type of joining of services beyond what was done over the last decade? Have you moved in some communities to provide a wider area access to local residents?

MR. HOLLAND: Mr. Chairman, nothing significant in the last four years. There have been slight reconfigurations of the boundary line for the convenience of customers, that is, he elects to go in one exchange as opposed to the other, and I believe one small exchange was eliminated and added to a neighbouring one, but really no significant changes in that.

In the meantime of course the toll charges, in the up to 30 mile band, have been kept at extremely low levels. I think the Committee members are aware of that.

MR. URUSKI: There is no doubt that the rates throughout are of course very favourable. Nevertheless when one is confronted with the obvious of saying, well, you know, the System was able to supply a service to three fairly large exchanges and yet are unable or unwilling at the present time to look at other exchanges where people historically, or at least a portion of them, have used the same pattern of services as the other communities have and have not been able to be afforded that service. One has great difficulty in trying to rationalize and say there is some difference other than saying okay, what are the costs?

Is it possible to get from you what would be involved in terms of cost in giving you say two examples, and the examples I would give you would be the Poplarfield-Fisher Branch and with the addition of Fisher River, and the additional ones of Lunder and Eriksdale exchanges which are within relatively close proximity of both exchanges of the offices per se. I don't know whether that has any significance in the way the system operates in the type of equipment; whether it makes any difference if the actual exchange offices are close together, or does it? Has it any significance in that area?

MR. HOLLAND: Mr. Chairman, we could give an estimate for that change. The fact is that the MTS board would be very anxious to assess all of the situations in all of the exchanges and have an announced plan. It would have to develop a program that is fair and equitable to our customers right

across the province, so the cost of that one change, really we would have to take all like situations into account and be prepared to treat our customers fairly and equitably.

One concern we've had are the Manitoba farms. These are becoming big businessmen who need information and access immediately, so we are hoping that with the improvement in the party-line situation and so on, that there will be a dramatic improvement there.

MR. URUSKI: I can assure you, having resided and living in a rural area where the use of party-line service, I am well aware of that as a farmer and as a representative in the area, people had to put up with the likes of me, where we have had up to 10 customers on our line; so people have had their fill of my use of the telephone, or one could call it hogging of the system, and unfortunately they've had to put up with something like that. The reduction in the number of customers on the line certainly has benefited most rural areas and has reduced the waiting time and problems that have occurred in the past.

Another area I have come across that I would like some information is that in certain parts of the province — and I was in the Roblin area — when you dial a long distance call and you want to charge it to a third number, as we as MLAs do to our offices here when it's on business, in that area of the province for example, all that is necessary to be done is to dial the 0 and the number that you are dialing if it's within the province, and that is it. In certain areas one has to go through the operator and of course give the name of the individual, my name, and the number that I wish it billed to, and then what happens is the problem arises because of some of the switching equipment they have, or whether it's instructions, the operators are not allowed to take more than one successive third number party call, so then you end up having to dial 0 again, saying your name and the number you want and saying you want it charged again. That I found very frustrating at times, and I am sure it is to the operators because you keep repeating the number you are charging it to and you are wasting not only your time but their time who you are trying to place the call through. I have had this experience and I wonder what's the difference? Is it anything to do with the switching equipment that is in place, or what does this involve?

MR. HOLLAND: Mr. Chairman, I will have to consult our traffic department and check on that practice and see why it occurs.

MR. URUSKI: I'll be quite specific. The Interlake goes through the Selkirk office, all calls to the Interlake — and I don't know whether their service has been upgraded — when I place a long distance call I have to give the number I wish it charged to and my name, to the operator. If I'm in Winnipeg and I want to dial home from other than the WATS Line here but if I'm at my residence here in the city, I dial 0 and the number I want and I just say, a Winnipeg number bill it to so and so and that's it, I don't have to give my name or anything else and there's no difficulty there. That's the difference in what I'm getting at.

MR. HOLLAND: Our Winnipeg offices are equipped with 0 + dialing as in Brandon and that is not

available in all exchanges and I presume that's the answer, but I'll make certain and inform you.

MR. URUSKI: Would the Roblin area be out of the Brandon exchange? Is that possible? Central, so they would be equipped with 0 dialing. That may be and if it is, is there a move to move to that type of a service in the Interlake or what does that entail? Is that a staff reduction in terms of modern equipment or what is the technology in that area?

MR. HOLLAND: There will be a move to gradually extend that service. I think we've mentioned as well the Automatic Number Identification System where, instead of even on your DDD calls having the operator intercept and take your number, the equipment automatically records that and she doesn't have to intervene in your call. That program is well extended throughout the province.

MR. URUSKI: The only thing is, maybe there should be a system where, as rural MLAs and having to take a large number of long distance calls and make a lot of long distance calls, we have had the privilege extended to us to charge our long distance calls to our caucus room numbers. Maybe there is a system that is in place that we wouldn't have to use that by having it charged to because of the system now in place; at least I don't know of any alternative that I have other than going through the operator and using the service presently or if the old service was in place, but I know the operators themselves find it quite frustrating in that they are unable to take successive calls on the charging of the third party because they have to come back and I give them another number and the same billing instructions. I've had that problem raised with them because, literally, "I can't come back to you, sorry, I'll have to dial again because I'm busy". I presume it's because of the load involved.

Mr. Chairman, there have been a lot of publicity of late with respect to the provision of Cable Television services in rural areas. I'll have to admit I don't know that much about the entire industry, but there are a number of almost weekly news articles coming out that Company A or Company B is intending to provide services to communities if there is — for example the latest one that I saw in the Interlake — if there is a upfront charge of \$50.00 for some unscrambler and a monthly rental of \$17.50 or something like that with six months prepaid and they will be providing two channels of television service cabled to, I think, Gimli and Riverton possibly and the like.

Where does the System stand in cases like this? Is this kind of a quick end run being done by a few people who think that there's a lot of money to be made or how do you view this kind of development?

MR. HOLLAND: Mr. Chairman, there are a number of situations in the province. The first situation is where there are licensed communities, like communities licensed by the CRTC and that in the western area of the province is WestMan and some of the Interlake communities including Selkirk and Portage la Prairie and the Morden, Winkler, Carman, Altona areas.

Service is being extended through those areas as I've mentioned, using generally the inner city coaxial

networks and our local distribution system. The other categories are communities that have not been licensed by CRTC; that would include centres such as The Pas, Flin Flon and Gimli and other centres throughout the province.

It has been expressed as policy of the province that service should be extended as quickly as possible to these areas. The first were the Winnipeg licences, at least the Winnipeg service starting in the 1967-69 period; later communities in 1974 and those are all being followed up.

MTS has said that in order to expedite service to the communities providing our customer undertakes to apply for normal CRTC licensure, that we will serve him at the earliest possible date. We also require, of course, that he use our Coaxial Cable Distribution Network. So in the case of The Pas and Flin Flon, we're providing that service to a customer, he has agreed to apply for formal licensure and will abide by the decisions of the licensure when that happens. Falcon Lake is the same situation.

MR. URUSKI: What kind of an investment would — let's say I if I wanted to set up a distribution centre in the town of Gimli with a population of approximately 1,000 households, maybe more, right in the community — what is involved in the capital expenditure by the venturer? Is it a fairly huge investment? Because of using the System's hardware as the distribution, what is the outlay and what type of equipment is necessary? Is it a dish? Is it the same dish that was to be taken off the Holiday Inn on Pembina Highway? Is that the type of equipment that is necessary? What kind of capital expenditure is involved by entrepreneurs to provide this service to certain areas, that they may feel that there's a market for?

MR. HOLLAND: The situation you described involves a dish to receive signals presumably off U.S. satellites. I presume a head-end, an off-air transmitter and scrambler, descrambler equipment. MTS has no involvement in those situations, unless they agree to use our local distribution network, the coaxial cable for distribution.

As far as the sums involved, Mr. Anderson can you describe them? Mr. Anderson says probably \$50,000 to \$70,000 for the off-air system, rebroadcast off-air.

MR. URUSKI: In addition to all the equipment that is necessary to rebroadcast, would that entail the use of the hardware of the System or would that be some other distribution system to the people in the area?

MR. HOLLAND: Mr. Chairman, we would not be involved unless the customer agreed to apply for CRTC licensure and to use our coaxial cable distribution network.

MR. URUSKI: Are you telling me that the service can be provided without using your equipment?

MR. HOLLAND: For instance, off-air, by broadcasting it off-air.

MR. URUSKI: I see. Let's say the applicant did apply for CRTC, is there a simpler way of providing the service rather than by going through CRTC and

using your hardwares or what's the difference? What's the basic difference? So I can understand it better.

MR. HOLLAND: There are normally two requirements, DOC for the transmission arrangements and CRTC licensure for the operator, content, tariffs, rates and so on. It's our intent to follow those two requirements and generally speaking, we don't believe that the off-air arrangement qualifies under the DOC practice. It does not meet their normal spectrum administration requirements.

MR. URUSKI: So then the service such as I have described would be supplied without any involvement of your equipment whatsoever.

MR. HOLLAND: Yes, Mr. Chairman, unless he had agreed by contract to apply for CRTC licensure and to use our distribution network. We would not offer service.

MR. URUSKI: If the individual undertook at least by contract, indicated to you that they were applying for a licence or going to apply for a CRTC licensing, would they then be subject to a certain rating, that they would be bound to charge a maximum or a minimum or a certain cost to the customers, or is that charge left at the discretion of the individual who is proposing that service?

MR. HOLLAND: At the time of CRTC licensure, his tariffs would be approved as part of that.

MR. URUSKI: But is it possible for that service to be provided before one actually gets approval and I presume that's happening?

MR. HOLLAND: Yes, Mr. Chairman.

MR. URUSKI: So who is the monitor and the setter of the rates to the customers? Is that whatever-the-traffic-will-bear kind of a system?

MR. HOLLAND: Until such time as CRTC had issued a licence and DOC had approved their transmission arrangements, presumably the operator would fix his own fees, yes.

MR. URUSKI: Are there any operators within the Province of Manitoba who are providing service on a commercial basis without using any of your hardware?

MR. HOLLAND: Mr. Chairman, I believe that there is an operator or operators in Flin Flon, The Pas. I am going to need Mr. Backhouse's expert knowledge here. I'll have Mr. Backhouse answer your question, Mr. Uruski.

MR. CHAIRMAN: I'll have Mr. Gordon Backhouse answer your question, Mr. Uruski. Mr. Backhouse.

MR. GORDON BACKHOUSE: Mr. Chairman, I think Leaf Rapids would be an example of the circumstances you've just stated.

MR. URUSKI: That they would be using some off-channel broadcasting equipment without the use of the Telephone System equipment, to bring it into the residences. Is that correct?

MR. BACKHOUSE: That's correct.

MR. URUSKI: Are there any other communities in which this is occurring?

MR. BACKHOUSE: Yes, several in the north, Leaf Rapids, Lynn Lake, Great Sucker Lake. MTS has no involvement with those installations at all.

MR. URUSKI: Any in Southern Manitoba that are operating, using your system without approval of CRTC?

MR. BACKHOUSE: An example of that situation might well be Flin Flon and The Pas, where a party has made application to CRTC, has identified a rate in the application which is the rate he is charging his customer; we put a cable system in place in those two cities; we charge a rental for our cable system on a per-customer basis and we supply a television satellite receive unit, which receives American programming, and we rent that satellite receive station to the applicant at the moment and the signals are connected and distributed through our cable.

MR. URUSKI: Do you have to set up a separate cable system in a community that may not have any services now, lets say Gimli? Would you have to go into Gimli and do a wiring process for the community?

MR. BACKHOUSE: If the distribution system was to be a cable one, yes.

MR. URUSKI: I see. I gather there are various options that the operator can use?

MR. BACKHOUSE: One other option comes to mind and a typical example of that would be Falcon Lake, where an operator presently operates a system that works the same way as the installation I described for Leaf Rapids, excepting that the operator in that circumstance has made application, or given an undertaking to make application, to CRTC for licensing and MTS rents the ground station. He takes the signal from the ground station and uses it to derive an off-air rebroadcasting transmitter. MTS has no involvement in the off-air rebroadcasting transmitter, only the ground station.

MR. URUSKI: Would there have to be certain jammers, for example, that would have to be in that kind of a system, that persons or households who would want that service would be required to have some special equipment in order to receive that signal?

MR. BACKHOUSE: There doesn't have to be. The hardware you are describing is a scrambled signal with a descrambler in the household, which is essentially a mechanism to permit him to collect revenues for the service.

MR. URUSKI: Could anyone else pick up the signal through their present television set in the area? Is

that the reason for the decoder, or descrambler and coder? What is the purpose of that?

MR. BACKHOUSE: Mr. Chairman, if the signal is scrambled then it isn't intelligible on your television set unless you have the decoder to nullify the effect of the scrambling.

MR. URUSKI: Therefore, the cable system of course, in terms of hook-up and without having any investment in rebroadcasting, is a much more simple system in terms of the collection of revenues, is that correct?

MR. BACKHOUSE: Mr. Chairman, it's a more regular system in my opinion, and it certainly obviates the need for the scrambling technique. It provides a positive mechanism for billing the service, in that if a customer is not paying his bill, then you disconnect him from the cable.

In the other scrambled system you really have to remove the scrambler if the customer doesn't pay his bill, or change its coding mechanism, and there are various means of controlling it, all increasingly more expensive.

MR. URUSKI: That's my next question. Is there a difference and what kind of difference is in the investment of setting up a cable system versus a rebroadcasting in the system that we have just discussed? What's the financial implications of the difference of the two systems?

MR. BACKHOUSE: Mr. Chairman, that's a bit difficult to answer. Generally speaking in a community of any size — and I would take a community of 1,000 or 1,500 people — a cable system works out to be more practical from an economics point of view. It is probably cheaper in communities of a smaller size to put in the other type of system presuming that you, as the operator, are able to collect revenue from the service you are providing. That's pretty general but I hesitate to quote specific comparable figures.

MR. URUSKI: As the size of the community grows, it is much more inexpensive, or more efficient to set up and use the cable system?

MR. BACKHOUSE: Yes. Mr. Chairman, there are other factors that get into that situation as well, such as radio interference with other users of the radio spectrum which you tend to encounter more frequently around larger communities.

MR. URUSKI: How would the service be provided to, say, the neighbouring rural area? Let's say you have a large enough community to supply a cable system. Can the two systems be matched? In other words, if it is too costly to provide a cable to say, 100 customers in a five-mile radius of a community — it makes it fairly expensive — are there alternatives to providing that service? If you embarked on a cable system, can you supplement that system with something else or would you have to run the cable throughout?

MR. BACKHOUSE: Mr. Chairman, we have no operating examples in the province that I am aware

of, that directly solve that problem. It is one of the issues that the Elie fibre optics trial is attempting to address.

MR. URUSKI: In terms of community involvement, the System has no preference or any problem with a community-based operation starting up at all. Let's say someone in the Interlake wanted to set up a local co-op to tie into two or three communities to provide service to those communities, the System has no problem provided they meet all the basic requirements that have already been outlined. Am I correct?

MR. BACKHOUSE: Mr. Chairman, I believe the answer to that would be that we don't have any problem with anything that I understood you to say.

MR. URUSKI: Is there a problem with the amount of channels or the amount of service that can be provided between the two types of systems? In other words, there are some cable systems that have a fairly large number of programs and channels — services that are provided, public channels, private channels and all kinds of services — but there are also some that may only provide two or three channels of service. How is that determined?

MR. BACKHOUSE: Mr. Chairman, cable systems by their very nature, tend to have substantially more signal delivery or channel capacity than do the off-air rebroadcasting techniques.

In any installation that is in place in Manitoba on the basis of an off-air rebroadcasting system, I am not aware of any systems that operate, say as a maximum, anything more than four channels, whereas all cable systems in Manitoba have capacity at least for 12 channels.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: Mr. Chairman, in view of the time we'll keep our questions brief, we hope, and try to finish soon.

Mr. Chairman, I understand that the CRTC has approved the installation of some new telephone equipment that is not compatible with hearing aids in general use in this country. I would like to ask whether Mr. Holland can confirm this and whether MTS now uses or intends to use any of this sort of equipment and is there any means of accommodating people with hearing aids?

MR. HOLLAND: Mr. Anderson, would you like to comment on that?

MR. ANDERSON: Mr. Chairman, I hate to ask Mr. Walding to repeat the question, but could you please?

MR. WALDING: First of all, can you give me a simple explanation of what sort of telephone equipment it is that has been approved and is not compatible for people using hearing aids.

MR. ANDERSON: That is the receiver that the Bell have put in service in their area and I am not sure if we have any of that. We have some, I understand.

MR. WALDING: Are we speaking of the handset when we speak?

MR. ANDERSON: The receiver that the hard-of-hearing people use to clip their pickup device over, to pick up the conversation. The hard-of-hearing won't respond to it.

MR. WALDING: Is it possible to give those people the type of equipment they have now so that they would still be able to use their hearing aids?

MR. ANDERSON: Mr. Chairman, I think some accommodation will be made.

MR. WALDING: What is the reason for this new type of equipment? Is it better or cheaper?

MR. ANDERSON: It's cheaper and much more efficient.

MR. WALDING: I see. Thank you. I would like to ask now further questions to a matter I brought up last year, and that has to do with the use of the total number of telephones for rate-setting purposes. I suggested last year that it would be perhaps fairer to use only main stations or equivalent main stations, or whatever the technical term is, since it doesn't matter how many extension phones a person has, that they only have one line coming into the house. Can you advise me what has happened about that and whether the rate staff have looked into it and what the outcome has been?

MR. HOLLAND: Yes, Mr. Chairman, we have studied that in some detail and I think a majority of other Canadian companies are switching to the main station count. We have done a detailed study on that and it will be presented to the board, I would say, within the next two to three months, proposing that we convert to a main station count.

MR. WALDING: When you say the board, are you talking about the System's board or the Public Utilities Board?

MR. HOLLAND: First our board, and then of course, the Public Utilities Board would have to approve that.

MR. WALDING: I see, thank you. I wanted to move now to the financial statements and ask a couple of questions on the finances and particularly the investment fund. You're probably aware that the Provincial Auditor mentions and I'll quote it, "If the financial statements were presented on the basis of expenses authorized for rate-setting purposes, the operating results for the two fiscal years would consist of net revenues of \$8.8 million for the year ending March 31st, 1979, and \$21 million for the year ending March 31st, 1980", which is considerably more than was shown in the reports for the last two years. However he goes on further down to question the use of the investment fund and of putting \$18 million into it. It says, "I am not aware of practical reasons for fund accounting being applied to accrued charges of foreign exchange losses". I wonder if the System has any response to that statement.

MR. HOLLAND: Mr. Chairman, there are a number of questions involved there and I suppose the first one is the manner in which the foreign debt is being handled.

I believe the Committee is aware that we have chosen to amortize that to the years remaining until redemption and Note 4 to the financial statements, illustrates the item and shows a \$71 million item. The assets then show an investment fund of \$18 million and the foreign currency loss is less this amortization of \$53 million.

The Provincial Auditor raises the manner of handling for regulatory purposes. I can only say that we would revise our financial displays as required by the regulator for their particular analysis. In this case the MTS legislation gives the board the responsibility of establishing necessary reserves, contingency funds and investment funds.

The board has chosen to establish this as an investment fund. The disbursements from it are by a specific resolution of the MTS board and this is done primarily to conform with the manner of handling by the Telephone Canadian Industry.

We are a member of the Trans-Canada Telephone System. At least we attempt to follow accounting norms and practices common to the industry and followed by the other Trans-Canada companies.

So in a nutshell, we display very clearly the accumulation of the amortization funds and if our regulator requires any further explanation or different format, that would be done for The Public Utilities Board of Manitoba, and it does follow a general custom in the Canadian Telephone Industry and our accounting relationships with the Trans-Canada Telephone System, who also I may say, audit us carefully. We have our own internal auditors and the TCTS auditors, our external auditor, the Provincial Auditor, the Public Utilities Board and we do our best to meet the requirements of each of these respective parties.

MR. WALDING: I understand that the fund was set up in 1980 with \$18.1 million in it. I think I asked the question last year about interest and I was told it was drawing interest at some percentage then. Can you tell me how much is in the fund at the moment and how much is being used in the System?

MR. HOLLAND: Interest on the fund, Mr. Chairman, is going directly into our other income-interest earnings.

MR. WALDING: Mr. Chairman, I want to be sure that I understand what is happening here.

The System put \$18 million into an investment fund, which I understand draws interest, but money can be taken from that fund and used within the System itself. Would this be correct?

MR. HOLLAND: Yes, Mr. Chairman, it is an interest income to MTS.

MR. WALDING: Mr. Chairman, let me try again. I understand from Mr. Holland's earlier answer, that moneys would be used from that fund on resolution of the board. The question is, how much has been withdrawn from that fund and is it being used within the System?

MR. HOLLAND: Mr. Chairman, there has been \$10 million applied towards our capital program.

MR. WALDING: So there would be something in excess of \$8 million still in the investment fund?

MR. HOLLAND: Yes, plus the current year just ending, there will be a further approximately \$8 million.

MR. WALDING: Does the System pay interest to its own investment fund on the \$10 million that it is using?

MR. HOLLAND: No, Mr. Chairman.

MR. WALDING: What are the arguments then for either leaving the fund as it is and drawing 18 percent or 14 percent interest, whatever it is, as opposed to in fact borrowing from its own fund? If the money is being put to good use, would it not make more sense to use the whole \$18 million in the System?

MR. HOLLAND: By investment in our own plant, you mean?

MR. WALDING: Yes.

MR. HOLLAND: That is an option open to the board to do that, and has happened on one occasion. The intention of course is to have funds sufficient to meet these premium sums that are shown in Note 4.

MR. WALDING: The Provincial Auditor points out that there are significant funds generated from depreciation charges and that those are handled in a completely different way; the depreciation charges apparently are not put into a fund that draws interest, they are simply used within the System itself.

Now what is the advantage of setting up an investment fund into which the System puts money and then borrows from itself, without paying interest? If it's a good thing to have an interest bearing account, why not have it at the maximum? And if it doesn't make much sense to put money in the bank and then borrow from yourself, why do it at all?

MR. HOLLAND: Depreciation funds are applied either to us at the capital borrowing required, or to contribute to the sinking fund, the statutory requirement. In this case we are attempting to make sure that we have provision and are carefully displaying the costs of the foreign borrowings in our ongoing operations and to make clear provision for those in our operating picture; such that when for instance Series 10P comes due in November 1983, there will be \$14 million to meet that premium cost.

MR. WALDING: But you also show and display your depreciation costs?

MR. HOLLAND: Yes.

MR. WALDING: I'm trying to understand whether this investment fund is really worthwhile and is doing anything for you, as opposed to using the money; it's the System's money after all. Isn't it better to use its own money within the System for its own purposes than to put some money into a bank and then go and borrow for capital purposes outside?

MR. HOLLAND: In some instances, yes.

MR. WALDING: But not all?

MR. HOLLAND: In not all occasions.

MR. WALDING: Can I ask where in the financial statement the interest on the fund is shown?

MR. HOLLAND: Other revenues is Note 9.

Mr. Chairman, Mr. Vannevel, Director of Finance, will confirm that it's Note 9, interest earned on investments.

MR. CHAIRMAN: Mr. Vannevel.

MR. R.C. VANNEVEL: That is correct, Mr. Chairman, although that figure there is our total investment portfolio, which includes not only the investment fund, but also the sinking fund earnings that come to us during the course of the year.

So the specifics as they relate to just the investment fund are within that figure. That's shown as interest on investments.

MR. WALDING: But when the investment fund was set up and calculated over the length of each issue so as to amortize the foreign debt exchanges, did that include interest or was that separate from the interest?

MR. VANNEVEL: Are you talking about interest on those foreign exchange obligations?

MR. WALDING: No, interest on the fund.

MR. VANNEVEL: No, the amortization is related to the change in value in the Canadian currency rate. In other words from its value as it stood at the time the bond issue was first arranged and what the value is at the end of March 31st, in each fiscal year. The difference is determined to be the foreign exchange loss, if you will, on that principal and that is amortized equally over the life of the bond.

MR. WALDING: So in order to have that money to pay off the bond, you put it into an investment fund. Now do you take the interest into account in deciding how much you will put into it? Because if the fund pays interest and is compounded, you would not need to put as much in each year.

MR. VANNEVEL: That is true. The way we have treated it though, is taking that interest into our current earnings and using it as part of our current funds that come into operations during the course of the year; not unlike what we do with the sinking fund.

MR. WALDING: I confess I still do not understand fully the basis of setting up a fund, and on the one hand taking interest from it, and yet on the other hand taking a portion of it on which the System does not pay itself any interest.

MR. VANNEVEL: I think maybe the relationship was put to the depreciation, I think in the Auditor's report. Essentially my view of it would be, depreciation is an ongoing thing relating to a plant that will serve its useful purpose and then have to be replaced, therefore requires additional capital to

keep replacing those items year after year and therefore it becomes quite an easy way to show it, not trying to fund that, but let those moneys as they accrue through your rates to your customer, which include depreciation, to just turn those back and put them into plant investment. In fact that is what is done basically with those.

With respect to the foreign exchange obligations, we are looking here at something slightly different, which is a specific obligation the day that bond becomes due to pay it off, and not only to pay it off at its original principal expressed in original Canadian dollars, but to pay it off at a rate somewhat higher, given currency exchange rates as they exist today. In other words, there is an obligation for some additional amount.

The board has chosen to permit that this amount of money be placed into an investment fund and that is desirable because it will, if no other use is foreseen for that money in the meantime by the board, it will accumulate those amounts, at least the "loss" portion. From a practical point of view, from the financial side, they are kept in short-term investments, which tend to yield a higher return than the long-term borrowing rate, so it is even on the short-term somewhat beneficial for the System to do this.

MR. WALDING: If it's beneficial to have \$18 million in there, I'm sorry, \$8 million in there, because you have taken the \$10 million out, would it not be even more beneficial to leave the whole \$18 million in there?

MR. VANNEVEL: I would love to leave a lot more. It becomes a limit as to how much you can borrow; what is the borrowing limitation that MTS or the province or anybody has in the long run.

MR. WALDING: I am talking about borrowing from your own fund, your own investment fund. If it is beneficial to have \$8 million of your investment fund still in the bank and drawing interest and the board has decided to use \$10 million internally, which is gathering no interest, would it not be even more beneficial not to take the \$10 million out and leave \$18 million in there drawing interest?

MR. VANNEVEL: Yes, but the decision arrived at by the board is based upon factors that were there at the time that the \$10 million was, by resolution, permitted to be withdrawn. As described in front of the Public Utility Board, we said we would have two options with this fund. One would be to accumulate it in pure cash and hold it and not spend it anywhere except when the bond issue matured; and another would be to make contributions from time to time toward current construction. In either case, we said we would be discussing this with the Department of Finance and what advice we were getting would be conveyed to the board in matters like that. So there is some tie-in here with what the total Province of Manitoba finances tend to be, or to what extent they can provide borrowing authority for us in any given year.

MR. CHAIRMAN: Mr. Uruski.

MR. URUSKI: Mr. Chairman, a very interesting discussion that leads one to — and I am not sure

whether I understand it — since you have at your disposal, whether it is \$10 million in one fund or another, you have \$18 million, and you keep indicating that as a result there is additional costs from foreign exchange fluctuations; and those fluctuations, the difference in those figures are only if you were to pay off all those fluctuations on March 31 of this year. Would those fluctuations be as great as you say they are if you applied the interest from those short-term investments, that you could probably be collecting as high as 18 percent on the short-term at the present time, to offset any of the supposed exchange fluctuation? Would it not be to your advantage, if you say that there are such costs involved, to pay off these with the \$20 million and get rid of the increased costs that you say there are?

MR. VANNEVEL: The fluctuation itself will not change. The value of the currency is what it is at the end of the particular year. The size of the fund could change if we chose to add interest to it as well as the payments that have been permitted to be put in by the board, totalling \$18.149 million initially. If we permitted that interest to go in, the size of that fund would be larger; and yes, to that extent you would have a lower net liability, if you would. I don't know what else I could say on it, other than that.

MR. URUSKI: The question is then, of what significance is the indication that there are additional costs from foreign exchange if, as at March 31, 1981, they could be substantially different next year, could they not?

MR. VANNEVEL: Yes, they could. They could go up or down. Our method of valuation is a March 31st valuation as to what the rate is at year-end.

MR. URUSKI: All right, then of what significance to the reader would the difference be at March 31, 1981 in the report that you have given us; of what significance do those figures mean to the layman?

MR. VANNEVEL: Given the report or taking the figures as put in there, the reader could draw from it that the amount of debt is carrying an excess load or an additional premium, if you will, of \$71 million, which will have to be met at the various maturity dates. In fact, in the schedule on the following page, pages 10 and 11, you will see the individual amounts against each of the issues, and by looking at the issue date you could make the assumption that if the currency rate does not change any more, that would be the amount of additional cost that had been incurred for those issues. Similarly, the reader could from this, take from the notes that appear in there, that to date the System has amortized or charged off to expenses a total of \$18,149,000 as amortization of that, leaving some \$53 million yet to be flowed through the expenses of the System, as being a cost of operations.

MR. URUSKI: But if you have bond issues that are due, even with the fluctuating exchange or the additional costs of exchange — if you paid all of them off, these would be the amounts — would it be to your advantage to pay them off, the borrowings that you have at this point in time?

MR. VANNEVEL: Not particularly, because we would have to pay the larger figure that is shown on Page

10, because that was the value at that time; whereas the amortization or the investment fund if you are looking at that, which happens to equal the amortization, has only picked up a small portion of that, to that point in time. In other words, if I were to pay off the particular issue and let's say it's the 10P Swiss, I would really have to find some \$63 million immediately to pay that off. Furthermore, the issue itself carries some premium riders on it, that I can't buy it off at 100, I have to buy it off at some higher figure if there is an advance paying off of that issue. So there are other things involved in the process.

MR. URUSKI: But at the rates that you have had some of the borrowings and the rates that your short-term investments bring you now, am I reading it wrong that it is not to your advantage to pay those, even with the fluctuation in the foreign exchange, to pay them off now, is it?

MR. VANNEVEL: Not necessarily. With certain issues, it may be to our advantage. That would take specific study on each of the issues and looking at how the currency is moving up or down at any given time and where the funds would come from to pay them off.

You will note on some of those issues, they carry 4-1/2, 5-1/2 percent interest rates and even with the change in foreign currency, they still probably are looking at about a 9-1/2 percent effective rate on one of the issues, 6-1/2 on another of the issues, so that whether it becomes advantageous to pay them off is doubtful in some instances.

MR. URUSKI: That's my point. I didn't see it before, but the 10P at 4-1/2 percent, our exchange rate would have to go a hell of a long way to make it advantageous to pay it off ahead of time.

MR. VANNEVEL: That would be correct. That specific one as a matter of fact, I worked it out the other day, has about a 9-1/2 percent effective rate today.

MR. URUSKI: Okay, let's look at the worst one, at 10-1/2, which is your highest in your total investment portfolio, which would be — we don't know where, but it is probably the Canadian money market at 10-1/2, because it is not shown as foreign — or could that be a foreign borrowing?

MR. VANNEVEL: No, the foreign ones would be specifically marked as foreign.

MR. URUSKI: So then your highest one of course, would be either a 6-1/2 percent Swiss franc or an 8.6 Japanese yen, where you have in Account B, there may be Swiss francs. Those would probably be the highest ones that you've got. You have a 9-1/4 on Account B which would be Swiss francs, which is probably the highest. What is your analysis on that?

MR. VANNEVEL: That one is a little more marginal. I think its current effective rate is around 16 percent on that particular one, and that's about what you are really talking about in borrowing range say today, 14, 15, 16 percent, somewhere in there.

MR. URUSKI: Yes, and on your short-term investment you probably would be heading between

17 and 18 percent on the three-month basis, in terms of the money that you are talking about, maybe even a bit better depending on what time of the month that one does the investing. So in the long term, irrespective of the difference that is shown, it still is not basically advantageous for the System to pay off those debts, to get rid of that so-called loss that is shown on the books?

MR. VANNEVEL: That is correct.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: I wonder if Mr. Vannevel would tell us whether he expects Swiss francs to continue to go up over the next few years.

MR. VANNEVEL: I would make a fortune if I knew. It fluctuates wildly, even within periods of weeks. In the last couple of months, it has moved down. It very much depends upon what the American economy is going to do in relationship to the Swiss economy. Our stance has tended to be that it will probably hold, hopefully over the long term, not to exceed where it was back in late 1978, but I am not sure of that.

MR. WALDING: Would it make sense to invest your investment fund in Switzerland, so you would have a partial protection against any further fluctuations?

MR. VANNEVEL: No, in my own view it would be better in Canadian funds. You would have a partial protection by any change in currency value, but at the same time you'd be trading off probably a 5 percent Switzerland interest rate against a 16 percent Canadian interest rate. So you have to really guess how much it is going to devalue, if you will.

MR. WALDING: Even at that estimated 9-1/2 percent on the first Swiss issue there, there is no way the System could borrow money these days even at 9-1/2 percent, is there?

MR. VANNEVEL: Not that I am aware of.

MR. WALDING: May I ask you, Mr. Vannevel, while you are at the table, about Note 2 on Page 10, which indicates the partial reduction in four particular issues, to make up the MDS adjustment, can you tell me how those figures were arrived at?

MR. VANNEVEL: They were calculated based upon the borrowings we entered into in the years wherein we were making capital investments for Manitoba Data Services, and we assumed that the borrowings we were making in that particular year were proportionately funding the Manitoba Data Services' investments, therefore they should proportionately, now once they go independent or transfer responsibility, take that portion of those issues with them, and that's how those were calculated.

MR. WALDING: This was done in negotiation with the Department of Finance, I see.

MR. VANNEVEL: That is correct.

MR. WALDING: Thank you, Mr. Chairman. Unless any other members of the Committee had any other

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questions, we are prepared to pass the report in its entirety.

MR. CHAIRMAN: I would ask Mr. Kovnats if he would move a motion to pass the report of the Manitoba Telephone System Annual Report 1979-80, to be passed by the Public Utilities and Natural Resources Committee of the Legislature.

MR. KOVNATS: I so move.

MR. CHAIRMAN: So moved by Mr. Kovnats. Pass. Committee rise.