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Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

31-32 Elizabeth II

Chairman
Mr. A. Anstett
Constituency of Springfield



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

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EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
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PARASIUK, Hon. Wilson	Transcona	NDP
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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES
Thursday, 14 July, 1983

TIME — 10:15 a.m.

LOCATION — Winnipeg

CHAIRMAN — Mr. Andy Anstett (Springfield)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Messrs. Anstett, Doern, Enns, Eyer, Harapiak, Orchard, Ransom and Scott

APPEARING: Mr. Gordon W. Holland, General Manager

Mr. Saul Miller, Chairman of the Board

Mr. S.G. Anderson, Assistant General Manager

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone System for the fiscal year ending March 31, 1982

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MR. CHAIRMAN: The business before the committee today is consideration of the Manitoba Telephone System Annual Report for 1981-82. I believe certain questions were raised at the last meeting so I'll ask the Minister if he or staff, have answers for those questions.

Mr. Minister.

HON. J. PLOHMAN: Mr. Chairman, I have the answer to a question that was raised in the House on two occasions by the Member for Pembina, and I'd like to provide that information, and then if there are other answers that the General Manager has with regard to any questions that were asked at the previous committee meeting, they can be provided as well.

In terms of the number of dishes, the member had asked about the number that the Telephone System currently owns for CATV signals; there's 12 that are in use on a full-time or intermittent basis. Two of these dishes are also used in the provision of telephoning service. One dish is installed in anticipation of use in the near future for the provision of telephoning service which would be 13; and 5 dishes are available - I should say 13 in total, the 12 I just mentioned plus the 1 that is installed for anticipation of use - and 5 are available for testing, spare and stock.

If the honourable member wants to know the locations and so on, I can provide that information as well, although I don't think that was asked. I think if the member would like that information he can so advise.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I thank the Minister for the answer and he can provide me by letter. I

presume if he's got the list of where the locations are, that would be fine. We wouldn't take committee time to read them out.

HON. J. PLOHMAN: That's very good. If there are other questions that the General Manager has answers for, then I'd be prepared to turn that over to Mr. Holland.

MR. CHAIRMAN: Mr. Plohman, are you planning on providing a list of the locations of the dishes to the Member for Pembina? Was that the indication you gave?

HON. J. PLOHMAN: Well, he just asked and I said yes, that's fine, I'll do that.

MR. CHAIRMAN: I would suggest, Mr. Plohman, then, that the list should be tabled to the committee so that the Committee Clerk has it in the committee records as information provided to the committee.

Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there were a few questions asked at the last meeting. One of them was a history of MTS rate increases since 1975. There was an increase effective May 13, 1976, the annualized dollar increase in revenue was \$15.2 million, and that represented a 13 percent increase expressed as a total of MTS annual revenues; another increase was effective April 1, 1979, the annualized dollar revenue increase, \$10.8 million, and that represented a 5.9 percent increase on total revenues; July 15, 1982, annualized dollar revenue increase \$12 million, 4.5 percent of total revenues; and an increase effective July 1, 1983 will produce \$9,989,000 in the current fiscal year, being 3.3 percent of total revenues, and the annualized figure would be approximately \$13 million.

As well, Mr. Chairman, there were questions concerning the impact of provincial tax increases on 1983-84 expenses. The provincial payroll tax, \$1,965,000 annually; the provincial sales tax increase is an identifiable \$48,000, but there will also be unidentifiable increases on the construction budget arising from the applicability of the tax, to equipment and material purchases from our suppliers. Mr. Chairman, I've just been reminded that I incorrectly described that tax; it is the Health and Education Levy, which is \$1,965,000 annually.

Fuel taxes, between January 1982 and March 1983, it's estimated that the increased taxes have been \$32,000, and these increases are anticipated for the total 1983-84 fiscal year, to raise the MTS fuel bill by some \$81,000.00.

There was a question, Mr. Chairman, as to the number of retirements at MTS; 27 employees retired between August 1, 1982 and February 28, 1983; and 113 employees retired between March 1, 1983 and June 30, 1983.

On term employment where questions were also raised; there were 100 term employees hired for the

summer of 1982, excluding students; 57 term employees, including 47 students; and 76 part-time employees were hired between April 1st and June 30th of this year. The 76 part-time employees are primarily in our traffic operations and in the business office for seasonal loads and the vacation period.

On summer students, there were 64 students hired in the summer of 1982, 18 of whom were terminated prior to August 20, 1982. Our plan was to hire between 45 and 50 students for summer, 1983, and 47 students were hired from April 1 to June 30.

Also, Mr. Chairman, a question arose as to some broad forecast figures for the Saudi Arabian Computer Communications Co. Ltd. The sales revenue projection from June, 1983 to December 1983 is between \$3,250,000 and \$4,311,000 - a range in that area - and the resultant net income is projected to be from \$320,000 to \$431,000.00. I believe, Mr. Chairman, that those were all of the questions raised at the last meeting.

MR. CHAIRMAN: Any further discussion on the answers Mr. Holland's provided or further discussion on the report?

Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I thank Mr. Holland for his answers. It would appear as if a generous 50 percent of this recent rate increase is directly attributable to the combination of new or increased taxes imposed by the NDP and their interference last summer in management decisions on how best to cut costs, and I think that adequately proves the position I was establishing last time that this government is having a negative impact on the Telephone System.

Mr. Chairman, a couple of questions that I'd like to ask on MTX. We were just getting into MTX last time. To undertake the business arrangement in Saudi Arabia, were there any such things as finders' fees or any obligations undertaken to secure a business arrangement in Saudi Arabia?

MR. G. HOLLAND: Mr. Chairman, there were no such fees; there were some legal fees, I believe, in connection with legal processes in Saudi Arabia.

MR. D. ORCHARD: I wonder if Mr. Holland might indicate the General Manager, Mr. Aysan's compensation package, salary and expense allowance. I realize he probably won't have those figures readily at his disposal and they could be provided at a later date.

MR. G. HOLLAND: Mr. Chairman, we'll undertake to do that. Mr. Aysan is an employee directly of Datacom. Generally our compensation package has been modeled after the Bell Canada patterns established over a number of years in Saudi Arabia, so that our general pay patterns and working conditions have followed that precedent.

MR. D. ORCHARD: My colleague has a couple of questions.

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Thank you, Mr. Chairman. Just in following up the discussion on MTX, and I'm not sure

whether any of this had been covered before in committee, but I'll pursue it and if answers have been given I'll be quite happy to read them in Hansard.

Can Mr. Holland indicate what activities MTX has been pursuing in the Mid-East area; that is what type of work? There's some work in Saudi Arabia; I understand that there is some work contemplated in Lebanon, and so on. Can that be just sort of summarized for me?

MR. G. HOLLAND: Mr. Chairman, MTX was formed in January, 1982. Prior to that, MTS had been acting as a contractor for Al Bassan International Telecom. That had involved engineering projects, identifying suppliers, developing proposals to customers, providing assistance on installation, maintenance procedures and so on to Telecom. Through the period ending March 31, 1983, sales of products by MTX totalled some \$3,924,000.00. Most of their activities were involved in working with Telecom Saudi Arabia.

MR. G. FILMON: Is this just a matter of selling hardware, when you say sales of products, or is there more to it than that? I am told that one of the activities of MTX is in the replacement or rehabilitation of the telephone system in Beirut. Is that something that merely a bid has been placed on, or is that the contract that MTX has, or at what stage is that?

MR. G. HOLLAND: Mr. Chairman, Telecom has looked at the great telecommunications needs of Lebanon and have asked informally for MTX's views as to the feasibility of a proposal or a project there. No decision has been taken in that area. In the meantime, I believe that at least one American firm is doing work in Lebanon.

MR. G. FILMON: Who is Telecom and what is their relationship to MTX?

MR. G. HOLLAND: Telecom is a company totally owned by Al Bassan International. The MTX relationship to them is as a contractor-supplier, engineering services, provision of maintenance advice.

MR. G. FILMON: Who owns Al Bassan International?

MR. G. HOLLAND: Mr. Chairman, I did provide the name of the principal. Sheik Abdullah is the head of that family-owned group of companies. That would be in the transcript of the last hearing, I believe. We listed the three principals that are involved.

MR. G. FILMON: In doing this work in the Middle East or in consideration of doing this work in the Middle East, does MTX employ an agent in negotiating these matters and if there is an agent involved in negotiating these arrangements, what remuneration and what are the terms of remuneration? Is there any contract involved? How are these individuals paid?

MR. G. HOLLAND: Mr. Chairman, MTX has no agent in Saudi Arabia.

MR. G. FILMON: Does MTX have agents anywhere or does it pay fees to anyone in order to obtain this work or these contracts?

MR. G. HOLLAND: Mr. Chairman, I'm not aware of any instance where that has occurred. We do have proposals for co-operative arrangements with other telecommunications suppliers and under those arrangements there would be provisions for a return to both companies, MTS and the associated company, but I'm not aware of any agents, appointed or paid, during the brief history of MTX.

MR. G. FILMON: Then the relationship with Telecom is simply that MTX is a subcontractor to do work which it obtains in the mid-East.

MR. G. HOLLAND: Yes, Mr. Chairman. MTX develops and maintains a list of suppliers with whom we're familiar; with whom we have had experience; and that list of suppliers is checked with Al Bassan International and when they have requirements, supplies are obtained from that list.

Beyond that, as I mentioned earlier, we do provide assistance in planning and design and engineering, installation, maintenance and management procedures of the installation, and some staff training or staff development.

MR. CHAIRMAN: Mr. Filmon, I would draw your attention to Pages 94, 95 and 96 of the committee transcript of the 24th of May. Many of the questions you have raised are addressed in the transcript. You had mentioned earlier that you weren't aware whether or no some of these questions were duplicates. Many of them are addressed in the transcript of the 24th of May meeting.

Further questions?

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

MR. D. ORCHARD: Mr. Chairman, I wonder if the General Manager could give us an indication of the current status of the IDA project, the company and the technology.

MR. G. HOLLAND: Mr. Chairman, as we reported to the committee last year, the project IDA, per se, has been terminated. The plan however is in place, service is continued, including cable television where there is a licensee and the intention is that the existing network would be available for trialing of new products or testing customer reaction to certain services; it is available for that purpose.

MR. D. ORCHARD: The MTS had an outstanding debenture with Interdiscom Systems Ltd. of \$500,000.00. I would assume, if my memory serves me correctly, that was written off last year?

MR. G. HOLLAND: Mr. Chairman, that has been written off in the MTS books and again, as we reported last year, MTS acquired patents and proprietary rights to certain elements of the project that had been developed specifically for Project IDA.

MR. D. ORCHARD: When you mention those patents and proprietary rights, I would assume they centre around the Omtel 2 equipment. Does that equipment

and the patents to it, proprietary rights to it, have a market value at the present time?

MR. G. HOLLAND: Mr. Chairman, on both Project IDA and the Elie-St. Eustache fibre optic project, we've had a great deal of interest nationally and internationally, both by telecommunications companies and suppliers. The list of visitors is quite impressive. We have been talking to certain manufacturers in the cable television area. The degree of interest varies in these discussions. The interest in the particular technology remains high and we're hopeful that there will be further development in that area.

MR. D. ORCHARD: Would the Telephone System have sufficient confidence in the technology, that they would be proposing to the government an expansion of the cable system utilizing that technology?

MR. G. HOLLAND: Mr. Chairman, I think we have explained to the committee in the past that MTS does not have a research and development house or a manufacturing subsidiary and we could consider it absolutely essential that some manufacturer develop the technology to a production stage. At that point, I believe that MTS would be extremely interested in the product, economics being manageable.

MR. D. ORCHARD: I guess that's the point of my question because under provisions, as I understand them, of Bill 78, the Telephone System is obtaining - should this bill pass - the ability to own and install and maintain the type of technology that we're talking about as developed in IDA and although the system has no direct research arm or manufacturing arm, neither of those may well happen in the private sector or a joint venture with MTS without a market for the technology and if you put the cart before the horse and the system was to decide to install the IDA technology, I'm sure you could interest a manufacturer in undertaking the establishment of a manufacturing firm and I would ask if that is being contemplated either in the management of MTS or in conjunction and consultation with the government.

MR. G. HOLLAND: First of all, Mr. Chairman, as I understand the bill before the House, it extends the traditional policy that network components should be determined according to MTS standards and be owned by MTS as the common carrier, which has been the traditional policy for many decades in this province.

In response to the second question, I did qualify our interest by the economics that it would present. The Manitoba marketplace is quite limited in itself. It would be necessary for the manufacturer to develop a much broader marketplace in order to get the utility of scale, the mass production that would bring the components down to a level that we could economically justify their acquisition.

MR. D. ORCHARD: Not that I'm going to debate the bill with Mr. Holland, I intend to debate that this evening with Mr. Plohm, but the traditional ownership of equipment that has been going on for decades, I believe was for provision of telephone service. I don't believe

there was a longstanding policy to extend that end equipment ownership into the telecommunications system, but as I say we'll debate that with the Minister this evening.

Some questions on the Interdiscom Systems etc., which arise from, I believe, Mr. Coyne is now an employee of the Telephone System as of about a year ago, if I recall correctly?

MR. G. HOLLAND: Mr. Chairman, Mr. Coyne has terminated his employment with MTS and is now working in the USA.

MR. D. ORCHARD: I see. Then what was Mr. Coyne doing with MTS whilst he was employed there?

MR. G. HOLLAND: Mr. Chairman, Mr. Coyne headed a very small group of engineers who worked very closely with the Assistant General Manager, attempting to review the emerging technologies and the emerging marketplaces in the telecommunications field and to propose longer-term plans and business strategies that conformed with the emerging world.

MR. D. ORCHARD: And were those plans and strategies developed and available for the management of MTS to review and make decisions on?

MR. G. HOLLAND: Mr. Chairman, yes, there was a regular flow of proposals and ideas and some of them intended to sensitize the rest of our senior management to the trends in that area.

MR. D. ORCHARD: In the initial start-up of Project IDA, when was the original request for proposals made to firms who were interested in installing and running the technology project?

MR. G. HOLLAND: Mr. Chairman, I don't have that information readily available unless Mr. Anderson recalls the dates. — (Interjection) — Mr. Chairman, Mr. Anderson indicates probably 1977 through and into 1978.

MR. D. ORCHARD: Now, my recollection of the method by which ISL, Interdiscom Systems Limited was chosen as the contractor, I believe there were eight proposals that were submitted from other firms, and Interdiscom Systems Limited was chosen even though they weren't necessarily the lowest quote to install the project. Is my memory correct there, Mr. Holland?

MR. G. HOLLAND: Mr. Chairman, yes, this was an R&D proposal as opposed to a classic and formal tender. The most prominent firms were asked to submit proposals for the study. Those were reviewed by our engineering staff and ISL was considered to most closely conform with the thesis being tested by the project.

MR. D. ORCHARD: Now, it's also my memory that the original contract was awarded at some \$875,000 and due to change of location and other variables the contract approached \$1.6 million and after that, with the additional \$500,000 debenture plus an additional

\$115,000 maintenance agreement that was struck with the firm, with ISL. When the General Manager mentions that Interdiscom Systems was chosen out of the eight firms to undertake this experimental project because they most closely met the thesis, did Interdiscom Systems Limited have a background of experience that could prove they had the ability at that time, do you recall?

MR. G. HOLLAND: Mr. Chairman, the principles of ISL had been operating under a firm called Coyne Associates in Montreal. It was primarily a professional consulting service that they had provided. It was the view of our engineers, looking at credentials and experience of the principals, that they were highly qualified to undertake the project.

MR. D. ORCHARD: Now in putting out the request for tenders from the firms that ended up bidding on it, did MTS internally draft the specifications, etc., and was it an internal document from the Manitoba Telephone System to which these firms bid?

MR. G. HOLLAND: Mr. Chairman, it's my recollection that this was not a tender specification in the usual fashion that is sent out. It was a request for proposals. The concept or thesis of the project would have been spelled out very clearly in the material that went out, and then the responses judged by how closely they conformed to the proposed R&D project.

MR. D. ORCHARD: Then could I ask who drew up, or was it an internal document to which these companies were attempting to bid? Was it an internally drafted R&D research project, was it all envisioned and drawn up internally at MTS?

MR. G. HOLLAND: Mr. Chairman, yes it was drawn up internally under the direction of the assistant General Manager and his associates.

MR. D. ORCHARD: There was no retention of any outside consulting firms who assisted in the drafting of the criterion of the project then?

MR. G. HOLLAND: Mr. Chairman, I would have to defer to Mr. Anderson on that. I don't recall.

MR. CHAIRMAN: Mr. Anderson could you please come forward and take the mike?

MR. S. ANDERSON: Mr. Chairman, the answer is no. The document was drawn up internally. Nobody else participated in the drawing. We drew the information from discussions with people, but they did not participate in drawing up the specification.

MR. D. ORCHARD: So then it's fair to say that there was no outside consulting firms, etc., that were partner to the drafting of the original proposal and that that was all thought up within the engineering and senior management of the Telephone System?

MR. S. ANDERSON: Mr. Chairman, that is right. In drawing up the specification, we always discuss

particular technologies with other people, but there was nobody else participated in drawing up that spec.

MR. D. ORCHARD: Does Mr. Anderson recall who some of the outside people that the idea would have been bounced off of for advice, I assume, and critique?

MR. S. ANDERSON: Well, Mr. Chairman, I think we've discussed it with various alarm companies, because it was an integrated technology we were interested in. I do believe we did discuss it with John Coyne Associates, if that's what Mr. Orchard is talking about, but the actual development of the specification was done in-house.

MR. D. ORCHARD: Now I assume that John Coyne Associates, if it's the same John Coyne who had the firm Interdiscom Systems Limited, which eventually was chosen to do the work from the eight tenders submitted, even though it wasn't the lowest tender. That's one and the same John Coyne?

MR. S. ANDERSON: Mr. Chairman, yes.

MR. D. ORCHARD: Well, Mr. Chairman, that's an interesting circumstance to develop. Would it be a fair question to ask whether any of the other seven firms who bid and were not successful were consulted, or had input to the concept of the original request for quotations?

MR. S. ANDERSON: Mr. Chairman, yes some of them were, I don't know if all of them were.

MR. D. ORCHARD: Now the arrangement, as I say, could well have been conceived or construed as a less than arms-length arrangement, if Coyne Associates had access or knowledge of the request for quotations, and then his firm, Interdiscom Systems Limited was chosen, not as the lowest tender, it was chosen to undertake the project amongst eight other bidders. To an outside observer, that might appear to be that Interdiscom Systems Limited was bidding from a privileged position when, in fact, they weren't the lowest bidder but yet were chosen, because their plan most closely approximated the intent and design and the specifications of the project; which it would appear as if he may have had some input in assisting the Telephone System in designing. Then shortly after a couple of criteria changed, whereby the original contract was almost doubled and then an additional \$615,000 was put by MTS into Interdiscom Systems Limited to further the project. It went from \$875,000 to approximately \$2.2 million and I guess what made me question what was happening is with the hiring of Mr. Coyne by the Telephone System after Project IDA had officially wound down. It looked like an interesting circle of association by Mr. Coyne with the Telephone System. But I assume that Mr. Holland and the management can assure the committee that there was no possibility that Mr. Coyne would have had an inside track on the request for quotations, thereby giving Interdiscom Systems Limited the leg up in bidding most closely to the specifications.

MR. G. HOLLAND: Mr. Chairman, I would again emphasize that this was an R&D project, the success

or failure of which depends very much on the availability of top-notch professional personnel and that forms a very important criteria in that selection. Our project was managed very carefully and all parties would confirm that we had very good value for the investment, excellent results from that investment.

I might just remind the committee that MTS was in a very unusual situation where it had major investments at that time in coaxial cable and very few telecommunications companies were active so that MTS was in a bit of a unique position. The other facet of it was that there were many many changes occurring in telecommunications generally and we felt that the project was well justified in exposing our professional engineers and computer specialists to some of this technology and also accumulating customer reaction to it. Certainly we did have excellent co-operation from the residents of south Headingley as we have had in Elie and St. Eustache.

MR. D. ORCHARD: Yes, Mr. Chairman, but the General Manager is satisfied that in selecting the tender from ISL from a bid of a group of eight different companies, the General Manager is satisfied that Mr. Coyne, through his operating company, Interdiscom Systems Limited, did not have an inside track in designing exactly what the Telephone System wished because of his association in the original drafting of the proposal for the Telephone System. That's the question that I would like to have clarified, if Mr. Holland can.

MR. G. HOLLAND: Mr. Chairman, our engineers were constantly consulting with other telecommunications companies and suppliers both of telecommunications equipment and cable television equipment. There would have been many discussions as to the availability of current technology. I'm quite sure that we would have discussed it, as well, with Bell Northern Research and Northern Telecom and other major suppliers.

Based on the parameters that this was a research project, the importance of the experience and qualifications of the people involved, I'm satisfied that it was handled very well and quite correctly.

MR. D. ORCHARD: Well, I'm pleased to hear that, Mr. Chairman, because even though discussions were undertaken possibly with other firms, the project was awarded to one firm who did have discussions and awarded to, as I understand it, Interdiscom Systems Limited who did not have an active company at the time. It was an incorporated company with no ongoing activities, no other projects under way, it was my understanding, so that in contrast to say Bell Northern or Northern Telecom, it would appear as if the company chosen at not the lowest bid, did not have a track record by which the system could evaluate their potential to adequately perform the undertaking.

Well, having that assurance from the General Manager, that completes my questions there. I think my colleague, Mr. Enns, has some questions on Elie.

MR. CHAIRMAN: Mr. Enns.

MR. H. ENNS: Mr. Chairman, if the subject matter has been dealt with at an earlier session of the committee, you'll be the first, of course, to draw that to my attention.

At Elie, Mr. Chairman, through you to the General Manager, MTS, of course, is continuing its fibre optics work, could the General Manager give us some updating of what's happening in that fibre optics experimental program?

MR. G. HOLLAND: Mr. Chairman, the formal period of the project terminated earlier this year. MTS is working with the Department of Communications to arrange a contract and understandings under which MTS would take over ownership of the plant for a nominal fee and undertake to maintain it and continue the facility as part of our infrastructure.

I might say that the costs of that plan compared with an alternative under which the project would be dismembered and dismantled are roughly the same.

MR. H. ENNS: And what would MTS actually be taking over? There are a number of homes, farms, being serviced in that area. What type of services are they getting, the regular communication services plus, or is this essentially a trial zeroing in on the fibre optics technology to deliver the, what I would call, regular communication services of MTS?

MR. G. HOLLAND: Mr. Chairman, the plant that MTS would acquire would include the central office and the very special equipment manufactured for the project, the fibre optic distributions system and some terminal equipment. The trial was the first of its kind to test fibre optics in a local distribution situation. Fibre optics is now used quite extensively in interoffice high-traffic communications, but this was to test in a small, primarily rural centre, the economic feasibility of using fibre such that private-line telephone service can be offered along with broadcast services, Teletex or Videotex retrieval, all on the one distribution network.

MR. H. ENNS: Mr. Chairman, I'm of course familiar with the area and we have some of Manitoba's finest and most successful agricultural people, large farms, operating in that area. For instance, a service such as the Grassroots Telidon Service which, by and large, is available at institutional offices such as ag rep offices in different parts of Manitoba. That service could be provided with the fibre optics distribution system in place in that area to individual farm families if they chose to apply for it or get the terminal connector.

MR. G. HOLLAND: Mr. Chairman, Grassroots was offered on the service to selected households and the elementary school there, so that the service is available technically.

MR. H. ENNS: Mr. Chairman, Saskatchewan, I believe, is in the process of some considerable expansion in their system using the fibre optics technology. Does MTS as a result of their experience at Elie in its planning stage look to substantial expansion of fibre optics in the Manitoba system?

MR. G. HOLLAND: Sask Tel has undertaken a major fibre optic networking plan in the province for intercity traffic. Again, the Elie-St. Eustache project was to test the economics and the technical aspects of fibre optics

in the local distribution network. In that area, it's my understanding subject to Mr. Anderson's correction that the economics are changing rapidly. Electronics are developing rapidly and some economic breakthroughs are being achieved, so that I believe the engineering view is that fibre optics will likely be used in the local networks sooner than we had anticipated and the suppliers are making a major effort in that area.

MR. H. ENNS: Again, through you, Mr. Speaker, my understanding is we have capacity in Manitoba, in Winnipeg, to produce the fibre optic cable, if that's what you call it. Is that the case? Is it Canadawide or . . .

MR. G. HOLLAND: Mr. Chairman, there are two Manitoba-based cable suppliers with the capability to provide fibre optics.

MR. H. ENNS: And they are again, just for my - Northern Telecom and Canada Wire?

MR. G. HOLLAND: Northern Telecom has a very large operation at Saskatoon. Phillips Cable has a plant at Portage la Prairie, and Canada Wire and Cable are located in Fort Garry.

MR. H. ENNS: The fibre optic cable used to date has been from which supplier, Mr. Chairman?

MR. G. HOLLAND: Mr. Chairman, it is publicly tendered, and the principle suppliers of our projects to date have been Northern Telecom and Canada Wire and Cable.

MR. CHAIRMAN: Further questions?
Mr. Orchard.

MR. D. ORCHARD: Thank you, Mr. Chairman. MTS has on standby helicopters in Northern Manitoba and that's been a tendered business. Who was the successful firm who was awarded the helicopter tender this year?

MR. G. HOLLAND: Mr. Chairman, the helicopter services were awarded on April 12, 1983 to Custom Helicopter.

MR. D. ORCHARD: What was the contract price?

MR. G. HOLLAND: Mr. Chairman, the contracts are tendered in the form of an hourly rate with a minimum number of hours and certain staff maintenance and lodging costs.

MR. D. ORCHARD: What was the contract price per hour for the minimum guaranteed hours?

MR. G. HOLLAND: Mr. Chairman, I don't think I have that information available. May we undertake to provide that to Mr. Orchard?

MR. CHAIRMAN: Mr. Orchard, the Chairman has undertaken to provide that information. Do you have further questions?

MR. D. ORCHARD: Yes I do, Mr. Chairman. Was Custom the lowest bidder?

MR. G. HOLLAND: No, Mr. Chairman.

MR. D. ORCHARD: Did Custom offer an hourly bid with contingency costs of staff maintenance and lodging in addition to their hourly bid?

MR. G. HOLLAND: Mr. Chairman, I would have to ask Mr. Beatty if he recalls the terms of the tender sufficiently well to answer that today, or whether we would have to obtain the information. Mr. Beatty indicates that he does not have the specifics here.

MR. D. ORCHARD: Could the General Manager provide for me then the bids? I believe there were three helicopter firms bid. Could the General Manager provide me the names of the three firms, the hourly rate bid by each firm, and whether each firm bid with or without contingencies included in their hourly bid price? In the case where one firm may have bid with contingencies included and another firm bid with contingencies as an additional charge to be billed to MTS, could the General Manager provide the cost of that billing, and what the cost would be over the 22-month contract? Also, could the General Manager indicate whether the equipment being offered by each firm was comparable equipment, or did one firm have superior equipment to the other companies who have offered a tender?

MR. G. HOLLAND: Mr. Chairman, could I ask Mr. Beatty to confirm that we have information in order to answer all of those questions? Mr. Chairman, we do, and we will undertake to provide them to Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, the General Manager indicated that Custom was not the lowest. Could he indicate why they were given the contract without detail of dollars? Could the General Manager indicate why the lowest tender would not have been accepted in this case?

MR. G. HOLLAND: Mr. Chairman, there were many complexities involved in the tender process this year. We had had a certain number of difficulties with the second low bidder which extended over some months under a previous contract.

The lowest bidder was from out of province. Under board policy at the time the tenders were received, we were asked to look very, very carefully at rather minor differences in tender prices in order to carefully consider the impact of our decision on Manitoba.

MR. D. ORCHARD: Now the General Manager mentions board policy. Could the General Manager expand on that for me, please?

MR. G. HOLLAND: Mr. Chairman, at that time the policy was that where all other considerations were equal and where there was a price differential of less than 5 percent, that those particular situations would be forwarded to our board for individual consideration.

MR. D. ORCHARD: Now is that a new policy that the board and MTS have?

MR. G. HOLLAND: Mr. Chairman, it's a policy that came in early in 1983.

MR. D. ORCHARD: That brings us to an interesting new turn of events then, Mr. Chairman. Can I ask further that since Custom was awarded the contract, theoretically because the lowest bidder was out of province, is Custom a Manitoba firm?

MR. G. HOLLAND: Mr. Chairman, Custom Helicopters has a Manitoba base and were the providers of service to MTS on a highly satisfactory basis for at least two years and that would be for two years prior to the contracts let in 1982.

MR. D. ORCHARD: Now, the major shareholders of Custom Helicopter then are Manitoba residents?

MR. G. HOLLAND: Mr. Chairman, I don't have that information at hand, but we could attempt to obtain the information.

MR. D. ORCHARD: That would be appreciated. Now the General Manager indicates that there is a 5 percent buying preferential that was triggered in this particular instance. Does that 5 percent buying preferential carry through to all purchases, construction, etc., etc., that are tendered by the Manitoba Telephone System?

MR. G. HOLLAND: Mr. Chairman, I should have emphasized the fact that the 5 percent is a guideline. It's a guideline to our administration in order to sort out those projects that are to be referred to the board for individual judgments and almost the entire emphasis is on manufacturing suppliers.

MR. D. ORCHARD: Does the policy now apply to all manufacturers, suppliers, purchases, as tendered by the Telephone System?

MR. G. HOLLAND: Mr. Chairman, the policy would apply that all such contracts would be referred to our board for review and a decision.

MR. D. ORCHARD: Now, at the last meeting we had, Mr. Holland, you indicated that MTX identifies suppliers and suggests standards for equipment installation and has been obtaining those primarily, I believe - from is the word you wish to use - Manitoba and Canadian manufacturers for some time. Now in the case where MTX may well be supplying materials to Saudi Arabian projects, are those materials purchased by tender?

MR. G. HOLLAND: Mr. Chairman, this is a negotiated supplier list. It is normally negotiated based on very good data acquired by MTS, in its volume purchases and the prices are then negotiated and arranged by contract with the suppliers.

MR. D. ORCHARD: Then I take it in MTX purchases there is no open tendering process to obtain those supplies that are needed?

MR. G. HOLLAND: Mr. Chairman, no. In practical terms, when our customer places an order due to the distances

involved, we have to be able to arrange with the supplier for very rapid transmittal of that equipment.

MR. D. ORCHARD: Now, without tendering for whatever reason, is there a major supplier that MTX has been using? Does one firm come out successful and supply a goodly percentage of the MTX purchases?

MR. G. HOLLAND: Mr. Chairman, there is an array of suppliers and I'll try and locate that. One example is the ITT plant based in Winnipeg which has supplied several thousand telephone sets.

MR. D. ORCHARD: ITT is whom?

MR. G. HOLLAND: ITT?

MR. D. ORCHARD: Right.

MR. G. HOLLAND: It is part of the large international conglomerate - ITT.

MR. D. ORCHARD: Are there any other companies that supply major amounts of equipment to these MTX quotes, or are these MTX requests for equipment?

MR. G. HOLLAND: Mr. Chairman, typical Manitoba suppliers would be IBM, ITT, Northern Telecom, Priority Electronics, Digital Equipment and really an array of other ideographics. Tektronix for test equipment, Associated Test Equipment is another Manitoba firm. Fleming Pedlar, Wes Electronics, Doyle Machinery - there really is quite an array.

MR. D. ORCHARD: In that array of companies, does one company stand out as achieving a higher dollar volume than other companies?

MR. G. HOLLAND: Mr. Chairman, that depends totally, of course, on the requisitions of our customer in Saudi Arabia. From memory, the largest orders would be ITT, Develcon, a Canadian firm, Timeplex, Tele-Labs (phonetic), which are all Canadian suppliers.

MR. D. ORCHARD: In construction projects undertaken within the project, I assume that they are all tendered when you need equipment?

MR. G. HOLLAND: Mr. Chairman, are still discussing MTX or MTS?

MR. D. ORCHARD: No, this is for construction undertaken by MTS within the province.

MR. G. HOLLAND: Mr. Chairman, MTS has traditionally had a public open tender process. Specifications are published and made available to all known interested suppliers and they are publicly opened.

MR. D. ORCHARD: Does the 5 percent preferential to Manitoba manufacturers now apply to those purchases for use by MTS in expanding the plant within the province?

MR. G. HOLLAND: Mr. Chairman, on those components of projects involving manufacture, tenders would be

referred to the board where the price differential is less than 5 percent and where all other things are equal; that is, the MTS requirements are being met.

MR. D. ORCHARD: Are there any major suppliers in dollar volume that emerge in the Manitoba purchases?

MR. G. HOLLAND: Mr. Chairman, I think that Mr. Orchard made the point that there are different definitions of a Manitoba supplier. Northern Telecom is a very large supplier to MTS. They have a plant in Winnipeg, which manufactures transmission equipment, with 500 or more employees; that certainly would be the case. Similarly AEL Microtel has a plant where they manufacture certain components; others in other provinces.

MR. D. ORCHARD: Now, when Northern Telecom's name comes up the odd time in various purchases, it brings to question the recent, I guess it was in February, or January, at the invitation of Northern Telecom I think the Assistant General Manager partook in a Caribbean Cruise dubbed, I guess, by Northern Telecom the "Loveboat Cruise." Was that particular cruise paid for entirely by Northern Telecom or was MTS paying for the costs of that?

MR. G. HOLLAND: Mr. Chairman, this was a major international seminar. The cruise portion was entirely hosted by Northern Telecom with guests from North America and Europe. All other expenses were borne by MTS.

MR. D. ORCHARD: I see, so that I don't get the wrong understanding from the newspaper reporting, that Northern Telecom so-called Loveboat Cruise was an additional feature of a conference that was going on which you were attending in Florida. Is that a fair assumption?

MR. G. HOLLAND: Mr. Chairman, the seminar was held aboard ship. The auditorium of the ship and their meeting rooms were used for multimedia presentations, discussions. Northern Telecom had their very senior management research officers and manufacturing authorities present to make presentations and to answer all questions.

MR. D. ORCHARD: I guess maybe I might be misunderstanding then. This entire seminar was sponsored by Northern Telecom. It wasn't a communications meeting involving other companies, and it was entirely Northern Telecom's presentation of their various capabilities in the telecommunications industry.

MR. G. HOLLAND: It was entirely a Northern Telecom seminar and it was held to discuss, with both telecommunications companies and large private firms, the Northern view of the next five to seven years in technological direction. Their corporate commitment to very substantial research and demonstrations of the equipment terminals, all of which were related to this five- or seven-year technological plan.

MR. D. ORCHARD: Then the entire seminar was on the cruise ship, and did I correctly hear you say, Mr.

Holland, that that portion of the seminar was paid for by Northern Telecom? The costs, I assume, of airfare, of getting there, getting to Florida, to Fort Lauderdale were paid for by MTS. Is that correct?

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

MR. D. ORCHARD: Well, I want to make a comment. We've got an interesting situation here which obviously the government must have approved. We've got a 5 percent Manitoba buying preferential which is implemented in late 1982. We've got a major Manitoba supplier in Northern Telecom who may or may not be able to enjoy business with the Telephone System because of a 5 percent purchasing preferential now, given authority by the board and I would assume by the government and, Mr. Holland, we've got what sounds to be a fairly enjoyable seminar.

Mr. Holland, would you not be concerned that public opinion might interpret a 5 percent buying preferential which may be exercised in favour of Northern Telecom, and then the acceptance of this seminar as being open to public scrutiny that, in fact, the taxpayers, the ratepayers in the Telephone System may say - whoa, what's going on here? We've got policy to award 5 percent more of taxpayer dollars to purchase goods from a Manitoba firm, which may be Northern Telecom, and within a couple of months, senior management of the system are part of a seminar in the Caribbean on a cruise ship - compliments of that very same firm. Is there no possibility for a misinterpretation by the ratepayers that, particularly when they've had two rate increases in the last year and a half, to question whether that's a wise policy decision to make?

MR. CHAIRMAN: Mr. Holland.
Order please.

MR. G. HOLLAND: Mr. Chairman, I would think that is a perfectly reasonable question for the public and our customers to ask. I think there is a real responsibility on my part to explain why that happens. Again, MTS does not have its own manufacturing vertically-integrated structure. It does not have its own R&D house, and we're very reliant on our interface with all of our suppliers to keep abreast of their plans and what technology is going to be forthcoming in the next while and their business strategy, so that I would estimate that probably in 1983 we have met certainly with all suppliers who request presentations or meetings, and I likely have met with at least 10 or 12 such suppliers. I think that there is a real responsibility certainly for Mr. Anderson and quite often for me to give a priority to that function.

HON. J. PLOHMAN: Well, Mr. Chairman, I think that the General Manager said that it's a perfectly legitimate question for the people of Manitoba to ask. I think it's a perfectly legitimate question with regard to activities of MTS and Mr. Holland in attending a conference that was sponsored by an individual manufacturer at MTS expense, but certainly the tying to the 5 percent is, to me, totally outlandish and ridiculous. I just can't see the kind of reasoning that the honourable member is applying there, and maybe he feels he can make a better case than he has up to this point.

The honourable member is perfectly aware that a marginal price preferential policy has been implemented by this government under the Buy Manitoba Program that we've discussed at some length in the Throne Speech, in the speeches in the House, with the Minister of Economic Development and Tourism and the Minister and myself in Government Services involved with purchasing with the government, and also involved with a Minister responsible for one of the Crown corporations.

The policy that the individual member that the Member for Pembina was asking about, if the 5 percent was an interim policy, as a guideline until a policy was developed with my long-lasting policy that we wanted to put into place, we have implemented that policy in government purchasing and it generally deals with a marginal price difference. Each case is dealt with on an individual basis according to the economic impact it would have for the province. There is an analysis done of the tax benefits and so on and the employment factors for the provincial scene and then a decision is made.

I think the honourable member would have to address that whole concern when given the economic conditions that we have presently, given the fact that a number of provinces indeed have very much higher and strict local purchasing policies, and I'd be willing to provide that information to the honourable member if he was interested in it. B.C., Quebec, a number of the Maritime Provinces, certainly have very strict preferential policy programs.

We feel that by doing it on an individual basis on a marginal percentage and considering an economic impact of purchasing out-of-province as opposed to in-province, that it is a very prudent and wise way to do it without inviting retaliatory action by those provinces that don't.

However, as I said, a number of provinces have - and I think the honourable member would be aware of that - a preferential policy that is much stricter and a much higher percentage. It is very difficult for Manitoba firms to get a contract in Quebec, as the honourable member would know, in other areas as well.

So I think from the economic standpoint, the member should consider the angle that he's pursuing and consider whether he wants to take the position that we should not be considering Manitoba firms in any special light during these economic times that we face at this particular time, when an employment situation is there. I know the honourable member is quick to point out that there has been 52,000 unemployed - I believe it's down to 44,000-46,000 unemployed at this time in Manitoba - and he certainly, I don't think, would be suggesting that we shouldn't be making every effort to maintain and preserve jobs in Manitoba and to encourage the creation of new jobs.

MR. D. ORCHARD: The General Manager mentioned that he met with 10 to 12 suppliers. How many of those suppliers did he meet with out-of-province as was the case with Northern Telecom?

MR. G. HOLLAND: Mr. Chairman, I believe that was the only out-of-province one, other than perhaps through the TransCanada Telephone System, where the board occasionally is looking at potential suppliers.

MR. D. ORCHARD: I can understand why you would want to meet Northern Telecom out-of-province on that particular instance, Mr. Chairman.

To the Minister's comments about a temporary preferential treatment, am I to assume from what the Minister says that the board directive of a 5 percent buying preferential is no longer a purchasing policy guideline for the Manitoba Telephone System? And if that's the case, what has the policy guideline become now that the government has had time to review the purchasing policy?

HON. J. PLOHMAN: The MTS may be still using the marginal price of 5 percent - I believe they are still using the 5 percent. However, the purchasing policy that we have implemented is one of a marginal price difference; it can vary according to the situation and the size of contract, the impact it could have on the employment and economic conditions in the province, so it could be higher than that. There is no strict definition as to the percentage that is used.

MR. D. ORCHARD: Well, Mr. Chairman, this is not the place to argue purchasing policy guideline with the Minister, we'll take that time up later. But having a loosey-goosey, open-ended one is even worse than having a fixed one because then you can take 10 percent, 15 percent, and justify it by any way you wish and that is the whole problem with a purchasing policy guideline which allows you to choose other than the lowest tender when all other criteria but price are met by the bidders.

It's interesting to note that this government now is prepared to enshrine that in a policy; and it might be interesting for the General Manager to indicate to us if he could, that whether the Northern Telecom plant which employs some 500 people, supply only Manitoba out of that plant; or whether, indeed, they supply other telephone companies in other provinces because if they do, you are inviting the kind of balkanization of Manitoba's industry by a buying preferential.

Certainly it's very persuasive to bring in this buying preferential and set up some fixed guidelines for it, but any time we discussed the issue with representatives of the manufacturing community in the Province of Manitoba, they were very concerned about any effort of formalizing a preferential treatment in Manitoba, simply from the fact that is may disadvantage them in bidding in other provinces.

Now this government, I would ask the Minister, did this buying policy come into effect with full consultation with representatives of the manufacturing community in Manitoba?

HON. J. PLOHMAN: Mr. Chairman, that is exactly the case. There was a great deal of consultation and discussions. The Economic Summit was one area this was discussed in Portage la Prairie last fall and then follow-ups were made as a result of that discussion. It was precisely because of that consultation that the Manitoba government moved away from a fixed price preferential policy that the honourable member is advocating.

What we felt as a result of that discussion, is that quite often companies can become dependent on a

preferential policy within Manitoba, and we don't want price dependency becoming a factor where companies are no longer able to stay in business, because they may not have that kind of preference forever. So we felt that it was necessary to deal with this in a marginal, not a fixed way - but using the word "marginal" - deal with the situations as they develop, consider the implications of going out-of-province as opposed to in-province and not applying it in every case where it did not warrant, so that there would not become this price dependency and there would not become the strict retaliation that the member speaks about where if you go with a strict 10 percent or 15 percent as some provinces have done. As I said clearly, a number of provinces have already taken that action. Some of them don't publicize it; some do. But they, in fact, are operating under that system.

I can reflect, the members should, I believe, decide where they are going on this kind of approach from their position, because I recall quite clearly with regard to the Superior Bus situation in Morris earlier on this year that the previous Minister of Economic Development, the Member for Sturgeon Creek, and the Member for Morris as the MLA for the area, were indeed, with the line of questioning that they were pursuing, suggesting that the Manitoba Government should be employing a preferential price policy in that particular situation. I think that came through very clearly. That was advocated that, why is the Manitoba Government letting a firm go down? Why aren't they purchasing locally? There was something like 20 percent there, difference.

So I think they are contradicting themselves, Mr. Chairman, in many cases. I think that what we have developed here is a flexible policy that can apply and have the good points of a preferential policy, at the same time not having the negative consequences. I think that is what is good about the policy that we have developed here.

MR. D. ORCHARD: Mr. Chairman, seeing as how this is such a good policy, could the Minister indicate when it was announced, and could he provide me a copy of the policy guidelines by which his department and, theoretically, government purchases are now being guided by this new policy guideline?

HON. J. PLOHMAN: Yes, I covered it extensively in my speech, the Budget Address, as well as the Minister of Economic Development.

MR. D. ORCHARD: I didn't listen.

HON. J. PLOHMAN: Obviously, the member did not listen and did not read Hansard. I can provide the member and be quite willing to provide the member with a complete outline of the policy. I will provide that to him at the earliest possible convenience.

MR. D. ORCHARD: Mr. Chairman, I would like to ask Mr. Holland a couple more questions on some of the competitive retailing the Telephone System has recently gotten into. I noticed on one of my telephone bills a while back that Commodore VIC 20 computers were now being offered by the Telephone System. Could the

General Manager indicate whether Telephone System, presumably having the potential of being a volume buyer from Commodore company, do they enjoy a lower purchase price than, say, other Winnipeg retailers or wholesale buyers, shall I put it that way, of VIC 20 Commodores?

MR. G. HOLLAND: Mr. Chairman, no. We receive their standard prices, packaging, etc.

MR. D. ORCHARD: That brings me to an interesting circumstance that was brought to my attention. I would like to discuss it with the General Manager. The Telephone System, I believe, recently bid on a school tender for VIC 20 computers and were successful. Am I correct on that?

MR. G. HOLLAND: Mr. Chairman, I don't have the details of it, but if we felt that we could develop a commendable proposal, we likely would quote on that.

MR. D. ORCHARD: Is no one in the staff that's here today aware of whether, in fact, the Telephone System was the successful bidder on an offer to the school board of a number of VIC 20 computers?

MR. G. HOLLAND: Mr. Chairman, no. We have sold several hundred terminals. To whom, I wouldn't have any data, but certainly we can check, Mr. Chairman, and provide that information.

MR. D. ORCHARD: I wonder if while the General Manager is checking that out, if he might be able to check for me - now he indicates that they don't enjoy a preferential buying price from the Commodore company. It was indicated to me by another individual who bid on that contract to the school board, and I may be incorrect in that MTS was not chosen as the successful tenderer, but it was indicated to me that the Telephone System had bid in total some \$33,000, and that was approximately \$5,000 below a competitor in the private sector.

In fact, the \$33,000 tender was indicated to me to be below the list price of the VIC 20 that MTS would be purchasing at but, under a special sales offer, the Commodore company was offering some game cartridges with the VIC 20s which, of course, the school system did not want. So in order to bid below cost, it was indicated to me that the Telephone System had deducted the cost of the cartridges and bid below cost, and is intending to sell the cartridges separately to recoup their costs.

Now, no doubt, the General Manager will confirm that, but I would like to ask the Minister responsible if he is aware of any such activity. If the circumstances I have described are correct, does the Minister agree that is a proper role for the Telephone System?

HON. J. PLOHMAN: Mr. Chairman, I am not aware of those specific circumstances that the member has outlined at this point, but I can say that certainly the Telephone System has to be sure that it is able to compete with modern technology. In a situation where traditional revenues in the future will be threatened and our competition that is resulting from federal decisions,

from decisions that are being made in the United States, the MTS certainly has to look at all avenues, all possible revenue potential so that it can continue to maintain basic telephone service at an affordable rate, basic telephone service being, I would say, an essential service at an affordable rate for all Manitobans.

So from that perspective, I believe that it is an endeavour that is one that the MTS should at least be exploring and developing for the future in order to maintain revenues that could be used. I know the honourable member will probably disagree that there should be cross-subsidization from some of the new telecommunications services and from this kind of activity to maintain basic telephone services at a low rate, a reasonable rate, I should say. As a matter of fact, I believe that the Member for Pembina in a speech just last week in the House suggested, in a negative way, that perhaps some of the potential revenue from telecommunications services that may develop in the future should not be used to subsidize the basic telephone rates in Manitoba. If he indeed has that position I'd like him to expand on it but certainly that is not my position.

MR. D. ORCHARD: Mr. Chairman, we have to, from time to time remind the Minister of his role because he seems not to know it. It's he that is determining the policy of the government in guiding policy of MTS, not me, and I'm asking him, does he agree with the Telephone System retailing products, in competition with the private sector, and as the indication is here, using some of those products as a loss leader? Does the Minister believe that that is a role for the Manitoba Telephone System - a legitimate role?

HON. J. PLOHMAN: Mr. Chairman, part of that question is definitely hypothetical and has not been established. I don't know what he's referring to when he talks about loss leader, but I will tell him I believe that the retailing of computers is a legitimate activity for the Telephone System to be involved in.

MR. D. ORCHARD: Is there any limit in the Minister's estimation of what sort of a retailing service that the Manitoba Telephone System should get into? Is there any things that he would not like to see them retailing, or is he leaving the System wide open to compete with any and all private sector businesses in retailing?

HON. J. PLOHMAN: Mr. Chairman, we're dealing with telecommunication services with the Telephone System and certainly this is within that realm. Each situation would have to be considered on an individual basis.

MR. D. ORCHARD: Well, you know the Minister says one thing one time and then he backs off and says another thing another time. Is there no limit to the retailing activities in competition with the private sector that the Minister sees as a reasonable limit for the System, or is he willing to allow them to compete openly with any and all private sector retailers?

HON. J. PLOHMAN: I don't know what the honourable member is referring to when he talks about reasonable limit, in dollars, in profit, in amount of money that can

accrued to the Telephone System to use potentially in the future to cross-subsidize basic telephone rates? Is he suggesting that I should put a limit on that amount? We don't want to get too much from other sources?

MR. D. ORCHARD: I am asking the Minister who is having difficulty comprehending. Is he willing to condone any competitive retail operation of MTS which will compete directly with private sector firms who employ people in the private sector in Manitoba?

HON. J. PLOHMAN: Did the honourable member say any?

MR. D. ORCHARD: You heard correctly.

HON. J. PLOHMAN: Mr. Chairman, I said that we're dealing with the telecommunications area and the situation that has developed with regard to computers is certainly in that area. It's very closely related to the business the Telephone System is in and the business that is emerging for MTS as the telecommunications common carrier in Manitoba. I wouldn't go so far as to say, at this point, that the government or I would see that any retailing activity would be promoted and I think that's a very wide open type of term to use by the member and anyone would be foolish to suggest that they would just make a blanket statement to that effect.

MR. D. ORCHARD: Mr. Chairman, does the Minister consider that MTS is in any better position to compete with the private sector because of credit availability, because of advertising which they can undertake in their monthly mailing of bills? Does the Minister consider them to be a normal competitor in the marketplace or would he consider that the Telephone System in certain methods and ways at their disposal can have advantages in terms of retailing to the consuming public of Manitoba?

HON. J. PLOHMAN: Well, the Telephone System may be able to use the means at their disposal to advertise or to get a message through to the public, however, they have also disadvantages in that they are not able to use funds from basic telephone service to subsidize an operation such as retailing or getting into the sale of computers, the development of markets, of other products. They certainly cannot use funds from the revenues obtained from the telephone customers of Manitoba.

So they are not able therefore to cross-subsidize in a reverse way to develop these new activities and certainly a number of private firms certainly would be able to do just that. So they would have an advantage, that they could use profits from other parts of their business in a wide-based business to get into another activity in competition with MTS. So certainly to me, it seems, there are disadvantages and advantages on both sides.

MR. D. ORCHARD: Mr. Chairman, the Minister made some interesting comments. I assume then that he would have no objection to CNCP wanting to terminally interconnect with the Telephone System, if what's good

for the goose on one hand must be good for the goose on the other. If the Telephone System can compete with private sectors in retailing then the Minister must surely agree that the private sector can compete with MTS on telecommunications services. Would that be a fair conclusion of what he's saying?

HON. J. PLOHMAN: Well, Mr. Chairman, is the honourable member suggesting that would be in the best interests of the telephone customers in Manitoba?

MR. D. ORCHARD: Mr. Chairman, the Minister just two minutes ago in an answer to me said that the private sector sometimes has advantages over the Telephone System and we're not going to disallow that. It follows through naturally that if he's wanting the Telephone System to compete in the retail market he must have no objection to the private communication system competing with MTS. Either that, or he's saying one thing for the Crown corp. and another thing for the private sector and he hasn't got his knowledge and his facts quite clear.

HON. J. PLOHMAN: Mr. Chairman, I'm certainly speaking from the perspective of what is in the interests of the basic telephone user of Manitoba and what the honourable member has suggested, an interconnection by CNCP with telephone services so that they can have access to the high revenue services, to the high population areas without having to provide the basic telephone service to rural and Northern areas, a rural area such as the member represents, Pembina, what he is suggesting with the CNCP interconnection would certainly result in higher basic telephone rates in rural Manitoba and this government would certainly want to do everything in their power to avoid that in the future. So I can't condone it from that point of view. I'm speaking from what is in the public interest.

MR. D. ORCHARD: So then can I conclude, from what the Minister is saying now, that MTS can get into any sort of retailing business as long as there is profits from it which can cross-subsidize black telephones. Any level of competition with the private sector is acceptable to the Minister as long as it provides profit revenue to subsidize black telephone use. Is that what the Minister is saying?

HON. J. PLOHMAN: I very clearly did not say any, as related to the telecommunications field, we were discussing that earlier. I don't see the Telephone System getting into the sale of food stuffs and cars and fence posts and so on. I don't know if that's what the honourable member is suggesting but certainly I did not say that, and I don't agree with that.

MR. CHAIRMAN: Mr. Miller.

MR. S. MILLER: Mr. Chairman, when the board looked at this matter and we decided to try all the possibilities, the feasibility of marketing home computers, it was with the recognition that that's what's happening, that it's the growing field, and our interest was because of the communication capabilities which home computers make available to the public. The board would not

entertain, for example, the suggestion that suddenly we get into VCRs, or BetaMax, or to selling or leasing or renting out home movies and so on, because that's not part of the communication system as far as we're concerned.

The computers on the other hand, the implications that we see elsewhere on the continent and in Europe, is that home computers will grow in importance and become a major communication device. To the extent that it's a communication device, the MTS is interested in that field. Now I can tell you that the suggestion that somehow we use it as a loss leader is not so because MTS does not put up sales of any kind. It adheres to the company's suggested retail prices.

There is reference to a bid by one school division, or maybe more, the question of supplying school divisions with computers because there is an obvious interest known in Ontario - there is a major portion who get computers into schools and I don't doubt that the same will occur here - that if we can make possible and help school divisions acquire their equipment then I think we should do so; at the same time recognizing - and I do this from the point of perspective of the board - that if a school division has computer capabilities within their schools, then the likelihood is that students may acquire their home computers in order to tie into the school's main computer and do their work in the evening. Certainly this is an area that is growing, the University of Manitoba, the University of Winnipeg.

There are a number of access bases which are now available to the general public and this will grow in time, and to the extent that it adds to the communication revenues, MTS would be happy. So our interest is really, in going into it on a trial basis to see how it goes, would be to try to expand the usage of the overall system, because it would expand the usage of the overall system.

But I can tell you the board would not consider, and as a matter of fact looked at a proposal which involved games and we turned it back because it was not within our parameters or our view of the direction we should go. So we're limiting ourselves to communication devices of which computer is one.

MR. D. ORCHARD: I thank Mr. Miller for that answer. That appears to be a more reasonable position than what the Minister would be willing to take. I would make the suggestion to Mr. Miller that there may well come a time that the Telephone System has to make the policy decision as to whether they are going to be simply the provider of the lines to interconnect and provide a flat rate line charge, as we do in Telidon, for the interconnection of home computers to main frame terminals.

There are game programs as I understand, in which a private retailer would sell a series of game cartridges hooked into a main frame computer and the remotes at each home would be hooked in by telephone lines. To me there seems to be an incredible opportunity for the Telephone System to provide the highway on which that service can be carried, but I have to tell you I seriously question whether the Telephone System should be concerning themselves with the ownership and the retailing, etc., of the computer terminals, etc., etc.

I think there is a subtle distinction where the private sector must and should continue to be one of the few retailers, or the only retailer in that. Because if one wanted to get extremely literal with the interpretation of clauses in Bill 78, with the ownership by the commission, it may be that you could interpret, if the government so imposed it on you - and this government might - that terminal computers are part of equipment which falls within the definition of apparatus, equipment contrivances, devices, wires, cables and fibre optics used for transmitting, controlling, securing, encoding, decoding, emitting, modifying or receiving telecommunications in the system; where it's the requirement by this act that passed that the ownership of that should be with the Telephone System.

There can become a very gray area, and if there is a competing attitude within the Telephone System and not a clearly defined role of the system to take in this emerging market, you may well find that the services are not offered to Manitobans because the private sector is not willing to do it and MTS may not be capable of doing it. So there's a fine line that has to be, I believe, treaded there, and I'm pleased to see that the chairman of the board sees very real limits to the penetration of MTS into the retail market, which seems to contrast somewhat with the Minister's position on that.

MR. S. MILLER: Mr. Chairman, the fact is that what I said is not in any way different than what the Minister said. When it was decided to go in to attempt the sale of home computers, the Minister was informed as to rationale, the reason for it, and the fact that we were limiting ourselves to that. There was at no time any suggestion that we go beyond it, as I say, into VCRs or BetaMaxes or anything of the kind.

The telephone system throughout North America is at a crossroads, and a very difficult one. There has been, I would call it, a revolution in the United States literally, and the chickens have not yet come home to roost, and they're going to come home to roost in spades. Right now, today, there's an application in in Texas by Southern Bell requesting an increase in their basic rates from \$10.30 to \$30.50; a 300 percent increase in one shot. I don't doubt they won't get it, but the mere fact that they're even thinking in those terms, it was inevitable.

As you fragmented the revenue sources for the telephone company it became inevitable, that if you're going to simply be a passive carrier, and responding to the demands to upgrade the system to be a passive carrier, then the cost of being a passive carrier has to be passed on to the basic telephone user. That's what happened.

As the telephone companies, the divestiture in the States that led to the formation of separate local telephone companies with the lucrative business, the long haul being now with the IT&T. It is that shortfall in revenue that the local Bells have to cope with, or local telephone companies have to cope with, and the only way they can cope with it is to increase their basic revenue rates, something which whether Manitoba can shelter itself from the impact of all of these changes in the United States and partially in Canada remains to be seen. Certainly I can tell you I didn't accept the Chairmanship of the Board of Manitoba Telephone

System to preside over its demise. If MTS does not change and alter and roll with the changes in the electronics world, then we'll end up as a dinosaur and a very expensive dinosaur.

MR. D. ORCHARD: Before we leave this topic, Mr. Chairman, I would like to table a letter to Mr. Holland that both the Minister and myself received a copy of. I think some of the questions in here are ones that, no doubt, the board and the management of MTS and, hopefully, the Minister are currently wrestling with. Although the letter was dated June 1st, I wouldn't expect an answer immediately, but I am anxious to see the answer to the questions that are posed by Mr. Harrison from Harrison and Nowell, a mobile radio service retailer in the Province of Manitoba.

Mr. Holland, we got briefly last session into the Jobs Fund and the capital construction budget. Is there any funding that MTS is currently availing the system of from the Jobs Fund?

MR. G. HOLLAND: Mr. Chairman, not to my knowledge.

MR. D. HOLLAND: One other subject which probably there isn't time enough for, but we will just deal with it briefly. The cable industry in Winnipeg has been negotiating with the Telephone System for several years, I suppose. Are negotiations nearing completion on the renewal of their contract with MTS to carry televisions signals on the coax cable system in the City of Winnipeg?

MR. G. HOLLAND: Mr. Chairman, one of our customers east of the Red River had launched two court actions which just recently have been withdrawn, and our respective counsels will be guiding us on how we proceed full out with negotiations. Our negotiations with our customer west of the Red River continue as recently as this week. The proposal is that the remaining differences should be referred to the Public Utilities Board for arbitration.

MR. D. ORCHARD: Are the contracts with Manitoba Telephone System renewed for the provision of coaxial cable space or spectrum in the City of Winnipeg with the two companies? Are contracts renewed - I understand the first one was a 15-year contract - is it renewed or in the process of being renewed to allow them to comply with the requirements of their CRTC licence?

MR. G. HOLLAND: The negotiations to which I referred are for a 15-year agreement replacing the 1967 agreement. MTS has served notice of termination in May, 1984 of the 1967 agreement.

MR. D. ORCHARD: Now when you served notice of termination, was there a particular reason why you chose to do that, Mr. Holland?

MR. G. HOLLAND: Yes, Mr. Chairman. The terms and conditions which were negotiated in 1965, although they have been beneficial both to the customer and MTS, are quite unsuitable to the next era when both plants will face major upgrades; when a variety of new

services are coming on; and so that the contracts for service required upgrading. I believe there was general agreement to that effect as early as 1981 that such replacement would be necessary.

MR. D. ORCHARD: Then I wouldn't be able to interpret that the system has no intention of renewing the contract with those companies by the fact that you've cancelled as of May, 1984. Your intention is to renew with the two companies, I assume.

MR. G. HOLLAND: Mr. Chairman, our principle customers on those networks are the cable operators. We're extremely anxious to develop mutually acceptable agreements; we're attempting to reflect their requirements, under their terms of licensure where that's possible and where it meets Manitoba policy so we are very anxious to see them negotiated and enacted.

MR. D. ORCHARD: Mr. Chairman, could I ask the general manager, Mr. Holland, as to what input the Manitoba Telephone System had to amendments contained in Bill 78, An Act to amend The Manitoba Telephone Act?

MR. G. HOLLAND: Mr. Chairman, MTS provided the Minister with quite a number of circumstances and situations with alternatives for his consideration. Are there any particular aspects that Mr. Orchard is . . .

MR. D. ORCHARD: I guess a simple question would be, amongst the proposals which were made to the Minister for his consideration, are any or all of those proposals contained within Bill 78?

HON. J. PLOHMAN: The proposals in Bill 78 have been developed as a result of consultation with the Telephone System with the Department of Communications and with the Legislative Counsel, Mr. Rae Tallin.

MR. D. ORCHARD: I wonder if Mr. Holland might answer my last question.

MR. G. HOLLAND: Could I ask the question to be repeated?

MR. D. ORCHARD: Amongst the proposals made to the Minister by the System, are any or all of those proposals contained within Bill 78?

MR. G. HOLLAND: Mr. Chairman, the proposals that have been made to the Minister are remarkably similar to those that were made to my former Minister. This has partly been covered by Mr. Miller. MTS is seeking to preserve the telecommunications aspects and its common carrier status such that all customers can be served. This has been done, I think, in an evolutionary fashion, taken into account changes, for instance, we do allow interconnection of privately-owned mobiles and pagers; we do not provide any alarming services; those are all handled by private business. Television is provided entirely by business. We allow data terminals to interconnect. So the proposals generally are intended to preserve the telecommunications component of the

great variety of services that are coming on the networks.

MR. D. ORCHARD: Well, Mr. Chairman, I think if Mr. Holland could provide me with answers to several of the questions that had come up this morning, and depending on whether my information is correct or not, I can take those up with the Minister at a later date. I think we could probably pass the report right now if no one else had any other questions.

MR. CHAIRMAN: Any further questions for members of the committee?

The question before the committee is the Annual Report of the Manitoba Telephone System for 1981-82. How do you wish to proceed, page-by-page, or report-by-report?

Report—pass.

Thank you, gentlemen, that concludes the business before the committee this morning. The only business standing before this committee for the duration is the Report of Manitoba Hydro. I expect committee members will be advised when that committee meeting is to be called.

Thank you gentlemen. I'll entertain a motion committee adjourn.

Committee adjourned, so ordered.