

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES
Thursday, 2 May, 1985

TIME - 10:00 a.m.

LOCATION - Winnipeg, Manitoba

CHAIRMAN - Mr. C. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Harapiak, Mackling
Messrs. Enns, Filmon, Fox, Malinowski, Santos,
Scott

APPEARING: Gordon W. Holland - General Manager
and Chief Executive Officer
Dennis H. Wardrop - Director - Corporate
Development

MATTERS UNDER DISCUSSION:

1983-84 Annual Report of the Manitoba Telephone System.

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MR. CHAIRMAN: The Committee on Public Utilities and Natural Resources please come to order. We are considering the Report of the Manitoba Telephone System.

The Member for Pembina.

MR. D. ORCHARD: Mr. Chairman, your kindness in recognizing me first is much appreciated.

Mr. Chairman, when we closed off yesterday, Mr. Holland had undertaken to come up with some information. I guess I can go through some of the questions and see if the General Manager had been able to find those answers out over the last two days.

First question was how close to expenditures the system had come in fiscal'84-85?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, we understood Mr. Orchard to ask for a reconciliation between the estimated'84-85 net income figure between the actual \$16 million and the projected of about 8 million which we identified to the Public Utilities Board at the 1984 rate hearing.

The variances arise from operating revenues being up some \$6.1 million over the forecasts. — (Interjection)

MR. D. ORCHARD: Revenues were \$6 million over forecast?

MR. G. HOLLAND: 6.1 million over forecast. Part of that, by the way, was a reduction in the uncollectibles

of some \$400,000.00. Other revenues were up 2.1 million over forecast largely because of more favourable interest rates than we had predicted.

Debt charges were down some \$8 million from forecast and foreign exchange down some \$4.5 million due to the favourable relationship of the Canadian dollar to all currencies except the U.S. Operating expenses were up some \$8.2 million.

I do have a statement reconciling those figures if that would be helpful to Mr. Orchard.

I should mention, as well, that last meeting I'd indicated that the dollar revenue increase attributable to the rate adjustments was roughly the same, although the Public Utilities Board had varied specific rate items.

The actual figures that we had requested 6.460 million and the dollars produced were 5.381 million, so there is a difference of about \$1 million. Part of that is attributable to the fact that the new rates were not implemented until July 17th and we had assumed a July 1st effective date.

Mr. Chairman, if it would be helpful, I could go through some answers to other questions that arose last meeting.

MR. D. ORCHARD: Mr. Chairman, the statement that the Minister has given is an interesting one here. Now, just let me go through this. The debt charges indicate a reduction of some \$3.5 million but, Mr. Holland, if I've got my notes right you indicate that debt charges were down 8 million over projections and foreign exchange were down 4.5 million over projections at the time you made the application to PUB.

Now, question being, debt charges directly would affect the projected net income position for MTS, but the foreign exchange rate would not necessarily change your net income position but rather your debt equity ratio. Is that a correct assumption?

MR. G. HOLLAND: Mr. Chairman, as the Committee is aware, we have been following the practice for several years of amortizing the unrealized losses through foreign exchange borrowings. We have been amortizing those on a straight-line basis through to the redemption or retirement date and because of the very favourable relationship of the Canadian dollar to those issues, the amount that we had to amortize went down dramatically.

MR. D. ORCHARD: And would impact on the net income statement directly?

MR. G. HOLLAND: The amount of the annual amortization has been included in our expense statements.

MR. D. ORCHARD: I know that from time to time the current Minister and his colleagues are not overly generous with the new Federal Government, but it would seem to me that the impact on telephones has been

pretty dramatic as a result of the election and the new-found confidence in the Canadian economy from the election of a new Federal Government with a new and fresh approach, in what interest rates went down, Canadian dollars strengthened in relation to other currencies and that was worth \$12.5 million to the system as a result of a better climate in Canada from the newly elected Federal Government, and just going through the operating expenses, it's interesting to note from them that although the increase is a net of 8.2, part of that is a reduction in depreciation which is basically an internal accounting measure. Operating taxes are down slightly, but Maintenance for Departmental is up some \$10.4 million over what was presented at the PUB. Had it not been for those favourable changes in interest rates and foreign exchange that benefited the system quite dramatically - \$12.5 million to the positive - that the projected surplus position of MTS may not have been achieved even as forecast before PUB.

I was thinking that the system had turned the corner and was doing quite well. With a \$16 million estimated net income for last year, that would be the indication but, in reality, taking a look at where some of our cost controls missed the target and the fact that some of the expenses were beyond the control of the Telephone System, which were bonus; namely, debt charges and foreign exchange rates, and the expenses within the System's control went up \$10.4 million over projected, at the rate application before the PUB.

Is it fair to say that the system is not quite as buoyant as the \$16 million would indicate, but factors outside the corporation had more to do with the projected net revenues, rather than basically the internal operations of the corporation?

MR. CHAIRMAN: What is the point the Member for Pembina is driving at?

MR. D. ORCHARD: The point being that outside factors had more to do with the \$16 million than internal measures of the Telephone System; and to add a question to that, if the general manager doesn't care to respond to that, that's fine, but given that outside factors influenced the Telephone System more than internal factors, it would make the question now more important as to whether the system will be applying for a rate increase again this year.

MR. G. HOLLAND: Mr. Chairman, on the revenue side, I think generally the situation is much as Mr. Orchard has described it. Our business was buoyant. I think that our marketing and customer service programs contributed to that revenue picture.

On the expense side, expenses were tightly controlled and managed and as Mr. Orchard said, interest costs and foreign exchange amortization were less than we had predicted.

MR. D. ORCHARD: Mr. Chairman, we can pass some of the other questions which we'll get to later on, but what was the effective interest rate on that retirement of the Swiss Franc six-year loan? Has that calculation been made?

MR. G. HOLLAND: Mr. Chairman, Mr. Orchard had asked us to estimate the effective interest rate for

debenture series 10P over the six-year term. The issue date was November 1, 1977. The issue carried a 4 percent per annum interest rate payable semi-annual. The comparable domestic interest rate on November 1, 1977 was approximately 9.4 percent. The effective interest rate including foreign exchange premiums (the redemption of the principal and foreign exchange premiums on interest payments) was 8.5 percent. The Swiss Franc was valued at 49.79 cents Canadian (November 1, 1977 and was 58.29 cents Canadian (November 1, 1983 when the 10P debenture series was redeemed.

MR. D. ORCHARD: So does that mean the effective interest rate was 17.9 percent?

MR. G. HOLLAND: Our calculation is 8.5 percent.

MR. D. ORCHARD: Well, Mr. Chairman, in the interest of getting on and pursuing other matters this morning we'll pursue that again at a later date to try to get the calculations.

Let's move into the FRED system and we'll get to the other questions later on. Has the general manager got the case study for FRED?

MR. G. HOLLAND: Mr. Chairman, Mr. Orchard has asked for the business case or service case for the FRED service. FRED systems are presently provided to 22 communities. Each installation is custom designed on a special assembly basis to meet the specifications of the municipality being served and systems are priced to recover costs.

MR. CHAIRMAN: The Member for Lakeside.

MR. H. ENNS: Pardon me. We're having some difficulty hearing Mr. Holland. Is the sound turned up?

Pardon me for interrupting. You have services not to 22 communities?

MR. CHAIRMAN: Mr. Holland is going to clarify.

MR. G. HOLLAND: Mr. Chairman, there are 2 communities served at this time with FRED, and I have mentioned that each installation is custom designed on a special assembly basis to meet the specifications of the municipality being served and systems are priced to recover costs.

I might note that MTS has a recommended adoption of a province-wide service offering and we believe the proposal is under consideration; and if that were adopted, likely repricing would be justified to reflect economies of scale and the sharing of certain facilities by neighbouring municipalities.

MR. H. ENNS: Mr. Chairman, we heard from different members of the government and the Minister and indeed the corporation, when last this committee said that the rationale or the reason for MTS being involved in some of the ancillary and additional communication services was necessary to ensure that MTS continued to be able to expand its revenue base, in order to continue to be able to provide affordable basic telephone rates in the province.

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If I understood the Chairman correctly, the FRED Program that's currently being installed is priced to recover costs, not to return revenue.

MR. G. HOLLAND: Mr. Chairman, there would be a very modest return on the FRED services.

MR. H. ENNS: Of the 22 units installed, communities currently serviced, has it been the practice of MTS to, in the first instance, provide this equipment without charge, a trial basis, if you like?

MR. G. HOLLAND: Mr. Chairman, I don't believe so. We did work with The Pas on the first system, to trial it and see whether or not it met their requirements, but other than that it has been on a special assembly rate basis.

MR. H. ENNS: When the Chairman indicates that there's a proposal before government, I assume, or before individual municipalities - although I don't quite understand that - to make this a province-wide service, what is entailed, what is required, legislatively or mechanically to install a provincial-wide FRED program?

MR. G. HOLLAND: Mr. Chairman, I believe dating back to the late '70s, the Union of Manitoba Municipalities passed resolutions expressing their concerns in this area and resolutions asking MTS to develop programs comparable to the 911 service in Winnipeg and Brandon and, since that time, we have been working with the municipalities and the emergency authorities and the province to try and develop a system which, first of all, met the specifications for the service and, secondly, could be economically feasible for the municipalities which, of course, have different capabilities to finance such a service.

MR. H. ENNS: Has the chairman available to him costing figures of a typical municipal installation? For easier references, let's refer to those that I have been particularly involved in Inwood and Fraserwood, for the LGD of Armstrong. What is the proposal that as I understand it, has been made available to the LGD of Armstrong and how does it cost out?

MR. G. HOLLAND: Mr. Chairman, we can provide a typical cost work-up used in our special assembly ratings. We would prefer not to identify specific components of the equipment that are used. There is some element of competition involved in these services.

MR. H. ENNS: Mr. Chairman, towards the conclusion of our last meeting of the Committee, I specifically suggested to the chairman and to MTS that there ought to be an opportunity of working in this field with the private sector in a way that accomplishes the end that all of us want; the latest and the best in terms of mobile telecommunication services at the most efficient cost to the end user - in this case, mostly municipalities or LGDs - and at the same time, to see that the MTS revenues be enhanced because of the use that would be required of the substantial plant that MTS, of course, has throughout the province. Mr. Holland left me with the impression that no serious discussions had been

entered into - and I'll name a major competitor in this field, the Motorola Corporation - that has comparable, if I wish to be neutral in this question or if I wish to take the position of some individuals who've had an opportunity of being exposed to both systems, superior equipment, and the chairman left me with the impression that MTS would be willing to discuss an arrangement that would make these things happen. In other words, provide for MTS some acceptable recompense for use, whatever extent of the system that is required. At the same time, allow the opportunity of choice and, indeed, the custom tailoring of systems in this area of mobile communications.

Do I have the understanding from the chairman that no serious efforts were really made to pursue that kind of an arrangement?

MR. G. HOLLAND: Mr. Chairman, at the last meeting I tried to point out that we're really talking about apples and oranges because the two services are quite different in many of their features and, secondly, it was my understanding that Motorola proposed to interconnect their equipment to our network without any reimbursement to MTS. That may have been wrong.

Certainly, MTS has a long record of working with business in every aspect. I'm not aware of any situation where we have not been able to develop compatible and complementary activities that extend into the mobile radio field where private terminals are permitted to access the network under approved tariffs. It certainly applies in many other areas.

I might say that it's my understanding again that Motorola has been kept completely informed of activities and requirements and planning in the municipal field and, as I said last meeting, we would be delighted to sit down and determine where our policies are not compatible and where we might render them compatible.

MR. CHAIRMAN: Mr. Minister.

HON. A. MACKLING: I would like to add to what the chairman has said that we are discussing with the MTS the kind of service that municipal governments are seeking. There is concern for emergency reporting services encompassing, first of all, fire. Some are concerned about the need for effective communication techniques in respect to ambulance needs, other types of emergency uses and is obvious that a comprehensive system would be desirable. It's a question of determining a program that local governments would be able to use at a reasonable cost. I'm advised that the corporation could put out a much simpler system than it's offering at the present time at less cost. However, the system that we're looking at provides a base for a fuller development should the municipal governments wish to be able to use it in a fuller way.

As the chairman has pointed out, the system that is being offered by Motorola is a different system. It's a system that doesn't have the capacity that is intended to be built into the FRED system if that proves acceptable.

MR. H. ENNS: Well, Mr. Chairman, I'm not really getting the responses that I was looking for. It's been brought

to my attention that in a number of instances municipal officials having considered the type of installation, the equipment available to them under the FRED system have of their own volition opted for another system, as I understand it, at less cost which is, I think, always of concern to municipal officials who are hard pressed for dollars these times, but more importantly for reasons that it seems to be more applicable to their particular requirements without having the third-party requirement of a distant operator to which these emergency calls have to be communicated. It's my understanding that the situation at The Pas is far from satisfactory, that the bylaws of the Town of The Pas, for instance, require that the fire fighting force gets reimbursed for every call, false or not, that there have been a number of occasions where through the system false alarms have been called in which have amounted to considerable expense to the community.

People like the LGD of Armstrong and others have felt that the more direct - you're talking about a relatively controllable group; you're talking about a volunteer fire chief and/or his deputy to have and to be fully knowledgeable about his own area and his immediate responsibilities, a fast, modern, state-of-the-art mobile communications system which, on a number of occasions, has led them to choose a system other than MTS. I don't want to be overly harsh on MTS, but my information leads me to believe that MTS has responded in a very heavy-handed manner in some of these instances.

The response that I received when last this Committee met about the particular situation in Inwood, that MTS put in equipment there at no cost because it was responding to an emergency request really doesn't conform with the information that I have. In fact, the local officials had every opportunity to make themselves aware of the services that MTS offered, then, investigated alternative services and opted for the alternative service. It was at that point that MTS chose not even to provide the newly-built fire halls with basic telephone service, I understand, for the reason that the alternative services would be inter-connected to it and this was not to the liking of MTS.

Now, that's fine, Mr. Chairman. I appreciate MTS has all the balls in their court and they can do that, but I question the business tactics of it. I question whether or not that is really the appropriate role for MTS to play.

A further question, Mr. Chairman, I come back to the point that the Member for Wolseley was trying to help me with when last this committee met, that we were doing this to secure the revenue base of Manitoba Telephone Services so that we could continue to enjoy affordable telephone rates in this province.

Well, Mr. Chairman, nothing that Manitoba Telephone System has indicated to us has told us that there will be any revenue coming from these services, nothing that Manitoba Telephone System has told us that - it is, in fact, just for the time being, at least, just the other way around that it is the average telephone user that is cross-subsidizing these kind of services. There's something ironic about that being the case.

I don't particularly understand why a senior citizen in Woodlands has to, through her monthly telephone billing service, support this kind of a service that is not bringing any revenue into MTS. I'm more concerned

when I read in between the lines that the only way this service will eventually recover its cost is if MTS is allowed the full option of expanding this and other services because of its underutilization to include all manner of other kinds of services that are currently being provided by the private sector.

I say all this as opposed to allowing the elbow room for the private sector to operate in the province, who are after all contributing, as my colleague from Pembina indicated, in a number of ways to the general revenues of this province.

I would appreciate at some point in time, and not necessarily today, but at some point in time I would like to know what the costs have been with respect to the FRED Program to MTS; what revenue has been returned under this program, as my colleague has asked for a number of the other business ventures that MTS is in? In other words, Mr. Chairman, I'll leave it at this, but I think it's my responsibility to put on record and to indicate to MTS officials that certainly from the opposition's point of view, we would and are prepared to ensure that MTS receives adequate compensation for the use of their system, but that the direction the opposition would take and will take is to ensure that there is ample room for the private service sector to be involved in telecommunications in the Province of Manitoba. It's our continued view that reasonable fee, reasonable returns for the privilege of inter-connection are as valid a way for MTS to expand its revenues and more encouraging to the general development of the industry in this province than by simply forcing them out of business.

MR. G. HOLLAND: Mr. Chairman, there are, of course, many private radio systems in the province, including emergency systems and ambulance services, and so on. It's my clear understanding that the request for service in this case was to interconnect equipment with the network. We are administering The Manitoba Telephone Act established by the Legislature, so that at this stage, there is no clear policy to permit interconnection of that type or the terms and conditions. I certainly note Mr. Enns' viewpoint that it should be practical to develop those terms and conditions.

I would only add two other comments. One is that MTS has no RND or manufacturing capacity, so that any of our systems, of course, we publicly tender for the components and those are provided by the major suppliers including Motorola.

The other aspect perhaps is that although I've indicated there is a modest return to MTS in this particular case, many of our services are provided without revenue return or at a substantial loss. The most notable, perhaps, is the Extended Area Service Program that I mentioned last meeting.

MR. D. ORCHARD: Mr. Chairman, could the general manager indicate how much has been spent by MTS to date in developmental costs and capital investment, if any, on the FRED system?

MR. G. HOLLAND: Mr. Chairman, we'll undertake to provide that to Mr. Orchard.

MR. D. ORCHARD: I wonder if the general manager might, as well, undertake to provide the business case

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study for the FRED system to better acquaint us with the sorts of projections the System identified in deciding to go into the FRED system and what the eventual contribution to the System in terms of net revenue would be. I wonder if that business case study might be made available, as well, with the information I just requested.

MR. G. HOLLAND: Mr. Chairman, as I indicated earlier, each municipal service is designed specifically to their requirements and a special assembly rating developed. We could provide the elements of one FRED installation to illustrate our costing process. We can also, I believe, provide data on all of the 22 systems; their revenue versus expense.

MR. D. ORCHARD: That would be fine, Mr. Chairman. Mr. Chairman, when we met last Tuesday, I posed some questions to the general manager in terms of the FAST alarm system. I wonder if the general manager might have an update of the information that I requested last Tuesday on the FAST alarm system.

MR. G. HOLLAND: Mr. Chairman, Mr. Orchard had asked for updated information on FAST Services including customers served, revenues, expenses, capital investment, and source of payment for the housing corporation units.

Revenue figures commencing for the year '81-82 through '84-85 run as follows: \$7,000; \$82,000; \$145,000 and \$310,500.00. Operating Expense \$39,400; \$128,400; \$327,400 and \$391,000.00.

There is a note that Operating Expense includes the cost of activities normally charged to Maintenance of Telephone Service. There are 4,120 customers on the FAST system. The revenues from the 2,700 WRHC units, paid by WRHC, \$52,800 per year.

The total Capital Purchases for the FAST system, to the end of the 1984-85 fiscal year, for subscriber terminal units, \$3.013 million and Central Office Equipment, \$1.668 million.

The interest rates in effect, over the interval of Capital Purchases, commencing 1980-81 through 1984-85 inclusive, 12.5 percent, 15.0 percent, 17.5 percent, 12.5 percent and 13.0 percent.

Issuance of Letters of Intent with financial liability to MTS is not done without board approval. In the instance of Industrial Program Inc., the following events occurred:

On October 15, 1979, the MTS Board approved purchase of 1,000 subscriber terminal units for FAST from Industrial Program Inc. or IPI of New York. This approval was subject to signing of a contract with Telegard Ltd. On October 29, 1979, MTS issued a letter to IPI authorizing IPI to spend up to \$60,000 U.S. for the development of a Model A STU, which MTS had received for field trial and accepted as functionally operative.

An additional \$30,000 U.S. was authorized for development and testing of a Model B STU prototype. Telegard and MTS signed a contract dated October 31, 1979, in compliance with MTS Board conditions, thereby authorizing expenditures of \$615,000 U.S.

The Telegard contract of October 31, 1979, was cancelled by MTS on August 15, 1980. The reason for cancellation was failure of Telegard to replace

performance bonds supplied under the contract. Initial performance bond provided by Northern Union Insurance Company was cancelled on August 6, 1980.

Telegard failed to perform its obligations under the contract and had no customers on the system when Telegard ceased operations on July 7, 1980.

Mr. Chairman, we've attempted to provide the information as requested, but I should point out that there's information that is somewhat misleading. We're revising the business case for FAST and we hope to have that by July 1, and I might just point out a couple of things.

If you look at the Operating Expense in '83-'84 and '84-'85, those have been extremely high. The system has caused a great deal of difficulty and reporting systems and the proportionate maintenance cost for that has been charged back to the system. The 1985 experience is that the system has stabilized and those costs have dropped dramatically.

I think one can also notice, from the revenue trends, that the utilization of FAST is growing quickly. The majority of the private alarm agencies in the community are offering FAST services and it's starting to grow; and the other facet is that in the business case, the debt management costs have not been reflected, so if it would be of interest to Mr. Orchard, we could provide a copy of the updated business plan when that's available, likely by July 1.

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

Mr. Chairman, I'm particularly interested in the last answer provided by the general manager and I thank him for it, in that Telegard it appears, never did exist as a supplier of FAST service. From the original business case, which I'm not sure where it dates back to, but I'm quite sure it may well have been in the time that I was Minister responsible for MTS, so that I'm not pointing any fingers, Mr. Chairman, but Telegard, mentioned specifically in the original business case as being the window on introducing the alarm system because they had indicated if MTS put in the system - and I might add that you've got a \$4,681,000 investment - to put in that system, based on at least one alarm company's, a new alarm company's interest back in the late '70s or early '80s.

The system went in but the company for which the system was to initially serve, never did exist. Now we've got ourselves an alarm system, once again, Mr. Chairman, in competition with a number of private sector alarm systems which use and pay for MTS interconnection, private lines and MTS line capacity.

I guess I find it quite interesting that the company for which the business case was based on never did materialize as a customer; and now we have what appears to be MTS searching out customers to justify entering the business, and the example that I used last year and information seems to reinforce it, if I do my revenue count from '83-'84 to '84-'85, the revenue increased from \$327,400 to \$391,000, the majority of which come from the contract and I don't believe the contract with the Housing Corporation for 2,700 units reflected any in '83-'84 revenue. Maybe possibly I'm wrong.

Is the revenue for the Housing and Renewal Corp. reflected in '84-'85, I take it?

MR. G. HOLLAND: Yes, Mr. Chairman, it's reflected in the '84-'85 figures and it would be for parts of the year.

MR. D. ORCHARD: But basically, Mr. Chairman, out of 4,100 customers, 2,700 of those customers are government customers, through Housing and Renewal Corp. and they contribute a total of \$53,000 in revenue out of \$310,000 in revenue, but yet, that represents roughly one-sixth of the revenue, but they are almost three-quarters or certainly two-thirds of the customers.

I want to pose another couple of questions here. To enter the agreement or enter into a FAST system and to invest the \$4.81 million, MTS entered into a contractual agreement with Base 10 to deliver the STUs. Now, is it fair to assume that the full 5,500 STUs were delivered to MTS?

MR. G. HOLLAND: Mr. Chairman, Dennis Wardrop indicates that they were delivered.

MR. D. ORCHARD: Now, under the agreement with Base 10 for the supply of those STUs, there was a termination clause which allowed MTS to reduce the quantity of equipment being purchased. Now, since 5,500 STUs were purchased, is it correct for me to assume that the termination clause did not have to be exercised?

MR. G. HOLLAND: Perhaps I should ask Dennis Wardrop if he would answer that.

MR. D. WARDROP: No, the termination clause was not exercised. The full 5,500 STUs were delivered.

MR. D. ORCHARD: Mr. Chairman, the next question then being that there was no cost then that MTS had to pay Base 10 for work and material completed at that point plus an amount representing a fair and reasonable profit on the work done. Because you didn't exercise the termination clause, there was no additional costs other than the contract price to MTS.

MR. D. WARDROP: Not at that time, no.

MR. D. ORCHARD: In indicating not at that time, was there additional financial payments made to Base 10 at a later date as a result of the work they did and the fair and reasonable profit as spelled out in the agreement with them?

MR. D. WARDROP: There was subsequent purchases made from Base 10 of a smaller nature and they are all included in the Capital purchases figure. They're summed in total in the total Capital purchase figures that have been tabled.

MR. D. ORCHARD: Thank you, Mr. Wardrop, for that answer.

Mr. Chairman, in breaking out the operating expenses, the General Manager may have indicated, and I believe he did, but I just want to clarify, the operating expenses as detailed today, is it fair to assume that they do not include any interest on Capital investment at the rate specified?

MR. D. WARDROP: Yes, that is correct. They do not include the carrying charges on the Capital.

MR. D. ORCHARD: Then, that means, just to do a rough figure, using '84-85 interest rates of 13 percent and, for rough figures, \$4.5 million investment, we have - if I can do a quick calculation - there is approximately \$600,000 or thereabouts of interest on investment that is a cost to the FAST system?

MR. D. WARDROP: That is approximately correct, yes.

MR. D. ORCHARD: That would mean that in fiscal year '84-85 that we have costs approaching \$990,000 including operating costs and interest and revenues which are indicated at 310,500 for a loss of some \$680,000 on the FAST system for the fiscal year '84-85 when you include interest?

MR. D. WARDROP: That calculation is correct arithmetically, however, it does not take into account the note that is included in the information tabled in which a portion of the operating expense that has been used in that calculation, indeed, includes activities that are normally considered telephone maintenance.

MR. D. ORCHARD: I saw the note, but it's my understanding that the FAST system uses the paired copper wire and, presumably, any repair to the paired copper wire, whether it be for telephone or for otherwise, if the alarm service is also using that paired copper wire, would not the telephone system be breaking down at least a portion of that expense and attributing to the FAST system if you were going to have fair cost-accounting?

MR. D. WARDROP: The derivation of these figures which were taken from the data that was available at hand given the time that we had was based on simply allocating hours of maintenance that were associated with a trouble call that was identified as a FAST trouble.

What happens is the FAST system monitors the line continually because it is an alarm service. It also works on the same copper pair as the telephone, as Mr. Orchard has indicated. However, because FAST is monitoring continually, it is the first unit that signals a trouble simply because, generally speaking, people don't realize they have telephone trouble till they use their telephone and that might be 20 minutes or half an hour later. The FAST system picks this up. It's recorded as a FAST trouble and the repair is done.

If FAST had not been on that line, the same kind of work and trouble very well would have occurred and it would have been allocated against the telephone service. So that it's a strict count on that basis, so as a result, the operating expenses in that example would tend to be overstated with regard to the FAST service. There are a number of other examples of that in the process.

MR. D. ORCHARD: Mr. Chairman, that's an interesting answer in that it's my understanding that unless the line is working 100 percent, the FAST alarm system isn't working 100 percent. So that if you had trouble on the line, you may be able to delay telephone service for a half an hour, but in that half hour that the line was down, someone could break in, there could be a fire, there could be a medical alert which wouldn't be

responded to because the line was down, hence, FAST would be inoperative. So that if the FAST system, because it was there, identified the problem, that's exactly what it's there for. Because if there was a problem in the line, your alarm system doesn't work and it is of no use and benefit to the customer. To me, it would seem that repairs to that line to maintain it for FAST are rightfully charged.

The Minister seems to disagree with that.

MR. D. WARDROP: I think Mr. Orchard is pointing out a very common problem that telephone companies have when one attempts to price out profitability by individual services when, in fact, those services are used on an integrated basis, on plant. Inevitably, one is faced with the problem of arbitrary allocations which leaves somewhat in doubt the result in the end. It really tends to be an exercise not unlike trying to unscramble an egg. It's a unified system; it works on an individual unit of plant and it's very difficult to really arrive at what would be an absolute figure as to what expenses are appropriate in each direction.

MR. D. ORCHARD: Mr. Chairman, can I pose the question in this way then? If an alarm company was offering a service in which it had the equipment investment of \$4.6 million and used MTS' paired copper telephone line to deliver that service into the premise, be it a home, be it an office, etc., etc., and that private sector company's alarm service detected a problem with the line which would make it inoperative for the line service and the telephone company, with the responsibility of maintaining their paired copper wire telephone line on which this service was carried, had to go in and initiate a service call to determine the problem and to repair it if necessary, would it be fair to expect that the Telephone System would have charged that private alarm company some portion of the \$391,000, as dedicated here, for the service call to repair the paired copper wire line so that the private sector deliverer of the alarm services alarm was indeed working.

MR. D. WARDROP: An alarm company today wishing to provide an alarm service to a premises really has three choices of carriage from Manitoba Telephone System.

He can attach an alarm device that works on an automatic dialing system, through what is called an alarm jack and it simply dials up a predetermined number and alerts the predetermined number that there is an alarm condition through a recording.

If the line were to go in trouble on that basis, it is a trouble on a telephone line and, of course, the repair in that case is totally covered, as far as the customer and the alarm company is concerned, by the monthly revenue paid for telephone service to that premises; so there would be no specific extra charge, so to speak, assessed against the alarm company in the event that that occurred.

The second choice that an alarm company may make, if it wished to receive alarm carriage service to a premises from Manitoba Telephone System would be to lease a private wire alarm; and that private wire alarm carriage system has a rate associated with it,

which is something in the order of \$6 and, I think, 80 cents for the first mile per month. That rate includes maintenance so that there would be no extra charge in that case assessed against the alarm company.

The third choice for alarm carriage that an alarm company has is, of course, the FAST system. Here again there is a rate associated with that and that rate includes maintenance and there is not a special charge assessed against the alarm company each time that he reports a trouble. It is covered as part of the general rate.

MR. D. ORCHARD: That's good; that clarifies the situation. Would it be fair to follow through in saying that if there were additional line troubles and additional repair costs that the system would then have to review their line rate charges and possibly increase them if there was a higher experience in demand for repair cost because of the - the very necessity of security on an alarm line, it has to be operative or else your alarm system just isn't operative. If you experienced additional service calls, that would eventually probably reflect in the rate at which you charged the customer for the use of the line.

MR. D. WARDROP: Certainly additional charges for maintenance would be considered at the time that the service was under review for a possible rate adjustment. Mr. Holland however has pointed out earlier that many of our services are not rated on a full recovery basis, so that the degree of maintenance would only be one factor of many that would be included in striking a rate for a particular service.

MR. D. ORCHARD: Mr. Chairman, I think that sufficiently answers the questions I had yesterday on FAST.

I wonder could the general manager indicate what the revenue projections are for - does the corporation have any revenue projections on the FAST system into the next couple or three fiscal years that would allow us some window into whether the FAST alarm system will eventually contribute net revenue to the system, thereby being able to subsidize the black telephone?

MR. G. HOLLAND: Mr. Chairman, I'd mentioned earlier that we are updating the business case for FAST and we hope to have that, probably by July 1.

The previous business case that we did provide to Mr. Orchard, I believe showed a turnover point in the eighth year. I might mention that FAST is provided to the private alarm companies and I believe the majority are now offering it, except as we've explained previously, in certain areas of the public sector where we're expected to provide direct service.

MR. D. ORCHARD: Mr. Chairman, presumably the new business case that's being developed for around July will contain whatever revised estimate on turnaround of the FAST service, as the most current projection by the system.

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

MR. D. ORCHARD: Mr. Chairman, I'd just like to make a couple of comments and maybe the Minister would like to offer his comments.

I recall cutting the ribbon, if you will, out at St. Boniface Basilica on the FAST alarm system back, I believe, in the summer of 1981. The premise, Mr. Minister, that approval was given by the board at the time was that the FAST alarm system could indeed be another source of net revenue to the system whereby cross subsidization could occur to allow the MTS to maintain its rate structure among the lowest in Canada, in terms of provision of basic telephone service.

Mr. Chairman, I'm sure the Minister has shared with him the answers to question 10 that were provided to me this morning and if he was to go back through the years since the inception of FAST, he will no doubt see some sizable losses in revenue by the FAST system and that the reverse is true up until now, that FAST has been able to contribute net revenue to the corporation and, in fact, it could be said that to date the black telephone, the basic telephone user has been cross-subsidizing the FAST system.

Mr. Chairman, that presents the Minister, in making decisions, with an interesting series of decisions to make. If, and I appreciate that the general manager and I have discussed this at previous meetings, these types of operations are viewed as long term, that possibly two or three or four years from now the FAST system will be contributing net revenue, and maybe a year or two after that we'll end up net in a break-even position, in other words, recuperating the losses to date.

In the meantime, it has been the telephone customer that is subsidizing the advent of the telephone system into the alarm service. We've discussed earlier today and on Tuesday, the entrance of the telephone system into FRED, another system. In each case, these entries into business ventures are designed with the same thing in goal, to provide revenues to cross-subsidize the black telephone. The case that my colleague made this morning is that also, whether inadvertently or whether it's a simple fact of the business, they are in competition with the private sector firms in the province.

Mr. Chairman, I would ask the Minister if he doesn't share some concern with members of the opposition this morning that, to date, these entries into other services by MTS have been subsidized by the black telephone customer in Manitoba to compete against the private sector, and that the role of MTS by legislative mandate is to provide the most economic telephone service possible.

I think it can be fairly clearly demonstrated that, to date, the FAST system has not allowed them to keep up, to maintain that mandate. I would ask the Minister if he has some concerns in terms of the system's recent entry into a number of competitive retail products, competitive retail services, such as radio services, etc., that may well be operating in a similar way to the FAST alarm system being subsidized by the telephone user to compete with the private sector.

HON. A. MACKLING: I appreciate that the Member for Pembina has some concerns about the logic and the philosophy of certain of the operations of the corporation that he's concerned about. He seems to reflect the primary concern about how these operations can impact on private companies who are involved in the field either complementary to the system or, in some cases, seeking to compete with the corporation itself

in communications activities. It's a legitimate concern we have to take into account.

The corporation was designed to provide service. The concern about Fire Reporting and Emergency Dispatch, FRED, came out of a concern by municipalities who wanted to be able to get the same kind of emergency system that Winnipeg residents had through the 999 and now the 911 system, a concern about getting more effective service out of the electronic highway that was owned by the people of Manitoba.

So, the approach of the telephone system hasn't been to provide large sums of revenues through these operations to keep the costs of the black telephone down. If, through these operations, there can be additional revenue, that, of course, is helpful, but the corporation is concerned to provide service and ways in which that electronic highway system can be used to provide greater service to Manitobans is certainly of concern to the board, of the system, the management and, of course, we, as legislators are concerned about seeing that system used to its fullest potential.

Similarly, I'm sure that the development of the FAST system was not developed on the basis of trying to secure large amounts of profit for the corporation to offset costs of providing regular telephone service but again, stemming from a concern to provide service, a very helpful service, in some cases, a lifesaving service to Manitobans. Certainly, initially in its development that's going to involve some significant costing and perhaps subsidization by the overall system. That is a very desirable goal, to use the system to provide critical essential services for people. It's anticipated, and I think the general manager has indicated that, that over time when the system is fully operational, there will be some supplementary revenue coming to the corporation.

I think everyone agrees that the corporation should pay its own way, overall. That philosophy of service is what underlines the system. That is why, even though there are losses incurred in extending area service, the EAS, to provide reasonable standards of service for regions of the province, the corporation has extended its equipment, its facilities, to ensure that more and more people get the fullest benefit of the system that is available to it. So, everything isn't measured on a profit-and-loss column. The concern of the board is service; service first. Paying it's own way, of course, has to be considered.

The honourable member is concerned about the costing of FAST. The general manager has indicated that some of the costs there are subject to further review because there is some loading in certain times that the costs have dropped off, so that the later projections will probably indicate a greater certainty as to what the real costs of that system are.

You can see by the figures that there is substantial growth in revenue. Now, the member asks about the WRHC, the Winnipeg Regional Housing and you recall that the general manager indicated that, as those units come on line, a lot of those units were not on for the full period, so that contribution of \$52,800 does not reflect the full revenue for a full year for those units and the honourable member should recognize that.

Although I think, as Minister, and the board should be concerned that the operations of the corporation, in facilitating the use of its system, should provide greater service to Manitobans, that service should not

undercut, by significant losses, maintenance of the system. The service developments are the critical area, the service that over time will pay for itself and that, I think, is the concern of the board and should be of the Minister's.

MR. CHAIRMAN: On the same subject, the Member for Pembina.

MR. D. ORCHARD: Mr. Chairman, could the general manager indicate whether, in (c), the revenues from 2,700 WRHC units, paid by WRHC at \$52,800 per year, is only a partial year revenue or is that the revenues for the 2,700 units for a year?

MR. G. HOLLAND: Mr. Chairman, I'll undertake to analyse that, but my understanding is that their units have come on in a phased basis so they would not be for a full year, but I'll confirm that.

One other facet of this topic that might be mentioned - and Dennis Wardrop described the alternatives - the automatic dialers on the network are not endorsed by the emergency authorities because they're very difficult to manage adequately and there are problems of reliability. Private line service, which we've provided of course to the industry for many, many years, has economic limitations. It is an expensive way to provide the service. It's a dedicated system and the cost quickly becomes prohibitive as the customer is further located from the monitoring base.

I certainly don't know what the cost of those dedicated private lines are and whether or not the revenues are adequate to offset those costs, but the FAST system has the great advantage that it is superimposed on the existing network; it can reach all residences and businesses and I think is a much more efficient way of providing an essential service to the protection industry.

MR. CHAIRMAN: The line of questioning on this subject is more or less finished.

MR. D. ORCHARD: No, it isn't, Mr. Chairman.

MR. CHAIRMAN: The Member for Pembina.

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

MR. CHAIRMAN: The Member for Elmwood wants to speak and the Member for Wolseley wants to speak also.

MR. D. ORCHARD: Fine. Mr. Chairman, we have another hour left and it would be good for continuity to continue on the subject matter that's in place. Thank you, Mr. Chairman.

Mr. Chairman, the Minister responsible, I appreciate he's only been responsible for MTS for a short while and some of his answers and some of his analogies demonstrate a basic lack of understanding of the mandate of the Telephone System.

For instance, the Minister indicated that this system wasn't only a revenue generator, that it was to provide a public service. Mr. Chairman, this originally was proposed to the board and to government as a method

of increasing revenues. Mr. Chairman, the FAST system was designed to provide net revenues to the system, as an enterprise which would cross subsidize telephone service.

Mr. Chairman, the Minister indicates that extended area service, doesn't always increase the revenue and therefore what's the problem with having a loss in FAST, because when we use extended area service, we're not necessarily going to recoup our costs. Extended area service provides an expansion of telephone service which is the mandate of MTS, and how the Minister can make an analogy of the company losing money in carrying out its mandate for a period of time, maybe two, three, four or five years, under extended area service, compares with an entry into a competitive retail service as being comparable, shows his lack of understanding of the mandate of the system.

Furthermore, the Minister says, we have a highway system out there and what we're doing with Telephones is using our electronic highway in the same way. Well that belies his understanding of the Highways system, and he used to be Chairman of the Motor Transport Board; and firms like Reimers, who are private firms, paid for the use of our highways and expanded businesses in the Province of Manitoba, employing people and paying taxes.

MR. CHAIRMAN: Let's stick to the issue here.

MR. D. ORCHARD: Mr. Chairman, we are very much on the issue. If you would care to follow the debate, Mr. Chairman, you will find it's on the issue, because the issue now is that the Telephone System has entered into a competitive service. The service is available or could be available in FRED, privately, using the electronic highway and paying the Manitoba Telephone System for the use of that electronic highway, but that isn't the direction we're going in, Mr. Chairman.

It's not the analogy that the Minister used of a highway system, a in the highway system per se in Manitoba. We don't prevent anybody from using our highways, in the private sector or even members of the public; but there are restrictions to getting on the electronic highway and those are evidenced in the problems with Motorola in introducing a fire alarm system. So there is no comparison of an electronic highway in the highway system comparison that the Minister used.

Mr. Chairman, furthermore, MTS entered into the FAST system, and the Minister has indicated that there is a rapid growth in customer acceptance. Well that rapid growth is to a government institution which last year when we discussed it we found out that in order to get Housing and Renewal Corp. to take on the FAST system, the installation charges and all aspects of installing the service had to be reduced dramatically. In other words, it had to be fire sold to get those new customers on.

Mr. Chairman, if that is good planning, in terms of development of a new system that's going to contribute net revenues, I suggest it hasn't worked out. I am always subject to correction on my figures but, whilst the Minister was making his rather convoluted argument for the FAST system, I did a rough calculation on what the losses to the system, since '81-'82, including interest, would be. To date, the system has, I think, come close

to losing \$2.5 million on this alarm system which was originally designed to contribute net revenue, to subsidize telephone users. The exact opposite has happened over the first four years of system use and we haven't got this service coming in, they are contributing revenue, we've got it in here taking revenue away and because the system goes on a global budget and global revenues, has contributed to the necessity of the Telephone System to go to the Public Utilities Board for rate increases in the telephone service, entirely opposite to what the Minister has indicated to us this morning.

That, sir, is why we ask him, with the responsibility as Minister, to assure that Manitoba Telephone customers get the most economic service possible, to give us some assurance that these sort of enterprises will not continue to be subsidized by the telephone user when they are in competition with the private sector. That's not an unusual request. I think that's a very fair request considering the mandate the Minister has in upholding the responsibility of The Manitoba Telephone System Act.

MR. CHAIRMAN: Does the Minister wish to reply to that point?

HON. A. MACKLING: Yes, I want to indicate to the member that it's very interesting for him to indicate that the service factor was really not a significant consideration for him as a former Minister responsible for the Telephone System. He was concerned about a profit generation to facilitate the corporation's general concerns.

I want to indicate that this Minister is concerned about utilizing the plant and system and, I call it an electronic highway, in a way that provides the greatest service to Manitobans. Profit certainly is important, but service is the essential thing in respect to this corporation.

In respect to the FAST system itself, it takes some time in any business to work out the system and place it on a profit basis. I am confident that with the kind of take-up that is occurring in respect to the use of this service, that it will be a service which pays its own way.

MR. CHAIRMAN: The Member for Pembina has been on the floor for the last hour. The Member for Elmwood wants to take his chances. Will the member yield the floor?

MR. D. ORCHARD: Mr. Chairman, why do you want to go back to this after the fact. Do you not want to finish this particular topic?

MR. CHAIRMAN: I want to give a chance to every member.

MR. D. ORCHARD: That's fine and we'll go back to it at a later date. If you want, I'll interject on a point of order if that would help.

MR. CHAIRMAN: Don't be smart.

MR. D. ORCHARD: Mr. Chairman, I do have a point of order.

MR. CHAIRMAN: I asked the member if he is finish with his line of questioning. All he can say is no he not.

MR. D. ORCHARD: That's what I've been telling you this morning, Mr. Chairman.

MR. CHAIRMAN: All right.
The Member for Pembina.

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

Mr. Chairman, I just want to correct the Minister : that he doesn't leave a false impression on the record. When the FAST proposal was made to the board and to myself, it was made as a system which would contribute net revenues to MTS. Don't confuse the issue now and say that you are more concerned about the safety of Manitobans than we are. That is not a factual statement and if the Minister knew his portfolio and his responsibilities, he would not be able to make that kind of a statement because it is not correct. If I check with his general manager, he will find that the proposal to introduce FAST was based on the fact that it can contribute net revenues and provide revenue to cross-subsidize black telephone service in Manitoba. That was the prime reason for bringing it in.

MR. CHAIRMAN: I'd like to ask the Member for Elmwood if his point is related to the subject on the floor or it's a different subject?

The Member for Elmwood is going to open on the same subject?

MR. R. DOERN: Mr. Chairman, I have my own topics I'm not bound by the topic of the previous speaker.

MR. CHAIRMAN: Okay. Let me then give a chance to the Member for Wolseley who wants to talk on the same subject.

MR. R. DOERN: Oh, that's nice.

MR. CHAIRMAN: The Member for Wolseley.

MS. M. PHILLIPS: Thank you, Mr. Chairperson.

I don't think this is an either/or kind of topic and it's not a matter of is this profitable in the short term in the long term, or is this only a service question? I think it's not either a matter of whether this is a public sector issue versus private competition. I think if we look at the mandate of the telephone system and if we rolled the conversation of Tuesday into this, the question is a matter of the interconnect and bypass issue.

I remember the Member for Lakeside talking about we should not be involved as a telephone system in these external kinds of telecommunication issues, that these are frivolous, that they're toys, that they should be left to the private sector. I'd like to remind the members, both from Pembina and Lakeside, that when the telephone system was set up, fortunately our forefathers and foremothers at that time had the foresight to make a very wise decision about telecommunications in this province. We are following that mandate.

n fact, we have been sort of coasting over the last many years and it's been very easy to follow that mandate and determine what telecommunications are. We're now entering a new era of telecommunications and there is a lot of issues that have to be sorted out in terms of what is the mandate of the publicly-owned telecommunications system to provide, how the private sector connects with that, whether they're allowed to pass the public electronic highway, or what licence fees, if you want to compare to the regular highway system in the province, are to be levied for the use of that electronic highway. All of those kind of things are things that we collectively, in Manitoba, have to sort out where we want to go.

If the Member for Lakeside remembers when the telephone was invented, it was hooted at and seen as a toy itself. It has become a very important part of our lifestyle. It is a very . . .

R. H. ENNS: Mr. Chairman, on a point of order.

R. CHAIRMAN: If it is a point of order - the Member for Lakeside.

R. H. ENNS: It's only because I know how — (interjection) —

R. CHAIRMAN: State the point of order please.

R. H. ENNS: Mr. Chairman, I'm stating my point of order. It's only because I'm aware of how statements made by members that are, after all, officially recorded in Hansard can be later used out of context that I raise this point of order.

I want to raise it very clearly to the Honourable Member for Wolseley that her continued references to my suggestion in a lighter vein that there were many new innovations on the market and my description of them as toys is now being abused by her.

To suggest for a moment that I'm not aware of the nature, the innovation that's taking place in technology, in my judgment not in the context that I made.

MS. M. PHILLIPS: It's a difference of opinion; it's not a point of order.

MR. CHAIRMAN: Points of orders are raised with the view of calling attention to any departure from the standing orders or the customary modes of proceeding in debate or in the conduct of the legislative business and may be raised at any time by any member whether he has previously spoken or not.

Honest difference of opinions are not points of order.

MS. M. PHILLIPS: May I continue, Mr. Chair?

MR. CHAIRMAN: The Member for Wolseley.

MS. M. PHILLIPS: Thank you.

I think the critical point that we're at is not a question of private sector, public sector is bad in terms of these issues. It's not a black-and-white situation. I don't think the two members have taken into consideration when they say MTS is behaving in a manner that's detrimental to the private sector, I don't think that they've taken

into consideration the amount of purchasing that goes on in the Province of Manitoba and dealing with the . . .

MR. CHAIRMAN: A member can be interrupted only on a point of order.

Will the member state the point of order?

MR. H. GRAHAM: Yes, Mr. Chairman, I believe a person who is addressing this Committee should always address their remarks to the Chair.

MS. M. PHILLIPS: I opened my remarks addressing the Chair. I didn't interrupt either the Member for Pembina or the Member for Lakeside when they were expressing their opinions on this topic. I would appreciate the same courtesy, Mr. Chairman.

I don't think they've taken into consideration the fact that MTS as a purchaser of equipment from many, many companies in this province have been assisting in a very direct way the private sector in this province. In fact, we have a preferential Manitoba policy that we adhere to wherever possible in terms of purchasing in the Province of Manitoba, which creates profit for the private sector in Manitoba, which creates employment in the private sector in Manitoba. I don't think they have taken into account that kind of spin-off economic benefit to the province. I don't think they've taken into account that the Manitoba Telephone System is also an employer in the Province of Manitoba and there are very many spin-off benefits to the people of Manitoba as a whole to have Manitoba Telephone System operate in a very effective way in carrying out their mandate.

I think when you're talking about either the FRED system or the FAST system, there is nothing to prevent a private company in the FRED system to negotiate with the telephone system a contract to inter-connect. I'm sure that the telephone system personnel can negotiate a very good contract favourable to both parties. The LGD of Armstrong has a choice on what kind of equipment they use, that they must negotiate the inter-connect of that equipment. I think that is extremely fair. They cannot by-pass the system.

The second point in terms of FAST is that it is a system to provide extended service from private sector companies for their alarm service using the Manitoba Telephone System equipment. Again, I think that's a very fair solution to the fact that the people of Manitoba have made a very large investment. They deserve to have that investment protected under the rules of the game and I don't think it should be abused.

It's not a question of whether telephone service and telecommunications service should be in the public or the private sector. I think the question is how, in this new technological era, do we redefine what is the mandate of the telephones in terms of providing the necessary services to the Province of Manitoba at the most reasonable rate, and how the private sector fits in. I think that's what we're looking for. It's not an either/or situation. It's the fact that we've moved on from what we were at the beginning into a new age and there are many, many questions yet to be determined. We're in the midst of that determination and almost as fast as one gets resolved, another technology pops up that also has to be addressed.

We're determining in the best possible manner how we achieve those kinds of negotiations, how we reach those kinds of goals to provide the best service to Manitobans.

Some of it might well be private sector solutions, but where does the public sector fit in? I think we have to resolve, as legislators, to use the same wise, reasonable determination as was used when the telephone system was first set up to serve the people of the Province of Manitoba.

MR. CHAIRMAN: The Member for Elmwood.

MR. R. DOERN: Mr. Chairman, I wanted to direct some questions to the Minister or to the general manager concerning the efficiency study that I raised the other day in the Legislature with the Minister.

I wanted to begin by asking by way of information what the current staff complement is in the system? How many thousands and hundreds of employees are there at MTS?

MR. G. HOLLAND: Mr. Chairman, the count of all employees receiving a pay cheque at the end of February, 1985, was 4,649.

MR. R. DOERN: 4,649. I wanted to ask about this efficiency study that has been conducted. Is it my understanding that there was originally an internal study and then it was followed with an outside firm or did it commence with an outside firm?

MR. G. HOLLAND: Mr. Chairman, it may seem that I'm taking a rather long time to answer that question, but I think that there is a context other than just the brief consulting study that should be explained in answer to Mr. Doern.

MTS amongst the Canadian companies, as Mr. Doern knows, has for years been one of the leaders in effective management and use of resources. We've always compared very favourably with the other major Canadian companies. We noted during 1984 that there appeared to be different trends taking place and that our traditional techniques internally were not producing the same results as they had in prior years.

With the dramatic change in technology and systems in the industry, almost every Canadian company except MTS had sought outside assistance in order to ensure that they were continuing to meet very effective management standards. We feel that we have to be in a position, of course, with our public, our customers and as a regulated industry to demonstrate that our costs are most effective. We surveyed employees in late 1983 and the results of that were released in November of '84, again showing concerns about our effectiveness, our ability to compete in a much more competitive era. We established a small group at MTS in mid-1984 called the Corporate Effectiveness Group and they were charged with studying our situation, our trends, and proposing ways and means of improving out overall effectiveness.

We have had surveys done by Bell Canada under the terms of our service agreement with them and a survey by a private consulting firm which has done a considerable amount of work in the Canadian industry. Those surveys were done after consultation with every

MTS employee, a discussion of the purposes and reasons for it.

The stage at the moment is that we are in a full process of consultation with our employee spokesmen, our unions, different groups at MTS to discuss the phases that would be involved. It is likely that we will conduct studies in our management ranks as a first phase. We are explaining to all MTS employees that this will not impact our full-time regular employees. We're giving commitment to the necessary retraining and redeployment processes that we see, as necessary and we think that we can give those assurances because of ongoing growth and attrition and other factors at MTS.

I must say that since late '83 and in all of the discussions we have set one other standard, and that is that the quality of our service must not deteriorate.

MR. R. DOERN: It's my impression, just from listening to the general manager, that the study is over. Is it fact over in terms of the outside firm and from what period of time was it conducted? My impression was it was conducted over a number of months. Can I indicate when that outside firm was brought in and whether they are still, in fact, employed or whether they have finished the report, handed it in and are no longer involved?

MR. G. HOLLAND: As I explained, Mr. Chairman, our internal corporate effectiveness group has worked with Bell Canada and an outside consultant since December surveying our situation and fact gathering at MTS and that has gone on until the present time. We're now in a process of consultation with MTS people and, as I say, we expect that we likely will go ahead with the management phase with the assistance of Bell Canada.

MR. R. DOERN: Mr. Chairman, the outside consultant, what is the name of that firm?

MR. G. HOLLAND: Mr. Chairman, it is S.N.C. Wolfe.

MR. R. DOERN: And are these not the same people who conducted a similar study for New Brunswick Tel?

MR. G. HOLLAND: Mr. Chairman, they have been engaged by a number of major Canadian telephone companies and I believe N.B. Tel. is one thereof.

MR. R. DOERN: Was there not a fairly dramatic shakeup at New Brunswick Tel in terms of hundreds of people wound up or let go or redeployed or laid off?

MR. G. HOLLAND: Mr. Chairman, as I said earlier there have been dramatic results generally in effectiveness at N.B. Tel to the best of my understanding. There have been reorganizations; there have been negotiated early retirements take place and attrition. My impression again is that it has been done with the utmost consideration of their staff and has generally been a very constructive process.

MR. R. DOERN: Can the general manager indicate the approximate size of New Brunswick Tel in terms of, is it half or two-thirds as large as MTS?

R. G. HOLLAND: Mr. Chairman, I can undertake to maintain the number of employees at N.B. Tel. I don't have that here, I don't believe.

R. CHAIRMAN: A point of order is being raised.

S. M. WOLSELEY: My understanding is that the committee is to examine the Report of the Manitoba Telephone System, not the New Brunswick Telephone system.

MR. R. DOERN: That's true, Mr. Chairman . . .

MR. CHAIRMAN: The member's questions should be relevant to the subject under discussion.

MR. R. DOERN: Nor should we examine the performance of the Nova Scotia Telephone Company, but the point is that the firm that is used by MTS for an efficiency study may have been hired because of some "dramatic results" which the general manager just cited, in New Brunswick, and I'm just trying to ask about their track record. Perhaps this is the reasoning behind their retention by MTS.

The other thing I wanted to ask the general manager, does he have a figure on the cost that will be paid to this consultant for their work over the past number of months?

MR. G. HOLLAND: Mr. Chairman, we do have proposals which are under negotiation. I believe only the management study is a fixed figure. I can obtain that is well and provide it to Mr. Doern.

I might also say that I'm told that N.B. Tel reported 2,477 employees at the end of December, 1983.

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

MR. R. DOERN: No, Mr. Chairman. The general manager just indicated that New Brunswick Tel is about half the size and does he have any numbers about the number of people who are laid off or redeployed there, as a result of an efficiency study, as a result of this particular management consultant firm?

MR. G. HOLLAND: Mr. Chairman, I don't have any data available.

MR. R. DOERN: So Mr. Holland then is not giving us a price tag on the study. He did mention that he had a hard number on the management fees. Could he indicate what that was?

MR. G. HOLLAND: Mr. Chairman, we have estimated that the managerial effectiveness portion, that the fee could be \$193,000 exclusive of the involvement of our own staff in that area and we are discussing a second contract. That would deal in our outside plant construction area and heavily concentrating on our internal system, our forms and systems and procedures. That one is estimated at \$307,000, not including involvement of MTS personnel and again does include a considerable amount of education and training.

MR. R. DOERN: So, Mr. Holland, then, is providing us with 193,000 for the management fees and 307 for

outside plant and construction, which is a half-a-million dollars, a number that I heard or was originally suggested to me, and I assume this is a ballpark figure, was that the total contract for the employees might be of the order of \$1 million. Mr. Holland has indicated a half-a-million without imputing a number to the price tag of the study that has already taken place. Would it be in that general ballpark of a half-a-million dollars for that first-phase study?

MR. G. HOLLAND: Mr. Chairman, my recollection is that the first-phase study was under \$35,000.00. We are as well discussing a process that could well take two years to complete.

MR. R. DOERN: Well, is the general manager suggesting that these other studies cost a half-a-million, but the study of the whole, the broad picture only cost \$35,000, or that's only one portion of the cost that will be finally tabulated?

MR. G. HOLLAND: Mr. Chairman, the cost which I recall to be under \$35,000 was for a preliminary survey over perhaps three months to review our present situation and to try and identify potential for areas that we could improve.

MR. R. DOERN: Could you indicate the approximate number of management consultants who are here, who have been here either two of them, or ten of them, or twelve of them? I know it would be a changing number, but at any given time how many of these people would be working in MTS?

MR. G. HOLLAND: Mr. Chairman, for clarification, does Mr. Doern mean the number of firms or the number of their staff that are involved?

MR. R. DOERN: Given this firm, I don't understand their name, Wolfe. What is their name?

MR. G. HOLLAND: S.N.C. Wofac.

MR. R. DOERN: The Wofac Firm. How many people do they tend to have working on the study?

MR. G. HOLLAND: Mr. Chairman, I really can't recall, but I believe they've had as many as five at one time here.

MR. R. DOERN: So, Mr. Chairman, to the general manager. Does MTS have a targeted figure? I ask questions of the Minister who couldn't give me an answer. There was something mentioned after the last committee meetings and I heard an interview on telephone and/or radio. My impression was that this study might lead to a reduction of 300 to 400 employees and, I believe, that I heard the general manager say to the media that something in the neighbourhood of 400. Is that the area we're talking about? 10 percent reduction approximately?

MR. G. HOLLAND: Mr. Chairman, our overall objective is to continue the MTS objective of comparing favourably with other Canadian telephone companies

and the Canadian industry in our effectiveness and in our performance. That is not a new objective and one that we feel is highly appropriate.

I had mentioned earlier that there was a broad survey to identify the long-term potential at MTS in the light of the latest technologies, the happenings in the industry. That is a figure that has been discussed in that context.

MR. CHAIRMAN: My speaking order after Mr. Doern will be the Member for Virden and the Member for Wolseley. Are they related to the same topic?

MR. R. DOERN: Mr. Chairman, I haven't concluded yet. I assume I still have a few more minutes.

MR. CHAIRMAN: The Member for Elmwood.

MR. R. DOERN: Thank you.

I was just looking at my notes, Mr. Chairman. So then, the general manager appears to be confirming that there may be a figure of around about 400 staff man years that may be redeployed or let go or retired or whatever as a result of this study?

MR. CHAIRMAN: Does the Member for Wolseley want to answer the question?

MS. M. PHILLIPS: I think as acting chair of the board — (Interjection) — I'm quite capable of answering what our policy is in terms of these studies.

MR. CHAIRMAN: Let's stick to our business, no personalities here.

MS. M. PHILLIPS: First of all, we don't have staff man years, Mr. Chairman, at the telephone system - clarify that. The study of \$35,000 was a study to enable the company to do a proposal for which the board could consider as to whether they wanted to launch a full-fledged study. It's a preliminary survey and discussion on which they could then submit to the board of the telephone system a proposal to do a full-range study in terms of systems and personnel.

We have made a total commitment that there will be absolutely no layoffs if we do decide to launch on any of these studies. We have only to this point approved the \$193,000 one from Bell Canada dealing exclusively with management positions for recommendations on further training, so that our management is prepared and has the training necessary to do their job effectively.

We have not approved, at the board level, any other studies. There is a recommendation, as the general manager mentioned, for another one in the range of 300,000 which we have not approved and we certainly haven't approved the final proposal which is still in negotiation with the Wofac Company.

I hope that enlightens the member.

MR. R. DOERN: Mr. Chairman, I will restrain myself from commenting on that comment. I'll simply say that a lot of this is simply semantics. If you close positions and redeploy your staff, maybe that doesn't mean that the people who filled those positions are laid off, but it means the opportunities for employment with the

company are less. So, if you close 200 jobs and you take the 200 people away from those positions, that that simply means that 200 new people aren't eventually going to be able to work with the corporation. So, part of that is simply semantics.

Mr. Chairman, I wanted to ask the general manager . . .

MR. CHAIRMAN: Before you do . . .

MR. R. DOERN: Mr. Chairman, just a minute now I want to know what the procedure is going to be here — (Interjection) — Am I being given the floor. If the member would kindly keep quiet because he's interrupting me. I'd like to be able to . . .

MR. CHAIRMAN: Order please.
Let's behave as reasonable people.

MR. R. DOERN: Well, would you ask the Member for Inkster to keep his mouth quiet for awhile, so that I can put my questions.

I also wanted to ask a question on the procedure. Do I have the floor to put questions to the general manager or am I now going to get into a debate with the Member for Wolseley and the Minister? If so, that's fine, we'll have a free house here. The point is I want to know what the procedure is going to be.

MR. CHAIRMAN: The procedure will be when the member asks questions, it will be answered and then I will confirm whether the chairman of the board will answer or the general manager or the Minister, but there will be an answer.

MR. R. DOERN: All right, well then I assume I now have the floor.

MR. CHAIRMAN: You have the floor.

MR. R. DOERN: I would then ask a question of the general manager and I ask him whether this target that has been set, or this result which is now coming out of some 400 positions, is that going to be put into effect in a one-year period or over a period of several years?

MR. CHAIRMAN: The Minister wants to answer the question.

HON. A. MACKLING: I would like to indicate to the honourable member that management will be bringing proposals to the board. The board will be considering those proposals; the Minister will be involved, obviously in discussing with the board any major initiatives. I assume that the potential exists also, and the Honourable Members for Pembina and Lakeside, I'm sure would agree with this, that there may be other opportunities for additional services that this electronic system that we talked about can be involved in; and there may be, rather than any diminution of employment, a very marked expansion in the number of positions that will be required by the Manitoba Telephone System.

So assumptions that the honourable member may wish to make are at this time only that, assumption:

He can ask all the questions he likes as to probabilities, but the board has not made any decision in respect to any downsizing or conformation of any changes, but any studies that will take place will be with a view to making sure that this corporation operates efficiently.

If there are any changes in staffing, as the vice chairperson of the board has indicated, there will not be any people that would be laid off. There would be redeployment and retraining from some areas to other areas. There may be expansions in other areas, Mr. Chairman.

MR. R. DOERN: Mr. Chairman, is the Minister holding out as a possibility to this committee that there is a study with a price tag of at least .5 million to an outside firm, plus MTS personnel and that the consequence of that study might be no layoffs and no changes, that there might be a decision taken by the government to freeze the staff complement and look at the study, in terms of an academic exercise?

MR. CHAIRMAN: The vice chair of the board will answer.

MS. M. PHILLIPS: Mr. Chairperson, I thought I had made it very, very clear that no study has been approved to this date. I think any estimates of what will happen with some theoretical study are hypothetical.

I think I've made it very, very clear that we had only approved one study dealing with management. We have submissions by other firms and they would like, which they, of course, would like to get the contracts for, but we have not approved them and we would only approve recommendations from such a study if we did decide to go ahead with it that would outline how people, if their position, because of technology. For instance, if they're using a VDT instead of typewriters, if they can use a collection of data on VDTs and disks instead of having three people going through a lot of paper, we would only approve the recommendations from a study if it meant that there were recommendations in there that showed how people could be retrained, could be redeployed.

In fact, as the Minister suggested, there could be opportunities for people to move in quite different fields and have their jobs enhanced, but we would not approve recommendations that would result in people being laid off, that is if we approve having a study at all, so it's a lot of it's at this point.

MR. R. DOERN: Mr. Chairman, a couple of final questions here. Studies have been approved, a firm has been retained, people are working in MTS, employees are aware of this and information is around and about, about the consequences of that study.

I also want to ask the general manager this: When it comes to the outside plant and construction, was that proposal for a \$307,000 study with this same firm of consultants, Wofac, or is that another firm that has made a proposal?

MR. G. HOLLAND: Mr. Chairman, those figures were provided to respond to Mr. Doern's question as to the nature of the costs of outside assistance.

MR. R. DOERN: I'm not following you there. Was this the Wofac firm that made that proposal?

MR. G. HOLLAND: No.

MR. R. DOERN: Are there any other studies being contemplated, other than the management phase and the outside plant and construction phase? Are there other proposals that have been submitted by other firms or the same firms that are under consideration by MTS?

MR. G. HOLLAND: Mr. Chairman, no. I believe that there are three basic studies under review, but as I mentioned earlier, we do have a corporate effectiveness group at MTS as well that are reviewing our systems and procedures.

MR. R. DOERN: Mr. Chairman, in this operation that has been taking place and that will take place and so on, is there a built in concern and procedure to examine the effects on personnel? For example, if a study is done in a certain way and manner and a certain number of staff is let go, then this may have an adverse effect on morale or it may have an adverse effect on efficiency. Now there is concern now in the system as to what recommendations will come forth and what the consequences will be. I'm simply saying, along with efficiency experts and along with efficiency and along with cost savings, etc., it's very important that the whole staff complement be happy in the service; so I simply ask the general manager whether there is some built in technique or procedure to alleviate what could be a very negative thing.

MR. CHAIRMAN: The Minister wants to answer this one.

HON. A. MACKLING: Mr. Chairman, the honourable member, of course, thinks it's important to him to indulge in speculation in respect to the employees of MTS. He obviously thinks he's going to catch headlines in respect to that kind of speculative questioning.

The general manager and the acting chair, the vice chair, has made it very clear that in any studies there would be careful consideration taken of any adjustments, whether growth in one section or some reduction in another caused by technological change or new initiatives that the system may be looking at, that in any changes there would not be layoffs per se. People wouldn't be declared redundant and released.

If there were any changes, and that is not a certainty at all, it would be done very carefully. This corporation has a 77 year history of fairness and understanding with its employees and that is not going to be jeopardized in any studies that are considered necessary to look at ways in which, with changing technology or improved business efficiency, change may be warranted.

It is also important for the honourable member to know that this province, like other governments in Canada, particularly the Federal Government, is looking at affirmative action programs and the corporation is going to be involved in any employment phasing to ensure that affirmative action policies that are important are reflected in its decision-making as well.

I want to assure the honourable member that while he may think that indulging in this line of speculative

questioning will produce some headlines for him, I think that it is regrettable that the honourable member tries in these questions to leave the impression that 300 or 400 people are going to be looking for work because of some technological change that is imminent in this industry.

MR. R. DOERN: Well, Mr. Chairman, in response to the Minister, speculation is sometimes based on information and one of the Minister's problems is he's quite new on block and he doesn't have very much information. I raised questions the other day which were confirmed by the general manager and were confirmed in the media, and I believe that the questions I raised the other day, which were quite modest, were in fact reinforced, not only a day or so ago, but this morning.

Thank you, Mr. Chairman.

MR. CHAIRMAN: The Member for Virden has his chance.

MR. H. GRAHAM: Mr. Chairman, I just have one question, but it's on a different field.

MR. CHAIRMAN: If it's on a different field, the Member for Wolseley wants to jump on this one.

HON. A. MACKLING: She wants to jump on the Member for Elmwood.

MR. D. ORCHARD: Order, Mr. Chairman.

MR. CHAIRMAN: The Member for Wolseley.

MS. M. PHILLIPS: Mr. Chairperson, I'm sorry, that's not on my list of desires at all.

HON. A. MACKLING: Only with your feet and your heels.

MS. M. PHILLIPS: I would just like to state that the present board will not approve any study that would result in the kind of dramatic layoffs that the Member for Elmwood has been trying to imply.

We also would not approve any study that does not take into account, in its design, the consultation and direct participation in the process of the employees involved.

We do not have a study that takes the latter into account as a proposal at this point. We will not approve a study unless those components are taken into account, so all we have is the proposal in front of us. We have approved the \$193,000 management study; we have not approved any other study.

Through you, Mr. Chairperson, to the employees of MTS and to the general public, I want to make it extremely clear that the participation of present employees is of prime concern and that we will not be laying off anyone. There will be retraining where necessary for any person who is presently employed whose jobs would be, through such a proposal, deemed to not be effective to the company.

MR. CHAIRMAN: The Member for Virden.

MR. D. ORCHARD: It's a little different topic . . .

MS. M. PHILLIPS: That's fine, we're finished.

MR. CHAIRMAN: We're finished on this topic.

MR. D. ORCHARD: No, we're not.

MR. CHAIRMAN: Oh, we're not, the Member for Vird will not have his chance, because the hour is comin

MR. D. ORCHARD: Things will keep, Mr. Chairmar

HON. A. MACKLING: Let them fight it out betwe themselves.

MS. M. PHILLIPS: Orchard wants to speak on th subject, that's fine.

MR. CHAIRMAN: The Member for Virden has prior in terms of signification.

MR. H. GRAHAM: Mr. Chairman, I indicated that I h: a new subject; if you want to complete this subject just have one question, that's all, and I'll wait until aft the Member for Pembina is completed.

MR. CHAIRMAN: That's better.
The Member for Pembina.

MR. D. ORCHARD: Mr. Chairman, of the 4,649 curre people on the payroll, how many are term employe or contract employees?

MR. G. HOLLAND: Mr. Chairman, I don't have th data; I'll try and obtain it before the next session.

MR. D. ORCHARD: That would be appreciated, M Chairman.
Where is this Wofac firm from?

HON. A. MACKLING: Wofact, I think it is.

MR. G. HOLLAND: Mr. Chairman, I understand the are an American firm with Canadian operations out Toronto.

MR. D. ORCHARD: Mr. Chairman, is the firm Campbe and Associates undertaking a study of marketin operations on behalf of MTS?

MR. G. HOLLAND: Mr. Chairman, my recollection i that they are on a short-term consulting assignmer and it has to do with career counselling or guidanc or that aspect of marketing.

MR. D. ORCHARD: And where is that firm from?

MR. G. HOLLAND: Mr. Chairman, it's a U.S. firm an I believe they're based in Minneapolis, but I would b subject to correction on that.

MR. D. ORCHARD: Mr. Chairman, I have one minut of questions on MTX to ask the chairman if th information I requested Tuesday would be availabl either today so I can have it in preparation for the nex meeting.

MR. CHAIRMAN: The Member for Virden can now have his question.

MR. H. GRAHAM: Thank you, Mr. Chairman.

Mr. Chairman, I recently received a letter from a constituent who asked me to ask a question of the committee and I will do that.

We've seen the expansion of telephones into the commercial field; we've seen them expand into the international field; we now see that they're expanding into the field of tourism and also into the lotteries.

I would like to ask the Minister, who won the Christmas Sweepstake?

MR. G. HOLLAND: Mr. Chairman, we don't have that information, but I shall make certain that Mr. Graham receives it.

MR. H. GRAHAM: Mr. Chairman, I raised it because of a constituent was very concerned about receiving in the mail, with his December bill a envelope addressed to Manitoba Telephone System, and it says on the back, "Enter the Long Distance Feeling Sweepstakes. You can win a trip to California for up to ten family members, plus \$5,000 U.S. funds."

Mr. Chairman, when we're in a period of restraint, this constituent wants to know why we are giving away U.S. dollars and urging people to go to California, and wants to know why the Manitoba Telephone System is doing this, especially when they are a monopoly, they will not allow anyone else into the field, and they just wonder why we're giving away that kind of money.

HON. A. MACKLING: Well, Mr. Chairman, I'll be delighted to take that question as notice and talk to the chairman about that, and maybe talk to the vice-chair of the board about that, but I think that probably the Honourable Member for Virden is just regretting the fact that he didn't win the trip.

MR. D. ORCHARD: Mr. Chairman, those questions, is the information going to be provided?

HON. A. MACKLING: In respect to those questions, I have discussed with the chairman the extent to which,

while we want to give the honourable member all the information that he needs reasonably, we are concerned about the fact that MTX is in a competitive operation and, I think, we have to be somewhat more careful in respect to how we use that information. Now, perhaps, the information can be given to the member in a manner that will satisfy our concerns about not making that information public information in the fullest sense, because of our concern about competition.

If the honourable member would like the information on that basis, I think we could probably be fuller in detail than otherwise. Would that be acceptable?

MR. D. ORCHARD: We've got to straighten this out before - don't get excited.

MR. CHAIRMAN: We are civilized people, you know.

MR. D. ORCHARD: Last year when we discussed the MTX - I'll just refer the Minister to Page 58 of Hansard, Tuesday, June 19, 1984, where the indication was given that the information would be provided, that the 50/50 joint venture, the partner recognized that they would have to be before the Public Utility Board, etc. etc. I'm seeking that information to determine the status of MTX and its affiliates in terms of their ability to generate revenue for the System.

HON. A. MACKLING: I think the Chairman has provided me with the information.

MR. D. ORCHARD: Okay.

MR. CHAIRMAN: This Committee shall meet again at a time and place to be announced by the House Leader in the Chamber.

What's the pleasure of the Committee?

HON. A. MACKLING: Committee rise.

MR. D. ORCHARD: Committee rise.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 12:30 p.m.

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