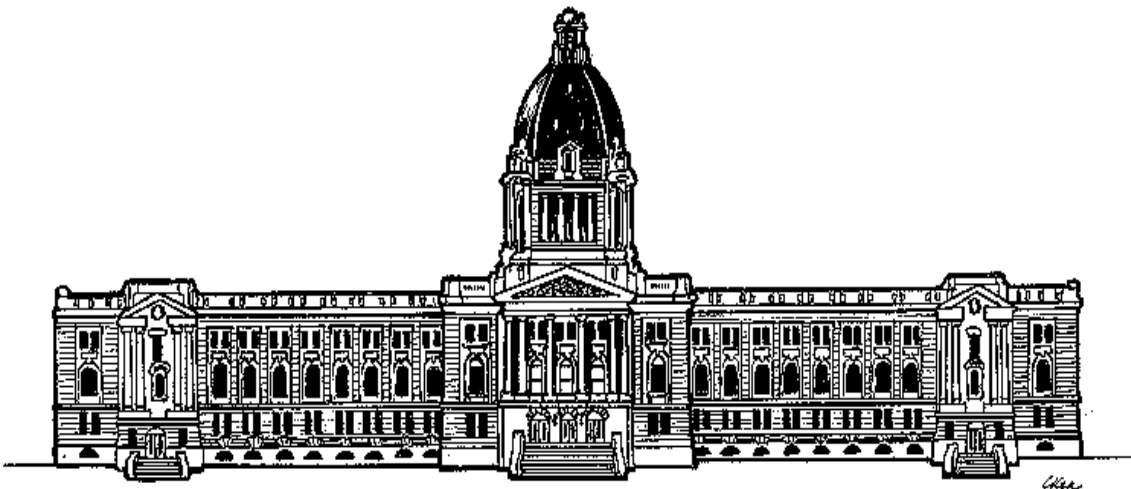




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES
2005**

Mr. Graham Addley, Chair
Saskatoon Sutherland

Mr. Wayne Elhard, Deputy Chair
Cypress Hills

Mr. Dan D'Autremont
Cannington

Mr. Andy Iwanchuk
Saskatoon Fairview

Mr. Warren McCall
Regina Elphinstone-Centre

Hon. Mark Wartman
Regina Qu'Appelle Valley

Mr. Randy Weekes
Biggar

The committee met at 10:00.

The Chair: — Thank you, members. Welcome to the Standing Committee on Crown and Central Agencies meeting today. The business . . . Just some administrative matters. Just to remind members that the committee meeting is being recorded for broadcast at a later date, although it is being, it is available over the Internet right now and also for in-house viewing in the Assembly right now through streaming audio, I'm told, audio and video.

The business before the committee today is the 2000 annual report and related documents for SaskTel. The proposed order of business for today's meeting. We have Mr. Iwanchuk and we have Mr. Yates filling in for Mr. McCall. We have Mr. Wartman, a new member, filling in for Mr. Sonntag, who is appearing before the committee. We have Mr. D'Autremont, Mr. Weekes, and Mr. Chisholm filling in for Mr. Elhard.

Before we begin I would like to table document no. 85/25, Investment Saskatchewan, which are responses to questions that were raised at the October 21 committee meeting. And that is so tabled.

Before we begin with Mr. Sonntag, just a brief overview by the Provincial Auditor's office, and then also the statement by the appointed auditor for SaskTel. So take it away.

Mr. Martens: — Thank you, Mr. Chair. My name is Andrew Martens and with me today from our office is Judy Ferguson, who's the deputy provincial auditor and who leads our work at SaskTel. And from KPMG we have Mark Lang, who is the partner with that firm that does the audit directly. And I'll ask Judy to give our comments and then, Mark, if you would provide your comments on the audit, please.

Ms. Ferguson: — Thank you. Chair, Andrew, committee members, and officials, we're pleased to report the results of our 2003 audits of SaskTel which is the parent holding company, its five wholly owned subsidiaries . . . partnerships, subsidiaries and two pension plans.

We found the financial statements of SaskTel which are included in the 2003 annual report before your committee for its review today to be reliable, and also the financial statements of each of the subsidiaries that were tabled in the Assembly and the pension plans tabled in the Assembly were also reliable.

SaskTel, its subsidiaries, and its plans had adequate rules and procedures to safeguard public resources. They complied with legislation governing their activities relating to financial reporting, safeguarding of public resources, revenue raising, spending, borrowing, and investing. In carrying out our work, we worked with the appointed auditor, KPMG — Mark Lang who leads the work — and we received good co-operation from KPMG and from management itself.

That concludes my comments, and I'm going to turn it over to Mark for his.

Mr. Lang: — Thanks, Judy. My name is Mark Lang, and I'm the engagement partner on SaskTel. I work with KPMG. We

conducted our audit of Saskatchewan Telecommunications Holding Corporation and its subsidiaries, and we reported to the members of the Legislative Assembly on January 28, 2004. And our report can be found on page 45 of the annual report.

The auditor's report was unqualified and stated that, in our opinion, the consolidated financial statements present fairly the financial position of the corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. We work closely with the Office of the Provincial Auditor throughout the course of our audit, as well as the board of the corporation and the management of the corporation. And we had full co-operation of all those parties, and we have a good working relationship with those parties as well. And that concludes my report.

The Chair: — Thank you, members. And then I would recognize Mr. Sonntag, Minister Sonntag, to make a statement and also to introduce his officials.

Hon. Mr. Sonntag: — Thank you very much, Mr. Chair, and members of the committee. I will take the opportunity to introduce the officials here with us from SaskTel, and for those behind me, I'll just ask them to give a little wave so you folks know exactly who they are as well.

First of all, of course, is our new president — although he's not so new any more, but fairly new to some of you — Robert Watson. He's the president and CEO (chief executive officer). Immediately to my left is Randy Stephanson, the chief financial officer; to his left is John Meldrum, vice-president of corporate counsel and regulatory affairs and chief privacy officer; Diana Milenkovic, behind me, senior vice-president, customer service, operations, and mobility; Doug Burnett, the vice-president of human resources and industrial relations; Kym Wittal, chief technology officer; Mike Anderson, vice-president of marketing; Darcee MacFarlane, general manager of corporate affairs; and Beverley Toderian, senior business planner in finance.

I certainly do appreciate the opportunity to make a few opening remarks. SaskTel has served the people of Saskatchewan for nearly 100 years now with reliable, affordable, and leading-edge communications technology that are second, we think, to none in the world. And SaskTel continued this tradition in a profitable manner in 2003, the year under review today.

SaskTel has evolved a great deal since the early 1990s. Management foresaw that changes in technology and regulatory policy and the introduction of competition in its major lines of business, particularly in long distance, would significantly shift the economic model for telecommunications companies in Canada, and I think I can safely say, in North America.

This turned out to be true over the past decades. SaskTel has seen long distance revenues reduce by \$254 million a year. In 1990, 91 per cent of SaskTel's revenues were generated by local and long distance services. In 2003 that figure was just 44 per cent. So replacing these lost revenues through growth initiatives and the introduction of new products and services

was absolutely essential.

The necessary changes at SaskTel over the past 10 years have occurred and have been successful. For example, in 1990 cellular revenue represented 1 per cent of SaskTel's revenue. In the year under review, 2003, it represented 18 per cent of SaskTel's revenue. This evolution or change in the business is indicative of the industry as a whole and SaskTel is consistently an industry leader in Canada and in North America. As an example, the introduction of *Max* led the industry and now MTS (Manitoba Telephone Services) offers a similar service. TELUS and Bell are developing their plans to introduce a similar service likewise.

In the midst of an industry that continues to evolve, SaskTel has been very successful and is poised to continue that success well into the future. For SaskTel, serving the people of Saskatchewan remains its number one priority.

Some of SaskTel's recent successes would be the following. In 2003 SaskTel's revenues were over \$899 million and its net income for the year was just over 85 million. From 1987 to the end of 2003, over \$2.4 billion has been invested in updating and maintaining its world-class communications network right here in our province of Saskatchewan. SaskTel leads the way in North America in deploying High Speed Internet service to rural communities through initiatives such as the CommunityNet. By the end of 2003, SaskTel Mobility invested about 92 million in a digital network that serves 94 per cent of Saskatchewan's population.

SaskTel's buy-Sask-first policy means that supplies and services are bought in Saskatchewan whenever possible. In 2003 SaskTel spent over \$215 million with over 4,200 Saskatchewan suppliers. Through its corporate sponsorship program, SaskTel supports more than 1,500 non-profit and charitable organizations across the province, with more than \$1.7 million. In 2003, again the year under review, SaskTel partnered with over 140 Saskatchewan businesses in over 50 locations in our province. By helping to market its wireless, Internet, security, and *Max* services, these local Saskatchewan businesses received over \$18 million in commissions in 2003.

SaskTel employees are part of the social fibre of this province. In 2003 over 3,700 employees lived and worked in over 50 communities. And finally, the company was once again recognized as being one of the top 100 companies to work for in Canada — the fifth year in a row.

In conclusion, 2003 was another successful year for SaskTel. So, Mr. Chair, and members of the committee, we'd be pleased to answer any questions that you might have today. I understand you're going to make a brief statement as well, if that's okay.

The Chair: — Okay, then Mr. Watson.

Mr. Watson: — Thank you, Mr. Sonntag, and good morning, Chair, and members. I just wanted to briefly address the committee and indicate that I'm very pleased to be here today to observe the proceedings and participate where appropriate. As you appreciate, I was not here in '03; that's why a lot . . . the team will answer the questions direct and I will step in when I can.

As Minister Sonntag indicated, SaskTel has had a very successful year in 2003 and I recognize that this did occur prior to my arrival as of November 1, '04. But I did want to indicate and I am honoured to be chosen as president and CEO of SaskTel, a company that is highly regarded in the communications industry in Canada and around the world.

I understand very well from over my 24 years of experience in the industry that change is constant in this industry, and technologies and change in regulatory and the environment and customer's wants from his communications continue to change.

I look forward to working with you, the employees at SaskTel, and continuing to meet the challenges and the challenges of the future. I look forward not only to continuing SaskTel's success but to the success of the province. Thank you very much.

The Chair: — Thank you very much, Mr. Watson. On behalf of the committee, welcome to SaskTel and we look forward to working with you for many years to come.

I'll throw the meeting open for questions and hopefully answers. I'm not sure why I'm looking at Mr. D'Autremont, but he was all ready to go so I recognize Mr. D'Autremont for the first question.

Mr. D'Autremont: — Thank you, Mr. Chairman. Mr. Minister, officials, I'd like to welcome Mr. Watson here as the new president of SaskTel. And we certainly wish you success and success for SaskTel because success for SaskTel is good for all of us.

I'd like to start off with questions to the Provincial Auditor's office. In the report last fall from the Provincial Auditor, October 2004, the disclosure of payee information, you reported that SaskTel, along with SaskEnergy and SGI (Saskatchewan Government Insurance) did not disclose payments to some consultants. I wonder if you could comment on that and indicate what is happening in that particular case.

Mr. Martens: — We did a review of some of the lists prepared by Crown corporations last year to provide a comment to this committee on where we thought there was room for improvement.

From our understanding of the guidelines established by this committee, was there was some exemptions permitted. However those exemptions didn't apply to consultants. That was information that had traditionally been provided to this committee by the Crown corporations. And so we pointed out those cases where we thought that consultants were not disclosed.

Mr. D'Autremont: — Okay. And the second part of the report, the next paragraph, deals with SaskTel having disclosed only a portion of the total amount paid to certain suppliers, and this is on page 10 of that report — examples, payments to Deloitte & Touche — therefore the amount disclosed is not reliable in all cases.

Can you comment on that and what actions has the auditor's office taken to deal with this situation?

Mr. Martens: — Well we're not taking any action. We're just pointing out what our findings are. I think what this relates to, this was a bit of an unusual circumstance, we thought, in that where some of the activities with a vendor might be subject to a confidentiality agreement and others not, only some of the payments — like, i.e., the payments that weren't subject to the confidentiality provision — were disclosed. However, when you do that you have an item in the listing that indicates a vendor and an amount, but it doesn't indicate that that is only a partial amount.

In our opinion, if there are confidentiality agreements that may prohibit disclosure of information, if that's combined or aggregated with several other payments, I think the confidentiality or the concern over confidentiality would be lost because it's in aggregate form.

Mr. D'Autremont: — When you receive the . . . When you do the audit of SaskTel in this particular case, do they indicate that there is a confidentiality agreement in place with certain payments or do they just simply not provide that information?

Mr. Martens: — I can't recall on this particular example what the rationale was for the non-disclosure. I believe it was the confidentiality or effect on commercial sensitivity, that type of argument.

Mr. D'Autremont: — But you have no indication from SaskTel that indicates that there is a confidentiality agreement in place and that's why this information is not disclosed; it's simply not disclosed. Is that what happens?

Ms. Ferguson: — It's a disclosure issue as opposed to an access issue from an auditor point of view. We do have access to that information in the course of the audit. The issues that we've brought to the attention of the committee is that in some cases because of confidentiality agreements those amounts are not included in the public disclosure.

Mr. D'Autremont: — So you are . . . SaskTel does indicate to you that there is a disclosure agreement in place here and this is not eligible for disclosure.

Mr. Martens: — They were very open in providing us the list as well of the information not disclosed. So we did see that and were able to view that, and that's how we prepared our report.

Mr. D'Autremont: — Okay, thank you. To the minister on this same issue: what are the reasons for not disclosing the payments to some consultants as reported in the auditor's report last fall?

Hon. Mr. Sonntag: — I will likely have John answer specific, but generally the view of SaskTel, the corporation, is simply it centres around the discussion you've just had, which is that it is issues of competition, that it would jeopardize the corporation and that particular contractor on disclosure of the specifics. And for further details I think John can answer that, but that's generally the answer.

Mr. Meldrum: — Yes, we would've been specifically asked by the consultant in question not to disclose the information, and they would've provided us either an e-mail or a letter detailing

the reasons why they didn't want to have that information disclosed.

Mr. D'Autremont: — Thank you. In making the determination that this information will not be disclosed, what criteria is used in making that? Is it simply a request from the consultant that this not be disclosed, and then the corporation simply honours it? Or are there some other criteria that SaskTel utilizes in making that determination?

Mr. Meldrum: — We provided a very detailed letter to each of the suppliers and the consultants laying out specifically the three criteria that were set by this committee in terms of what would lead to something not being disclosed and asked for the suppliers to provide us with sufficient evidence as to why they did not think it would be disclosed. And in fact I have a file about 2 inches thick of letters from lawyers, CEOs, and small-business people asking us not to disclose it and laying out in most cases in fair detail why, you know, they didn't want the particular thing to be disclosed.

In fact I can read to you without giving the name of the company that a letter that I think is very indicative of the concerns that are being raised by the private sector in terms of disclosure, if the committee would like.

Mr. D'Autremont: — I would think it would be interesting to hear what they give for reasons.

Mr. Meldrum: — Let me give you this one then. This is just a small business, a construction company out of northeast Saskatchewan. They say in response to our letter:

The disclosure of the amount paid to my company by SaskTel will prejudice the competitive position of my company. The bidding process SaskTel uses is closed tender, which means the companies bidding against us do not have access to the prices we bid on the various units of work.

It has taken my company years to develop these prices to do this work at a fair and reasonable price for SaskTel while still operating at a profit for my company. To have these prices disclosed to the public will allow anyone to bid against us with no knowledge of the work to be performed. It is our position that this would prejudice my company's competitive position and will result in a serious financial loss to . . . (X) Construction Ltd.

Therefore I would ask that the amount paid to our company not be disclosed.

Thank you.

And as I say, I have a couple inches worth of letters and e-mails from various people laying out in some detail why their particular disclosure in their opinion fits into the three criteria that were set forth by the committee.

Mr. D'Autremont: — Okay, thank you. When you get a request like this, what kind of review does SaskTel then go through in making the determination whether or not to honour that request?

Mr. Meldrum: — Well the letters were sent out by our accounting department, so they were the first line of contact. They had some discussions back and forth with the suppliers as to, in some cases what is this all about, some e-mails back and forth. They were then in consultation with myself as they were receiving those e-mails, chatting back and forth about sort of the issues that were being raised. Ultimately then the file was given to me with all of the, I think it's 43 requests for non-disclosure, and I reviewed all of the 43 requests for non-disclosure and compared them back to the three criteria set by this committee.

Our concern was that, as we read the positions that were put forward by the payees, we didn't really see that it was our position at SaskTel to say, well we don't accept what you're saying, we're going to disclose it. We didn't think that was an appropriate process, although we were somewhat left scratching our heads as to what the appropriate process might be. And as you know, there was quite a discussion and debate before this committee as to what kind of a process made sense to get at what was a valid request not to have something disclosed and what was not a valid request.

I dare say though that 95 per cent of the letters and e-mails that we got, in my opinion, provided that degree of substantiation that at least for myself meant that it wouldn't be appropriate to disclose.

Mr. D'Autremont: — So what percentage of the requests for non-disclosure were accepted, or what percentage were rejected and the information was disclosed?

Mr. Meldrum: — It was a very small percentage that were not accepted. That's where people would have just said, just a very blanket statement that said, we don't want it disclosed. No, we would go back and say we need to provide us with some substantiation as to why you don't want it disclosed. How do you fit within one of the criteria above? If they then provided that substantiation, then it was disclosed. If they didn't follow it up, then it was disclosed. And it was less than 5 per cent then ultimately that didn't follow it up.

Mr. D'Autremont: — Well in the example that you gave us, the corporation indicated that it would threaten their competitive position — that someone else could come in and tender on the work with no knowledge of the work. I'm sure that everybody who tenders on a contract is concerned that their tendering process may be compromised if they're competitors here. But they all are tendering in the same area.

One would hope that they have competence to do the job that they're tendering on, and it would be my expectation that SaskTel would ensure that anyone whose tender was accepted would be competent in doing the job. Therefore the argument that this particular letter put forward, that a competitor may not have any knowledge of the work in putting forward their tender, I don't think is a valid argument. I would rely on SaskTel to ensure that whomever they give a contract to, to do a job, is qualified to do that job, therefore knowledgeable of the work.

Mr. Meldrum: — I took from this particular letter that the crux of his issue was that it's closed tender and he doesn't get to see other people's prices, they don't see his prices, they don't know

what the ultimate winning bid is, and that if only his price has to be disclosed then it's available to his competitors but he doesn't know what they bid. And I know he works in this argument about they don't know the work and they don't understand it. That, I'm sort of with you, that I don't quite follow that part of it.

Mr. D'Autremont: — How many of SaskTel's tenders — what percentage, I don't care about the actual number — would be closed tenders versus open tenders where the contract, the tenders, are available to all the contractors? Or all they all closed contracts or closed tenders?

Mr. Stephanson: — I believe that the majority of them are closed tenders. I think we do the odd open tender, but not very many.

Mr. D'Autremont: — So again you get into virtually a situation where any competitor then . . . or any contractor could apply, using that as a criteria to close tender. Therefore there is no reason to disclose any of this information because it's in a closed tender. And that would circumvent the desires of this committee, as previously expressed, to make as much information available as possible to the public.

Mr. Watson: — If I may just bring it a step further along, individual ones . . . there's individual business reasons for this businessman to have that. The important part going . . . that's in the environment now, especially moving forward, is that conceivably companies that we're going to be doing business with could be one-man operations, all the way up to some of the biggest corporations in the world. Some of the biggest corporations in the world sometimes will have contracts where they will not supply you products or services without having their pricing confidential.

I want to make sure that we all understand, we are fully in agreement that we have an internal . . . we have a financial department, we have an internal audit department, we have an independent audit department, and then we have the Provincial Auditor all looking at these numbers. These numbers are all verified and fully open within the company.

The competitive issue is that conceivably in the future we could get into a situation where we pick a single vendor to supply us a particular service to our customers. And if that was public information, conceivably our competitors could realize how much we're doing with that particular product. Products are becoming so specialized now that you're conceivably going to do that.

Another aspect is on a particular bid, we could bid . . . a particular vendor could want to go in with us, win the bid, so they'll give us a price on that product and that job for that particular situation that we might not have done business with before, where we would have to disclose, where they would not want it disclosed because then unfortunately that would become the benchmark of products around the world.

So we will have situations where we will be required to keep this in the public confidentially; internally, no question about sharing this information with the four independent groups.

Mr. D'Autremont: — There is one problem with that argument, though. There is a fifth level of scrutiny and that's this committee. And unless we have the information, how do we carry out that scrutiny role properly? How do we do our due diligence without the information?

And we agree. That's why there were exceptions put in place that allowed for some. But when 95 per cent is not being disclosed, I think it circumvents the wishes of this committee. I think the numbers are way too high. There certainly is an avenue for exemptions and the committee foresaw that. But 95 per cent exclusion from the committee, I just think is going beyond what the committee envisioned.

Mr. Meldrum: — I perhaps misled you. I thought the question was, what percentage of those people that came and asked for non-disclosure did we then allow to be non-disclosed. It was 95 per cent of that amount. But in terms of the percentage of our total payees that weren't disclosed, it's less than 10 per cent; I think it's about 6 or 7 per cent. And we can run the math and provide that with you in a few moments.

The Chair: — Is there further question, further answer to that or is that Mr. Yates to follow?

Mr. Yates: — Thank you, Mr. Chair. My first part of the question is to SaskTel. As we debated this at some length a couple of years ago about disclosure, of course it's always an issue where there will require some judgment as to whether or not it has commercial sensitivity. In your opinion, in each of the cases where disclosure was not allowed or requested not to be disclosed, did they in fact meet those criteria that we established as a committee?

Mr. Meldrum: — In my opinion, those that weren't disclosed met the criteria. But we did find ourselves between a rock and hard place, because on the one hand we have our suppliers, who effectively are partners to a certain degree, saying, we don't want this to be disclosed and here's the reason why we don't want it to be disclosed. And then on the other hand we have the committee who has set these guidelines, and find ourselves having to effectively make that determination as to whether or not to disclose or not disclose. And I must say that, given the requests by our suppliers and our partners, we erred on the side of not disclosing as opposed to saying, oh well, that's not a good reason, we're going to disclose it, and end up alienating one of our suppliers. That wasn't where we wanted to be as a company.

Mr. Yates: — Thank you. My second question is for the Provincial Auditor's office. As we've moved down this road — at one point there was no disclosure of payee information, and we've moved considerably down this road — are there any concerns at all about the ability to ensure that payments are made appropriately or funds are disbursed appropriately, or are there any concerns at all that you have other than this information may not be public for commercial sensitivity reasons?

Mr. Martens: — I think I agree with your statement in that our concern is just basically to report on the disclosure information that is part of the accountability process in the Saskatchewan government which has now been extended to Crown

corporations. There are legitimate reasons for exemptions, and we recognize that. I think the case that was brought forward — I don't know the details of that particular case — but if that's a closed tender that is the only business that that vendor does with SaskTel. It was concluded in the year. That means that the payee amount would be the amount of the tender.

However if there are different circumstances, for example, the contract goes over the year end, there are several tenders or contracts that that vendor participates in, the amount in the payee list isn't going to provide the information on any particular tender, isn't going to damage that vendor necessarily.

So I think it's a matter of looking at things on a case-by-case basis. That could be a situation where we would agree that maybe the harm could be caused and therefore should be exempted. But in other circumstances where there's several contracts, for example the Deloitte & Touche case, it may not be appropriate to exclude amounts.

Mr. Yates: — Thank you. My one follow-up question is: if an individual vendor or consultant business asks for a non-disclosure or a confidentiality agreement around business — of course that is one of the criteria that we had originally set — do you see that as a problem in public accountability?

Mr. Martens: — Well I think the Crown has to be aware of what information it chooses to agree with vendors that will remain confidential. Certainly terms of contracts and, you know, key information should not be disclosed for commercial reasons.

However the government in departments and other Treasury Board Crowns have released this information for years and have indicated what their payees . . . and some of these are the same vendors on their lists that are on the Crown corporation list, so I think it's a matter of looking at the individual cases.

Mr. Yates: — Okay, thank you. Is there consideration for that fact though that many government departments aren't in a commercial enterprise and aren't in competition necessarily with anybody else to deliver the same services?

Mr. Martens: — I think the argument here . . . it's the vendors that are in competition, and it's harm on them that they are putting forward as being the concern.

Mr. Yates: — Okay, thank you.

The Chair: — Mr. Sonntag.

Hon. Mr. Sonntag: — If I could . . . just a supplement. First of all, I just want to be clear on process here. Do you want — for *Hansard* I just ask this question — do you want the officials to identify themselves each time before they speak or . . . You've got it. Okay, good. Thanks.

Just generally let me answer Kevin's question. I think it would be the corporation's view that they are serving, first of all, the contractors' needs well by not disclosing when requested to and having screened those requests for non-disclosure. And at the same time, I think they are of the view that they are fulfilling the requests of this committee here that sits before us today as

well.

I just have the final number for you as well, just to be clear for the committee and for the public. In fact, 92.5 per cent of all of the payee list is disclosed and I think that's helpful and puts it in perspective.

The Chair: — I just had a clarification question before Mr. Wartman. If I understand correctly, the number of parts of the list that is not disclosed, for example the construction company that you read the letter into, that the Provincial Auditor's office did have access to those contracts and all of the information, you did see that construction company's work and what they bid on and what the results were and the paying. Is that correct?

Ms. Ferguson: — Well we did not look at the activities on 100 per cent, but we do have access to the information and we did look at some of them that's not on the list.

The Chair: — So it's not as if . . . When we say it's not disclosed, it's disclosed to the Provincial Auditor on request or however you're following the process. It's just that it's not disclosed publicly. Is that correct?

Ms. Ferguson: — That's exactly right.

The Chair: — Just wanted to get that point. I guess just a process point, we are . . . these were all in order, these questions. But we are planning to have a separate meeting in March to deal with all of the Provincial Auditor recommendations, outstanding recommendations, just so committee members know. So if you think this is the only opportunity to ask questions about Provincial Auditor, it's not. There will be a future meeting. So, Mr. Wartman.

Hon. Mr. Wartman: — Thank you, Mr. Chair. I think your question was very astute and it brought forward the answers I was looking for with mine.

The Chair: — Well, I appreciate the improvement of the new member to the committee. So there's no further questions from the fine member for . . . Minister Wartman. Mr. Weekes.

Mr. Weekes: — Thank you, Mr. Chair. Welcome to the minister and your officials, in particular Mr. Watson, to your new position. Just to continue on a bit on this issue of disclosure, possibly that's up to . . . maybe I'm asking the Chair this question. But does the committee not have the ability to go in camera and the committee be given this type of information? It wouldn't be made public, but the members on the committee would have access to it in camera?

The Chair: — Is that a question to the Chair?

Mr. Weekes: — Yes.

The Chair: — Well as it stands, the committee made a decision in, I think in spring of '03, saying that they want these lists disclosed with these exemptions. And our committee, of course, was very clear in its instructions, but there's a disagreement between how the Crowns interpret it and the Provincial Auditor interprets it. So they are just following through with what the committee has requested. So until we change that, that is the

process that is followed.

Can we go into in camera? Yes, we can. There hasn't been a request to do that. There hasn't been a discussion to do that. I think the proper process, in the past, has been for the committee to talk to the Chair and the Vice-Chair and then they can have their discussion outside of the meeting and negotiate what should happen, and then we can go into camera if required. But at this point that hasn't happened, so we have wide-ranging abilities to do what we would like to do. But the Provincial Auditor and the Crowns are just following a directive of the committee at this point.

Mr. Weekes: — Well thank you for that. I think that's something that our Chair needs to discuss with you and for future meetings to see if we can work something out to accommodate that concern about disclosure. Thank you.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Thank you. I'd like to go back to where I had left off. Mr. Minister, you say that 92.5 per cent of SaskTel's services are disclosed, the payee list is disclosed. That 92.5 per cent, is that in dollars spent or in contracts?

Hon. Mr. Sonntag: — It's in numbers of contractors.

Mr. D'Autremont: — Numbers of contractors. What percentage of SaskTel's contracts would that represent in dollar percentages?

Hon. Mr. Sonntag: — We'll have to do another calculation and we'll have that for you.

Mr. D'Autremont: — Okay.

Mr. Meldrum: — It was a wide range of very small contractors with just sort of 50 to 100,000 and in some cases very large ones. I wouldn't be surprised if it's not sort of back to the 92 per cent range, but we could eventually calculate the numbers and provide them.

Mr. D'Autremont: — Well yes, I mean that's just probably good enough. My concern here is that the response was that very few of SaskTel's tenders are not closed tenders. And that of the request that . . . Okay, so very few are not closed tenders. On those tenders, how often would you receive a request for non-disclosure? Is it related virtually to every contract or is there only a few contracts where there are requests for non-disclosure?

Mr. Meldrum: — I'd say of the 43 that are disclosed there's only a few that have actually raised the closed tendering issue.

Mr. D'Autremont: — Okay. Of SaskTel's contracts then, how many . . . what percentage of those contracts would there be a request for non-disclosure in? Is it virtually all of the contracts received request for non-disclosure or only a few?

Mr. Stephanson: — We would not have . . . I guess I'm going to go back to the definition of the word contract. You're talking about an individual bid. What we had, and I think it was described by the Office of the Provincial Auditor, is a payee list

which include, for one supplier, could include three, five, ten contracts.

So the statistics that we've given you are on a supplier-by-supplier basis not on a contract-by-contract basis. We have not had requests to — at least in 2004 — for contractors saying we want non-disclosure. What we have done ever since this issue came up is changed the contract language in our contracts with our suppliers, that says you need to know that per the Standing Committee on Crown Corporations, we will disclose the amounts inside this contract unless you can fulfill one of these three criteria.

To my knowledge, we have not . . . since we've put that into the contracts we have not had a single request. So I think might be the answer to your question. We have not had a single request that says for this reason I will not . . . I would not like this to be disclosed.

Mr. Meldrum: — Maybe I could try it as well. I'm not sure all the Crowns approach this the same way, but we as a company didn't approach it from the perspective of saying some of the contracts have confidentiality provisions in the agreement and therefore we're going to take those off the top and set them aside and not even send them the letter. The way we looked at it was to say yes, there may be confidentiality provisions in the individual agreements, but we're going to send these companies letters telling them that we've been asked to disclose it by the committee and that it . . . we will only not disclose it if they come back and provide us with substantiation to fit within those three criterias.

Again, only on a couple of occasions did people come back and say you can't disclose it because there's actually a confidentiality provision right in the agreement itself. So actually a number of, I'd say, a number of the payee disclosures actually are being disclosed despite the fact that there are provisions in the agreement that say that the information is confidential.

Mr. D'Autremont: — So would it be safe to say then that while SaskTel accepts most of the requests for non-disclosure, that in your contract system you receive only a few of those requests?

Mr. Meldrum: — I'm not sure I totally understand your question.

Mr. D'Autremont: — Well I'm trying to get a feel for, within your contracts, how many of those contracts are non-disclosure. You say that about 95 per cent of the requests for non-disclosure are accepted, so there is no disclosure. But what does that represent of the contracts? You provide 92 per cent of the information, you say, but are those all . . . would those all be tendered, the 95 . . . excuse me, not 95, 92.5 per cent is disclosed. But how many of those are tenders? And so, you know, I'm trying to get a feel of . . .

Mr. Meldrum: — . . . of the 43 that weren't disclosed, how many related to tendering?

Mr. D'Autremont: — No, the 43 that were not disclosed, how does that relate to the rest of SaskTel's tenders? Like did you

have 1,000 tenders and only 43 were not disclosed, or did you only have 50 and 43 were not disclosed?

Mr. Stephanson: — I'm going to try this. The 43 is again suppliers, not individual tenders . . .

Mr. D'Autremont: — Individual contracts.

Mr. Stephanson: — . . . not individual contracts. It may in fact represent more than a single tender. It could be that a particular supplier had and were successful on five tenders with us through the years. So that 43 number, you can see how that would grow.

On the same side, those that we have disclosed with you from a supplier perspective are the same thing — multiple tenders. So out of the I think 570-odd . . . or 532-odd suppliers that we have supplied, those would be multiple tenders as well, okay?

So to answer your question as to what percentage of those that we haven't disclosed to this committee, over total tenders, we have to go back and add up the numbers of tenders on both the numerator and the denominator of that equation.

I see no reason, although this is a very blanket statement, I see no reason it wouldn't be in the same 92 per cent category — as many on the denominator side as on the numerator side.

Mr. D'Autremont: — The Provincial Auditor's office has suggested here this morning that it might be possible or acceptable if you were to provide totals for contract . . . or payees where they're dealing with more than one contract with SaskTel so that it doesn't define one particular contract as having that value. So if they have done five contracts with you, you have an aggregate amount and it doesn't disclose any particular one. Would it be possible for SaskTel to do that?

Mr. Meldrum: — It would be possible for us to go through each of the 43 and determine which ones were multiple contracts and which ones weren't multiple contracts. That wouldn't necessarily answer, though, the concerns that would have been raised in the letters and e-mails that we would have gotten from those 43 individuals.

Mr. Watson: — Again, I'll . . . (inaudible) . . . going forward, I would still want to have an open discussion of . . . and I'll use two that probably aren't in there but, you know, Cisco and Nortel may have difficulty of each one disclosing how much we buy from each one of them, even on a total dollars. So, you know, we've got to be very careful about how we do this, and I'm not . . . Full co-operation with the auditors and disclosure, but publicly, especially with the . . . (inaudible) . . . that's going on with Nortel recently. And you've just got to be cautious about how much we were going to put into . . . Again, it's public disclosure. It's not disclosure really we're talking. It's public disclosure that I get a bit concerned about how we're going to deal with that. That's . . . and not internally at all.

Mr. Meldrum: — Just simply the total value of somebody's contract with one of the Crowns is competitive information because then you can say, boy, I didn't know that they were doing that much business with them; I'm going to go target them. I'm going to get my sales folks in there. That's why I

think the Provincial Auditor pointed out that SaskEnergy didn't disclose how much they paid SaskTel. But we specifically sent a letter to SaskEnergy saying we did not want the amount of business that SaskEnergy does with SaskTel to be disclosed because we don't want our competitors knowing what the value of the SaskEnergy account is, because perhaps they would spend more time and effort chasing SaskEnergy.

Mr. D'Autremont: — But then wouldn't that be a valid argument for every payee?

Mr. Meldrum: — If they make it and sustain it, it could be.

Mr. Watson: — Could be.

Mr. D'Autremont: — So then we come to the situation, back to where we were previously on Crowns, where none of their payees are identified or disclosed, which is different from what happens in the rest of government in the line departments where those payees and contracts are disclosed. And we get back to the old days where information is again not available for scrutiny by the legislature, which is the mandate of this committee. And I think that's the wrong direction to go.

Mr. Watson: — Yes, and I'm only being on the business side. A competitive business environment and, you know, leaving the information within whatever scope of responsibility we have, is the only thing I'm coming at. Whether it's . . . A government agency, as somebody indicated earlier, is not in a competitive . . . per se there's not health care competing against health care in the province. I pick on health care because it's an obvious one but . . . I'm just very concerned about the competitive environment. Because you've got companies now three times our size, ten times our size; Bell Canada who's going to come into this province and any competitive information they can possibly get, they're going to use. And that's my concern, will always be.

Mr. D'Autremont: — But that information is available for the Health department or the health region as to what those contracts are with SaskTel or Bell Canada or whoever the case may be that they're dealing with on the telecommunications side.

Mr. Watson: — Yes, but I mean they're very sophisticated people. I mean if Bell Canada could come in and see how much business we're doing with Cisco, and then through other industrial relations figure out exactly what we're buying from Cisco, what product, where we're buying it, you know, and therefore specifically target it because our voice over IP (Internet protocol) business to businesses, because you buy a different product for that where you might for residential. And that's where I would get concerned about information getting out.

Now again, I'm happy to supply it everybody internally, whoever wants to see the information. I'm only saying the public. And we're not saying all of it. I mean, we're not disagreeing with disclosing as much as we possibly can, even to the public. We're not that. But all we're saying, indicating, again I mean going forward, I would want to make sure there is some ability to keep some of it confidential from the public.

Mr. D'Autremont: — The payee disclosure, this was I believe the first time for the Crown corporations to be supplying this information. I think it's going to be interesting to see — you had 43 requests approved last year — whether that number now increases from that point to where more and more of the payees are requesting non-disclosure and whether that is going to be an attempt to circumvent the scrutiny of this committee. I mean it's not all that rigorous a scrutiny as it is, but I think it's critical that this information be available to the committee as much as possible. And we did recognize that there were valid exemptions in place.

The Chair: — Any further questions on this issue or are we ready to move on to other questions or comments? Mr. Yates, are you looking like you're about to ask a question? No, okay. Mr. D'Autremont, on a different issue.

Mr. D'Autremont: — Different issue, still on the auditor's report, though.

The Chair: — Okay.

Mr. D'Autremont: — This is the 2004 report volume 3. It lists in appendix 2 . . . The corporations that are dealt with through the Crown agencies in the auditor's report have a number of SaskTel companies — SaskTel Data; SaskTel Holdings (Australia); SaskTel Holdings (New Zealand); Holding (U.K.); SaskTel International Consultants; SaskTel Investments Inc.; SaskTel New Media Fund Inc.

It says as a note there that these entities did not have any . . . did not carry out active operations during 2003. What's the purpose of all of these companies?

Mr. Meldrum: — There would be different purposes for each of the companies. In some cases, for example with SecurTek, when they purchase accounts from alarm companies the alarm companies like to sell the entire company. For tax reasons that's what they like to do, and then they carry on business afterwards. But we have the accounts and the tax planning around that actually ends up creating a couple of companies that have to be in existence for some period of time until you get past the tax liability issues, and at that point we discontinue them.

We've actually discontinued a fair number of companies over the past year, year and a half, so that the number is now reduced. But if you wanted to ask questions about any particular one, we could indicate why it's in existence and why it actually isn't at this point operating.

Mr. D'Autremont: — So the companies that I named, 1, 2, 3, 4, 5, 7 — 7 or 8 of them — are they some of the companies that have been wound down or will be wound down in the near future?

Mr. Meldrum: — A couple of them, yes, I would say so.

Mr. D'Autremont: — That have been wound down.

Mr. Meldrum: — Let me just . . .

Mr. D'Autremont: — Page 2-7.

Mr. Meldrum: — Yes, I'm just . . . sorry, I'm just comparing what's on that particular page to what are currently listed operating entities of the corporation that haven't yet been wound down.

SaskTel Data Exchange Inc. has been wound down in terms of either, you know, letting it lapse or whatever has happened to it. SaskTel Holding (Australia) is still in existence. SaskTel Holding (New Zealand), I don't believe is in existence, but Randy, maybe you could look over my shoulder as we're going down the list, too. I know SaskTel Holding (U.K.) is still in existence because there was still some tax liability issues — potential liability issues from when we sold Leicester so we had to keep that one in place for I think a period of 10 years after the sale of Leicester, and we'll be letting that lapse as soon as we get there. SaskTel Holding (New Zealand) is still in existence; SaskTel International Consulting is still in existence. SaskTel Investments Inc. is actually . . . A number of the investments are under that one so that one will continue to be in existence for some period of time. SaskTel New Media Fund will be wound down in 2005 in terms of letting it lapse.

Mr. D'Autremont: — Now the SaskTel Investments Inc., it holds some of the other companies that you list here?

Mr. Meldrum: — That's right.

Mr. D'Autremont: — Or it holds other companies?

Mr. Stephanson: — Other companies.

Mr. D'Autremont: — And the other companies are active?

Mr. Stephanson: — Yes, a number of them.

Mr. Meldrum: — Mainly so, because SaskTel Holding (New Zealand) is under that particular entity and SaskTel Holding (New Zealand) is not active. It was holding the Austar shares, and they've all been sold now. So we will be looking for the opportunity to discontinue that one as well.

Mr. D'Autremont: — Okay. What . . .

The Chair: — I thought you were done. I was going to recognize Mr. Weekes. Whenever you're done, Mr. Weekes is waiting patiently.

Mr. D'Autremont: — Which other companies are listed under SaskTel Investments then?

Mr. Meldrum: — Sure, I'll go through the list.

Business Watch International is under SaskTel Investments. Underneath Business Watch International is Business Watch International U.S. Craig Wireless International is under SaskTel Investments. Hollywood at Home is under SaskTel Investments. NSI Global Inc., SaskTel Holding (New Zealand) Inc., Nokomis Holding (US) Inc., Streamlogics Inc., SaskTel Holding (Australia) Inc., and underneath that is STI Communications Pty Ltd., which is an Australian corporation. 1081972 Alberta Ltd. and 675161 British Columbia Ltd. are all under there.

And then as well there's a number of companies related to the Saskatoon Square because we own 70 per cent of the Saskatoon Square, and they're all under SaskTel Investments Inc. And as well our interest in Hospitality Network Canada Inc. is held by SaskTel Investments Inc.

Ms. Ferguson: — Actually I'd like to draw to your attention what may help you to connect the dots, is actually in the notes to the financial statements, note 2. What they do is they have as a part of that note, they list the names of the operating entities and the non-operating. Then . . . (inaudible interjection) . . . It's actually page 49 and 50 of the annual report. So that might help you connect, sort of, the dots.

And also if you recall, this committee receives as significant transaction filings when they create new corporations. And in those you'll find that these are the corporations that are often named.

And then the third source would be the actual order in councils that are passed when there's acquisitions and creations of corporations. You'll find often in the back end, you'll find the same names popping up.

Our office has encouraged SaskTel to disclose this information in the financial statements really just because it is a complex corporate structure and to help people be aware that, yes, there's operating entities, there's ones that are non-operating. And as John indicated, in some, in a lot of cases it's because of the acquisitions or the manner in which they're operating that they exist. Thank you.

Mr. D'Autremont: — Thank you. As committee members — and we change, we've had a change again today with Mr. Wartman coming in — you're not always aware of what's gone on in the near past and so then you end up repeating the questions because you're not aware of the information. But thank you for that explanation.

The Chair: — Mr. Weekes.

Mr. Weekes: — Thank you, Mr. Chair. Just a question on SaskTel Holding (Australia). What is the type of business that that company is doing in Australia?

Mr. Stephanson: — They were originally set up because in order to do business in Australia you had to have a corporation registered in Australia, so we asked for that. You may be aware that we did a significant amount of due diligence around an investment opportunity in the city of Newcastle, which would have been a promising investment similar to our Leicester cable investment which was coaxial cable television combined with telephony as well.

Through that due diligence and the lack of ability to get a partner, we ended up not pursuing that investment. But early on in the investment we did set up a company that would potentially hold that investment, but at the end of the day we haven't used it.

Mr. Weekes: — You're referring to Austar?

Mr. Stephanson: — No, I am not. I'm referring to diligence

around a Newcastle investment. Austar was a different investment which actually started in New Zealand.

Mr. Weekes: — New Zealand. So would Austar be under the SaskTel Holding Inc.? Is that where . . .

Mr. Stephanson: — We no longer hold any shares of Austar. But they were held by SaskTel Investments.

Mr. Weekes: — And also for SaskTel Holding (New Zealand) Inc., what type of business do they . . .

Mr. Stephanson: — That is in fact what started out and became Austar. Almost the identical answer that I just gave for the Australian corporation was again, in order to effect and do business in foreign countries, it is very, very common that you should register a company in that particular country. So we registered in New Zealand when we started the build in the capital city of Wellington, New Zealand.

This would be quite a number of years back. That investment was held by SaskTel Holding (New Zealand); the shares, I should say of that investment were held by SaskTel Holding (New Zealand). At the time that our partner determined that it was better to merge that company in New Zealand with the company in Australia called Austar. We ended up flipping up our New Zealand shares into shares of New Zealand. And I don't know if you recall that's where we had, I believe it was 30, \$34 million gain as a result of that transaction when we flipped it from New Zealand to Australia. And at that point in time, again, the New Zealand company, holding company became a non-operating company; it does nothing.

Mr. Weekes: — Thank you. My next question is concerning the auditor's report, volume 1, page 82. And the conclusions and recommendations, the auditor . . . I guess my concern around the conclusions . . . the auditor has asked to improve the processes to communicate governance expectations to companies it owns and controls. And then you go on to say you recommend that Saskatchewan Telecommunications Holding Corporation ensure that the board of each company is current in terms of reference and so on.

If you could comment on that recommendation, I guess my initial question is, what prompted this concern? Has this been an ongoing concern in past years, and could you just elaborate on your recommendations?

Ms. Ferguson — Most certainly. From time to time, our office does additional work in organizations of areas that we think are . . . we can provide the Assembly with useful information and assurances. Because SaskTel has a complex corporate structure, we thought it was important that they have good processes in place to really govern that complex corporate structure. And that was the reason that we undertook the work on governance.

The recommendation that you've put forward — my understanding is actually we'll probably deal with our reports and our recommendations at a future meeting — but just to respond to where you're at, these are two areas that we identified during the course of that work as a result of . . . or, I guess, more accurately as a result of that work. And it's two areas that we thought that SaskTel actually could improve upon

the processes that they use to provide that oversight and governance of their various subsidiaries.

So overall they did not too bad, but there's two smaller areas that we thought that they could just make improvements to do better and to enhance the governance processes.

Mr. Weekes: — Thank you. Just another general question, possibly. With the concerns of SaskEnergy and the concerns of paying bonuses and so on and so forth that develop without board approval, is that what prompted some of these investigations or concerns?

Ms. Ferguson: — Actually this preceded those types of issues. So no, it wasn't. It was more that it has a complex corporate structure, that it does have a lot of different subsidiaries and a number of different locations. So it's really the complex corporate structure that prompted it more so than the concerns that you just alluded to.

Mr. Weekes: — On your second recommendation, speaks to more of the boards and I guess the board approval and those types of issues. Again, how does . . . well, SaskTel in this case or all the Crowns, how do they compare to private businesses and the working of the boards and the oversight that boards have over the operations of other companies compared to what is happening with the Crowns?

Ms. Ferguson: — The model and the criteria that we used in the course of this engagement was really the model of good governance that private . . . publicly traded companies would utilize. That's the model that we pulled upon.

So I can't answer your question directly in terms that I don't think there has been a lot of work in terms of assessing individual organizations and how they're doing against that. I think, rather generally, we're all aware that governance is a very hot topic and a very important issue for all organizations and particularly publicly traded organizations and is an area that a number of organizations need to do their homework on and dot the i's and cross the t's.

We thought that, and we still do think, that the criteria that we're using here are appropriate for the environment that SaskTel's operating within. And I think, during the course of the engagement, when we vetted the benchmarks or the criteria with the corporation, they felt so . . . that they were appropriate too, to be compared to against what would be expected of a publicly traded company.

Mr. Weekes: — Well as we all know, there's been a lot of problems in publicly traded companies with the boards and the lack of due diligence or lack of knowledge. And I guess the impression I get with some companies is that the boards, members of boards may not realize what their duties are, quite frankly. And now, we see that there's been some serious problems develop in various companies and I just wonder . . . and I guess that's what you're speaking to here is the Chairperson of the board and the board members, are they fully aware of their duties and what's expected of them. And I guess I speak to the concern of possibly board members feeling that maybe it's not their place, or they're intimidated by the management of a company to not really ask the hard questions.

And I guess how that comment . . . how do our Crowns operate and how are they . . . how do their boards operate and are they doing a job? But do they know what their job is to begin with and are they doing it, and particularly in the Crown situation, to protect the interests of the people of Saskatchewan?

Mr. Watson: — If I may, Mr. Chair. Just again, this is more of my experience in the private sector than part of public companies; Shaw Communications, on their executive. Our board is made up of independent members. There's no executive on the board of SaskTel. Those independent members are from the province, and as well as outside the province; industry experts, union members, in-scope members, as well as Aboriginal. So the makeup of the board in my initial view is excellent and the makeup of the independent members.

The board then has the four independent committees set up. The independent committees are: audit, who have the full scope of audit; they have environment and human relations; we have a growth committee, which includes technology — and I'll get into each one a bit more for you; and then we have a governance committee.

The significant thing that we do have that other corporations have . . . public corporations, that some of them don't yet, is a governance committee. And you might have just saw in the newspaper this morning where Nortel is actually going to get themselves a governance committee, finally. We already have that.

Each one of the committees has their terms of reference. Clearly the audit committee is clear; they're the ones who work directly with the finance committee. They work directly with internal audit. Internal audit now reports direct to me, it doesn't report to the finance . . . to the CFO (chief financial officer) any more, which is good and best practices. And the audit committee also works with the independent auditors directly on the audit . . . on all complete audit side.

Each quarter now we will . . . the financials will be done. The audit committee will review the financials and then we will take the recommended quarterly financials to the board for approval to release — again public practice. All committees are to meet four times a year. And in fact the audit committee, we have six meetings in this year with the audit committee. And the board, we actually have six board meetings this year. The board will approve any public release of financial information. And again, that's my experienced practice in the public sector.

The growth committee. The growth committee, that does look at . . . and we have the responsibility to go to the growth committee for any investments outside the province. It goes to a SaskTel executive first. The executive says, yes we want to take that forward. We take it to the growth committee. They do a rigorous review of any investments outside the province. And upon their acceptance, then executive then takes it to the main board for recommendation to do the investment. And in fact the growth committee is on an ongoing basis reviewing our investments outside the province.

They also are now . . . just recently we're taking technology into the growth committee, where we actually . . . any technology changes or any updates on technology that the

company is going to use, because they're such a critical part of our business, will then be reviewed by the growth committee within the board and then will be reviewed with the main board on a quarterly basis.

The environment and human relations committee, again an independent committee, all human relations — being salary, benefits, compensation — go through the HR (human resources) committee and then from there approval, and then the executive takes it to the main board. And environment is a part of the HR which is an essential part of that so that ensures that we become best practices in ensuring we're environmentally on the leading edge of making sure we look after the environment.

In fact and finally, the governance committee. The governance committee oversees all governances within SaskTel, the board, and the subs, all subs.

So the practices are there. We are keeping . . . We are continually trying to use best practices within the corporation and/or, you know, for some cases we could do better and we're going to get there. But the philosophy of the corporation is to have best practices matching the public sector.

Mr. Weekes: — Well, thank you for that. Board members, how much are they paid? Is there a salary, expenses? Could you give me the breakdown of that?

Mr. Stephanson: — I don't have the numbers in front of me. We do file that with the legislature.

Mr. Meldrum: — They are paid the standard CIC (Crown Investments Corporation of Saskatchewan) large Crown rates. They set them for all of the Crown corporations.

A Member: — Is it okay if he answers it from there?

Mr. Weekes: — Sure if you could give me the . . . (inaudible) . . . for SaskTel board members.

A Member: — I'm sorry. What was the question?

Mr. Weekes: — What are the board members being paid? Is there a salary, is there expenses on top of that, and those types of payments?

Mr. Burnett: — They don't receive a salary. They do receive an honorarium. And do you want the actual amounts that they would have received or . . .

Mr. Weekes: — Yes, sure, please.

Mr. Watson: — Just for a bit of general . . . while Doug looks for it, they are paid an honorarium which is a small fee around 6, \$7,000 mark per year. They don't get paid for their time, but that's a per-year fee. And then they do get paid any out-of-pocket expenses to attend any of the board meetings, and it's strictly just replacement of expenses.

Mr. Weekes: — So that would be including travel and there would be a per diem for meals.

Mr. Watson: — Yes, if travel is required. Most of them is just so . . . most of them obviously are citizens of Saskatchewan, so it's either drive down from Saskatoon or drive from the south, and we pay that expense. So it's very modest expenses. Two of the members of the board — the chairman of the board is from Victoria and then the one independent member from Edmonton — are the two that are outside the province that are paid expenses to come into the province for the meetings. But again, very modest, set meetings coordinated for the year.

Mr. Weekes: — So depending on where they happen to travel from would determine their expenses, but the honorarium is around \$7,000, you said?

Mr. Burnett: — The honorarium is the CIC established honorarium. We don't have the exact amount . . .

Mr. Stephanson: — On a per-meeting basis.

Mr. Weekes: — On a per-meeting basis, yes. Your board members, you know, are some very familiar names and by all accounts they're very qualified people. I just worry about the whole general makeup, again getting back to what's happened in publicly traded companies. It just seems that most, I assume most of these people have other professions, other jobs, and do they have the time and are they allowed to do the job properly in order to make sure that situations don't arise like we've seen in publicly traded companies.

And I understand your answer and I appreciate that, and I'm certain that's our wish that that is taking place. But when it comes down to it, the chairperson and the board are the ones that are responsible and, you know, it seems that they are kind of just being in many cases being told certain facts that are given to them. And, you know, how do they know that something isn't amiss or wrong in what's taking place in the company?

Mr. Watson: — Yes. I mean, again my first impression — having been here three months and attended three board meetings and several of the committee meetings, in fact, all of them — is that this is a very active board. They are very engaged in the business, very engaged in the business, a very active board — even at the committee level, very engaged.

The process we've set up is that with a rigorous process for the committees to review any decision before recommendation, before it goes to the board is a very good process, and they are rigorous with that process. It's just my experience so far with them.

So again, can we do better? We're always trying to improve, and it is . . . again, we're going to be best practices with the corporation so . . . But just to give you some assurances, my experience, and even dealing with boards like Shaw Communications, this is a very active board and asks the right questions.

Hon. Mr. Sonntag: — I just would add, just by way of example, the Chair of the board for SaskTel right now has a vast amount of experience — as an example with Nortel and also with MTS. So we've got people on the board who have a lot of experience in telecommunications as well.

Mr. Watson: — Just a bit more on the balance. The balance is very important. I mean we've got . . . As I say, we have independent members who are outside the province who are industry experts which help us out. And then within the province we have a very good balance of business people, a very good balance of demographics on the board, which is important. And I thought it's a good, balanced board.

Mr. Weekes: — No, I agree with that. And like I say, the hope of everyone is that they are doing a good job. They certainly seem to be people that are very qualified. But just given what's been going on in the business world in the last number of years, it's just always a concern that, you know, things are being looked after.

Mr. Watson: — Yes.

Mr. Weekes: — Well thank you very much for that. I have a few questions concerning Retx.com. The first question I guess I have is there's no financial statement for Retx. Why is there no financial statement been given to us or . . .

Mr. Stephanson: — The reason that we haven't filed Retx's financial statement is that a number of years back, pre the discussion around full disclosure, we signed a unanimous shareholders agreement with the partners in Retx, and that included . . . and one of the clauses in that was a clause of confidentiality as far as financial disclosure.

This became an issue in the spring of 2003. We clearly heard the public, the media suggesting that there should be less disclosure. We clearly heard the Premier say that . . . I mean there should be more disclosure. Yes, pardon me.

We also heard the Premier say there should be more disclosure and we have certainly followed that on a go-forward basis. Any transactions that we've entered into since about the middle of 2003, we make sure there are no confidentiality clauses and we tell our partners clearly it is a requirement that we disclose the financials of this organization, and they're aware of it and we do so. And that's what's in the unanimous shareholders agreements now.

But you can't go back retroactively and still make that agreement with companies that were pre the middle of 2003. So that's the reason.

Mr. Weekes: — Yes. I just have some questions concerning the purchase of shares. In 2000, 49 per cent of SaskTel's investment in Retx was \$11.9 million; 2001, another 14 per cent was purchased for 5.5; 2002, another 27 per cent for 4.4 million; 2003, for a meagre 1.7 per cent paid \$2 million. And now there's been another point three one per cent. We don't have the amount that was paid. Could you tell me what was the purchase price for the last point three one per cent of Retx?

Mr. Stephanson: — Could you provide me with what page you're looking at?

Mr. Weekes: — This is my own notes.

Mr. Stephanson: — Okay. One million dollars for that final . . .

Mr. Weekes: — One million dollars.

Mr. Stephanson: — Point three one.

Mr. Weekes: — Now obviously the question is the amount of money being paid for relatively small amounts of shares. Could you explain what's been going on there, and why were these purchases of added shares being taken place? And why, well it seems on paper in 2002 you bought . . . SaskTel bought 27 per cent more of the company for 4.4 million, and now you're saying for point three one per cent — yes, point three one per cent — paid \$1 million in 2004. So there seems to be a considerable difference in value. Could you explain what was going on there?

Mr. Stephanson: — At each point in time that Retx required funding throughout its business cycles, a valuation was made of the company at those particular times. And funding or the purchase of shares at any particular time was related to the determination of the market value of the company at that particular time. That's why the numbers will vary.

Mr. Weekes: — Are you able to disclose who you purchased these shares from?

Mr. Stephanson: — From the treasury of Retx.

Mr. Weekes: — From the treasury of Retx.

Mr. Stephanson: — Yes.

Mr. Weekes: — Now the Retx has been sold. It's stated that it was a profit of . . . well profit; you tell me what the proper term is. But it says that you received eighty point four thousand dollars more than was paid for the original investment of the shares. Is that correct?

Mr. Stephanson: — No.

Mr. Weekes: — Okay, can you explain that?

Mr. Stephanson: — It would be \$80,000 more than the current book value of those shares.

Mr. Weekes: — The current book value.

Mr. Stephanson: — Well yes. When you purchase shares they start out as book value and then when . . . an investment can either return profits or have losses, and those will impact the book value of your particular shares.

And this case, as well, looks at from an accounting perspective any impairment that might exist with the asset. Taking all those into considerations, Retx's value on our books was lower than what we ultimately sold the operations for at that time.

Mr. Weekes: — Well the question next is, how much money was lost in the whole business venture concerning Retx?

Mr. Stephanson: — Okay, could I give you a longer answer for that? I mean . . .

Mr. Weekes: — Sure.

Mr. Stephanson: — Retx, we basically looked at Retx. It clearly — it's an unfortunate story — it clearly had some risk associated right from the beginning. Our expertise . . . we had just gone through, in Canada, deregulation where there was competitive companies in long, the long-distance business. That required IT (information technology) systems and knowledge to get there.

That's pretty well exactly the stage that Retx was at in the power industry when we looked at the investment, that it was around deregulation of the power industry and the IT systems. And that's in fact the expertise of the Retx platform and intellectual property, is the systems that they have. In fact they have 36 patents in the US (United States) associated with the processes and procedures for the deregulated power industry.

Again I don't know if you followed the power industry in the US over the last five years, but there were a significant number of issues where it was a stop and go, and they ultimately would deregulate pieces of the country in certain states and then pull back when power shortages and situations occurred.

Unfortunately to us what basically happened with our Retx investment was that it did not run smoothly as per telephony deregulation. It ran into all kinds of difficulties. We kept thinking that, you know, next month, next month, next quarter, things will improve — we have the technology; we have exactly what people are going to need when they start to trade power. And unfortunately that didn't happen. So that is effectively what's happened with Retx.

As it stands right now, net of cash that we have received back, we have lost \$24.7 million in our Retx investment. We've sold the operations of Retx. What we still maintain is that intellectual property. We still believe that there's a possibility with that intellectual property that we may be able to sell those patents or sell licences to use our patents when that industry matures some more and starts to move further toward regulation.

Mr. Weekes: — So the company has lost 24.7 million now. That's \$24.7 million lost from what you purchased, SaskTel purchased the shares versus what they sold the shares, the company for?

Mr. Stephanson: — It's the net, yes.

Mr. Weekes: — That's the net. Now does that include operating losses as well?

Mr. Stephanson: — Yes.

Mr. Weekes: — That's all I have, Mr. Chair.

Mr. Chisholm: — I have one question. If, in 2004, point three one per cent of more interest was worth \$1 million, what were the shares actually worth when they were disposed of and the loss . . . like, we were still buying in 2004, adding investment by purchasing shares that were quite high per-share value, I would think, at point three one per cent . . .

A Member: — A million.

Mr. Chisholm: — . . . for \$1 million compared to the ones we had previously. Shortly after that, we dispose of our shares and receive something quite a bit less. I guess just maybe it's the timing of the purchasing and when the decision was made to get out and the valuation of the shares between those two dates.

Mr. Stephanson: — The investing that happened in 2003 and probably the last part of 2002 was the result of cash calls because of operating losses within the company. Our partners in the venture had put in all the monies that they could, so we became in that short period of time the sole investor. The number of shares that we received . . . I'm going to say we had ourselves covered with the dominant position so the calculation of the per-share number was of less concern to us at that time because we held pretty well all the shares, you know, a very strong percentage — 92 per cent of the shares.

The Chair: — Mr. Chisholm, any further questions?

Mr. Chisholm: — Not right now, no.

The Chair: — Okay. Mr. D'Autremont.

Mr. D'Autremont: — Thank you. Still on the Retx. The initial purchase was worth approximately \$240,000 a per cent. In 2000, 392,000 in the purchases it made. In 2001, 162,000. In 2002 . . . These are all per 1 per cent. In 2003, the value was \$1.176 million for 1 per cent and then the last share purchases were approximately \$3.2 million a per cent.

So you would certainly seem to think that there was an escalation in the value of the company when the value of 1 per cent of the shares grows by more than 10 times from 2000 . . . in the purchase in 2000 to 2004. And yet, you quickly proceeded then to shut the company down in 2004.

Your partner that was involved in this, did the partner receive any of those monies that were paid out after the initial purchase in 2001 . . . or excuse me 2000, the year 2000. Or were these simply monies that were paid into the treasury of Retx to pay the current ongoing expenses of Retx?

Mr. Stephanson: — At no time through this time of funding was there any money taken out of the organization by any of the shareholders. So it did all go into the treasury of Retx.

Mr. D'Autremont: — When the company was wound down, were there any outstanding accounts due by Retx?

Mr. Stephanson: — We went through an orderly wind-down which effectively was negotiated, and paid off employees and . . . pardon me. We made arrangements with the purchaser of the operations of Retx to ensure that suppliers got paid and that employees would not lose salaries. So it was an orderly sale to a new company down there.

Mr. D'Autremont: — So as far as SaskTel was concerned, no employee or supplier was left holding the bag on this.

Mr. Stephanson: — That's correct.

Mr. D'Autremont: — You obviously could see that in 2003, you made an investment there of an additional \$2 million to buy

a 1.7 per cent percentage of the shares; a very miniscule amount, that the corporation was clearly in trouble at that time.

What was the decision-making process and why was the decision made to not wind the company down at that point, when you didn't need to put the additional million dollars in in 2004?

Mr. Stephanson: — In all the times that you are funding an investment, you look not at historical numbers but what is the likelihood of getting and recouping your investment on a go-forward basis. We looked as best we could at what cash flows would be from this investment on a go-forward basis and came to the conclusion that we would, that there was an opportunity — not without risk and obviously the risk has come in — but we believed at the time that we approved . . . And the process as it goes up through the board of directors as well, to say that if this investment is funded another \$2 million these are the cash flows that we believe that can come back from this investment, hence giving us a return. And it was under that premise that we continued to fund Retx.

Unfortunately, again I will say, the continued deregulation or the continued stalling of deregulation, pardon me, was the issue around cash flows, future cash flows not coming forward. As we sit here today, I think you're going to see in the next three to five years some success in this market space. Unfortunately we got in too soon. The dragging of the feet of the industry, the issues and problems they had, resulted in our investment not returning profits at that time. But there will be a time when that is exactly the right space to be in. It was unfortunate for us it wasn't the years that we put our money in.

Mr. D'Autremont: — It was unfortunate for the people of Saskatchewan as well that the ratepayers of SaskTel lost more than \$24 million. And that's money that could have been used as investment in Saskatchewan and was not used. And I guess that's one of the reasons why we question the investments, both by SaskTel and other Crown corporations, outside of this province — that the history, other than on one occasion, has not been good.

And you know, there was the cable company out of Chicago, in that area, Illinois, back that the government first invested in that lost \$16 million. I mean the history has not been kind to SaskTel's investments outside of Saskatchewan. And I think it's incumbent on the corporation to look very, very carefully at those kind of adventures before they invest the ratepayers' money and jeopardize the corporation in the province.

Mr. Stephanson: — I understand that comment. We did in the 2003 management discussion and analysis of our annual report try to build the case and make the case very clearly to our public.

I'm going to apologize right now — we did not want to lose \$24 million in Retx. I don't think there's any way we went into it and said I hope this happens. We did not want it to happen. But in the 2003 MD&A (management's discussion and analysis) it talks very clearly about what is happening in our marketplace and the need for growth. It talks about how our legacy systems — like long distance and local — have declined dramatically since 1990, and the fact that we had to get into

things like cellular, things like video, external investments.

As far as our total track record, I understand what you just said. There are going to be investments that are not successful because something happens with the business plan. I described what happened with Retx's business plan. You mentioned the Chicago venture. Yes, that was another one that was unfortunate. But there are five success stories in our portfolio as well, and it's not just the Leicester Cable. We had an Alouette investment which had a profit of \$6 million; ISM Westbridge, a profit of \$24 million; our Austar investment, a profit of \$6 million; and our Persona Cable investment, a profit of \$2 million. So we have been successful on more investments than we have not been successful on — both in dollars and numbers.

The Chair: — Any questions on this? Otherwise, Mr. Weekes.

Mr. Weekes: — I just want to add . . .

The Chair: — Oh, sorry, Mr. Sonntag.

Hon. Mr. Sonntag: — One supplementary to this as well, just . . . this is more sort of more for the public I guess than anything, but also for the committee members as well. Just to put this in perspective, I mean what's gone on in the industry generally. If you look at what happened to Bell as an example, who were making investments around the world as well — I mean I don't remember the exact numbers — but I think it was around \$8 billion they lost. I know they're a much bigger company of course.

But in percentages, I suspect if you broke it down in terms of percentages, SaskTel will stand up pretty well to almost any telephone company in North America as it relates to losses on external investments, if that's how you describe it.

Mr. Weekes: — Just a clarification on the purchase of the sales. Now was it SaskTel International which were purchasing these sales from Retx or who was?

Mr. Stephanson: — Can you repeat the question?

Mr. Weekes: — Well, who's buying these . . . who was buying Retx.com shares?

Mr. Stephanson: — The operations of Retx?

Mr. Weekes: — Yes.

Mr. Stephanson: — It was a company called Alliant out of the US (United States). I'm not . . .

Mr. Weekes: — I'm sorry, I mean before you sold the company.

Mr. Stephanson: — Who held the shares of Retx?

Mr. Weekes: — Yes. Well, there was purchases of shares in every year, starting in 2000. Who was . . .

Mr. Stephanson: — The purchaser was SaskTel Investments Inc.

Mr. Weekes: — SaskTel Investment Inc. Now, just clarify that again. Those purchases were from Retx for . . . from the Retx . . .

Mr. Stephanson: — Treasury.

Mr. Weekes: — . . . treasury. That's Retx's treasury was holding shares; that's what you're saying?

Mr. Stephanson: — Yes.

Mr. Weekes: — Okay. In the end there was 92.01 held by SaskTel. The balance, basically 8 per cent of the shares, was held by Retx treasury as well, or was there anyone outside that was a shareholder?

Mr. Stephanson: — Yes, there were. Our partners were, for the most part, the senior management of the company, those who were very knowledgeable in the power industry. Again it's a practice of ours, when you enter an investment, to take on local expertise. I suggested to you that we had some knowledge of IT systems and deregulation as it related to the telephony industry. These folks are expert at the power industry.

Mr. Weekes: — Well, it seems to me as the share value was increasing and you were buying shares from other . . .

Mr. Stephanson: — From the treasury.

Mr. Weekes: — Well, from the treasury, but these shares held by the management, what did they recoup in the end as far as value for their shares?

Mr. Stephanson: — What did they receive as value for their shares? Eight per cent of the selling price, which was — I think, again — below \$100,000.

Mr. Weekes: — Below 100,000, okay. When SaskTel was purchasing these shares from the treasury, from Retx, that money was really going in to offset operating losses; would that be fair to say that?

Mr. Stephanson: — I'd prefer if you said it was going in to fund the forward business plan.

Mr. Weekes: — But you would have to agree, considering the \$24.7 million loss at the end, it was going to . . .

Mr. Stephanson: — Again, it is standard practice in an investment when you start up an investment, they have operating losses. They have a number of things that they have to do that they have to spend to get up and running, and it is just common practice in the bulk of investments that they will have start-up operating losses. You don't exit an investment because after six months it's lost X thousand dollars. What you do with investments is you always look forward and say will that investment return my capital. And that's what we kept looking at, and that was the unfortunate part obviously.

Mr. Weekes: — That's all I have.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — I have one more question on this. On the initial purchase of the \$11.8 million that SaskTel put in, did the partners put in an equivalent dollar value for their 51 per cent or was their 51 per cent made up of some other asset?

Mr. Stephanson: — Basically the asset that they did put in was that they had started the business. They had some customers already signed up and they had all the patent work applied for. They were the instigators of the patent, so basically their equity was not in cash, but it was in a working relationship with customers as well as the patents that we now basically hold the lion's share to.

Mr. D'Autremont: — Thank you. The patents that you hold . . . I believe some place I read that you were hoping to receive, either sell, or somehow negotiate those patents for use by someone else and collect royalties. Has there been any return on that by the end of 2004?

Mr. Meldrum: — To date there hasn't been. We have commenced legal proceedings against a company called Alliant Power out of Wisconsin, and that is proceeding through the courts. It's really a test case to see whether what they (a) will it be successful, what royalty might be set and then to deal with the rest of the power companies that would be breaching our intellectual property and obtain royalties and payments from them, assuming success. So we've got this one test case going forward and we'll carry it forward and see where it ends up.

Mr. D'Autremont: — So there is at least one company who is utilizing this software currently. Are there any other companies — you don't have to name them — but numbers that utilizing the software as well?

Mr. Stephanson: — We have sent letters to around 30 companies right now which we believe are infringing upon our patents. It's a very, I guess I can let John if you want to get legal. I'll give you the layman's view is that patent infringement enforcement is a difficult practice. We clearly believe that 30 are infringing. We're going to see I guess how well that goes with respect to the Alliant Power case.

I may want, I should correct something I might have said because this is so close . . . The question was asked, who did you sell it to? I may have said Alliant. I should have said Allied. It's that, you know, the purchaser of the Retx operations and the first person we're going after are two different companies with very similar names.

Mr. D'Autremont: — Well I guess RIM (Research in Motion) has found out about the makers of BlackBerry about the patent infringement and that it's a difficult thing to deal with at times.

The Chair: — Any further questions. Mr. Chisholm.

Mr. Chisholm: — Do we carry our interest on our balance sheet in SaskTel of what's left of our patents, or interest in our patents? Are they carried at a value on the balance sheet?

Mr. Stephanson: — We wanted to be conservative, so when we're saying the \$24.7 million, we have written that all off. So there could well be value in these patents but they are not on our books in any dollar value.

The Chair: — Okay. Thank you, members. It being close to the time of break, it's been suggested that we break now for lunch. And there's some other matters that are being suggested that we attend to and so we would return at 1:15 approximately if that's all right. And this room will be locked so you can lose . . . can leave your papers here unless you want to lose them which . . . you may want to take with you.

So at this point we'll recess until approximately 1:15. Thank you.

The committee recessed for a period of time.

The Chair: — Are you ready now? Okay. Thank you, members. We'll call the meeting back to order and we'll reconvene with the consideration of SaskTel.

Any further questions for the minister and the officials? Dan. I recognize Mr. D'Autremont.

Mr. D'Autremont: — Well, thank you. It's good to be recognized. Like to move on now to Navigata and Navigata has been reporting losses for the last two years. I believe it was \$11 million in 2002 and just slightly over 11 million, 11.6 in 2003. I believe that the financial statements last year predicted that Navigata was going to be moving into a profitable position for the year of 2003-2004. What has been happening with Navigata?

Hon. Mr. Sonntag: — Can I just . . . Let me just . . . I thought, anticipating that a question on Navigata might come up from some of the members here today. Let me just say this as a general overview about Navigata, which I've said a few times but I think it's important to make the point here as well.

The technology that Navigata employs I think is recognized technology by every telephone company in Canada as a very likely technology that will be used, if not very broadly . . . if not exclusively, at least very broadly into the future. And that's why SaskTel views Navigata to be an important vehicle for the delivery of voice over Internet. Navigata clearly is a vehicle as well for the delivery of this service into other regions of our country.

I cited in my opening remarks this morning about the need to seek revenues for SaskTel in non-traditional areas, noting the huge reduction in revenues, particularly in long distance. And this is one of the areas where SaskTel sees it as part of its core business and an opportunity for revenues into the future.

Having said that, I mean we certainly acknowledge that we had projected to be profitable in 2004 and we are not. And I will turn it over to the officials to talk about the details on that.

Mr. Stephanson: — Excuse me. As the minister mentioned, and as in fact you mentioned with your question, we had predicted that in 2004 it would be the first profitable year for Navigata. Unfortunately the marketplace has made that not so. We clearly will lose money with respect to Navigata in 2004.

Some of the major reasons are price declines in the marketplace. When we made that prediction for profitability the prices for IP transport were \$400 per megabit, they're now

down to under \$100 per meg. Long distance minutes prices were over 6 cents for our larger customers, now those are under 4 cents. Wholesale long distance minutes with some of our larger carrier minutes were also affected in that same way. And the final factor would be voice over IP which was alluded to a minute ago with respect to its deployment is slower than anticipated, both for technological reasons — we're still working out some bugs with it — as well as the preparation or market readiness isn't quite where we thought it would be either so we will not achieve profitability in 2004.

Mr. D'Autremont: — So how much will the losses be in 2004? Have you made that determination yet?

Mr. Stephanson: — No, not . . . I'm a little leery to give you an exact number because we have a number of factors ongoing. We haven't closed our final financial records. We're in discussions with our auditor, our external auditor KPMG, and until we finalize those things, and in fact share the numbers with our board of directors as well, it's all, you know, not calculated right now.

Mr. D'Autremont: — Would it be, the losses be somewhat along the historical track for Navigata?

Mr. Stephanson: — I'm not sure how far I go here. My concern with giving you a number is . . .

Mr. D'Autremont: — Is, I'll hold it to you.

Mr. Stephanson: — Well that's right, and the problem is, it's got to go through external audit. It's got to go through the Office of the Provincial Auditor to talk about a number of accounting issues related to the asset. And I'm a little leery about disclosing it at this time. Clearly we'll disclose it.

Mr. D'Autremont: — At the appropriate time.

Mr. Stephanson: — At the appropriate time, in front of the legislature.

Mr. Watson: — It has to do . . . Again, you want to try and practise best practices. As a public company, you don't release that type of information to the general public — because it goes out at the same time — until it's all been properly gone through your financial group, the external audit is agreed, and the numbers have been verified. And we're trying to make it so that that's a formal process like any public company would do. But also it's early in the new year still to close the books, to have a final number on the books. So it's just a practical thing plus there's the best practices.

It will, as I say, it will be a loss. It probably gives me time, if I take a moment to get on to this investment outside of Saskatchewan, because you made a point earlier on about Retx. And I think Randy has some even better clarification on that.

Certainly my perspective, and I think it's the perspective of everybody, is that there's no question that what we should do first is have Saskatchewan first as investing, making sure that the customers of SaskTel and therefore our shareholders, the citizens of Saskatchewan, have the best telecommunications, data communications services in the world. There's no question

about that and that's our duty.

The difference going forward now, and the difference that we're going to do, is those products and services that we can start developing within the province here, mostly on the Internet layer, the IP layer, the Internet protocol layer, are services that we can start exporting outside of the province, and therefore have a true export to the province.

Navigata becomes an important vehicle for that whereas we would invest in Navigata to sell those services as services we develop here, outside the province. We can sell them outside the province, therefore have SaskTel grow, and actually grow jobs within the province by exporting a service that we will develop here.

That'll be important for us in the future to grow the company and therefore return more value to the shareholder — larger dividends to the shareholder. And that's the way we'll do it. Now we won't in the future go out and buy one, aught things outside of our realm of expertise; we won't do that any more.

Retx was a . . . The reason Retx was done, as Randy had indicated earlier on, our expertise in selling long distance minutes seemed to be the same type of scenario to sell . . . resell power. It didn't work out that way.

What we're going to do first is build products here, test them here, and then we will sell those products through avenues outside of the province. Saskatchewan-based people will get it first and then we'll develop those products outside the . . . (inaudible) . . . But I want to make sure, as we've said, it's going to be a more focused approach outside of the province than it has been.

Mr. D'Autremont: — Okay. Thank you. I'm looking for a list here that I had and I can't find, but I'll find it later.

When you take a look at, you mentioned Retx again and purchases outside of this province and that were perhaps outside of the main focus of SaskTel, and we look at Navigata — which while I think I would agree is a telco area, the Internet — you look at the historical financing though of Navigata in comparison to Retx and you see losses in Retx of 2001, the first year of operation; losses in 2002, second year of operation; losses in 2003, third year of operation; losses in 2004, fourth year of operation. Then you look at Navigata and you see \$11 million loss in 2002, and eleven million six in 2003, and now confirm another loss in 2004. When do you reach the point that you say this business is not going ahead and it's time to pull the plug on it?

Mr. Watson: — Well if . . . there's some other benefits different . . . Navigata is different than Retx, for there's some other benefits that we gain from Navigata. First of all, there's approximately \$7.8 million in cost savings that SaskTel gains internally into the province by having Navigata, by services that they're able to purchase for us outside of the province.

Hon. Mr. Sonntag: — Annually.

Mr. Watson: — Annually, sorry. So there's a different . . . I mean, while you're going to see a loss number, it'll be

important to know that — the savings that SaskTel gets.

With Navigata, we could use more of the common technology with Navigata, rather than Retx. The common technology is important. There was no common technology with power resale. There's common technology with Navigata. It becomes a good vehicle for outside of the province.

The thing that's going to change for Navigata in the future is that we are going to offer the products and services that we again have control over, we develop here. We are going to stay offering products and services to the BC (British Columbia) government. They want us to stay in British Columbia and buy from us in British Columbia. They're a base customer really. So Navigata gives us a good platform to develop further in the future and get a base to develop outside. So it is a different avenue altogether than the Retx, Navigata.

Mr. D'Autremont: — There may be a difference in the product that they're selling. However the history is the same. They've both lost considerable amounts of money since their inception. Navigata is up to 25 million not including the losses in 2004. So again I ask, at what point in time when you're looking at a company like Navigata do you say we continue to pour more money into this and hope that some point in the future we can start to (a) make a profit and perhaps recover the 25 million plus that has been lost, or when to do you say this business is not going to make it and it's time to get out.

Mr. Watson: — Well you do that according to the return to the shareholder that you want to do. I mean it sounds simple but you also got to . . . The investment becomes a strategic investment — again this is speaking business to business — it becomes a strategic investment. Then you continue to invest in it because it's developing jobs, creating jobs, within the province.

But you can't . . . that's something that's a tangible thing but however you can't make that as a tangible dollar opportunity within Navigata. You've got to take that into consideration. Does it give us competitive knowledge from outside the province that takes into reasons to have losses? There's some of those considerations. You lose money forever? No. Do you have to make money at some time during the time frame? Yes. We are putting together a new model for Navigata. Navigata is not going to sell the long distance minutes like Randy referred to where the market is eroding faster than you can sell the minutes for. It's going to sell profits and services again we develop here. So we think that we're going to turn it around and quite frankly we think we're going to be able to do it in '05.

Mr. Stephanson: — Let me give you a little history as well. You've asked a very difficult question, no doubt about it. But there are times when you can sell and get out of an investment too soon . . . shut it down too soon. It's a very tough decision to make to say the losses are going to continue; we believe they're going to continue. That's an easy decision if you come to that conclusion.

But if you think the losses are going to turn around and become profits . . . When I look back at our completed investments, Saturn had three years of losses. We sold out of there at a profit. ISM Westbridge had three years of losses. We sold out of there

at a significant profit. Leicester had never made a profit. There were one, two, three, four years of losses for Leicester. We sold out of there at a \$100 million profit. So it is common in these types of investments that they all have start-up losses. At some point in time those turn around and become profits, or at some point in time you realize it's not going to turn around. And that's the key decision point, which I think is the key question you're asking. And I think our president has said we think there's a lot of hope and a lot of belief out there that there's a lot of things that we can do with our Navigata business. It's not time to pull the pin.

Mr. D'Autremont: — Well Mr. Watson mentioned one of the reasons why you participate in these things is perhaps job creation in the province. I guess the question is, is how many jobs has Navigata created in the province?

Mr. Watson: — Generally you can start talking . . . We can get that for you, but generally all the development we're doing on the IP layer, Internet protocol layer that we're doing within SaskTel now, is products and services that we're going to need for our own customers within the province, but again can be exported. So you could almost argue any, every portion of those . . . that work we're doing on any of that Internet protocol that we're doing now, is work that is created because we have a market outside the province also. I don't have a fixed number for you. But to answer your question, that's what you can do.

A voice over IP, we're selling voice over IP within the province now. The University of Regina will . . . Talk to anybody at the university who uses complete voice over IP for that campus now is taking advantage of a brand new technology that we're now going to be able to export outside the province. *Max* is a classic example. That video offering that we put over our digital offering is a product that we could possibly export outside the province. And in fact, you know, Sony Corporation, we've signed a deal to distribute Sony's video on demand. That's the first in Canada. I mean, that's great expertise.

Nortel wants to set up a shop here — a development research shop — in Regina because we're going to promote selling voice over IP for the Government of Saskatchewan to use voice over IP. Nortel's prepared to set up a research shop in Regina that will be a research shop for Internet. It'll be the first in North America. And that type of thing again, we'll be able to start developing exporting outside the province.

Now I'm not answering a specific number of jobs for you, I understand that. I'm just trying to put a scope around how the environment's changing. It's not the same environment that you just go out and buy somebody and hope for the best any more. It's again, get your products developed here and then sell them outside the province, is what we're going to be doing.

Mr. D'Autremont: — I guess that's part of the problem that I have with Navigata: it wasn't being developed here. SaskTel owned it, but it was being done outside of the province. So the job creation that was taking place was taking place in some other jurisdiction where the benefits, the tax benefits of that was being accrued someplace else other than here.

And so if you're going to do these things within SaskTel, why not do them here, and why not do them under SaskTel? Why do

you need another corporate name with another corporate structure that does it someplace else?

Mr. Watson: — Well I think you'd do both, right? You do it here. You do it under the SaskTel corporate name, and then you take that and sell it outside the province, get the company . . .

Mr. D'Autremont: — But we did it the other way.

Mr. Watson: — Well no. To a certain degree, Navigata . . . I mean I wasn't around in the initial . . . the process, but to a certain degree Navigata has helped us out significantly. We get this annual savings that we were able to get from products and services that we purchase, have to purchase outside the province; Navigata was the first company to allow us to get into that. Up until then we depended upon Bell and TELUS 100 per cent for our services outside the province.

Navigata was a start. The expertise was something we didn't have within the company, and we now have that, and we're going to take advantage of that even more. So that type of expertise, I mean even a company like SecurTek, the security business that we're able to start expanding outside the province now because some of the customers were buying in Alberta and in Manitoba, only adds to the value of us being allowed to do a package product now, a bundled product to customers within Saskatchewan.

First thing now we're going to do is start bundling our products up. So yes, the people of Saskatchewan are going to get first advantage, but then we can start selling that . . . I'd love to start selling that stuff again to TELUS and Manitoba Tel and start having the revenue come back this way. Absolutely.

Mr. Stephanson: — Where we can, we'll endeavour to get back to you with the number of jobs created in Saskatchewan on a subsidiary-by-subsidary basis. I can say we do the purchasing for Navigata out of Regina city. We do the security policy out of Regina city. We do the, a lot of the finance functions out of Regina city. I'm not sure how many jobs that will have created.

I do have a number here that says, again, as part of our thrust and again, I'm harping back to what we said in our MD&A (management's discussion and analysis) about, we know our legacy businesses, long-distance and local, are under tremendous pressure and continue to be under pressure for margin reduction. So we need to do something about moving resources out of there.

Over the last three years, we've saved \$60 million. To the end of 2003 we saved \$60 million on an annual basis on expenses on our legacy services. Some of those we've moved people into doing the purchasing for Navigata and some of the finance functions for Navigata.

I've got a number here that says for our growth initiatives it's 560 jobs that we've grown in SaskTel, at the same time basically taken those jobs from services that can no longer afford to pay jobs. If we had not gone these growth routes, we would be down another 560 resources. So I think we have done what you're after and recognize the importance of that.

Mr. D'Autremont: — So just to pick up on that for a second. That's not where I want to go, but you're saying that the potential job creation has been 560, but it's been a transfer of 560 jobs from one area of SaskTel and retained those employees to do a different job.

Mr. Stephanson: — Significant pieces of that is true. I'm not going to say that's a like-for-like 560 move from here to here. We have had through these number of years early retirement programs. So perhaps folks who were totally involved and entrenched on our legacy side of our business had a voluntary method which they could use and opted for, to say, well you know, I'm not sure I want to learn the new stuff; I'm comfortable with where I am in my career. And they've taken early retirement, and we have added resources off the street with new hirings in new Internet protocol type skill sets into the organization, too. But at the end of the day we've 560 new jobs that are growth related, and growth is more than external investments. I don't want to mislead you. It's also the *Maxs* and the Internets are growth type businesses, including investments.

Mr. D'Autremont: — But overall would SaskTel have increased its number of employees, remain relatively stable, or shrunk?

Mr. Stephanson: — I think I would say relatively stable.

A Member: — I agree.

Mr. Stephanson: — I think that's true. I think relatively stable over the last . . .

Mr. D'Autremont: — So it's been a transfer within the company. Not necessarily the individual personnel, but the number of jobs have . . .

Mr. Stephanson: — That's correct.

Mr. D'Autremont: — Yes. Okay. To go back to 2002 Crown Corporations Committee, Mr. Baldwin when talking about Navigata said that the reasons for this purchase, the rationale, was to provide us with some service delivery capabilities in British Columbia, provide a means for us to lower our costs — which Mr. Watson has talked about already — that we acquired at an attractive price, relative . . . I'm not sure relative to what, but . . . and a feeling that with our expertise and backing, we can turn Navigata into a profitable entity. This is 2002 and that was the rationale for the purposes, and that we think it's a very strategic acquisition. So basically four reasons why this purchase, and we have seen that turning Navigata into a profitable entity is still something SaskTel aspires to, that they have yet to achieve that.

I note that in *Hansard* of November 2004, Mr. Sonntag, in answering questions about Navigata, referred a number of times to the research and development as being a reason for Navigata. Does that mean that the answers given by Mr. Baldwin as for the four reasons for the purchase of Navigata are no longer valid, and that the research and development has become the major criteria for the rationale for owning Navigata?

Mr. Watson: — Maybe I . . . is that the research and development with Navigata is, there's two aspects. First of all,

there's a practical aspect that's very important to us right now where Navigata in the province of British Columbia has significant facilities, that they have wireless facilities that go up through the interior and that's where the comment came from the facilities delivery within British Columbia for those facilities.

One of the things that we're able to do with Navigata within that, because we have that network in British Columbia and the customer base, the existing customer base, is that we're . . . I don't think you realize that we announced a trial with VCom to do wireless access on a trial in Kelowna, BC. That again directly will support job creation in the province because VCom, as you know, is a major employer in the province and as they develop we hope to develop delivering those services on their hardware, not only within Saskatchewan, because we're already doing that, but outside of Saskatchewan on our network Navigata network.

The other research and development part is the competitive aspect. I know it's not a tangible hardware research and development, but it's a competitive side of having sales personnel selling products outside of your incumbent ILEC (incumbent local exchange carrier) territory in a competitive environment where you're not the dominant provider and you're providing services on quality, on your processes, on the type of services you're selling, has all to do with even to the type of sales programs you put together. The type of processes you need to not only supply the service direct through your own facilities which we own, but repurchasing some from Telus to finish it. So all those processes help us. I know it's not the practical hardware research and development, but it helps us with delivery of services, and actually helps us within the province too.

Mr. D'Autremont: — That answer brings me sort of to a Dr. Phil question. And just how is it working for you?

Mr. Watson: — Well I think it's not working the way we want it to or we wouldn't be so far behind, quite frankly. I mean as management we don't . . . I mean when you put together a plan, you want to hit a plan. But your plan may be that you plan on losing money on the development of a product or service, you know.

And the idea is as long as you're hitting your numbers, it may be a negative number for several years, as Randy said, but as long as you're hitting your numbers that's as management you're doing your job. If don't hit your numbers, then as management you're not doing your job. There's clearly . . . And we're not happy with Navigata because we're not hitting our numbers.

Mr. D'Autremont: — So are you saying then that the previous management were not doing their job, because they said in 2000 . . . for the year 2004 that it would be a profitable year.

Mr. Watson: — I don't think . . . probably I think you talk to every manager that was then there and here now, who's still here, would say yes, they were disappointed in accomplishing what they said they were going to do. Everybody . . . Not that anybody was thinking that they were not doing their job. I don't think anybody gets up in the morning and says, I'm not going to

do my job today. But I think every one of them said they were disappointed that they didn't get where they wanted to, yes.

Mr. D'Autremont: — In the financial statements stated in 2003, costs were incurred to restructure, a total of \$6 million. What restructuring took place within Navigata that totalled \$6 million?

Mr. Stephanson: — A reduction of 70 staff in 2003.

Mr. D'Autremont: — So that reduction in 70 staff, the \$6 million would have been severances and early retirement packages, or were they all severance or was there a combination of both?

Mr. Stephanson: — I'm going to say there were a combination of both.

Mr. D'Autremont: — These 70 people: were they located in Saskatchewan or outside of Saskatchewan, or a combination? If so, what was the breakdown?

Mr. Stephanson: — They were all outside of Saskatchewan.

Mr. D'Autremont: — Were they . . . They were a combination I think, I believe you said, of both severances and . . .

Mr. Stephanson: — Retirements.

Mr. D'Autremont: — . . . retirements. The severances, what was the criteria for the settlements based on? Was it so many years of service for, you know, so many weeks or months of pay? How was that structured?

Mr. Stephanson: — We will have to get back to you with that answer. We don't know the answer.

Mr. D'Autremont: — Okay. The main focus of Navigata is its delivery currently is Internet service, is that correct, for Navigata within BC?

Mr. Watson: — The delivery, the main . . . Right now the delivery was Internet services; it was data services, and it was long distance services. We do do some prepaid calling card, which is a very successful product. We're going to keep that. The thing that got Navigata in trouble on a revenue growth basis was the long distance services and the competition of selling local lines in the provinces of Ontario and Quebec.

They just . . . it got very competitive really fast. And Navigata put together a plan — like every other telephone company in the world — put together a plan to expand their business in the late '90s and early 2000, and every telephone company in the world had to pull back, reduce staff. A lot of the new entrants had to . . . went into protection. So back to a bit of a defence to the previous management, I mean every telephone executive in the world had the same problem in the late '90s, early 2000 where it just . . . the market just collapsed on them. And that's what the same thing happened to Navigata.

So the right decision was to say stay the course. Strategically it was the right investment to start off with. Were the conditions changing? Yes, they changed. Did anybody foresee them

changing as fast as they did? No. I mean I don't know how you could find out if Bernie Evers being . . . you know, doing that to WorldCom as fast as anybody conceived he was going to do it to WorldCom. So nobody . . . the previous management was no different than any other executive in the world.

Mr. D'Autremont: — Navigata is moving now more into voice over Internet? Would that be the case?

Mr. Watson: — Yes, well we're going to move into the products. And so again we think it's real important to stabilize the customer base in BC and affect the BC government and large enterprise where we use our own facilities in the province to transport. That means we can get better control of our costs. Well yes, we're going to sell Internet, Internet as simple as e-mailing for customers, Web page, Web hosting, voice over IP services, and long distance calling over the Internet. And they're going to be developed here and then sold by Navigata within those areas. They already are — voice over IP already is and some of their products we'll add on.

Mr. D'Autremont: — Voice over IP, does it require fibre optic line or can you run it over the copper line?

Mr. Watson: — You can run it over copper line. It needs a broadband connection. In other words it has to be a good type called DSL (digital subscriber line) connection. It just can't be a normal telephone line, but it has to be a DSL connection. So almost anybody can go into your home, put yourself . . . if you have a DSL connection from anybody, then you can offer voice over IP.

That's again a real serious competitive threat for us in the province here, is that it's going to come at us also. So that's where we're going to . . . we are going to lose revenue on that side of the business. We are going to lose revenue on the long distance side still. We're going to lose revenue on our residential lines and our business lines because companies like Shaw, Bell, TELUS, — well-heeled, well-financed, well-focused companies — are going to come and start competing. And we're going to have to . . . there's no reason why we shouldn't take out products and services and offer it in their territory.

Mr. D'Autremont: — That's exactly where I wanted to go to.

Mr. Watson: — Well thanks.

Mr. D'Autremont: — Is Navigata offering voice over Internet to its customer base in British Columbia at the present time?

Mr. Watson: — Yes.

Mr. D'Autremont: — Is SaskTel offering voice over Internet to its customer base in Saskatchewan at the present time?

Mr. Watson: — Our business customers, yes.

Mr. D'Autremont: — But not your residential customers?

Mr. Watson: — No.

Mr. D'Autremont: — And what would the reason for that be?

Mr. Watson: — Well, first of all, we're not allowed to. There's a ruling going on right now — and I'll let John get into this — with the CRTC (Canadian Radio-television and Telecommunications Commission), and we're actually, we're glad you brought up this topic actually because it's something that we want to make sure everybody's aware of, of our concerns about the . . . the competitive threat is one thing, but also the federal regulator who may stop us from being actually competitive. And I'll let John get into the . . . there's a regulatory thing to begin with.

Mr. Meldrum: — In terms of what Robert said, in terms of why we aren't effectively allowed to offer voice over Internet in the province, the CRTC has come up with preliminary views as to how they think voice over Internet service should be regulated. There's been a big proceeding in which those preliminary views were debated, and they will be making a determination sometime during the course of the year as to what are the conditions under which SaskTel would be able to offer voice over Internet in Saskatchewan.

Essentially those preliminary views are to the effect that voice over Internet service, even though it's a brand new technology, that it would still be regulated the same way that local service is regulated, that SaskTel has today. That would mean that we'd have to file tariffs, the services would have to be costed in accordance with the CRTC's costing principles. If we wanted to change the rate at which we charged for voice over Internet service, we'd have to file with the CRTC, we'd have to go through a process, and we'd have to then get approval to change that rate. Not much of a competitive service when you think about it, that it might take you two to three months to change a rate, as opposed to two to three days or two to three hours to change a rate in response to market changes.

As well, what comes with saying that voice over Internet would be regulated just like local service, wouldn't be able to have any promotions. There's actually a promotion ban today in terms of our SmartTouch features, that we are not able to offer any promotions to our customers to sample any of our touch . . . of our SmartTouch features because that's viewed as squelching competition in the province of Saskatchewan.

The funny thing is that with this promotion ban in place, still nobody's shown up to offer local service in Saskatchewan. But nonetheless there's a ban on promotions of SaskTel within the province, and that would extend to voice over Internet. As well, we wouldn't be able to bundle voice over Internet. And to me that one would be almost impossible because it is a bundled service. You get long distance with your voice over Internet product, you wouldn't be able to bundle it with *Max* or with any of the other services that we have.

And last but not least, which is coloured as a consumer protection, in the event we lost a customer, we wouldn't be able to phone them back for a period of one year to talk to them about winning them back, to come back to SaskTel and SaskTel's service.

So those are the kinds of restrictions that the CRTC at least currently envisages in their preliminary views for us offering a voice over Internet service in the province of Saskatchewan. And that's why, to this point, we haven't offered our Web call

service here in Saskatchewan. It just would not be a competitive service is the best way to look at it, if you had to file tariffs and be subject to all those restrictions.

Now we've argued very strenuously in front of the CRTC that they're wrong, as have a number of parties and individuals including some of the world-famous providers of voice over Internet service. Vonage went to the CRTC and said, we don't need any help; we don't want to see this regulated. But I guess at the moment the CRTC thinks they know more than the folks that are actually out in the marketplace competing.

And certainly when this decision comes we'll be looking at it very carefully. And if it effectively is a reiteration of those preliminary views, then we intend to appeal it to the federal cabinet, and hopefully with the support of the people of the province of Saskatchewan and with the Government of Saskatchewan and all of its members, because the direction they're heading is not in the best interests of the people of this province, that's for sure.

Mr. D'Autremont: — Is voice over Internet available in Saskatchewan using the current SaskTel land wire system?

Mr. Meldrum: — Today you could actually subscribe to the Web call service but you'd have to take a number outside of the province of Saskatchewan. So you'd have to take a Calgary number or a Vancouver number. There probably are some Saskatchewan customers that have taken advantage of Web call, but we're not actively promoting it or marketing it. And for some people a number from outside of the province, they would view that as good and some would view that as not very practical because that means if somebody phones you it would have to be long-distance, unless again they were on a voice over Internet service.

Mr. Watson: — Well let's just stick on that point for a second. You'll get me big on this exporting our product outside the province. If you think about it, in the future we will be able to sell a 306 telephone number to anybody in the world. You could be in Singapore and you could be working there, and you could have a 306 telephone number, a SaskTel.ca Internet address. And we'd be billing you from here and providing the service from here for you.

So that's why again, I'm back . . . It's essentially important that we have the mechanism to offer these services outside the province. Not only because it's simply good business, it's because people are going to be doing it to us inside the province from now on too.

Somebody can be sitting in New Jersey, where Vonage is out of New Jersey. They have a call centre out of New Jersey; that's where they're sitting right now with all their expertise. And they can sell a telephone number into Regina and we wouldn't see it. We wouldn't see the revenue from that. They'd have a SaskTel line, but that's it.

Mr. Meldrum: — The key point that I missed as I went through my list of the five things that we would have a problem with in terms of voice over Internet being regulated like local service is that all the other competitors would be totally unregulated. They could do whatever they wanted in the

marketplace. They wouldn't have to file tariffs. They can set their prices as they decide. They can do whatever they want. They could bundle it with everything.

And we're talking about large entities. We're talking about Shaw. We're talking about Bell Canada. We're talking about Vonage, the American company I alluded to before. They would all be completely unregulated. And essentially what we're calling for is a level playing field. Don't tie our hands behind our backs, let us compete with these other big players in the Saskatchewan marketplace.

Hon. Mr. Sonntag: — Well, I just want to add one thing as well just before . . . and again just for information. I, on behalf of the government, as well, have sent several fairly strongly worded letters to federal ministers with respect to our position on this; much along the lines of what John has just described for you as well.

By the way you can tell John feels passionately about this. I asked him about three weeks ago a question on this and I came back the next day and he was still talking. So he's one of the most versed on this issue in our province, that's for sure.

Mr. Meldrum: — And it is part of the bigger issue of CRTC reform. We've had long distance competition since 1996. The local . . . The terms and conditions for local service were established in advance of CRTC regulation. We established those in 1998, but nonetheless the CRTC's regulating the industry like it did in the '80s. And at some point the federal government has got to, has got to sit back and say, what in the year 2005 really makes sense to regulate?

Mr. D'Autremont: — Well, I'm pleased with your answers. Especially it was surprising to hear that we're not allowed to provide that service. Because we went on the Internet last night at home and Vonage was the one that came up and will provide voice over Internet in Saskatchewan. The only thing not available was the 306 number. But the service is all there. And yet when we did the search on the Internet, SaskTel's name did not come up at all. There were a number of companies but not SaskTel.

So the CRTC rules, do the other major telcos across Canada face the same restrictions? Does TELUS face that restriction? Does Manitoba Telephones face that restriction or Bell? Do they all face it, or is it just Saskatchewan that is facing this?

Mr. Watson: — They face it in their own territories, but Bell can come into the province here and sell because it's not in their home territory. So they face it there.

So yes. You're going to get us very passionate. So thanks for asking the question about this because this is the stuff that . . . We're already investing in the infrastructure in the province. We need to invest more. We are investing every day infrastructure to build this IP layer I keep talking about which allows these products and services to be sold. And then to have the CRTC not allow a consumer to purchase it from us on equal terms . . . he could purchase from — we'll pick on Shaw — Shaw to do that. It's just not acceptable as far as we're concerned.

Mr. D'Autremont: — In providing voice over Internet, I would see it as running in direct competition to your normal long distance for people that have voice over Internet. So how do you make that adjustment because on a long distance call, regular long distance, you're charging by the minute for the call? How do you compete then with voice over Internet which, from what I've seen on the Internet, is basically a monthly fee, flat rate? And you can talk as long as you want, connecting in most cases computer to computer. But now there are telephones that will connect up and you can talk telephone to telephone and it would appear to be just a normal telephone.

Mr. Watson: — Sure. Yes.

Mr. D'Autremont: — How do you build a cost structure in there that'll make SaskTel competitive, voice over Internet to regular telephone?

Mr. Watson: — Well we are building the cost structure. We're putting in the intelligence into the network to put that in so that we can offer that service to our customers.

But therein is the problem. That service's cost to offer that service is a lot lower than the traditional cost to offer copper, just normal pick up your telephone and dial. So there is where our revenue erosion will come from on a revenue side, where we'll be losing on the top line significant dollars off the top line. And there's no . . . Even though we may offer more services to our existing customers within the province, there's no way of replacing all that revenue. So therefore there goes your margin in the business.

You can't . . . if you have . . . If you employ as many people and have the breadth of the network we have to support, your margins will suffer. Therefore there's why we have to start finding avenues to have more revenue come to the top line of the company so that we can keep growing the company.

Will we be able to . . . Can you compete? You could compete. There's an argument that SaskTel has built one of the best networks in the world, called a simple telephone network. Where it's existing now, everybody that has a phone, a touch tone phone, they pick up, they can dial anywhere in the world. The quality is there. The quality is second to none. Normally the . . . well okay, so most of it is, but . . .

Mr. D'Autremont: — I've got a phone line.

Mr. Watson: — It is. The quality of the network is second to none now. So most of the consumers, what they'll be looking for is a quality service at a competitive price, right. That's what they'll be looking for.

The hype is voice over IP. But if you have a . . . if a competitor comes in — and our service offering for a normal line is \$22 a month now — if a competitor comes in and says we'll offer you a voice over IP line for \$18 a month, you're going to get a lot of people interested in that. So we want, first of all, to be able to offer voice over IP, if we get our cost structure down.

But the second point is we're not even allowed to reduce our \$22 a month down to \$18 a month. We're not even allowed to do that, package it up with our other products. It's a . . . here

we've invested millions and millions of dollars into an infrastructure that's good, and we can't even say to the customer yes, no problem, we'll give you . . . if you buy our *Max* from us and our line and our long distance from us, we'll give you your telephone number, your existing line, for \$18 a month. We can't even do that in the future.

So it's a balance. It'll be . . . for the province itself, it'll be an evolutionary process. The voice over IP will come to where you get the high benefit, cost benefit, because this is where . . . a cost benefit also. But we do have plans to roll it out all across the province.

But you know, I hazard a guess, people within the cities and people outside the cities, you know, really don't care if it's voice over IP. They don't care. They want a good quality of service at a good price is what they'll care for. But we know we'll have to get voice over IP. The IP layer helps us reduce our whole cost, which then helps us with our margins also.

The Chair: — Mr. Wartman.

Hon. Mr. Wartman: — I think we hear in what you've been saying, and certainly evidence over the last number of years has been quite clear that the CRTC regulations have made operation for SaskTel difficult. It's cost business and cost money.

There's some discussion about reform of CRTC. What do you think the potential is for real reform of the CRTC? And I expect you have submissions and ideas of where you would like to see them operating and what the parameters they would operate under would be. Can you help us to get a better sense of how you would like to see the CRTC reformed?

Mr. Meldrum: — There certainly have been a lot of calls for reform of the CRTC. The Canadian Chamber of Commerce is on record now as asking for it; the ITAC, the Information Technology Association of Canada, as well as many analysts and other telecommunications suppliers, some of the big suppliers in Canada.

The federal government is looking at it. That's for sure. It is on their plate. The question is what kind of method are they going to choose to review the mandate of the CRTC? Are they going to rely upon the CRTC to do something internally and sort of have some incremental change, or are they going to go back and actually effectively open up the Telecommunications Act and decide what does or doesn't need to be regulated?

One of the major things that we're concerned about in the Act itself is that it has a presumption of regulation. It essentially says in the Act that everything is regulated unless they come to the conclusion that it shouldn't be regulated. We think in this day and age it would make more sense and be more consistent with the federal government's view of what they call smart regulation. They want to get sort of smart regulation throughout the entire federal government. We think it would be much more consistent to head towards saying that everything is not regulated unless it needs to be regulated.

So instead of having a presumption of regulation, to have the requirement to actually say, gee, you know, I really think we should regulate this. Because when you look at the minutia that

the CTRC still regulates, it's just unbelievable in terms of the tariff filings that you need to make, that they need to pass on, that they then need to approve, various agreements that still need to be filed which essentially end up just being rubber stamped. There's lots of opportunities in both the day-to-day, but I think we come right back to saying that you need to start back to basics as to what should or should not be regulated, and one of the things would be to get rid of that presumption of regulation.

I think as well a mindset on the part of the commission itself that they want to regulate less, that they want to regulate more efficiently, I really think that that would be a substantial step forward. They talk a lot about it but we haven't been able to take any of that to the bank so far in terms of less regulation.

Hon. Mr. Wartman: — Is there a reform schedule set out? Has the federal government indicated anything in terms of a review or reform of CRTC?

Mr. Meldrum: — It's still in the minister's office at the moment. It would be the Industry minister who is actually responsible for that part of the CRTC. Unfortunately the CTRC has got two different ministers. One is Heritage, who is responsible for the broadcast side and for the creation of the commission itself, and on the other side is Industry Canada that has responsibility for all of telecommunications. The biggest push at the moment for reform is coming from the telecommunications side so it's sitting in the Industry minister's mandate.

The Chair: — Okay. Thank you. Mr. Weekes.

Mr. Weekes: — Thank you, Mr. Chair. Going back to Navigata, Navigata had losses of \$11 million in 2002 and 11.6 million in 2003. How were these losses financed — making reference to Retx where there was actually a purchase of sales to finance their losses — how was it handled in Navigata?

Mr. Stephanson: — In Navigata we again . . . At any point in time that we are going to make investments we would go through the proper channels which include our board of directors, our CIC board of directors, and cabinet, and subsequently an order in council. So they're all on record as to the amounts of monies that we've use to fund Navigata or the purchase of shares.

Mr. Weekes: — In Navigata there was a purchase of shares as well?

Mr. Stephanson: — Yes.

Mr. Weekes: — I just want to move to another topic. Other Internet suppliers — as one example, co-operative Access Communications — rents lines from SaskTel. I understand there's a 20-year agreement that's coming due here in '06. What is the status of that and what's the future of that situation; renting to other companies?

Mr. Watson: — Who is the company again?

Mr. Weekes: — Access Communications.

Mr. Watson: — Oh, yes.

Mr. Weekes: — A cable company.

Mr. Meldrum: — I think the reference is probably in relation to poles. They do get pole access from SaskTel. There was an agreement entered into in 1986 that was a 20-year agreement that deals with their access to poles. Certainly our provision of poles to Access Communications is regulated by the CRTC, so the poles of SaskTel that they want to access will still be available at the rates that are set by the CRTC. As well, I think that agreement provides access to underground structures and again the rates are set by the CRTC and they will continue to be available to Access Communications as well as all the cable companies.

Mr. Weekes: — Except there was an agreement which is coming due now. There's going to have to be a renegotiation of that agreement regardless . . .

Mr. Meldrum: — There is a standard agreement that the CRTC has approved for pole attachments and underground structures. It is fairly similar to the agreement that we have in place but we do have a draft agreement that we'd be prepared to share with Access at any time to have a look at to see if they're happy with it. It has been shared with Shaw Communications and they're very happy with it. We just have to finalize some details because all the operators have a 20-year agreement. But Shaw has received a copy as well, and while we were talking about some easement related issues, they're happy with the basic agreement that deals with both underground structures and access to SaskTel's poles.

Mr. Weekes: — So the cost structure, I assume, in the new contract will increase or what will it be compared to the old contract?

Mr. Meldrum: — The rate for our poles has been set by the CRTC and there are no proceedings that we're dealing with at the moment before the CRTC that would change any of those rates.

Now access to the poles that are owned by SaskPower, that's a little bit different story. Those poles cannot be regulated by the CRTC. There is a Supreme Court of Canada decision that has found that the CRTC does not have jurisdiction with respect to SaskPower's poles as well as all the power poles across Canada. And the rates then at the moment are being set by the power companies throughout Canada. For those poles I think there is likely to be an increase.

Mr. Weekes: — That rate that's set by the CRTC, that is public knowledge then that these companies are aware of?

Mr. Meldrum: — It is. I think it's 96 cents per month per pole.

Mr. Weekes: — I see. On another topic, on SaskTel *Max*, how many subscribers does SaskTel *Max* have?

Mr. Watson: — If I could just put a header onto *Max* and then Mike Anderson is our marketing guy.

First of all, one of my first impressions is how well the

company has put together this offering, this *Max* offering — it's a spectacular product — in such a short time frame. As far as I can see it's a quality product. It's been a lot of thought put into it and the development of the product is only good for the people of Saskatchewan for the future. And then possibly again, as I'm saying, could be also a product that could be exported in the future. So it's a great product.

What it does, again is — back on to this bit of this R&D (research and development) — is *Max* is the first product within the province that we're offering and we're not the incumbent, SaskTel is not the incumbent. We're in fact the new entrant. We're the new competitor against the cable companies with *Max* as a product offering.

So it's helping us change the whole philosophy of SaskTel, how you compete on a holistic company basis and that's why it's important. It's a product that's important to us. It's interesting, a product that's again in the development stages, won't make money for us while it was first introduced, and won't make money for us until it gets to be a certain size. But it's essential for the future, for growing the company and offering products to our customers. So I just wanted to say that before Mike began.

Mr. Anderson: — Yes, I think maybe just I'd add to that that we've always viewed *Max* as critical, almost more as a defensive strategy as much as a growth opportunity for the company. And we have argued over the years that the cable companies have the same kind of broadband capabilities in each and every home in the province as we do, and that it was inevitable that the cable companies would be entering into the telecoms business with VOIP (voice over Internet protocol) or voice over cable modem technologies. And therefore it was as equally important for SaskTel to be in a position to strongly defend its market share and revenues by being able to offer video services over its broadband network infrastructure as well.

And I think, you know, time has certainly hold true that that certainly seems to be the course of events. If you look in the US, the cable companies are aggressively competing against the telcos down there. And in some of the larger states, the telcos have lost in excess of 15 per cent market share on the local side, just because I think the US industry is quite a ways behind the Canadian industry with respect to the network infrastructure.

In our case we are sitting just over, to the end of the year, just over 26,000 customers, on track with forecasts, so doing very well.

Mr. Weekes: — Now, so SaskTel *Max* has not been making money. What has the losses been in the last, well since start-up?

Mr. Anderson: — Well we're currently sitting around 25 million from a net operating loss perspective. But I should point out that's not all a true operating cash loss. There's a lot of inter-company transfer pricing, so we pay ourselves and we charge ourselves for services.

We're trying to run *Max* and account for all of the costs within the company even though some of those costs — for example, Internet transit; the *Max* service runs over the Internet

infrastructure, so we charge the *Max* business a cost for leveraging that network infrastructure — that cost would be there whether we were offering the *Max* service or not. But we do try to account for all of the costs attributed to this line of business.

Mr. Weekes: — A \$25 million loss from start-up. So how's that broken down per year then?

Mr. Anderson: — I only have '03 and preliminary numbers around '04; '03 was 21 million and '04, again the numbers aren't finalized yet, but probably in the 20 to 25 range.

Mr. Weekes: — Additional. Okay, you've touched on my next point is . . . My question was going to be, what is the break-even point per subscriber, or how many new subscribers do you need before it becomes profitable or with the combination of the two?

Mr. Anderson: — Assuming that there is no further competitive activity that would cause a change in the pricing in the products, either on the Internet side or the *Max* side, we believe it's around 35,000 customers that the service turns cash-flow positive. We expect to hit that this year.

Mr. Weekes: — And can you give me a number what is the break-even per subscriber that will make you profitable?

Mr. Anderson: — Oh okay, I'm sorry. Our average revenue per customer at the moment is sitting around . . . competitive, I think that's probably competitive information. I think I'd probably decline to answer that one.

Mr. Weekes: — Okay.

Mr. Watson: — Not that we don't want to.

Mr. Anderson: — Yes. Our competitors would probably be quite interested in that number as well.

The Chair: — I just want to jump here while there's a brief pause. There's been some questions on '04 numbers. And I just . . . I know that the officials have attempted to answer that but we are reviewing the annual reports of '03, and so if it can be tied to '03 then that's fine, and I think your question was appropriate. But just a caution. I mean the minister and the members and the officials are here to talk about '03. They're not here prepared to answer '04 although they've tried valiantly. So I just wanted to remind members of that. So were there any more questions on this or are we prepared to take a break?

Mr. Weekes: — Yes, I have a couple more. I could come in after the break.

The Chair: — Or how long will you have, approximately?

Mr. Weekes: — Oh, a couple more.

The Chair: — Oh, go ahead, yes. Carry on.

Mr. Weekes: — Thank you, Mr. Chair. SaskTel invested an additional \$6.5 million in *Max* in 2003. How much has been

invested since the start-up of *Max*?

Mr. Anderson: — There's a couple of aspects to this. There is some capital that is invested in the network infrastructure which supports all of our products and services. So the number that is unique to the *Max* product is about 41.8 million in total. So that would be capital for the head end, for example, which distributes the signal throughout the network; and set-top boxes, which are devices that reside within the customer's home.

Mr. Weekes: — Thank you. What year did you first offer *Max*?

Mr. Anderson: — 2002, fall of 2002.

Mr. Weekes: — Going back to some of my previous questions. Maybe . . . You had said that basically break-even is 30,000 customers. I guess what I'm asking is, what is your target for the upcoming year as far as subscriptions to *Max*?

Mr. Anderson: — Well that would also be competitive information.

Mr. Watson: — Yes, we're real sorry about that. Really. Even this type of information that we're giving now, I mean, when we're up in front of the CRTC, even a lot of this information we're allowed to keep confidential due to competitive reasons. So . . .

Mr. Weekes: — Sure, I understand. Possibly you can answer this question. What is the share of . . . what is *Max*'s market share right now? You said there's 26,000 customers. What is there . . . How many customers are there in the province?

Mr. Anderson: — We are just sitting at right around somewhere in the range of 12 or 13 per cent market penetration. And because not every customer in the province is a cable TV subscriber, in terms of market share, it's probably in the range of about 15 per cent.

Mr. Weekes: — 15 per cent. Thank you. That's all I have.

The Chair: — Mr. D'Autremont has one final question on this topic.

Mr. D'Autremont: — For *Max* you need a DSL connection?

Mr. Anderson: — Yes.

The Chair: — Thank you, members. We'll take a brief break and reconvene in about 15 to 20 minutes.

The committee recessed for a period of time.

The Chair: — Thank you, members. We will reconvene this meeting. And I recognize Mr. Chisholm with a number of questions.

Mr. Chisholm: — Thank you, Mr. Chair. I just had a general question regarding what is SaskTel's policy regarding dividends — regarding when dividends are declared, what the amounts are, when they're paid. Just what is the policy of SaskTel?

Mr. Stephanson: — Thank you. We don't actually have a policy with respect to the dividend. We follow the policy of the Crown Investments Corporation, who is our shareholder.

Their policy is, provided a company has achieved their financial health with respect to their debt ratio, and that their balance sheet is in order, their policy suggests that . . . or tells us that 90 per cent of net income should be paid as a dividend. If in fact a company is working toward achieving their targets with respect to their debt ratio, then that percentage would be smaller, down to a smaller number of 60 per cent.

In SaskTel's case, over the last of number of years, our financial balance sheet is one of the strongest in the country. Our debt ratio is below the targeted debt ratio that we have approved by the Crown Investments Corporation. And as such, we have paid 90 per cent dividends for a number of years.

Mr. Chisholm: — Okay, thank you. I have a second question. It probably pertains to 2004 year-end more than 2003 year-end, but if I'm permitted, SaskTel's taking on the sending out the credit through the SaskTel telephone bills for the Crown rebate. I'm just wondering what effect that'll have on SaskTel's bottom line for 2004. It happened in December.

Mr. Stephanson: — It has no impact on SaskTel's bottom line. The entire transaction was that SaskTel acted as an agent for the Saskatchewan government. And if I could, the reason probably we were chosen as the agent was that our billing system most reflected the largest number of Saskatchewan residents who were entitled to that rebate.

Acting as an agent, we were given, I think the number was fifty-three point something million dollars and provided credits of 137 . . . credits which equal that exact amount on to the bills of our customers. So it was a net zero, no impact to our income statement.

Mr. Chisholm: — I would think that if you had any bad debts in your accounts receivable that were in that \$137 range, for example, they would have just got paid. So I think it would affect the bottom line.

Mr. Stephanson: — I'm going to say that is a possibility. It clearly could have happened. However, when our customers achieve a certain stage of bad debt — and I don't have all the exact criteria that we use — they are turned over to our collection group and subsequently a collection agent.

So there would be very few of our customers with outstanding debts who are still our customers who would still have got the \$137. So you'd be talking about a very thin stream of customers who were on the verge of going delinquent on their accounts that this, in fact, assisted them and helped them get another six months worth of telephony from us. That is possible, but I think a very small number.

Mr. Chisholm: — Okay. Thank you.

The Chair: — Any other questions? Did you want to go? Okay.

Okay. I had a couple of questions relating to FleetNet. I've been

contacted by a number of individuals with a concern about FleetNet; that it does have a capability that they view as working for them, that they are comfortable with, and that what they've heard as the proposed replacement to FleetNet may not have the functionality that the current FleetNet has, that there are some advantages that they've heard.

Can you give me or give the committee an update as to where that status is for FleetNet? Mr. Sonntag?

Hon. Mr. Sonntag: — I'm going to, again, just make an umbrella statement, if you will. I think it's important to make the statement again. I've said it a couple of times publicly. But SaskTel and the Government of Saskatchewan are absolutely committed to ensuring, particularly FleetNet users . . . I mean to FleetNet users, and particularly emergency service people, that there will be service provided for them. They will not be without service. So we are optimistic that there is new technology that we'll be able to work towards. We set a target date of the end of December 2006. But as I say, I think we're optimistic that new technology will be in place by that time, although it's a target date that we think we'll be able to achieve.

But any of the communities will not . . . If they currently have emergency service, they'll not be without emergency service. And I think it's important as a minister that I make that statement and provide that reassurance.

Ms. Milenkovic: — I can expand on that a little bit. What we are doing is we are participating on an intergovernmental committee which is being chaired by the deputy of Corrections and Public Safety to look at alternatives and examine all the alternatives that would be available, including continuing with the existing FleetNet, moving to a different kind of technology, moving to another kind of network.

And so there was an RFP (request for proposal) issued for an outside party to come in and examine the options and bring forth a recommendation to the interdepartmental committee. So as a carrier we are part of that, working very closely with all the agencies to come to some resolution as which is the best avenue to continue.

The Chair: — So just to clarify, what you're saying then is that while FleetNet likely will end, the functionality that it does provide will continue and maybe be improved, but you haven't decided on how that will take place and . . . Because the individuals that were speaking to me, they thought that FleetNet was definitely done and that was it, and that they were going to a push-to-talk network, which they were able to, you know, describe some of the limitations to that. Is that what you're saying or . . .

Ms. Milenkovic: — I'll just clarify our strategy and in terms of . . . when we look at FleetNet, that network has been around for 12 years. It's analog technology. It's aging. And it's incumbent upon us as a carrier is to say, we need to assess the technology, whether or not it's sustainable, whether or not it's reliable for our users, and either evolve to something else or, you know, continue an investment in that technology.

There are a couple of issues associated with that that we are concerned about. One is, even if we do an investment in the

current technology, that doesn't give us anything more. The footprint would be the same. It still is analog. You're not going to get increased functionality.

From a competitive position, and where other carriers are going is, it's not a FleetNet for emergency services per se, but it is a push-to-talk functionality over a digital network would . . . gives you lots of enhanced opportunities. But suffice it to say it is not an emergency services network. Now that's from SaskTel's purview. So as a company, we looked at where the technology was going, how many users. And it would be our desire to exit the FleetNet technology with the caveat that users have someplace else to go.

Now originally the FleetNet system was designed from an entire Saskatchewan perspective. In other words SaskTel is the carrier, built the network with the notion that we would have some of the big users like Power, Saskatchewan environmental resources, some of the big carriers, RCMP (Royal Canadian Mounted Police), police, and most of the jurisdictions on that network. And it was built as a public safety network with general business market opportunities to expand the user group.

That was the concept and that was the model. However that didn't come to fruition in that there are parties within the protective services jurisdiction that have built their own network. And you may be aware that, for instance, the city of Regina, the police are on their own network. Saskatoon has their own network. So the model which contemplated full interagency interaction did not necessarily come to fruition.

And accordingly as new technology evolves, some of our business market and our general users are going to other technology, so we are left with fewer and fewer users every year. What is really being contemplated is getting the user group together — and that's the interdepartmental committee, you know — and that group to decide what are the requirements and to come to some common thinking about what their options should be and where they should go.

So although we are participant, we are not the leaders in that. We are waiting what the Saskatchewan solution should be.

The Chair: — Okay. I appreciate that. I guess you've touched on the other aspect and that was that currently, I mean, my example of Saskatoon. I mean, there are bedroom communities around Saskatoon that are on FleetNet. The city of Saskatoon is not, and I believe the RCMP is also not on FleetNet. So I mean there isn't that cross . . . They can't actually talk to each other. And if there happens to be a fire or some sort of a crash, they can't actually communicate to each other very well. So you're envisioning that perhaps what replaces FleetNet, they would have that capability?

It sounds like it's, you know, you're sort of facilitating it, but it's not really your authority either so . . .

Ms. Milenkovic: — No, we are not going to make the final determination of what the option should be. But suffice to say, as long as some jurisdictions have their own private networks, they are not . . . interoperability becomes very challenging. And so regardless whether or not the ones that are on FleetNet move to a different system, interoperability between, for instance the

city of Regina and the city of Saskatoon, may be very limited.

Now there might be technology evolution that would allow some of those options to happen, but at this time without knowing what the end result is going to be, I can't say. Of course interoperability between some of the smaller areas and the rural areas is very, very important and they do have that, as long as it's like-for-like on the same system.

So those are the issues that are in contention right now.

The Chair: — Thank you. Mr. Weekes.

Mr. Weekes: — Thank you. I have just questions concerning Internet service mainly in rural areas. What are the plans of SaskTel to offer Internet service to the more remote areas or . . .

The Chair: — Sorry, members, Mr. D'Autremont actually had some additional questions on FleetNet before we started a new topic, if that's all right. So Mr. Weekes, will you yield the floor?

Mr. Weekes: — Absolutely, yes.

The Chair: — Okay, Mr. D'Autremont.

Mr. D'Autremont: — Thank you. Yes, I've had contacts from my communities as well about FleetNet, particularly the small emergency service providers. The small communities, promotion of FleetNet was supposed to be the solution for them for contact between the various jurisdictions. They went out and purchased this equipment, which is not inexpensive given their very limited budgets, and now they're being told that this is not going to be functional some time in the near future. And they have a great deal of concerns about that because their tax base is very limited and how do they afford to continually replace this equipment when the system changes.

And this particular one case that contacted me, they had only bought FleetNet equipment about two years ago. And now they're being told that it's not going to be serviceable in the near future. So how do you resolve those kind of issues for the small jurisdictions?

Ms. Milenkovic: — Those are tough issues because . . . I mean, and that's one of the drawbacks of the fleet, of the analog and the old system, is that the user-end devices are very expensive. They are generally . . . they could be in the range of 1,500 to \$3,000 depending on the ruggedness or depending upon the functionality. And that's always been an issue with the system. It was proprietary. It's gone through various change of hands, vendors sold it to subsequent vendors. We've gone through three owners.

But one of the issues that we've always had is that it's not like those vendors are selling equipment, that equipment to a bunch of different companies. It was proprietary equipment. So that was the limitation of the network all along.

I do say though and you know, aside from the expense, that those small jurisdictions have had the benefit of the technology and will have for about four to five years. In normal terms, with technology — like it is with computers — upgrades usually

occur every three to four years. We know with cellular service that upgrades on handsets and changing of handsets occurs very rapidly.

So FleetNet is actually, the system as we describe it, is actually an anomaly. That you can actually have handsets that continue to work for such a long period of time on equipment, it is a bit of an anomaly. I think that the jurisdictions, having had the benefit of it, would be pleased that they've had this experience for four or five years and have had the opportunity to deal with their emergency services through these kinds of communications.

The unfortunate part is that we, as a provider, do have to look at what happens now. You know we cannot guarantee the reliability unless we make more investment. And I think it's prudent upon all of us to say whether or not we should invest in this aging network, on an analogue network, or we should migrate to something more state-of-the-art. And so that's the junction we are at today.

Mr. D'Autremont: — I guess the question for most of the jurisdictions though would be what reliability is going to be there as well as the cost. I know, in my corner of the province, the change from analogue cellular phone to digital decreased . . . the service degraded because of that change. Where it worked, it worked well. But there were a lot more areas now where it didn't work than there was under the old analogue system, because it would slowly fade out. Whereas with digital, you either have signal or you don't have signal. There's no transition period.

And so the cell service has actually been degraded in the area rather than enhanced as far as coverage is concerned. The functionality of it has been upgraded, but the extent of the service has been degraded. So when a change is made from FleetNet, I think there needs to be as well a consideration given to that the coverage is equal or better than what FleetNet provides, rather than perhaps an enhanced service but more limited.

Ms. Milenkovic: — And that is one of the parameters and one of the items that the committee is looking at, is the coverage issue. So that will certainly be taken into context when they do their analysis.

Mr. D'Autremont: — I guess the second point I would like to raise on that is while you mention cellphones are changed fairly regularly, there's a big difference between \$100 cellphone and a \$3,000 FleetNet hand-held system and that becomes a huge part of that debate.

Ms. Milenkovic: — Well one of the reasons why we feel it's important, not just from a competitor but some of our customers . . . And again, I have to qualify that this doesn't fit all the emergency providers.

But one of the reasons they want us to move to this push to talk over our cellular network is because the handsets are much more inexpensive. They're in the 3 to \$400 range. That gives you both group capacity and one-to-one which is a cellular-like service. They're much more affordable and that's why, you know, we are migrating to push to talk.

We will do that in any event. We will have to make that investment for our business market and for competitive reasons. So we plan to do that shortly.

But affordability; the handset. It's always the end-user device. You can't sell and flog something that's \$3,000 when, every place else, you can buy something for 3 or \$400. It doesn't make sense to people. So that is an issue for us.

Mr. Weekes: — Thank you, Mr. Chair. Going back to my question concerning high-speed Internet in rural areas, what are the plans of SaskTel to make that available to rural areas in the future?

Hon. Mr. Sonntag: — Let me just say first of all, I think this is . . . As the Minister of SaskTel for some number of years, this is one of the areas that I am most proud of and most excited about in what SaskTel has done in this area. We think that . . . We are fairly confident in saying that Saskatchewan is, right now, one of the most connected jurisdictions in Canada for sure, if not in North America, with 74 per cent of our population having access to high-speed Internet.

With the announcement of CommunityNet II that we made several months ago, I guess it's four or five months ago now, CommunityNet II, once it's rolled out over the next two to three years, we'll see 86 per cent of our population having access to high-speed Internet.

CommunityNet II, which I'll let Mike speak of to you in a bit of detail, is also exciting from the perspective that it's a partnership with a Saskatchewan-based company that will deploy some new technology which will give access to high-speed Internet into many deep, what we call deep rural or farming communities as well.

So Mike, you should probably provide some of the detail.

Mr. Anderson: — As you may know, the initial CommunityNet project deployed our wire line based high-speed Internet service into those communities or our DSL-based service, and that service has a distance limitation. It will only work to about a four kilometre loop length though, So any customers outside of the town you know to any distance, are really disadvantaged and not able to take advantage of that product.

There has been significant demand to continue to roll high-speed services out into rural areas as I'm sure everybody is well aware. The CommunityNet II project that the minister just mentioned is utilizing wireless technology which gives us about a 30 kilometre radius of reach. And the plan is to roll that service out to a minimum of 71 of the next largest communities. So we will have basically every community of 200 population and up covered and a number of communities of a . . . well, every community of 100 population and up that have a school. And then there will be other communities in the surrounding areas of those that will also benefit from the service. So we believe it's going to be somewhere in the range of three to four hundred communities that will benefit from access to this wireless service.

You know at the end of the meeting or something, if you like

we have got some maps that show . . . This one, the red dots — tough to see across the room — but the red dots show all of the communities in the province today that have our DSL-based service. And this chart shows what the province will look like at the end of the CommunityNet II program and the wireless coverage. So you can see between the red dots and the green blotches on the map, we're starting to get, as the minister's mentioned, but we'll have about 86 per cent of the population covered with this next phase.

Mr. Weekes: — Thank you. So high-speed just will not be . . . for technological reasons or whatever is not available, will not be available on the existing telephone lines then. Or is that something that will be coming in the future?

Mr. Anderson: — I'm sorry. Do you mean with respect to the communities in the second phase?

Mr. Weekes: — No, I'm just referring to just rural people on the existing telephone lines that they have. I'm just looking at it from the future — from a technological point of view, will that ever be practical?

Mr. Anderson: — The balance?

Mr. Weekes: — Yes.

Mr. Anderson: — You mean the 14 per cent of the population that isn't covered in this program? Our goal is to try and replicate what we've done on the cellular side of the business. Our goal is to try and get high-speed out to 95 per cent of the population.

Mr. Weekes: — Yes.

Mr. Anderson: — So, we're doing that in a manner . . . we continue to push it out as the economics start to make sense. We're seeing the costs of technology decline. As that happens, more and more business cases turn positive for us in the communities, so we continue to roll it out. Number one as it's economically viable; and number two it's another issue just around actual physical resourcing of projects. This next phase is anticipated to take about three years to complete. So at the end of that phase we are very hopeful and confident that the price of technology will have declined even further that will allow us to announce, you know, additional phases.

Mr. Watson: — Excuse me, you're asking more of the technology.

Mr. Weekes: — Yes.

Mr. Watson: — We used the copper loop first; that's where the DSL offering comes from. And the limitations, technical limitation where you can only have a DSL so far along on a copper loop, that's where the limitation comes. We've done that in the first part. The second part is this CommunityNet II where the wireless will then extend it farther reach. The copper loop is still in the ground but technically we can't use that. It just won't allow us to reach it right now.

Mr. Anderson: — The service drops off. After 4 kilometres the signal degrades very quickly, so to try and get the service that

you're probably familiar with out to the farm just technically isn't feasible.

Mr. Weekes: — Would it be able to place high-speed wireless on the digital towers — on the cell digital towers?

Mr. Anderson: — Yes. That is the plan to leverage the existing footprint that we have today.

Mr. Weekes: — I guess that leads to the next question about cellphone coverage in the rural areas. There's still . . .

Hon. Mr. Sonntag: — Ken, I just want to add one thing if I could just on this as well, because I think it's interesting if not somewhat important. But in fact as I'm advised — and Mike can correct me here; I hope I'm not wrong on this because this is what they told me awhile ago — in fact the quality of the service once delivered through wireless is it actually boosts the signals, I am told, and actually will have a somewhat higher quality service than you would have, as an example, in right downtown Regina here. So the quality . . . if you have access to the high-speed Internet through the new technology in rural Saskatchewan, in deep rural Saskatchewan, the quality will be as good as if not somewhat better actually than exists right here. I hope that's right.

Mr. Anderson: — Well you should never contradict the minister. It's not that the quality will be better but the bandwidth is better. So the rural service, the wireless service, will be capable of two megabits downloading speed whereas the DSL wire line base service that you're probably familiar with today is maximum 1.5 megabits download.

Hon. Mr. Sonntag: — That's what I meant to say.

Mr. Anderson: — Mostly the service is just as good.

Mr. Weekes: — So the service will be . . . that's for uploading and downloading.

Mr. Anderson: — Uploading speeds are lower. It is an asymmetrical service. Upload speeds, I think maximum is about 384 kilobits up, 2 megabits down. On the wireless, 384 megabits up on the DSL base service and 1.5 megabits down.

Mr. Weekes: — My question that was going to lead to cellphone coverage in all . . . many of the rural areas, if not all — there's these huge dead spots in cellphone coverage or very poor cellphone coverage in some areas. What is . . . I know your goal is 95 per cent. But boy, when people are travelling or in certain rural areas, it's very inconvenient to . . . for especially farmers that I know where they go to certain fields and they have no coverage at all. So this was, that's my question: is, what's happening in that area?

Ms. Milenkovic: — In the past, as you see in our report, or in the annual report in 2003, when I look at the capital dollars invested, our total capital budget was 31.4. Of that, about 26 million was for cell service alone. And we had several programs going at the same time. One is, in 2003 we wanted to complete our digital footprint. The second one was to start an overlay of the next evolution of digital, which is faster speeds, and allows data, always on data, through your handheld devices. And then

the third area and the third component was expansion in a wide area. And we spent about 4.7 million in 2003. We continued along that vein and for wide-area, what we call wide-area expansion is for those areas not covered at all by digital or cellular, digital or analog.

So last year what we did is we spent about 12 million in three areas — the Northwest, west central, and the Southeast — and it was a combination of filling in gaps and expansion. And Mr. D'Autremont is correct that when we completed our overlay of digital, the footprint size of digital, the original intention and the original specs we got from vendors, and everybody thought that it was like for like, that we would have the same footprint digital as analog. But there were some factors that really had resulted in the digital footprint shrinking.

And suffice it to say, I give you that by way of background because as we move forward we are doing several things. And we are putting the final touches on our program for 2005, which you'll hear about in a short . . . within a couple of weeks. Because what we're looking at is fixing some of the holes, that we call are holes, that resulted in the discrepancy between digital and analog. The second thing is continuing on an expansion of white area as well for 2005.

So every year we make the commitment to expand our service and we're going along the same . . . probably with respect to capital, along the same veins as we did in 2004.

Mr. Weekes: — So that means more towers then to eliminate those white spots.

Ms. Milenkovic: — More coverage, yes.

Mr. Weekes: — Yes. Well it's certainly a concern because I mean nowadays, there are not only people that are in the farming business, but as an example when I represented Redberry Lake, going up in the Blaine Lake, Hafford area, people going to the lakes up there, they just run into very poor cell coverage. And it's really . . . inhibits I think economic development with attracting people who go to the lakes, or business people going through to the lakes that need to do business on the road where they're used to, where they expect it every . . . you know, on the main highways. And it certainly, certainly is a concern to many people.

Ms. Milenkovic: — There's two things that we have to consider in that. We are also looking at the next evolution. We just completed our build of . . . like the second, what we call the second generation of digital which was something that we fondly call 1xRTT, and that's the data capability.

We are now looking at the next iteration of that. So you can see how technology advances are compressing in time. Whereas when we built analog, it was 10 years before we moved to digital. And then we built the CDMA (code division multiple access), and that was about three or four years before we did 1x, and now we're already looking at the next iteration.

So each time we have to go back and blanket the province in terms of the coverage that we did. So it's not only expansion but it's complete overlay coverages when we're improving and giving people higher speeds.

We've also changed our strategy. Initially we went to where people lived and worked, so it would . . . primarily the cities. And then we started on corridors, and we're improving corridors. And now we call it where people live, work, and play because it takes you to some of the areas that you talk about in terms of some of the resorts, cottages, and certainly the corridors. And they're not all main corridors but people transporting between communities.

And there's . . . It does become difficult though for the farmer that you talk about because the time in the field on his farm, and there may be no other people in that area, how do we make a business case for a cellphone or cell coverage for somebody's farm? The reach in terms of towers has limitations as well. So we look at all those factors but we certainly have been very aggressive in expansion and plan to continue to do that.

Mr. Weekes: — Well thank you for that . . .

Hon. Mr. Sonntag: — I just want to make a point here as well, if I could. I mean the points that you make, Mr. Weekes, are valid. And I mean as the Minister of SaskTel, I hear them regularly myself. But I think it's also important for all of us to put this into context as well.

I mean just anecdotally if you will, I mean I've driven . . . This past summer we spent a fair bit of time travelling across the country from Manitoba right across to British Columbia and boy, while there are spots that are not covered in Saskatchewan, I would venture to say that Saskatchewan has better coverage than any place that I travelled by a long ways. You got coverage once you got close to large centres but not to the degree that Saskatchewan has.

Having said that, I mean your point is still more than valid, and I mean that's the objective. We want everybody to be completely satisfied with the service that Sask Mobility offers and so that's the objective that we're trying to achieve.

Mr. Weekes: — Thank you. I'll make the same case as I made last year when I brought this up and the previous president said it had to be a business case before they expanded the cellphone service. But when we look at SaskTel losing \$24.7 million in ventures like Retx, I'll say it again, I said it last year and I'll say it again, that infrastructure money should be placed in Saskatchewan. Sure maybe there isn't a business case to put a tower for Hafford and Blaine Lake, but so be it. I think that kind of an investment needs to be done.

We're talking about rural revitalization. We're having schools close, we're having hospitals closed, you have poor cellphone coverage, poor Internet coverage in those areas and, you know, how are you ever going to make a business case for those areas if they don't have the same technological basis as other places does and how are we going to grow those areas economically without the most modern communications.

Mr. Watson: — I agree. We do hate to lose money. If you . . . Hindsight is 20/20. If we had of said, if we're going to lose the \$24 million let's put it into the cellular network, expanding the cellular network where you normally wouldn't in Saskatchewan, we would. We are committed to expand the cellular network in Saskatchewan; we are committed to

continually keep growing it as well as we develop, redevelop the network we have now to continue to keep growing the footprint and keep growing it. We have that.

We are like no other telephone company, again, in the world. I mean I have a place in northern Ontario, two hours north of Toronto, and I can't get cell service in my area. And in fact I'm about . . . little bit about 3 miles away from Ted Rogers' cottage so, and I'm sure he has it but I can't get it for some reason but he has the same avenue. I mean it could be argued why would he go out and spend billions of dollars for Microcell everywhere outside of his area when he hasn't serviced his own area properly. It's not a good excuse nor is this, but we are committed to expanding the territory. We understand, as Diana said, you know now it's time to start expanding into places where people spend some more time in their recreational places and we will do that.

Part of the ability for our . . . to do that is to return to the shareholder margins that every shareholder expects. Every citizen of the province expects margins from the business. It's our responsibility to go get revenue so that we can get margins on that revenue and so that we can continue the expansion of the cellular also.

Mr. Stephanson: — Without trying to steal Ford's thunder, Saskatchewan is still job one for SaskTel as well — \$2.4 billion invested in Saskatchewan by SaskTel, which pales by a factor of 10 any money that we've spent externally. So it clearly is number one in Saskatchewan.

Mr. Weekes: — Thank you.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Okay, thank you. One quick question on this, then I want to go on to a different topic. You mention for the expansion for CommunityNet II that you're looking at communities of 200 people. Is that 200 people within the urban community or 200 people within the coverage area.

Mr. Anderson: — I think we're using the StatsCanada census data to choose the communities, so I would assume that's within the actual town boundaries.

A Member: — That's right.

Mr. D'Autremont: — Okay, I guess my people will have to get into production . . . (inaudible interjection) . . . We're short about 37 people, so.

I'd like to go back to Navigata. And I'm wondering about the future of Navigata and in particular its partnerships that it may be developing with a company in Saskatoon for business opportunities in Kamloops. I wonder if you can fill the committee in on what is happening there and what that belies for the future of Navigata.

Mr. Watson: — Yes, we have an agreement, a memorandum of understanding to do a field trial in Kelowna . . . (inaudible interjection) . . . Kamloops or Kelowna? I'm sorry, I keep saying Kelowna and you said Kamloops.

Mr. D'Autremont: — Yes, one of them.

Mr. Watson: — One of the K towns, Kamloops.

The reason we picked that is, well first and foremost, we're already doing business with this company within Saskatchewan. So we're already building . . . we're already using their products in Saskatchewan. We've now expanded that outside of Saskatchewan.

And the reason we picked Kamloops is because, first of all, we have towers there where we can put the equipment on the towers already. We have our own network there so we can control the quality of service on our end, and therefore the acceptance from the business users should only be the acceptance of whether they're ready for this type of technology outside of the province. We think they are.

We think it's a great opportunity to then take that product and offer it on all our networking within the Navigata footprint in BC, and then help also a Saskatchewan-based company to do that. The size, we don't have a feel for the size of what the potential may be for VCom, that's the company we're talking to. But for ourselves, what it does is give us more control over our access to the customer, to the end user, therefore control over quality of delivery.

Mr. D'Autremont: — Will this partnership be directly run by Navigata, or will there be another subsidiary spun off to provide this service?

Mr. Watson: — No, our intention right now is to run it through Navigata.

Mr. D'Autremont: — So these arrangements then will appear in Navigata's future annual reports?

Mr. Watson: — Yes.

Mr. D'Autremont: — Yes, so there won't be any confidentiality agreements that, so that you're coming back here saying, sorry, we can't answer that for competitive reasons?

Mr. Watson: — Well, pricing of the product and pricing of the service may be for that reason . . .

Mr. D'Autremont: — But that would be public anyways because you're offering it to your customers at a certain rate.

Mr. Watson: — Yes, I guess. Yes, should be.

Mr. Stephanson: — But again as a supplier, we're making those same statements that . . . what we're telling our suppliers in contracts that we have with them is that it is the desire of this committee that their payee amounts be disclosed. Right? But there are three exceptions. And we say in the contract, do you think you fall under any one of those three exceptions, and what answers would you give to that.

Mr. D'Autremont: — I'm thinking more specifically of the arrangements between Navigata and VCom to our . . .

Mr. Stephanson: — The actual financials would be . . .

Mr. D'Autremont: — Right. Rather than who supplies the hardware or whatever.

Mr. Stephanson: — Again that goes back to the other thing. Clearly we are going to have public disclosure with any partners right back to when the Premier announced it in 2003.

Mr. D'Autremont: — Okay. I wanted this on the table so that next year if . . . we can debate it again if need be.

Mr. Watson: — Well, with particular . . . I can tell you the particular case, the field trial we're doing in Kamloops now is VCom is donating the equipment for the field trial. We're not paying for the equipment. We're paying for our labours and the hookup, but we're not paying for the equipment. So it's a good partnership, a very good partnership.

Mr. D'Autremont: — Well hopefully it'll be successful and you can bring it to Saskatchewan.

Mr. Watson: — Well no, as I say we're already using the VCom hardware in Saskatchewan. This is just taking it outside.

Mr. Meldrum: — Mr. Chairman, Mr. D'Autremont had asked about what the severance packages were for the people that were terminated, Navigata in 2003. Using the general rule of four weeks per year of service as a very general guideline, the severance packages were based on factors such as age, length of service, and position in the organization. Now for short-term employees that were terminated, we used the termination provisions in the Canada Labour Code.

Mr. D'Autremont: — And for the longer term, roughly four weeks?

Mr. Meldrum: — Yes, roughly four weeks, subject to . . .

Mr. D'Autremont: — Yes.

Mr. Meldrum: — Essentially it's the common law is where you end up.

Mr. D'Autremont: — Okay, thank you. In the annual statement for Navigata, you talk about a stock-based compensation plan for employees. What employees qualify for this type of compensation plan?

Mr. Stephanson: — It was our . . . Or I guess the plan was set up such that it would be senior management. As it happened, it was to be based on the achievement of goals and targets for numbers. No one achieved them. No one got any stock compensation as a result.

Mr. D'Autremont: — Okay, thank you. I guess I won't be asking how well it worked then. Yes, that's all the questions I had on Navigata.

The Chair: — Any further questions from committee members? Any further questions . . . oh, do you have any further questions on another matter?

Mr. D'Autremont: — I have a number of other questions, I believe. I don't think we're at the end. No, I do have some more

questions, but it will take longer than until 4 o'clock to get through them.

I do have one question though that was just raised with me during our break, and I wonder if SaskTel has any personnel announcements that they might wish to make today.

Mr. Watson: — No, we're not making any public announcements. No, there . . . specifically Dan Baldwin, who was senior vice-president of business development for SaskTel, has left the company as of 5 p.m. yesterday, and he'll be pursuing other career interests.

Mr. D'Autremont: — Okay. So was that public yesterday?

Mr. Watson: — It was . . . No, a note was sent out this morning.

Mr. D'Autremont: — Okay.

Mr. Watson: — Just to the employees.

Mr. D'Autremont: — Thank you. Questions related to the political rebate of \$137 that the Crowns, that was paid through SaskTel. Was or did SaskTel charge an administrative fee for that service?

Mr. Stephanson: — No, we did not. There has been some confusion amongst the public. We have taken telephone calls as well as even some letters in the press. Additionally there was an explanation of it by minister . . . or a response by Minister Atkinson. I think I'm going to suggest the confusion of our customers was that the place in the bill where the system admin fee appeared and the \$137 credit are exactly the same spot, so that when people's eyes were drawn toward their credit, they noticed the thing called the system admin fee and drew the conclusion that they were tied together. They are not tied together. They are not related to each other.

I'll leave it to Michael to explain the system admin fee if you would like.

Mr. D'Autremont: — Please.

Mr. Anderson: — Sure. The system admin fee is a fee that we put in place in the spring of last year, and it's a fee that is charged on customers that subscribe to any number of our long distance plans. So that fee has been charged to those particular customers every month since I think March of last year. So I suspect what's happened is that some customers probably weren't even aware that they were paying a fee. And as Randy said, just because it . . . you know, they actually went to the bill to make sure they got the rebate, actually noticed the fee. But it has no relation whatsoever to the rebate.

Mr. D'Autremont: — I guess my question would be, why do you have a system administration fee related to those people who are on long-distance plans? Why isn't that fee simply built into the cost structure?

Mr. Anderson: — In effect that's the way that the industry has started to, in effect, build it into the cost structure. SaskTel was the last company to actually put in place a system admin fee.

Every other telco in the country and all of the other competitors have had that fee, in some cases I think for about four years now. And in fact most of . . . I think that there's only one company that has a fee that is lower than ours. We are at the low end of the scale. So all the competitors, all of the telcos, have been charging not only the system admin fee, but most of them are also charging a subscription plan fee as well.

So what you're starting to see within the industry in the long-distance side is that companies are now starting, because the price per minute has come down so low, long distance is basically a commodity business. As you see in the new VOIP service offerings that are starting to hit the market, they're bundling all the services together for a flat rate. And what you're seeing I think on the long distance side and the legacy business is all companies, competitors and the incumbents, starting to layer on these flat rate based fees in place of the price per minute.

Mr. D'Autremont: — Which, at the end of the day, is disingenuous on the cost of the service. Because in the advertising world you can say, you get our package for nine ninety-five, and you think nine ninety-five is the cost of your package and then you end up with an additional flat fee on there for administration or whatever it might be.

Mr. Anderson: — There's certainly a marketing spin to it. I wouldn't say it's disingenuous. And if you look at particularly our advertising, the fee is identified in all of our advertising so it is clearly laid out that it is there. I think it, you know, certainly there's a marketing element to it, but I think SaskTel has to follow the same kind of trend that the other competitors are doing. If we were to take the cost and layer it in on a price per minute, then we're trying to compare our long distance prices with a higher price per minute than what the competitors would be out there advertising their services at.

So we pretty much have to keep our pricing models aligned with the industry or we end up confusing customers, and in some cases, potentially losing potential market share because the customer incorrectly thinks that our plans are higher priced than a competitors.

Mr. D'Autremont: — Does this fee go on every telephone or only those with certain long distance packages?

Mr. Anderson: — Only customers that subscribe to certain long distance plans. Any customers that use our basic message toll service — which is outlined in the front of the phone book, it's not a subscription plan — the fee does not apply to those long distance charges. It's only if you're subscribing to one of our long distance bundle plans, you know, the Canada evenings and weekends, anytime plans, those are the particular plans that the fee applies to.

Mr. D'Autremont: — Well when I initially saw it it reminded me of the SaskPower's reconstruction fee that was \$14 added on to every bill across the province. Didn't ever seem to make it to reconstruction and there was considerable concern about it in, I believe, the Provincial Auditor's office as well. And finally SaskPower simply rolled it into their fee structure, and you know, I'm sure they're still collecting the \$14. It's just that we don't see it anymore. But they had to declare it as income for

SaskPower whereas previously they were not declaring it because it was a fee that was set aside for reconstruction.

This fee would show up though in SaskTel's annual report as income?

Mr. Anderson: — As revenue.

Mr. D'Autremont: — As part of the revenue stream.

Mr. Anderson: — Yes, as revenue, as long distance revenue.

Mr. D'Autremont: — On the rebate, the \$137 rebate. How did SaskTel deal with those accounts that were delinquent in relationship to the \$137 rebate?

Mr. Stephanson: — I'm not sure what you're . . .

Mr. D'Autremont: — Okay, sorry. They've already been asked that when I was out. That's fine. Okay, sorry about that.

I guess a question then dealing with the impact of the rising Canadian dollar on SaskTel's business. We have seen that has had a major impact last year with some of the Crowns. What is the impact this year?

Mr. Stephanson: — For SaskTel specifically it's going to be very minor. I believe it's 2 or \$3 million. We had the opportunity with the Canadian dollar strengthening to take that risk out of our business. I don't know if you've been following that on Crown corporations income statements for the last number of years, but it works against you as well as in your favour. It depends on which way the dollar is going, right?

We had the ability and chose to enact swaps in the marketplace such that our American debt is now in Canadian equivalent dollars, as is the interest, as are the sinking fund payments. So everything we're doing is in Canadian dollars now, and any change or fluctuation in the American exchange rate will not impact SaskTel's . . . I should say with respect to our debt, it will not impact our income statement.

Mr. D'Autremont: — Okay, thank you. In my questions with Navigata we talked about the share compensation which would seem to have been a some sort of a bonus program for the executives. We have seen with SaskEnergy some problems with potential bonus programs there. Does SaskTel have any form of bonus program for its executives?

Mr. Burnett: — SaskTel has had since 1983 a bonus program. It applies to all of the management employees. It was established initially by the management team giving up the days off or half of the days off that they had. And I think at that time it was established at 3 per cent, 3 per cent of management compensation, and then was later increased to 4 per cent when management in lieu of the 1.9 per cent increase that in-scope employees received.

Mr. D'Autremont: — And so it's a flat rate more or less. Is it contingent on any criteria, other than being a management employee?

Mr. Burnett: — Yes . . . No, it's a pool of money equivalent to

4 per cent, and it is driven by the performance ratings that each member of the executive or management gets every year.

Mr. D'Autremont: — The management performance of the management. Do they receive the bonus for an average classification that you've been doing an average job, or is it given to those who achieve beyond that? How is it structured that way?

Mr. Burnett: — I'm not sure I follow the question. The pool of money is . . . First of all, the pool is established based on corporate performance, so every year the company establishes indicators relative to different aspects around net income, for example, around debt/equity ratio, those kinds of things. And if the company achieves more than 90 per cent of those targets the bonus program would kick in, and if it exceeds 100 per cent of those targets it can also grow to I think up to about 5 per cent type of the thing.

Then that pool of money is then distributed amongst the management team based on the individual performance ratings that they get, and it would vary depending on your rating. So in our performance management system you have a rating. One would be exceptional, two would be exceeds, three would be meets, four would be doesn't meet. Anybody who achieves a three or better — three, two, or one rating — would receive a percentage of that pool of money that was established based on the corporate performance. So one, for example, might receive 7 per cent of their base pay whereas somebody rated at two might receive 5 per cent of their base pay and if you were rated at three you might receive 3 per cent of your base pay.

Mr. D'Autremont: — And if you were rated four you would receive none?

Mr. Burnett: — You would receive nothing.

Mr. D'Autremont: — And you haven't received this money in advance. Rather you receive it after the end of the year as we would typically think of a bonus being received.

Mr. Burnett: — Yes, exactly like that. So after the company performance has been determined for the year, including the financials, then those results are taken to our board of directors. The board approves the pool of money as well as the distribution plan.

Mr. D'Autremont: — Okay, thank you. I have a question on SaskTel International. In the 2003 financial statement the investment division of SaskTel International, it says we'll continue to explore profitable investment opportunities. Are you targeting that investment strategy now towards Saskatchewan from the comments earlier or are you continuing to look outside of Saskatchewan for that investment opportunity?

Mr. Watson: — I'll start the answer and then Randy and John are people who can step in. SaskTel International at the present time frame will look at two opportunities. The one opportunity is where we go and do contract work around the world, where we get specific contracts to design, manage projects around the world. The Mozambique one I indicated where we're building a wireless network for the northern country of Mozambique,

those contracts are very good. First and foremost they're fixed price contracts where there's all kinds of protections in them. Most times the money is protected by the World Bank so when we finish a job, we turn the . . . (inaudible) . . . over, we get our money, and we're out.

So they're very protected, very good contracts and to boot we use expertise within SaskTel to help bid them, design them, and actually even in a lot of cases build them. So it becomes part of the social infrastructure of SaskTel that people look forward to actually participating in these things around the world.

The second aspect of where SaskTel International was used to invest in operations around the world, we have none on the horizon now, but we're investing . . . considering investing in right now. We are keeping an eye out for opportunities like Leicester or somewhere like that, but we have none on the horizon right now.

The Chair: — Thank you, members. I see that we have passed the hour of agreed adjournment time, so I would open the floor to a motion to adjourn. Moved by the brand new spanking member of the committee, Mr. Wartman, that the committee do now adjourn. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — That is carried. And I'd just like to thank the minister and the new president . . . or CEO, and thank you for being here today and providing the answers. We look forward to working with you in the future. Thanks very much.

The committee adjourned at 16:01.

