



Standing Committee on Crown Corporations

Hansard Verbatim Report

No. 9 – May 3, 2001



Legislative Assembly of Saskatchewan

Twenty-fourth Legislature

**STANDING COMMITTEE ON CROWN CORPORATIONS
2001**

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The committee met at 09:34.

Saskatchewan Telecommunications

The Chair: — Good morning, everyone. I'd like to call the meeting to order. The item of business before us today are the 1998, '99, and year 2000 annual reports from SaskTel and its subsidiary corporations. I'm going to suggest that we start as we usually do with having Mr. Ching introduce his officials and provide a brief overview of what has transpired in '98, '99, and 2000 in the corporations. Then we'll turn it over to the audit team and open it up to questions.

So, Mr. Ching, if you'd like to introduce your officials and then I'll advise you of your . . . I don't want to say rights but of the . . . of your rights. That sounds so bad.

Mr. Ching: — Well, good morning, Mr. Chair, members of the committee. I have with me today a number of officials from SaskTel. On my immediate right is Dan Baldwin, who is the senior vice-president of business development and corporate planning. Some place around, at the far end, Mr. John Meldrum, who is our corporate counsel and in charge of regulatory affairs. Over here is Mr. Byron Pointer, who is our VP (Vice-President) of human resources and industrial relations. Randy Stephanson is two over in the centre here. He is our chief financial officer. Darcee MacFarlane who is our director of corporate affairs and public relations on my immediate left. And behind me, I think, is Mike Unick who is manager of finance for the corporation. So those are the officials who are with you here today, Mr. Chair.

The Chair: — I'd like to advise you that witnesses should be aware that when appearing before a legislative committee, your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as the subject of a civil action.

In addition, I wish to advise you that you are protected by section 13 of the Canadian Charter of Rights and Freedoms, which provides that:

A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other of the proceedings, except in a prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put by the committee. You are advised that you may be recalled to appear again before this committee at a later date if the committee so decides. You are reminded to please address all comments through the Chair. Thank you.

And with that I would ask you to . . . or your officials to make a brief presentation in terms of the '98, '99, and 2000 reports.

Mr. Ching: — Well, to some extent I guess we're going back a little bit into history here because this is a meeting which deals with three of our annual reports. It's actually been a long time, I guess, since we were called in front of this particular committee and I think however we have had some dialogue between

ourselves as a corporation and the individual caucuses. Certainly we have a standing invitation to each of the caucuses of the Legislative Assembly to meet with you at any time at your convenience to go over what's happening within the corporation and to keep you updated on the activities that have been the commonplace of SaskTel.

And as a matter of fact, I think probably about a year and a half ago, I think we spent about a half a day with Mr. Hermanson and Mr. Boyd who was then the critic for the opposition for the Crown sector. And we had spent, I think, some time with the government caucus on a particular issue which at that time was topical, which was the exchange area boundaries. I think that was some time in 1998 or '99.

We had set up actually a meeting, I think, to meet with the opposition caucus in January of last year and, for those of you who harken back to that time, you remember that there was a little bit of an explosion surrounding the issue of the state of affairs in our farming community and I think the meeting got set off. And I think Mr. Heppner was going to arrange a follow-up meeting on that, but we never actually got around to doing that.

In addition to that, even though we haven't been in front of this committee, we have filed with the committee a number of significant transaction documents and I'm sure you have those before you.

Since quite a number of members of the committee are relatively new to the Crown Corporations Committee and hence wouldn't have had the opportunity to hear presentations in the past, I'm going to take a couple of moments to just give you a brief overview of the history of SaskTel.

You'll know that this is a corporation that has its roots deep in the history of Saskatchewan. In 1908, the government of the day made a decision to buy up the embryonic telephone system that was being created by Bell Canada and acquire it as a part of the government of the province of Saskatchewan. And they did that because they were not happy with the way in which the private sector was driving the development of the telephone system within the province of Saskatchewan, especially in rural Saskatchewan.

And since then through initially a department of government called the Department of Telephones and more recently, since 1946, as a Crown corporation, the government of the province of Saskatchewan has been instrumental in owning and driving the development of the telecommunication system through its various reincarnations to the point where, today, I think that the people of the province of Saskatchewan can best be justifiably very proud of the level of telecommunications that they enjoy within the province of Saskatchewan. It is with some degree of pride I think that as a province and certainly as a corporation we can brag that we have probably one of the most advanced telecommunication systems not only in Canada, not only in North America, but indeed on the face of the earth.

This entity, SaskTel and its predecessor, the Department of Telephones, is going to I think later on this summer celebrate its 93rd year of existence. And I think the corporation has become

over those 93 years quite a surprising communal asset of the people of Saskatchewan. Depending on what's happening in the marketplace the value of SaskTel is at a minimum \$1.5 billion and arguably it could be as high as two and a half or \$3 billion.

And I'd like to sit before you today and say that was all I and maybe my officials here doings, but it isn't. For 93 years the people of Saskatchewan and the officials within SaskTel have been gradually, repeatedly, and consistently building up an excellent asset which is an extremely lucrative corporation. It's a corporation that I think delivers excellent service. And it's really a part of the fabric of Saskatchewan that I think that almost everybody in this province can be proud of.

And I may say that not only has this corporation thrived under the present government but it has under the previous governments before it. It's amazing actually when you think back on it — and knowing that within this province there has been a series of governments that have had strikingly different political points of view and strikingly different perspectives within the political fabric — that SaskTel has enjoyed a level of support from repeated governments within this province. Because I think it's been recognized by every government of whatever political stripe that communications is such an important aspect of the infrastructure of this province, that so much of the social fabric of this province, so much of the commercial fabric of this province hangs on the structure of our communications system.

It's also true of our education and our transportation system and other parts of the infrastructure of this province, but certainly communications has been a vital part of a province where so many of the people are so widely spread out.

I think you've heard these statistics in the past. Literally 28 per cent of the population of this province live on individual land holdings or in towns of less than a thousand people. I think, if I remember my figures correctly, in Manitoba that's about 6 per cent; and in Alberta, I think it's about 3 or 4 per cent; and in BC (British Columbia) it's 3 per cent. I think in Ontario it's something like 1.3 per cent. And here in the province of Saskatchewan, 28 per cent of our population lives on individual land holdings, and towns of less than a thousand.

And that has presented an incredible challenge for your telecommunications company over these many years, but it's probably been the thing that has made us extremely strong too. Because the skills that we've developed within the corporation in serving with high-quality telecommunication services a population that is so spread out as it is in Saskatchewan has been one of the assets that we've been able to lever throughout the world through SaskTel International.

To say that we in the communications industry have gone through some striking changes in the last decade or 15 years is, I suppose, a trite statement.

The traditional profile of a telecommunications company in North America, and this is also true of SaskTel here in Saskatchewan, has been that it has been a monopoly industry. It's very distinct; you could always find the outer edge of either Bell Canada or MTS (Manitoba Telephone System) or SaskTel. It was always dedicated to universal service. No matter where

you were, we'd punch in a telephone line. If you decided to build your house on the north quarter, we'd get you a telephone service. If you were right downtown Regina, we'd get you telephone service.

And we always did that at a small, flat charge, usually about \$200 in most recent years. And that, despite whatever it cost us to be able to provide that sort of service. And literally we have got examples in legion wherein we can show that the cost of getting a hard-wire telephone service to an individual would be as much as 40 or 50 or 60 thousands of dollars and the charge that we made was \$200.

That of course was the function of an industry which was a monopoly, wherein everybody had to do business with the corporation; and of course, as you know, long distance charges, not only in Saskatchewan but all across North America were, in retrospect, extremely high compared to what the cost of supplying the service was.

And it was within the long-distance part of the business that every telecommunications company, including SaskTel, made huge profits. And it was out of those profits that we were in a position where we could build the system at a surprisingly small cost to the individual subscriber. And we could also supply other services like free operator services, and free this and free that or reduce charges for that, local service to people on a regular basis at nominal charges, because we had this huge cash cow called long distance.

Well of course over the last decade, what we've seen is competition has come in. We are now subject to a new regulatory regime, namely the CRTC (Canadian Radio-television and Telecommunications Commission). Our technology has just leapt forward.

It's interesting because I was having breakfast this morning and we were chatting with an individual about the cellular system here in Saskatchewan. And I think every one of us probably has had or used a cellular telephone. And we've come to the point where almost a cellular phone is like our left arm — it's there and we use it on a regular basis. Sometimes they drive us crazy even. And we kind of think that they've always been there. But literally, this year SaskTel will celebrate the 12th year of offering cellular service in the province of Saskatchewan. When you think of it, 12 years only that that service has been around.

And really that was at the front end of a process that's been incredibly turbulent by virtue of what has happened in the world of our technology. And what we see today is that under the influence of competition, every telecommunications company has got to cease having the characteristics of a monopoly and start to exhibit the characteristics of being a market-driven, customer-sensitive entity or it's going to lose out in the competitive marketplace.

The effects of the technological change going on in our industry are that we see a convergence between the technology that has usually been wrapped around the idea of a telephone, with the technology that's been wrapped around the device of a TV or a computer. And as a matter of fact when you look at some of the devices that are getting more commonplace today, sometimes it's hard to tell whether it's a computer or a telephone or a TV.

And indeed I think that we are not anywhere near the apex of that particular transition. And if I were to predict anything with almost absolute certainty, you're going to see more of that sort of convergence, more of that sort of technological integration between those various industries which literally five years ago were perceived of as being extremely distinct and separate industries, one from each other.

The idea of SaskTel being in a business wherein our product was exhibited on a TV was simply the sort of statement which would have made the average person in the telecommunications industry shake their head, five or six years ago. And yet today Bell Canada owns a satellite-based service called ExpressVu. The Maritime telephone companies are in the same line of business that we're getting ready to enter, which is digital interactive television.

And what we see of course is that many companies which hithertofore have been perceived of as being cable companies are starting to get into the telephone business. Their technology has been moving from being a one-way entertainment-based type of technology to being a two-way communications plus entertainment type of technology.

Ours which has been a two-way communications-based technology has been moving to the direction of where it's got the capacity to not only be a two-way communications system but also a way of transmitting entertainment and information via a broadband technology.

And in the process, what used to be very distinct and clear, which is the outer edges of a communications company, has become very murky. And I think that that is simply the result of the fact that competition is urging all sorts of companies including telecommunications companies to explore in new areas and new capacities, the strengths that they've been able to build up within their precise industry and lever them in other areas to bring value back to the corporation, to its customers, and to its owners.

In addition to that what we're finding is that the old concept of where we were a company and over here was a competitor and we simply do battle with them is no longer a paradigm that makes any sense. We literally contract out the billing function, which arguably is right at the heart of our business, for our entire cellular network to a subsidiary company of TELUS, who is one of our competitors.

That is simply one example of where strategic alliances and partnerships with people who might never have considered a partnership with SaskTel a few years ago or who today you might wonder about why they're our partner because they're also our competitor in another field of activity, but to us that whole phenomenon is becoming commonplace.

Within this new turbulent world that SaskTel lives in, I can tell you that the heart and soul of our business, while we reach outside the borders of this province, still continues to be right here at home in Saskatchewan. Everything that we do is aimed at making sure at all times that what we do brings value back here to the province of Saskatchewan, to the owners and the customers who are the soul and heart of this corporation.

And I should tell you that the strength of SaskTel is partly the technology that we've been able to develop over the years, it's partly the people within the corporation, but above all it's been the almost fierce loyalty that we've received from our customer base right here in Saskatchewan.

We enjoy far and away the strongest market share in the long-distance business despite five years of some of the most strenuous competitive wars for long-distance customer loyalty. We have significantly over 90 per cent of the market share of a customer base, customer lines here in the province of Saskatchewan. And I may say, that of the traditional telephone companies across Canada there's a significant margin between the level of customer loyalty that we enjoy here within the province of Saskatchewan as compared to any other telecommunications company across Canada.

We have probably one of the strongest balance sheets of any telecommunications company in Canada. And that has been a result of, I think, a cautious and careful fiscal process.

Traditionally the province of Saskatchewan's company, SaskTel, has always had the most cautious and conservative depreciation schedules, for instance. We have always depreciated our assets more rapidly than any other company across Canada. And the value to Saskatchewan and to SaskTel has been that we have not been inhibited in accepting new technology by virtue of still having a financial commitment to old technology.

We have some of the best telecommunications employees anywhere in the world and this is well recognized because wherever our people go, it's amazing the responses that we get from the people that they work for. They're simply lauded as being not only good people, not only well trained, but extremely hard-working.

And as I said earlier, through I think consistently strong engineering capacity within the corporation and the support of successive governments, SaskTel has built up a network that really is the envy of all telecommunications companies in the world.

But there's a number of dangers that are knocking at our door that we've got to be very mindful of. With the advent of competition, we didn't see a market loss in our customer base. What we saw was a very dramatic erosion of our margins in the long-distance business. And you remember I said earlier that historically the paradigm of the company has been that we made huge profits in the area of long distance and therefore we were able to subsidize local service, new construction, and all of the services like operator support that are part of a telecommunications system.

And one thing that competition did was to show to all of us that the margins in the long-distance business were extremely large and perhaps exorbitant. And what's happened is that under the pressure of competition and a competitive marketplace, those margins have shrunk down and in some cases one could argue — depending on how you cost out your system — that there's actually negative margins in some of the business that's out there in the long-distance portfolio.

And the result of that of course is that we no longer have the large pot of money and profit from the long-distance business with which to subsidize other parts of our business.

And so what you've seen is a continual upward pressure on the cost of local service. You've seen us moving to a system of where we endeavour to charge people for new construction; for new lines, the actual cost of installing those new lines; and you see us levying charges on things like operator service support and similar types of services that, in the past, we were able to offer either free or very close to free because of the fact that we were able to cross-subsidize those from the profits that we made out of the long-distance.

So clearly, to us, making the transition from a system where we overcharge for one product and undercharge for other products is a tricky piece of business. Because when you go out to a person, say, in Kindersley and you say I'm sorry but your local service for telephone is going up by 5 or 10 or 15 per cent, they don't much see the humour in that.

But of course when you remind them that the cost of their long distance package has dropped by even more, I think we have been extremely pleased with the lack of negative response from our customer base here in Saskatchewan to the changes that we've had to make in pricing for those parts of our system which hithertofore were subsidized and offered at reduced costs or, in some cases, were free.

And, as a matter of fact, one of the things you saw in practically every other part of Canada was that because the telecommunications company had difficulty explaining that simple phenomenon of long-distance price going down and other charges going up, you had the situation of where the customer base punished the telephone company by taking their long-distance business away from the telecommunications company as local charges went up.

We were very fortunate, and I think with a lot of hard work and diligence on the part of the people within SaskTel in going out and talking to local groups and chambers of commerce and poverty groups and business groups and social groups around the province of Saskatchewan, that we've been able to get the message out to the average customer within the province of Saskatchewan. And the result of it is that we have not witnessed the punishing of the telecommunications company for raising local rates that we perhaps saw as a phenomenon in other parts of Canada.

And part of our success in maintaining a 91 per cent market share is by virtue of the fact that I think we've been able to explain to the average customer in Saskatchewan that what we're doing is shifting our cost not because we want to particularly raise local rates or construction charges but because we simply don't enjoy the pool of money from long distance with which to cross-subsidize them.

New services are having to be put into place on largely a commercial basis. Now that seems awful trite. But think back to my original statement which I made about our system in the past. No matter where you lived, we got you a hard-wire service.

Well one of the things you see in the province of Saskatchewan is that everybody in this province doesn't have cellular service. That's because right from the get-go, right from the beginning, cellular service was never a monopoly. It was always a competitive line of business.

More importantly, the federal regulators were always very watchful of the telecommunications companies in Canada cross-subsidizing cellular from their hard-wire network. That's simply not permitted.

The result of it is that the cellular system has been built on an entirely different paradigm than the hard-wire system in Saskatchewan. Wherever we put up a cell site, we have to find a sound business case. We have to justify every capital investment in the cellular system on the basis that the revenue stream from that particular system will justify the capital investment needed to put that cellular system in place.

And of course what you see now, because all of our lines of business are competitive, things like high-speed Internet are more following the paradigm of the cellular system than the old hard-wire system. Because of course they're growing up, not within the monopoly structure which historically was the structure within which the hard-wire system of Saskatchewan was built, but they're growing up within the competitive framework which is more similar to the framework within which the cellular system within Saskatchewan was built.

So when you see us sometimes . . . and I'm sure as MLAs (Member of the Legislative Assembly) receiving the nudging and prodding that you do from your individual constituents, and they come to you and say, hey, how come my cousin in Moose Jaw has got a cellular phone, and when I try to make a cellular phone work in my area it doesn't work.

Well the reason for that is not because we're recalcitrant and difficult within SaskTel and wouldn't like to supply cellular service to everybody in this province. It comes from the fact that that system is built within a competitive framework and for better, for worse, no competitor where you have to justify your investment on the basis of the revenue stream that underpins it, is going to build a system that is non-profitable.

And worse yet — the cellular system — you can see right now, I told you earlier, it's 12 years old in Saskatchewan. And already what we're seeing is that the old analog system, which the original cellular system was based on, is being overbuilt by a digital system. So literally within a decade, the technology within that particular system has flipped around and has changed fundamentally.

And the result of that is that . . . and it's something that we knew right from the beginning, you can justify a cell site anywhere in the province of Saskatchewan if you assume that you've got 35 or 40 years of revenue on which to base its justification. But you haven't. You've got 10 to 12 years on which to base it. Because what's happening is that the old analog system, even as we speak, is going to be wiped out and replaced by a digital system which simply is more advanced, more better, and can supply additional services with better coverage than the old analog system.

We are continually, continually building and rebuilding our telecommunications system. I heard an interesting comment actually a couple of years ago from a fellow that I was having a discussion with about privatization of SaskTel, and his observation was really SaskTel should be privatized because it's completed its job. It built the telecommunications system, and it's done.

I said, you're wrong. Depending on how you look at these things, arguably SaskTel has built five or six telecommunications companies in Saskatchewan. It started out with an old hard-wire system based upon copper wire only, and an operator that plugged and unplugged, and that's how you got connected from one user to another. And then it moved to a mechanical system whereby a mechanical switch switched things around. This was when you saw the dial phone coming in.

And then that was replaced by a system of computers. The old copper system is being replaced by fibre optics, and supplemented by a cellular system. So arguably, SaskTel and its predecessor have actually built five or six or seven telecommunications systems. And even as we speak today, we're building another one, a high-speed Internet-based system of communications, which is going to supplant the ones that we've known up until now.

Another major challenge facing us is employee retention. I've got to tell you that there's a lot of new entrants into our business and they look at the way in which we have taken people and groomed them and re-groomed them within the company of SaskTel to the point where they're some of the best employees anywhere. And I've got to tell you that we're under increasing pressure from competitors and new entrants into our business trying to draw away our employee base.

We have a very strong and sophisticated system of training and retraining within SaskTel. We literally have got any one of a number of employees who joined the corporation with grade 10 or grade 11, maybe 15 or 20 years ago. All you have to do is look at their employee file and you could make a strong case for the fact that they're entitled to at least one maybe two university degrees.

I used to tease George Ivany who was then the president of the U of S (University of Saskatchewan) that there was actually three universities in Saskatchewan — U of S up in Saskatoon, U of R (University of Regina) down here in Regina, and university of SaskTel — because we literally do a huge amount of training.

And what it does is it imbeds great value within our strongest resource, namely our people. And one of the dangers is that anybody who is starting up a new company and hasn't got that capacity to build that training looks to a company like SaskTel and looks to seduce away our employees.

So that's clearly a major danger that we face as a corporation.

And when we send our people out because our people do a lot of work outside the province of Saskatchewan — either installing and running up a switch for Nortel or training the people to operate it, or perhaps doing some due diligence for a

company that's looking at an investment somewhere and they retain us on contract to do that due diligence — when our people are out there they are so impressive that they're continually getting offers of employment from companies that hire us to do individual contract work.

Well given the fact that everything is changing the way in which it is and the dangers that beset the corporation, what then is the general outline of our business plan to cope with this?

Well first, I said earlier, the most important aspect is keeping a focus on Saskatchewan. We have a lot of things going on in a lot of places around the world. And what we continually remind ourselves is that wherever we are and whatever we're doing Saskatchewan comes first.

You will be aware that with regard to our network alone we have, over the last five years, invested on average about a hundred million dollars per year in our network. That's not only wise to do, but it's absolutely necessary if we're going to continue to evolve the network, as I indicated to you earlier, to make sure that we're always out there on the cutting edge of what new technology demands that we have.

In addition, we do an awful lot of work continually analyzing and looking at the Saskatchewan marketplace to try and understand what its evolving communication needs are. And we go or try to go one step further and actually look at what we can do with our network which will encourage other aspects of development within the province to take place.

We do a lot of key recruiting, training, and retraining of our people, and you'll know that those people are not only located in Regina and Saskatoon but in 55 communities around Saskatchewan and that has given us a very powerful presence in our marketplace.

We do an awful lot of work with local business. We spend somewhere in the neighbourhood of a half a billion dollars a year or more on either payroll to people who live in this province or suppliers who supply us with supplies from within the province.

In addition to that we have about 190 businesses in Saskatchewan, privately owned businesses, which act as our Mobility dealers, our Internet dealers, our SecurTek dealers — all of them interacting and interrelating with us and doing an excellent job in probably the area of business where we have the most difficulty in being able to be as skilled as they.

Let me give you an example. When we first started building the cellular system in Saskatchewan we had to make a decision whether we were going to follow the historical practice of trying to sell that service to the people of Saskatchewan ourselves or whether we were going to work through independent dealers. And you'll be aware that the decision which was made was to do it through independent dealers.

That's been an incredibly successful marriage between the private sector and SaskTel. We bring the sound, solid capacity to build the infrastructure and to run it; they in turn bring the nimbleness and the ability to move and adjust with the locality that they operate in, to actually be the face to the customer, and

to understand the precise needs of this individual customer as compared to that one. And that marriage of them as the face to the customer and us as the more robust creature to build the system behind there with the capital that those individual entrepreneurs wouldn't have, has been a marriage that has worked extremely well from their vantage point and from ours and I think ultimately for the customers that we serve in the province.

And incidentally, when we decided to get into the SecurTek investment, we were very mindful of the successful arrangement we had between ourselves as the builder of the back-office facility and the private entrepreneur as the face to the customer, and that's exactly the same paradigm that we have used with that particular investment.

As well we've got certain other activities like the one you saw recently announced — BWI, Business Watch International — where small entrepreneurs have developed a way of dealing with a problem in society that they see as being a sound business case, and they've come to us and asked us for some help and support.

And I think for about three or four years our people have been working with the individuals who have been building that particular little company, BWI, and eventually it takes off and explodes and goes forward at a pace that requires capital and perhaps sophistication of management that that small entrepreneur is just incapable of bringing to the party. And so they turned to us as people who they've been working with for three or four years and asked us if we would actually take an equity position and involve ourselves in the management of that company.

And it's my belief that that's the sort of role that a company like SaskTel can perform and perform well, to buttress and support a private company like BWI in taking that next step to not only do business for the police within the province of Saskatchewan but now Calgary and Vancouver and Toronto and perhaps into the United States as well.

Similarly there was a little company called Warren's Farm Directory based out of Bethune, and there was a company that got to a certain stage in its evolution where it simply had to have something more. And so they came to DirectWest, or our yellow pages subsidiary, and asked if they could work out a partnership and an arrangement where DirectWest took an equity interest in that particular enterprise and of course that allowed them the capital and the ability to take their book which they'd been largely distributing around parts of rural Saskatchewan, and take that out into Alberta and Manitoba and other parts of Canada, and indeed into the northern United States. In my mind that is the role which SaskTel can play in addition to running the fundamental communications system within Saskatchewan.

And the last area that I will talk to, and I apologize for going longer than my allotted 20 minutes but I look at it this way, I haven't been here for three years so I'm entitled to maybe 60 minutes. Sorry.

The other area which I think has received a lot of attention recently has been our ... what we call our growth and

diversification program. And this is not one sided. This has got a couple or three dimensions to it.

The first side of it is of course SaskTel International and you'll be aware, Mr. Chair, that SaskTel International is celebrating this year its 15th year of successful operation. It is a company that has earned quite an enviable track record around the world. We're recognized as the company that has done a number of very successful projects. Some of them by way of equity investments. Some of them by way of consulting and project management. We're recognized as the company that put in the communication system in the Chunnel which allows the entire Chunnel operation to operate. That, despite the fact that that particular part of that project was an extremely troubled part of the project which, had it not been for SaskTel International, might very well have crippled one of the major construction projects in the world.

We've done consulting in many of the countries, project management in many of the countries of the world. We designed the fibre backbone that runs through the islands of the nation of the Philippines. We've put the fibre ring around Dar es Saalam in Tanzania. We've really got a number of projects around the world that have the stamp of SI (SaskTel International) on them and we're very proud of those.

As I said earlier, we do a fair amount of contract due diligence work for other companies. And SI as well has a couple of software products which were developed within SaskTel and used by SaskTel as a telecommunications company which we sell to other telecommunications companies around the world.

Our engineers don't like it when I, when I make the following observations. Telecommunications companies got a bad habit of losing their plant. Let me give you an example. We'll put in a cable into a high-rise apartment building and it maybe has 80 pairs, that is 80 sets of wires which allow a telephone to work off. And we'll connect up a bunch of people, and then this person moves out of their suite and another person moves in, and instead of connecting the old pair up to the new customer, we allot them a new pair. And the other ones sort of go missing. Not because they aren't there, but because we lose track of them.

And telecommunications companies actually have a lot of problems of keeping track of their plants. Well by happenchance, a person within SaskTel happened upon an interesting product one time. The US (United States) navy had commissioned Grumman Aircraft Company in the United States to build a fighter aircraft. And one of the things that was going to be in that fighter aircraft was some software which controlled all of the systems within the aircraft. So that if a bullet went through this particular wing and cut a part of the services, automatically the computer would keep track of that capacity and reroute the needs of the aircraft through another part of the communications system within the aircraft.

Well, as it turns out, the navy cancelled that particular plane after about \$20 million had been invested in development of that software. And we happened to discover that. And the people who were working on the software who are in Long Island, New York, said you know something, you could use this software to keep track of all of the hardware within a

telecommunications company if you wanted to.

And our people got the bright idea, why not do that. And so we developed that software — it's called MARTENS which is an acronym for something or other, I can't remember — and lo and behold when we installed it in our system, it does in fact keep track of all of the equipment and all of the fibre and other materials that we install. And whenever some part of that is used, it has to be always put through our computer system.

That's proven to be an extremely valuable piece of software to us and we've sold that to a large number of other companies around the world as being something which, if they install it, they get a payback of maybe somewhere between a year and a year and a half on the investment that they make in that, because that's how long it takes them to earn their money back from keeping track of equipment that they normally would have lost in the process of going about their business.

So SaskTel International has been very successful in a whole number of areas and they have supplemented that by also having a couple of investments offshore. You'd be mindful of the one that we had through SI in Leicester, England, and of course, more recently, the one that took place in New Zealand and was flipped over into a company owned in Australia.

Outside of SaskTel International we also do investments through Dan Baldwin's group. And some of those investments, as I said earlier, have been very successful. Some of them have been failures. Some of them, the jury is still out on them. Let me just run you quickly through the names of them.

I mentioned Business Watch International, DirectWest in Warrens, Regional Cable. We own about 30 per cent of Regional Cable West that has been merged into Regional Cable across Canada. We own about, I think, about 8 per cent of Regional Cable across Canada. We own about 96, 97 per cent of a company called Hospitality Network. We had an investment in a little creature called Clickabid. We've got an investment in SecurTek, IQ&A which has received a little negative attention recently. We were involved in a Satellite company called Alouette. We had an investment in Chicago called NST where we took a bit of a bath. Of course we had the investment in Westbridge ISM. We had our investment in Leicester; in Saturn in New Zealand, now in Austar in Australia; in Craig Wireless out of Manitoba; in a company out of Vancouver called Soft Tracks that develops a software system for allowing transactions, bank transactions, where you swipe your card in a mobile device; and a company called Retx which is based in Atlanta, which looks after load demand and competitive matters related to the power industry.

And this portfolio of investments and investment activity has not been without its difficulties and troubles. But one of the things you shouldn't do is look upon this part of our business as being terribly different from any other part of our business. Let me give you an example of that.

As I said earlier, we have a very strong engineering capacity within the corporation. It's been responsible for the fact that we've built probably one of the best telecommunications hard-wire systems in the world.

About four years ago we embarked upon a project. My recollection is that the cost of the project was something like \$3.7 million. And the project was to work with an outside consultant to take a canned piece of software and change it so as to be able to do the functions that we wanted done better than they would have been done by the canned piece of software.

Our engineers and the consultants worked on this particular project for something in excess of a year. And about two-thirds through the project they came to the conclusion that they just couldn't get it to work. Of the \$3.7 million, they had already spent slightly over \$2 million. When they came to me they said, Don, we've got a big problem for you. We've blown away \$2 million and as near as we can make out, we just can't get there from here. And we wrapped the project up.

I think any reasonable person looking at that would have said that was a failure. And in the process, we lost something in excess of \$2 million. One might have argued that you should have been much more careful at the beginning and make sure that you could have gotten that piece of software developed in the manner that you wanted it so that you didn't wind up being two-thirds through the project and discover you couldn't do it. This, by arguably one of the West's best engineering teams in a telecommunications company anywhere in the world.

But it clearly was a failure. And if you want me to I can go through our traditional line of business and show you any one of a number of examples of where we have failed miserably. Not something that we're terribly proud of, but it's something endemic to the business that we're in in our traditional lines of business, and vastly, I would argue, vastly offset by what we have done right.

Similarly, I can give you an example similar to that in our Mobility group. We've got a thing in there called FleetNet. And anybody who's been going through our annual reports year after year will know that we have written off every capital dollar that we have invested in our FleetNet system. And I think we invested something like \$27 million in our FleetNet system. It was one of the first of its kind in the world, and it hasn't worked out to be a good financial investment.

So there's what I would call a major setback within a part of the corporation where when you look at our Mobility unit, I would think you would say that's one of the best Mobility units anywhere in Canada. And yet it came up short with regard to its FleetNet investment.

The Chair: — Mr. Ching, I don't want to put an end to this discussion, but we do normally take a break after an hour of hearings and we're at that point. If you'd like to conclude your remarks, then we'll take a 10-minute break, return to Ms. Ferguson's comments. And I do want to provide the members with an opportunity to ask you some questions.

Mr. Ching: — Good. I'm just two minutes away from concluding, Mr. Chair. Sorry for taking so long.

I only want to draw the parallel between the fact that in every part of our business, we have had some good successes and some failures. That's the nature of doing business. I would invite anyone to bring forward a business, in any line of

business, which operates for any length of time where it only has a string of successes.

The fact of the matter is wherever we've had a failure, we've tried to learn from that. Wherever we've had a shortcoming, we've tried to cover it off and do a better job. And above all, in every one of the areas of business that we're engaged in, I would argue that our successes have vastly outstripped our failures.

So those are my opening comments, Mr. Chair. Sorry for taking so long again. And we'll be ready for questions when they come.

The Chair: — Okay. Thank you, Mr. Ching. I'm going to suggest that we recess for not more than 10 minutes. We'll reconvene at 20 minutes to 11.

The committee recessed for a period of time.

The Chair: — We'll just wait for Ms. Ferguson to get seated and organized.

It's my understanding that private sector auditors were involved at looking at the financial reports of SaskTel but I'll ask perhaps Judy Ferguson if you could introduce the auditors.

Ms. Ferguson: — Thank you, Mr. Chair. Members, we're very pleased to be here today. I've got with me really the audit teams for the SaskTel audits, or group of SaskTel audits rather. Who I have with me is Howard Crofts — he's from PricewaterhouseCoopers. PricewaterhouseCoopers is currently in charge of the 2000 audits and go forward.

And also with me is Jack Grossman and Glenda Rowein. They are from Deloitte & Touche and they were responsible for the audit prior to the 2000 year. So the 1998 and 1999 reports that are before the committee were audited by Deloitte & Touche.

Our office has been very pleased to work with both these firms in the course of the audits of SaskTel, and we have concurred with their reports.

In summary, we as auditors are pleased to provide assurance to members of the Assembly really on three areas, the first being the reliability of the financial statements. And in this case we're talking about the financial statements of SaskTel Holding Corporation and its operating subsidiaries. If you look in note 1 of the statements, you'll see which ones are the operating subsidiaries.

We also are pleased to provide assurance on the adequacy of their internal control processes and compliance with the law.

I want to do a quick summary of what we've reported over the last three years for the members . . . to the members of the committee and the public. First off, in each of the three years, we have reported to you that the group, the various sets of financial statements, are reliable.

Secondly, we've reported that in 1998 that SaskTel and its group of companies had adequate controls over safeguarding and controlling assets. And in that year we reported that they

complied with the law with one exception. They didn't obtain an order in council for the purchase of additional shares in Hospitality Network Canada Inc.

And if you recall, at that time there was some question as to whether or not subsidiaries of parent companies of CIC (Crown Investments Corporation of Saskatchewan) Crowns needed order in councils. That matter has been subsequently clarified and the practice is that you do get an order in council when you purchase shares of companies, whether or not the purchase is made directly by the parent corporation or a sub, or a sub of a sub.

The Chair: — Ms. Ferguson, can I just ask you to clarify when that change occurred, because we are looking at three consecutive years.

Ms. Ferguson: — Sure. That change probably occurred in the 1999 time frame. So the reporting period that we raised, that concern, was the December of 1998. So in the 1999 time frame, Crown Investments Corporation worked on this issue and created the consensus as to what should be done.

For 1999, we reported that again the various sets of financial statements were reliable, that they did comply with the law. And with respect to that they did have adequate controls over safeguarding and controlling assets with one exception, and that exception related to access, to access to computer systems.

And that matter's been . . . was included in our Spring Report to the Assembly, chapter 10 of our 2000 Spring Report.

Also what you have before you is the 2000 financial statements, and we report that they are reliable. At this time we have not yet published our findings and our reports on internal control or compliance with the law. That will be out in our 2001 Spring Report, and so we will be pleased to comment on those results that are at meetings of the committee after that point in time.

I also want to report to the committee that we've received good co-operation from management throughout the various courses of the audits and the audit processes. And if you note that you have before you a greater number of reports that are tabled in the Assembly between 1998 and currently, what we as an office have been doing is reporting a number of publicly . . . what I like to call public accountability matters.

And that's trying to make sure that the Assembly receives the information that it has requested. We note that the Assembly has asked through its committees for the financial statements and reports of all government corporations. And SaskTel has moved forward in providing more audited financial statements of its various corporations.

As we note last year, there is a couple of corporations that you do not as yet receive, and that is Hospitality Network of Canada Incorporated and The Partnership. And those are two corporations that CIC has granted permission to the corporation not to table for confidentiality reasons.

That concludes my comments, and I'd like to turn it over to my colleagues here.

The Chair: — Who's first? Mr. Crofts?

Mr. Crofts: — Thank you, Judy. Thank you, Mr. Chairman, members of the committee, and members of management at SaskTel. I'm pleased to be here to briefly report to you. And my comments will be brief in the sense that our auditor's report on the 2000 financial statements are included in the corporation's annual report on page 32. That's the consolidated set of financial statements. I think in front of you are also individual financial . . . copies of individual financial statements of the, as Judy referred to them, the operating subsidiaries which we have rendered our audit opinions on in each individual case.

Some very brief comments. In each case where we've rendered an audit opinion, you'll note that the reports contain no reservations. They are unqualified audit reports. The reports also indicate that the accounting practices are sound and are consistent with the practices followed by the companies in the industry or similar companies in their industries.

The reports indicate that the financial statements of prior years were audited by my colleague Jack Grossman of Deloitte & Touche — and he'll make a comment or two I'm sure, in a moment — and they rendered their reports in the prior year and on previous financial statements.

Our office worked with the Office of the Provincial Auditor. Certainly had great co-operation from them. And of course we also worked with management and had great co-operation from them, particularly in our year of transition, since the 2000 financial statements was the first year we were doing an audit of.

As Judy has indicated, we have worked with the Office of the Provincial Auditor to help their office in fulfilling their reporting responsibilities to the legislature. Those reports on internal control, legislative compliance, and law will be reported on by the Provincial Auditor's office at a later point.

Thanks, Mr. Chair. I'll turn it over to Mr. Grossman.

Mr. Grossman: — Mr. Chair, I'll be very, very brief. Thank you for the opportunity to present the fact that we were the auditors of Saskatchewan Telecommunications Holding Corporation and the subsidiary companies for the year ended December 31, 1998 and 1999. As Howard has indicated, during those years we have provided unqualified auditor reports, and those reports are included in the annual reports of the respective years.

We enjoyed an excellent working relationship with the Provincial Auditor and with management. And Judy has already alluded to the two facts of the exceptions on the legislative compliance and the internal controls.

So with that I conclude my report, Mr. Chairman.

The Chair: — Thank you very much. With that I would open the floor up to members.

Mr. Wall: — Thank you very much, Mr. Chairman. And thank you for your presentation, Mr. Ching. And to your officials as well, welcome on behalf of the opposition members of the

committee.

I have some questions this morning. I guess we'll start with the Clickabid. And I wonder if you could . . . I mean on the surface it seems like quite a thing for any organization even when the dot-com industries days were much more heady than they are now, for any corporation, multinational, Crown or otherwise, to believe that they could go head to head with eBay, especially at the time that this was contemplated. Especially considering the fact that — and this is my limited understanding of many dot-com businesses — but certainly in eBay's case, my guess, much of the operating costs, my guess, are involved in very, very, very expensive advertising in order to make people aware of the existence of this site on the World Wide Web, and I'm sure there were other expenses as well.

But could you please give us a rationale, please, for how it is that SaskTel concluded that it could indeed successfully compete in this industry?

Mr. Ching: — I'll start it off and maybe turn it over to Mr. Baldwin who is much closer to the actual operations of the project.

What we did when we embarked upon our growth and diversification strategy was to attempt to look at the various parts of SaskTel and say to ourselves, what are we doing within SaskTel which presents an opportunity for taking that bank of talents and knowledge and experience and try to lever it into businesses that may be on the fringe of or next door neighbours, if you will, to business that we're already in.

And of course if you look at things like SecurTek, you'll find that that was the thought process there as well. We're in and have always been in the monitoring business, and so when we tried to get into the monitoring and the security business, that was where it lead.

Well in the case of Clickabid, we have been evolving within our quantum links unit the capacity to do certain things that are Internet based. And at that particular point in time it was our belief that the phenomenon that eBay was plugging into . . . And incidentally, eBay wasn't the only entity in this particular line of business. There was, I think without looking very hard, there was probably five or six companies all trying to take the concept of an on-line auction and develop it into a business. And we looked at that and said to ourselves maybe, just maybe, there's a way of taking our knowledge and expertise of the Internet and getting into that particular line of business.

I think that all companies that got involved in this — not only ourselves, but eBay and a couple of the other companies that explored this particular area in Canada — I think estimated that the growth in this particular type of business would be much more dramatic than it actually turned out to be. And I would say that probably eBay is one of the few survivors in the general auction business. And Clickabid plus probably four or five other companies that explored this area, that were private sector driven, have all fallen by the wayside.

Now there may still be opportunities in this particular field of auction on-line, but they're probably in narrow niche markets. Whereas I think that our approach with regard to Clickabid was

a broadly based type of auction, which was more along the line of eBay. And as you know, from time to time, even a company as big as eBay has struggled in this area because I think that even they anticipated the growth of business in this particular market was going to be much more robust than it turned out to be.

But that certainly was the background of how we explored the area. And the fact of the matter is we tried to get in on as much of a shoestring as we could because we knew that this was a . . . had a potentially high risk to it, and we also tried to make sure that we kept an eye on it and cut our losses as quickly as we came to the conclusion that probably it wasn't going to lead us anywhere lucrative.

Mr. Baldwin: — Maybe I'll just add to what Mr. Ching has stated. Clickabid was an idea that arose out of our operating group which we called advanced interactive services at the time, or quantum links. It was a group of about 100 employees that we had focused on the Internet. They identified in 1999, early 1999, from watching trends that there was an opportunity in on-line auctioning.

It was their original intention to run the on-line auction as an adjunct to our access, our Internet access businesses, dial-up Internet or high-speed Internet. When we actually got into the business planning, we came to the conclusion that for liability reasons, we wanted to establish a separate legal entity in the event that there could be fraud or some problems with the way the service was rolled out into the public.

So Clickabid is different than our other investments in that we viewed it as an internally generated service. It was something that we thought would be a natural adjunct to our Internet access businesses.

At the time they brought this forward for launch, eBay and Yahoo! were not in Canada. There were a couple of smaller Ontario on-line auction sites, which were basically in the same time frame.

So we thought that there might be an opportunity to capture a bit of the Canadian market. Our focus was on Canada; we weren't going to go head to head with eBay or Yahoo! or any of the big boys.

As it turned out and we moved forward; we were I think over-optimistic in the amount of traffic we would attract. I think at the most we had 25,000 registered customers. Most of the customers that were visiting the site were from the US. Certainly in the end you look at it and we failed to meet the revenue targets, we failed to meet the inventory targets, and that's in the end why we shut it down.

One thing I would add though is that the experience that we've seen, and we saw at the time we decided to shut it down, was that the on-line industry in Canada has failed to come anywhere close to meeting the level of activity and the level of interest that eBay and Yahoo! experienced in the States.

eBay came to Canada about eight or nine months after Clickabid was started. Yahoo! started a bit of an on-line service after Clickabid was started. And our understanding from talking

to them — and we did talk to them — was that they were finding the Canadian marketplace very, very difficult.

What we tried to do and to manage and change the focus of the business is that in early 2000 we tried to narrow the focus. When we looked at what people were actually interested in, in Clickabid it was collectibles — you know, dolls and plates — and there was a huge traffic in sort of collectibles.

We made some alliances with some of the collectible magazines in Canada. We started to do some significant advertising in Canada targeted at the collectibles. In the end, we still didn't generate enough traffic and enough business. And in the end, we discontinued operations.

I'll just add one point. And if we learned one thing in this whole exercise, I think it's an issue you raised. When we look at our total loss on Clickabid of 1.8 or thereabouts, about 1.1 was out of pocket. Virtually all of that out-of-pocket expense was for advertising.

When we looked at it, and one of the reasons we shut it down, was that the dot-coms in the States, even if they were start-ups, were initiating business with \$40 million US in the advertising budgets. And we came to the conclusion that there was no way — when the whole of SaskTel's advertising budget in any given year is somewhere between 11 and 14 million — there was no way we're going to pump 25 or \$40 million into advertising for Clickabid.

Mr. Wall: — Thank you for that response. Just a follow-up question, and I guess perhaps it's two parts. There's been some questions raised with respect to IQ&A, and I would raise it again with respect to this, as to the nature of the due diligence that happens at the Crown corporations on these projects. Obviously here specifically we're talking about SaskTel.

Given the fact that these two companies are now wound down, they've stopped operating, it would be a good opportunity, I believe, for the corporation to present this committee with that due diligence work. It certainly wouldn't be any proprietary concerns, I don't think, or disclosure concerns about that, and I encourage you to do it.

But you know on this particular issue, on Clickabid, in its first six months it had a net operating loss of \$755,000. Its expenses were \$768,000; I take you completely at your word it was advertising. On revenues in the first six months of 12,500, which would be, you know, about 90 per cent of its total revenues even though it continued on for 12 more months.

And there is a major concern that I think the people of this province should have because it was pretty clear at that point, after six months, that you were . . . clearly your media buy was extensive — I'm guessing because we only have these basic numbers — but there was nothing happening. There wasn't anything happening. There was \$12,500 in revenue. Fast-forward to the next 12 months, there is another \$1,400 made in the next 12 months but another 1 million-plus spent.

And that would be a concern that I would like to hear addressed please. Because, clearly, there was some problems here after the first six months.

And as a corollary, if I may, Mr. Chairman, we reviewed the Channel Lake recommendations when SaskEnergy was here last, and some of those recommendations are quite sound — I think most of them are — and they were the recommendations of this committee although the membership has changed.

And one of those important recommendations called on Crowns, on these new kinds of ventures such as Clickabid, to report quarterly to CIC. And I think I'd like to ask as a corollary if that indeed occurred. Because it strikes me that if that has occurred and CIC was aware after the first six months, the first two quarters, this was happening, I am shocked that it continued.

Mr. Baldwin: — Yes, I'll maybe talk to the issue. We identified, there's no question we identified that we weren't getting the numbers as has been projected by our Internet group, and that's why we changed course and tried to focus the business commencing in January of the year 2000.

That's when we decided that we were going to narrow the focus entirely to the collectibles market where we were seeing the traffic anyway.

One of the things we saw in 1999 when we analyzed the traffic and the type of things that people were buying was they were interested in on-line collectibles, whether it was antique pins or plates or whatever. So we did make a move to focus and re-vector the business. And in the end it didn't work.

Mr. Ching: — There's an interesting judgment call to be made as it relates to projects of this nature. If you look at Clickabid as an example — and I think IQ&A is an example, and NST is an example — when we go back and do our brainstorming, our war games on those investments and the fact that they came up short of our expectations, we can say to ourselves when we look back in hindsight that, boy, we wish we had turned those projects off three months, six months earlier, and we would have saved ourselves a bunch of money if we had done that.

But all you have to do is look across at the other side of the balance sheet and you look at something like Leicester, which was the investment over in Britain, and there was a lot of anxiety. I wasn't in SaskTel at the time, but I was in CIC and I served on the board of directors of the investment over in Leicester at the request of SaskTel.

And I can remember that there was a lot of anxiety about that investment. And there was even some who thought that maybe, just maybe that investment should be shut down because it was continuing to incur costs. It was running into difficulties that hadn't been anticipated in the due diligence process, because in the due diligence process we'd looked at putting in fibre and I think had largely been influenced by our experience in putting in fibre in Saskatchewan.

And of course in Saskatchewan if you're running some fibre you're generally going through land that doesn't have maybe a historical site on it, whereas when you start digging trenches in a place like Leicester, England, it's not unusual for you to run into things where you're all of a sudden stopped cold in the water because they happen to be a historical site or something of this nature. And so there was actually a fair amount of angst

with regard to Leicester. And yet I think the decision was made, and quite rightly, to press on with that and, of course, in the end it turned out to be a phenomenal success.

So your point is an interesting one because when you go into projects of this nature, inevitably you're faced with periods of time when you say to yourself, do we stop and cut our losses or do we press on. And I think that the one assurance that we can offer, I think, to the committee is this. That we don't just blindly stumble forward, that we don't just sort of keep going on no matter what. That sometimes we go on longer maybe than we should have in hopes of success and it turns out that success is not at the end of the road but, in fact, failure is. And in some cases maybe we press on when other people would have stopped and turns out that it wasn't a failure, it was a victory.

So there's some interesting judgment calls when you embark on this type of a trajectory. Go back again to my example that I said earlier on the engineering area. I mean the guys who were working on that software project had to make a judgment call, and frankly, when I look back at it, I said to myself, you know, I sure wish those guys had stopped after they had spent a million dollars rather than after two million.

But those are tough things to look back on and say you should have done it at this point rather than at that point.

Mr. Wall: — Thank you, Mr. Ching. I guess I ask probably too many questions that last one so I'll repeat a couple of them. One would be would there be a willingness on the part of SaskTel to present the due diligence that it did on this project frankly, on others — IQ&A and ones that are no longer operational — and maybe a bit more elaboration on exactly what kind of business planning went into Clickabid.

And I'd also like if Mr. Ching would comment please on whether or not he provided quarterly reports — he or some of his officers — provided quarterly reports to CIC per the recommendations of Channel Lake, of the report on Channel Lake by this committee.

The Chair: — If I could just perhaps, just to . . . Before, Mr. Ching, you answer this. There are two questions I think, Mr. Wall, that you are attempting to ask. One is the reporting process obviously falling out of Channel Lake, which I think Mr. Ching should address because this is clearly one of the issues that we want to explore.

The second is the question of due diligence within the corporation. And I'm not sure, perhaps what we can ask Mr. Ching to do to start with is explain the process that they would use for due diligence rather than getting into the specific details at this point, and see how that process works. Because we need to be mindful of the fact that SaskTel obviously has a board, has an audit committee, has a management, and has a reporting function to CIC.

But in terms of us getting into the requisitioning of additional papers or additional information, I think we would want to perhaps reflect on that before we decided that.

Mr. Wall: — That's fair enough, Mr. Chairman. And I couldn't speak for the committee in my question, that's why I was

careful not to do that.

The Chair: — Right. I appreciate that.

Mr. Wall: — I simply asked if they were willing to do that if that was the committee's desire.

Mr. Ching: — You make an interesting observation about this due diligence being old due diligence. But understand that the processes and the way we go about looking at things is something which we don't go out telling everybody about.

I think though what we'd like to do is take your request with regard to the disclosure of the due diligence back and reflect on it. And also I'm not sure that it's strictly our issue. I think that in fairness to CIC and our sister Crowns, what we do in this area obviously sets a pattern that might affect them as well.

So I think that if you don't mind, what I'd like to do is give you a response on that at a later time, if I could, Mr. Chair, after we've had a chance to talk about it and to talk to our sister Crowns on it.

On the issue of reporting, it's my understanding that we do, in fact, quarterly report to CIC. Now I'm not sure whether your question was focused strictly on Clickabid or IQ&A. What we do is we report to them on a much more global basis about all aspects of our business.

You'll appreciate that the issue of whether or not IQ&A, at a million or slightly over a million dollars, is going well or not going well. While it may be a significant issue when you set it by itself, where you've got a company that has revenues of somewhere around \$700 million per year, there are other issues that have a more dramatic impact on the good fortunes or otherwise of CIC. And so they sometimes maybe don't focus directly in on any specific item.

But we do give a consolidated report to them, and from time to time they'll come back to us and say, could we have more precise detail on this or on that. But there are indeed quarterly reports to our shareholders.

And our board, as you know, has a committee called our Growth Committee and we report to that committee on a more routine basis even than that.

Mr. Wall: — But, Mr. Chairman, and, Mr. Ching, it's my understanding that that is precisely the point of why this committee — and I wasn't a member of it — but why this committee went through the Channel Lake process that they did.

I appreciate the fact that you provide general quarterly reports to the Crown Investments Corporation and I'm sure that is . . . well, seems neat and right.

However, the whole point of the Channel Lake report and the work that this committee did was to ensure that the mistakes that were made in Channel Lake, the chances of them happening again in another Crown or that same Crown were at least mitigated, at least limited by some reporting processes, by many, many recommendations that were meant to solve that

problem regardless of who the government of the day is. And that is the question on Clickabid, it's the question in IQ&A, it's the question on the ones that you point to as successes as well.

But why would this committee go through the work of Channel Lake if we were determined not to learn any lessons from it?

I guess there isn't much of a question in here, except to say that I find it disappointing that on this particular project, and on the successful ones, that you are not following the recommendations of Channel Lake. And I guess I would ask the question: why is the Crown corporation, SaskTel, not following those recommendations?

Mr. Ching: — Well, all I can do is tell you this, that the instruction that we've been given from CIC is that we should regularly and routinely review all of our investment activity with our board and with the committee of our board that's focused on this issue.

I think there's a belief that that particular agency is closer and brings to the process, I guess, probably a good level of expertise. We are not at the present time directed by CIC to give quarterly reports on specific investments and we do not do that.

Mr. Baldwin: — If I may add, Mr. Chairman, with respect to the Channel Lake report, the governance committee of our board of directors reviewed the recommendations of the Channel Lake report. We changed the way we actually report to our board and deal with our board with respect to investments.

And for instance on IQ&A, between the period July, 1999 and the end of April in 2000, we went to our board of directors twice with respect to issues with respect to IQ&A. We went to our growth committee of our board 10 times.

CIC had access to all the materials that went to those meetings with respect to IQ&A. They have access to all the materials that go to our growth committee with respect to any investment.

So in our view there was no question that there was openness, there was communication. Certainly with respect to IQ&A, in two years there were two significant transaction reports. There were two annual reports filed in the legislature. And we realize that there were some danger signals in IQ&A and we monitored and managed the investment very proactively.

Mr. Wall: — Thank you for that. And I appreciate your answer, Mr. Ching, with respect to what you have heard or haven't heard from CIC on the Channel Lake report. And I'm sure there will be questions for CIC when they come before this committee as well.

You mentioned . . . Mr. Baldwin mentioned IQ&A, and I guess I would just ask a couple of questions on that if I can. Why wasn't the . . . in most of the other subsidiaries in these annual reports there is, of course, a very brief summary or sentence at least about what it is that these subsidiaries do.

I think they're pretty reflective though — even though there's not a lot of space given to it, I think it's easy to discern what it is that they do in terms of Securtek and DirectWest and some of the other ones, with the glaring exception, I believe anyway, of

IQ&A. Because I think the words there used exactly are that . . . under description of business:

IQ&A Partnership was established for the purpose of operating a data exchange and information bureau in Canada.

Not untrue by any means, I guess, in hindsight. But not very descriptive in light of the fact that a couple of other words in there, only, may have in fact had questions on this asked much earlier by either the opposition or other concerned parties, and those words would be health care information. Those would be words that would be fairly important, I would guess, in an annual report, just summarizing what it is that this company is going to do, especially given the controversy around that particular subject.

And so I guess I would ask, why is it that that wasn't highlighted in the annual reports of IQ&A?

Mr. Ching: — Yes, and I think . . . understand the formula that we have been following. By and large we try to have the general discussion contained in this particular document. This one has a very cursory written part and is primarily the financial statements broken out.

And as a matter of fact at one time, you recall, that these financial statements, some of them anyway, were actually broken out within this particular report. It may very well be that we should have more discussion take place within this document. And certainly within the major document, the major one, IQ&A being a relatively small piece of business from the point of view of the corporation, never warranted much discussion within the document itself.

And your point is a valid one. It was maybe in an area where there are some touchy feelings and that might have warranted a more descriptive series of words within the main annual report than was actually in there, despite the fact that it was such a small investment that on the basis of the size of the investment it wouldn't have warranted much by way of comment.

Now to some extent I think also the reason that there isn't a lot of words in there describing its activities is that when we were looking at the IQ&A investment, which incidentally was an investment that originally developed out of Stentor. Stentor had created an agency which was aimed at trying to develop new businesses that the various telcos could become involved in and IQ&A actually was an idea that came out of that particular part of Stentor. And as Stentor was disbanding the issue was what to do with this idea, and five of the telcos, ourselves included, decided to take that idea and see whether or not we could make a business out of it.

At the time that that was happening, we had discussions with the Department of Health here in Saskatchewan about the concept of taking health information and reworking it into usable data. And we chatted with them. They were extremely cautious about the use of any health data within Saskatchewan.

And the project that had been conceived of by Stentor and which we were taking over as five telcos didn't contemplate — at least in any early stages, like the first five years — plugging

into any data from provinces like Saskatchewan or Manitoba or New Brunswick. It was focused on acquiring data from an agency that was called CIHI (Canadian Institute of Health Information) which is the Canadian Health Information something or other . . . (inaudible interjection) . . . yes, okay, Canadian Institute of Health Information, sorry, and also from the departments of Health in Ontario and Quebec, both of which departments, in dialogues with the people in Stentor, had indicated that they were prepared to see their health data released to an entity like IQ&A — provided that it was sanitized in a manner that didn't allow anybody using that data to be able to trace it back to an individual or a group of individuals.

So what they wanted was that they wanted to rework their data before they turned it over to any agency like IQ&A, and then they wanted IQ&A to make certain undertakings that it would rework the data again.

And the idea, the concept behind the investment was that there is a lot of knowledge embedded in the health files of a place like, say Ontario. And to take that data and rework it into a way that a pharmaceutical company could understand how useful a particular product was being, was something which was very valuable to a pharmaceutical company.

And as a matter of fact, there is actually a number of companies in Ontario who actually perform this type of a function of where they take that sort of data and rework it into analyzed information.

Mr. Wall: — Is it your recollection that the Department of Sask Health when first approached by the corporation were cautious about it, as you just characterized them, or that they said unequivocally, no, from the beginning?

Mr. Ching: — No I don't think Health ever sort of said don't do it. I think what Health's information to us was, was look, this is something which is acutely politically sensitive in this province. We are even now looking at legislation or possible legislation to deal with this whole question of how to deal with the wealth of data. Because Saskatchewan interestingly enough is a province that's got a very interesting database on health, because of hospitalization going back so far and it being . . . the records being kept in such good shape.

But never had we contemplated using Saskatchewan data. We talked to them more from the concept of whether or not they, as a department, thought that the idea of taking raw health data and reworking it in a fashion of where it could be useful for companies to use as analysis, whether or not that was a type of business that had some opportunities in it.

And I think that as I recall, the response that we got from the people in Health Saskatchewan, was that yes, there was a good business in that if one could get over the difficulties of making sure that the entity that owned the data was going to be able to sanitize that data sufficiently to make sure that any user of the data couldn't abuse it, if I can put it that way.

Mr. Wall: — Mr. Chairman, I know Mr. Prebble wants in, but I just have a . . . just along the same line. So then I'm hearing then that SaskTel never actually requested permission or the

authorization of Sask Health to sell health care information in these sanitized, general terms.

Mr. Ching: — I don't think I'd go that far. I think that probably in the course of our conversations with the Department of Health, I suspect that our people probably said, look our focus is CIHI information, Ontario and Quebec, but in due course we'd be very interested in maybe plugging into the data bases in Saskatchewan or elsewhere.

I know that the response of the Department of Health was no, there's no way that you're going to get access to our information. And the reason for that was twofold. We're right in the middle of trying to deal with the question of what . . . how should we legislatively handle data. And so we don't want to even talk to you about that issue until we've got that issue pinned down.

Mr. Wall: — So they were cautious, generally speaking, on the idea of the concept of this business. But they were unequivocally opposed to providing any Sask Health information?

Mr. Ching: — That's correct.

Mr. Wall: — That would be the correct characterization?

Mr. Ching: — I think that's correct.

Mr. Wall: — Thank you.

The Chair: — To make sure that we understand what we've just heard from you, Mr. Ching, the intention of IQ&A then was to market data from other provinces or outside information, not Sask Health. Correct?

Mr. Ching: — That's correct.

The Chair: — Okay, I just wanted to make sure we're clear on that, that there was not an intention, that IQ&A was not set up to sell Sask Health data.

Mr. Ching: — No. The project that was developed within Stentor was focused on CIHI information, Ontario. And I'm not sure that they had Quebec in their sights at that point, but eventually Quebec came into the project. When the telcos took it over and started running with it, it was those three projects.

There was sort of, I guess, a desire rattling around in the background that if we could show to people generally that the use of the data from those three sources would not be prejudicial to individual health users, that maybe places like New Brunswick and Manitoba and Saskatchewan, who had very interesting data bases in the health care field, might open up their data bases to use by a company like IQ&A or the other companies operating in the field.

But it was never part of the business plan and it was nothing more than a sort of, I guess, a wish lurking in the background. If one could have taken the data bases that we were . . . felt we were entitled to access to, and use them, and use them in a responsible matter.

Mr. Baldwin: — And, Mr. Chair, if I could just add to Mr. Ching's comments, with respect to the description of IQ&A, we did file a fairly descriptive significant transaction report describing the business of IQ&A in November 1998, which discussed that the focus of the business would be on exchange of aggregated health data.

I would also make the point that at the time we were looking at IQ&A and the opportunity in conjunction with the other telephone companies, IQ&A was not breaking new ground. There were at least two other companies in Canada that were involved in selling or managing aggregated health data and both of them were down East.

The Chair: — Okay, thank you, Mr. Baldwin. Mr. Wall, is that it?

Mr. McCall: — Okay just a particular question with regards to IQ&A. There's some question that when it became evident that IQ&A was less than a positive investment position, that SaskTel then went forward and consolidated and assumed 100 per cent of the assets of IQ&A. I was wondering if you could tell us why that was the case.

Mr. Baldwin: — Sure. Maybe to provide some background and clarify some of the information which has been available, at SaskTel, you know, we're like anybody — we don't want to lose a dollar, we hate to lose money, and we're always looking for a way to save the day. There's no question that in the spring and summer of 1999 there were a couple of danger signals out there where it was failing to meeting some, what we call, critical objectives.

We, in July 1999, basically undertook a four-pronged approach to either make it a viable business or minimize the out-of-pocket loss that we would have to realize. And the four prongs are somewhat interrelated.

But firstly in July we were aware that IQ&A was going to get access to the Ontario and Quebec data and so we were proceeding along a path of trying to develop a product and make some sales and generate revenues. We thought that would be a key milestone if revenue could be achieved within a time period of three to four months.

The second approach we took was we instituted — even before July — in April 1999 we implemented very strict cost controls on the company.

After July 1999, we extended the strict cost controls, basically in which we approved all expenses out of SaskTel, to commencing with a view to a negative outcome, a possible lying down of the company. So in July 1999, we gave notice to some employees. We started to discontinue some expenses with a view that at some point if we did make a sale or attract a new investor in the next little while that the thing would be wound down.

The third item, and this is where we want to clarify it a little bit, the third item was we also launched . . . For starting in July through to December, there was a series of protracted negotiations with the other telephone companies that were shareholders in IQ&A. And the view of those shareholders in

July and moving forward was mixed. I would describe it as one shareholder had lost total confidence in the management team of IQ&A, two were on the fence, and one thought we should keep on going.

We had discussions with them about the ongoing operations of the business and how it might rollout if a sale was consummated. We also had some significant discussions about how we thought, in fairness, the company should be wound up. And those negotiations with respect to the wind-up scenario did not conclude until December 1999. The date that was put in place as the retroactive date for the cut off of expenses was in July 1999.

But in our view, in retrospect, we negotiated a pretty good, pretty good deal for ourselves with respect to the other shareholders. When we entered into the venture, we were 60/40 partners. When the dust all cleared with the respect to the expenditure of dollars, we were at roughly 60 per cent of the expended dollars and the other shareholders were roughly at 40 per cent of the expended dollars.

So we thought that we'd done a fairly decent job in negotiating with the other shareholders to ensure that we weren't carrying the load to the end.

The fourth and probably the key thing that we focused in on from July through to February of '00 was there were a number of parties that approached us about potentially investing in IQ&A. And there were at least three private sector partners that took a look at the company.

One company which is a significant, national, information technology company commenced looking at IQ&A in November of 1999 and they were very serious. They expended a lot of dollars in looking at the business. And to some extent, we waited until they gave us an answer. In late February of 2000 — late February of 2000 — they advised us that they weren't interested in investing in IQ&A per se, but they had a scheme which would involve a much bigger health information company which they wanted us to participate in.

At that point in time we didn't have I think the will to continue in something that we didn't think was necessarily a core part of our business, being a system integrator for health information systems. So when they declined, at that point in time, we put in place all the windup mechanisms.

So when the warning signals went up, we proceeded on a broad front on a number of activities to try and either save the venture or wind it up in an orderly way which would minimize our potential losses.

The Chair: — Can I just note that we are now past the hour of adjournment. Other members do have commitments at this point. If there's a very brief comment, Mr. Ching, that you were wanting to make on this we can . . .

Mr. Ching: — Only that it's important for us, I think that if we're going to be involved in ventures like this, that we not only try our best to do the right thing when we go into these investments, but we also try and do the right thing as we come out of them.

And so it was important to us and our image in Canada — not simply in Saskatchewan — to wrap up the affairs of IQ&A in an orderly manner. And I think that at least some of our shareholder partners were much less interested in that than we were.

The Chair: — I want to thank the officials and the members for their questions and answers today. We will have an opportunity to return to SaskTel in two weeks time.

Next Thursday the Standing Committee on Private Members' Bills is meeting and I understand there's some overlap in the membership of these committees. Given the nature of what they need to review, we've agreed with the Clerk's office to allow them to schedule that meeting.

So our next meeting then, by agreement, would be May 17 and I would hope that we'll be able to arrange for Mr. Ching and his officials to return.

So with that, I would take a motion to adjourn. So moved. All those in favour? Agreed.

The committee adjourned at 11:35.