



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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Andrew Thomson, Chair
Regina South

Kevin Yates, Vice-Chair
Regina Dewdney

Graham Addley
Saskatoon Sutherland

Greg Brkich
Arm River

Yogi Huyghebaert
Wood River

Carolyn Jones
Saskatoon Meewasin

Warren McCall
Regina Elphinstone

Don McMorris
Indian Head-Milestone

Peter Prebble
Saskatoon Greystone

Brad Wall
Swift Current

The committee met at 08:05.

Saskatchewan Telecommunications

The Chair: — I'm going to call the meeting to order then, and we are going to continue with our examination of SaskTel's annual reports for the year '98, '99, and 2000.

Mr. Ching, do you have any opening comments, brief opening comments.

Mr. Ching: — No, I think I exhausted myself last time.

The Chair: — I find that hard to believe. Okay, I'll take a speaker's list then to pick up where we had left off.

Mr. Wall: — I'm not sure now exactly where I left off, Mr. Chairman, but I'll pick up somewhere, I guess. Thanks.

The Chair: — Agreeing with the government initially to vote this off.

Mr. Wall: — Oh, yes, that's right. I think that's right, yes. I guess, we'll start on some questions this morning surrounding some issues that are fairly current I think. And I think I'd like to start with a sincere question as to what exactly is Club Magic within SaskTel? What its point is within your corporation? It's not I know a list . . . you know it's not a subsidiary obviously. And so is it intended to, you know, generate revenue? And also could you comment on whether or not . . . if it's not doing the same thing as TappedInto.com, the company that was just purchased out of Nashville.

Mr. Baldwin: — Maybe I'll take a crack at that question. About three years ago SaskTel's research and development department started examining the technology to stream video over the Internet. As a corporation we saw that band width on the Internet was going to expand exponentially, more and more customers were going to be taking high-speed service whether from us or a cable company. And in particular around North America, bandwidth to the home is going to expand exponentially.

We felt it was worthwhile technology to try and understand how can you stream video or cable over high-speed lines, and what sort of problems are incumbent in trying to do that. Our R&D (research and development) shop started the project and basically Club Magic grew out of our R&D group. It is in our R&D group and it was basically the Web site that they developed to trial some video streaming.

It wasn't intended to make money. It wasn't intended to be a commercial enterprise whatsoever. It was intended to basically be a site which they could direct people to for trials. You know, they streamed some WHL (Western Hockey League) games; they streamed some curling bonspiels, they streamed a CMA (certified management accountant) convention. They did a number of interesting little projects.

About a year and a half ago our guys came to the conclusion that they knew the technology. They knew it would work. And then the issue, the issue came up — was there a business?

Could we make streaming — not Club Magic — but could we make streaming a viable business for SaskTel?

We took a look at it and we came to the conclusion that streaming as a business in Saskatchewan was probably was going to be of limited success just because of the size of our home market. And we came to the conclusion that to be successful it would have to have a broader reach into more businesses. That's where we sort of ran into TappedInto. TappedInto was involved in hockey game streaming and they've developed a relationship with the National Federation of Independent Business. So when we looked at how we would take the technology expertise that we'd developed in Club Magic in our R&D group to market that's where we ran into TappedInto and that's how we got started on looking at TappedInto.

The Chair: — . . . Can I just interrupt you for a second? I forgot to do three things at the start. First of all, I was to ask Mr. Ching to introduce his officials in case there was anybody new here. So perhaps I could ask him to do that.

Mr. Ching: — Sure. As you just heard Mr. Baldwin responding. He is the senior vice-president of business development and most of our diversification projects occur either within business development or within SaskTel International. So he has most knowledge in that area.

On our left is Mr. Gord Farmer who is the president of Direct West. On the extreme right but on this side of the table, Mr. John Meldrum, who is VP (vice-president) corporate counsel and regulatory affairs. To his immediate right and sitting over on that side of the table is Mr. Byron Pointer, VP of human resources and industrial relations. Two over from me is Randy Stephanson, chief financial officer, and on my immediate left is Darcee MacFarlane, director of corporate affairs.

The Chair: — I want to remind all officials of course that your testimony before the committee enjoys parliamentary privilege and while I won't read the caution again I just want to remind you of that.

I would also like to inform the committee that we have two substitutions this morning. Ms. Junor will be sitting in for Mr. Addley and Mr. Weekes is sitting in for Mr. Brkich. And with that, I'm sorry to interrupt you, Mr. Wall.

Mr. Wall: — Thank you, Mr. Chairman. What are your plans with respect to TappedInto.com, one of your latest acquisitions? What are the plans of the corporation for . . . for example, will they change materially from the core business that TappedInto is doing right now or are you considering new applications for the technology that they'll bring to the company? And if you are, what are those applications?

Mr. Baldwin: — Yes, when we looked at TappedInto, what they brought to the table we believed was some marketing and sales expertise into the US (United States). They've developed a program with the National Federation of Independent Business that is in the process of being launched which would enable small businesses throughout the United States and into Canada to place videos of their equipment on the Net so they

wouldn't have to send video cassettes out in the mail.

We felt it would . . . we talked in part of our due diligence to some local firms who felt that that capability could enable them to save a fair bit of money, yet expand their business reach.

So when we look at it, basically the marketing sales arm of TappedInto is the partners who are going to have . . . continue to have 51 per cent of the company. And to a large extent, the technical operations will run out of Regina and that's an offshoot of what we've done with our R&D group and Club Magic. So the people that worked on Club Magic will, at some point in time in the near future, I believe be working for TappedInto.

Mr. Wall: — I noticed on the . . . Thank you, Mr. Baldwin. Mr. Chairman, I noticed on the AgDealer.com Web site that one of their services — although it looks like it's very new — one of their services will be to get into auctions, possibly to get into auctions. I'm assuming it's equipment auctions.

And do you see some synergy there, do you see TappedInto being able to be . . . sort of, SaskTel being able to put the pieces together, so to speak, if Ag Dealer decides to go down.

Mr. Baldwin: — At this point in time, I think we view TappedInto as a different initiative from Ag Dealer. And at this point in time, we don't see any business relationship occurring between TappedInto and Ag Dealer. That's not to say that if there's a no-brainer opportunity that came up, that we could throw a bunch of resources at and make successful, we'd chase it.

But today with both . . . Ag Dealer is farther along, I think, in its business life than TappedInto. TappedInto is more of a . . . it's more in a start-up mode. And you can kill start-ups by giving them too many things to do.

And I think the biggest risk for us and what we're looking at with respect to TappedInto is, can we sell into the States and can we generate those monthly revenues that are projected in the business plan. And at this point in time we want management to focus a hundred per cent on selling and delivering their current business plan, and we don't want to distract them.

Mr. Wall: — Focusing a little bit maybe more on Ag Dealer, if I can. I understand that meetings have taken . . . And I guess we're framing all of these questions in the context that they were, I'm sure, discussions and thoughts about this initiated in the year 2000, I'm sure. I'm sure it wasn't a four-month phenomenon here.

But when you were . . . We'll start maybe with that, actually, to be fair, because I know you met with them here this week — with the folks from IRON Solutions out of Outlook, and I know they were happy with that. I think they were happy with the meeting.

When you were contemplating the purchase, the acquisition of AgDealer.com, and that is a bit of a misnomer because now we have met with them and they produced all of the, you know, some copies of the magazines that Ag Dealer produces. And

clearly they're, you know, they're into the hard copy stuff in a big way, a bigger way than IRON Solutions.

But when you were contemplating that purchase, was the company aware of IRON Solutions? I mean they must work with you, Mr. Farmer. And what we heard earlier, what we heard earlier this week from one of the . . . from the ministers, from two ministers, is that the existence of IRON Solutions specifically was not brought to their attention when they were deliberating on this recommendation from the corporation to purchase this company.

And now as a result, I think, you having to meet with IRON Solutions, I think you're altering the . . . well it sounds very much like you're having to alter, even if only slightly, the business plan for Ag Dealer, or the general plan for Ag Dealer, in order to not elbow IRON Solutions out or to be competing with a private company in the province.

So that's a long preamble and I apologize for that, Mr. Chairman, and officials. But the question is, why didn't the corporation feel it important to pass on this fundamental information of the existence of IRON Solutions when they were deliberating on this acquisition?

Mr. Farmer: — I'll answer that question. We did, as part of our due diligence, identify companies that were related to the type of business that we were looking at on Ag Dealer.

As you correctly pointed out, Ag Dealer's primary business is a publishing company where we publish magazines. We also have a Web site that we use to put the company's listings on.

So as part of the due diligence that we were looking at, we looked at companies that did both print and on-line — which was our main business — and did not identify any companies other than Fastline, which is a US company, as the major competitor in the marketplace.

We also looked at companies that did Web-only business. IRON Solutions came up as one of the companies that did Web-only business. That was not identified as a key competitor for us in the marketplace.

There are many other companies. If you type in used farm equipment on any Internet search engine, you'll come up with several thousand Web sites that list used farm equipment. We identified the ones that were more associated with both the print business as well as the on-line service and came up with no concern of any company associated in Saskatchewan that did that business.

So IRON Solutions did come up, as did several other Saskatchewan companies that are technology companies that develop software in the agricultural sector.

Mr. Wall: — I guess the concern is that, even with that slight similarity that that initial search would have shown you . . . and I think it's interesting to note that in both cases it's really shades of grey, because IRON Solutions charges for its on-line services but publishes a guide. Now AgDealer.com gives away its Internet listing or its Internet services fundamentally — or there's no charge for it is probably a better way to characterize

it — but charges for its hard copy listings.

So you know, clearly there . . . and the minister mentioned in the House, to his credit, that there's some "overlap" — I think that was the quote — and I guess that's the concern because I understand if you do a search, you're going to find a lot of these companies. They're going to deal in used iron and there's going to be a lot of listing. But as soon as one comes up that says Outlook, Saskatchewan; that clearly is a Saskatchewan company. I think that's the concern because then the meeting that you had this week with IRON Solutions probably should have taken place many, many, many months ago. And I think that's what their comments were and they would have been happy to do that. I think they were pleased with the meeting.

And so, I guess I would ask the question: how many employees are at AgDealer.com or at Ag Dealer and will that company be . . . do you have plans to relocate those employees and that operation to the province?

Mr. Farmer: — I'll take that. Right now, at Ag Dealer, specifically there are seven employees in the Ottawa office, as well as five regional sales employees that they have on contract with them. So the core base of employees right now is seven. As far as the opportunities to bring any of that activity back into Saskatchewan, as you know DirectWest's core business is the publishing of telephone directories, and we see existing capability for our back office production functions, that we can do some of this work back here. We will . . . if there's any expansion of the publishing activity, our anticipation is that that's back in Saskatchewan.

But the other key issue on this, although it's not Ag Dealer's employees, is that Ag Dealer, right now, which is a publication that we do 10 times a year in nine different regions, is printed in a company in Ontario, and we believe that there is a more cost-effective solution for us with a printer here in Saskatchewan to do that product and service, and we've already had discussions with that printer. And we believe that all of that printing business will come back into to our province.

Mr. Wall: — Well, that would be good news. Mr. Chairman, some more if I can on the activities of DirectWest, and on your plans and on activities that would have taken place in these annual reports that we're dealing with here.

The . . . I'm not sure of the year exactly but DirectWest also . . . I think you acquired something called *Warrens' Farm and Ranch Directory*, would it have been in '99 or . . .

Mr. Farmer: — It would have been in 2000.

Mr. Wall: — In 2000. And I wonder if you'd explain a little bit about that. My understanding is — and if I'm wrong, please jump in — but my understanding is that that particular directory has its origins in originally something that was a government, years ago, a government listing of farm equipment. I could be wrong, and maybe it's not a fair question to yourself. And it was subsequently in the early '90s basically privatized to this gentleman who operated it for some time, and then SaskTel reacquired it here, as you say, in 2000. Or maybe they didn't reacquire it . . . I guess the details aren't that important.

But could you talk a little bit about the plans that you may have, that your subsidiary of SaskTel may have, to get more into the agricultural publishing business? Did they stop with *Warrens' Farm and Ranch* and AgDealer.com, or are there other plans that have . . . that were, you know . . . that had their genesis back in some of these annual report years. And . . . well, I just let you . . . I'll leave it . . . maybe, I'll let you answer that.

Mr. Farmer: — For the first part of the question, as far as *Warrens' Farm and Ranch Directory*, it is a company that was based in Bethune, and it's still based in Bethune. I have no background in terms of where they originally came from. I'm thinking that maybe the overlap in that is that DirectWest as a company, back in 1988, was a company that came out of its origins, out of SaskTel. And then it became 90 per cent owned by employees at that time.

But as far as *Warrens' Farm and Ranch*, I believe that they've always been an individual company that's focussed on publishing that directory. I don't have any additional background on that.

Warrens' Farm and Ranch in terms of future opportunities in the agricultural sector, the interest of *Warrens' Farm and Ranch* and the synergies with our core publishing business that we have right now is that as a directory. It just happens to be in the agricultural sector.

As we looked at directories when we were talking to *Warrens' Farm and Ranch*, they had an opportunity to expand that business. They were already operating in Alberta and Manitoba, as well as the province of Saskatchewan. And we were talking to them about being able to add some of our directory expertise and backend publishing capabilities, as I mentioned earlier, to make that magazine directory a more formidable product in the marketplace.

So when I tie those two things together, in terms of we are focussing on selling advertising in that agricultural sector, much like we're doing with Ag Dealer, there is an excellent synergy between *Warrens' Farm and Ranch* directory and The Ag Dealer, especially when we talk about our intent to expand *Warrens' Farm and Ranch* directory outside of its Western Canada base. Then it gives us a leverage into the Ontario/Quebec market where Ag Dealer is very successfully operating right now.

Mr. Wall: — Thank you. Mr. Chairman, I have a question regarding DirectWest as well, but perhaps other officials want to speak to it as well. I don't know.

Has any officials of DirectWest or anyone else associated with the corporation, with SaskTel, had meetings with — exploratory or otherwise — with *The Western Producer* or any officials from the Pool regarding the possible acquisition of *The Western Producer*?

The Chair: — Before you answer that, I would like as much as possible to keep the discussion focussed on '98, '99, and 2000. So if, I guess, during those three years there was some discussion, I'd ask the officials to answer. However if we're doing the current years, that's not the mandate of this committee.

Mr. Ching: — If you don't mind, Mr. Chair, I'm going to approach the answer to this question with a little care and caution because, as you know, many times when companies are exploring other relationships other than their present structure, people who are involved with examining that are subject to confidentiality agreements, and in this particular instance we are subject to confidentiality agreements.

I can tell you that there have been some examination by us of an opportunity related to *The Western Producer*. I think that those activities have now ceased and the matter has been set to one side.

The Chair: — Mr. Wall, any more questions?

Mr. Wall: — I'll maybe stop for now.

Mr. Huyghebaert: — Thank you, Mr. Chair. A few questions relating back to some of the introduction of Mr. Ching in our last meeting. I know there was a couple of things mentioned out of the '99 report, and I'd just like a little bit more information if I can.

One of the investments that you talked about was Saturn. Could you explain what Saturn was all about and how much was put into Saturn?

Mr. Ching: — Yes. One of the things which ... and incidentally, this particular project was housed within SaskTel International. One of the things which SaskTel International does is that it does things like due diligence for other parties and it does I guess developmental exploratory work and things of that nature.

We got approached by a company out of Denver, Colorado and asked if we would come and give them some advice and assistance because what they were doing is that they were in the process of attempting to build a telephone system and a cable TV system in Wellington, New Zealand.

The company at that time was called United International Holdings, UIH. And it was a quite well-known cable operator and had businesses in about 20 countries around the world, of the nature that they were building in New Zealand.

They were, however, primarily a cable company and not a telephony company. And so they were struggling with the telephony side of that particular project. So they approached SaskTel International, asked us to give them some advice and to do some analysis on how they should go about building their telephony side of their particular project.

We in fact did a fairly extensive project for them on a contract basis, gave them that advice. I think, as it later developed, they were reasonably impressed with the work which was done by our people and they came back to us and said, look, why don't you take an investment position within this project and take over responsibility for not only advising us on the issue of how to build the telephony side but take on the responsibility for building and developing the telephony side of this particular project.

And when we examined the thing we came to the conclusion

that it was a very good opportunity from our vantage point; played to the strengths of the corporation. We liked our partner. They were a good, solid company. They were struggling, incidentally, at that particular point on the Nasdaq. And if you recall, there was actually a little flutter of news media at that time that maybe they would be de-listed from the Nasdaq.

But we were quite comfortable that they were a good, sound, solid partner for us. And that they had the beginnings of a good project in Wellington, New Zealand.

So we made the decision to buy 35 per cent of the project. The money, which was the subject matter of the acquisition, went into the project as an investment. I think when the investment maxed out, it was about \$39 million dollars Canadian. Watch out with projects of this nature because from time to time you'll see something which refers to so many dollars. Sometimes that's New Zealand dollars, sometimes it's Australian dollars because this has been tangled up in another project in Australia. But our investment, I think, as I recall, was about \$39 million Canadian.

In fact we went ahead with the project down there, built out the telephony side of that particular project. UIH was primarily responsible for building out the cable side. It was a very successful build. We had some interesting problems because, if you've ever been to Wellington, New Zealand, it is unlike Saskatchewan in the sense that's it quite hilly and mountainous in that particular area.

But in the end it was quite a successful project. We then went on because UIH had approached us. They had another company in Australia called OzStar and it was also in the business of cable TV, but not properly called cable TV because it was a TV product coming from a satellite; very much like ExpressVu or Star Choice here in Canada. They wanted to combine those two entities — Saturn and Austar — to create a new company called Austar United, and then take part of the enterprise to the public market to raise some capital to continue expanding the Saturn part of that particular investment.

And after negotiations with them we agreed that that would be a useful thing to do, and so we agreed to combining Saturn with Austar. And our 35 per cent interest in Saturn became a 4 per cent interest approximately in the combined entity, Austar United.

And we stepped ... we had a number of people over in Wellington and they continued to assist the project in Wellington for a period of time even after the merger of the two companies but they have since been extracted.

Our involvement in that particular project has now been reduced to simply a passive investment role rather than an investment and an operating role. And it's one of our investments which is targeted for divestiture depending upon the status of the market.

Mr. Huyghebaert: — Thank you, Mr. Chair. And a question related on the cable side. This is kind of the entry into the cable business I gather in some way, shape, or form. My question now would be continuing on in the cable TV department and relating back into the previous year's reports — which I don't

see it any place — how much money has been put into cable TV within Canada?

Mr. Ching: — Well actually just a small correction, the Saturn project was not our first foray into the cable world. Back in the, I believe, 1970s SaskTel actually was starting to build out a cable system within the province of Saskatchewan. That ultimately was sold off.

The corporation then got involved in two other cable projects. One was a company called Regional Cable. And there was a company which operated essentially east of Manitoba called Regional Cable and it set up a subsidiary called Regional Cable West which operated cable systems in Manitoba, Saskatchewan, Alberta, and British Columbia. And SaskTel owns slightly under 40 per cent of that particular . . . sorry, slightly under 30 per cent of that particular enterprise called Regional Cable West.

Subsequently, again very similar to what happened in the case in New Zealand, we were approached by our partner who asked us to roll the enterprise Regional West into Regional, and so we're now an 8 per cent owner of Regional, which stretches all across Canada. And again that's a passive investment, probably targeted for exit in due course.

The other enterprise, of course, in the cable industry that we got into was the one in Leicester, England, which was very similar to the Saturn operation in the sense that it was both a combined cable and telephony operation where, again in conjunction with partners, we built a system in Leicester, England, and Loughborough, which is the city right next to Leicester.

Mr. Huyghebaert: — Well, Mr. Chairman, just a continuation on that. How much of dollars have we put into the cable system to date — for here, like in Saskatchewan or in Canada?

Mr. Ching: — Gosh, I'd have to get back to you on the amount that we have put into cable systems in Canada. Because you can imagine the relationship with Regional has extended over quite a number of years. We could give you that information.

Would you want us to cover that whole subject or are you more interested in the more recent project which is generally referred to as DIV or digital interactive video, which is really not cable TV in the traditional sense but is more in the area of streaming video over the Internet, not terribly dissimilar from what you talked about earlier in Club Magic and TappedInto.

Would you prefer that or do you want . . .

Mr. Baldwin: — Maybe I can provide some broad-brushing answers on the Canadian investment in cable, which principally was Regional, and maybe to add to what Don had stated earlier.

Our interest in Regional Cable, particularly in the West, going back to the early and late '80s . . . or early '90s and late '80s, was there was a number of towns, rural towns in Saskatchewan in the West that did not have cable. And we viewed this as an opportunity to participate in a western-based company that would add new services to rural areas. Regional Cable is focused in small towns. Even today I think it provides cable services to about 220 or 230 small towns in Saskatchewan.

Our total investment initially was about 7.3 million in Regional. Since that original investment, we received dividends and return on capital approaching about \$4 million, which took our investment down. And then in the last two to three years, in the years under review, Regional did make some acquisitions of some other rural systems in Western Canada. In particular, I guess Image Cable would be one which would crop up in Saskatchewan.

And we invested our pro rata share, 29.9 per cent of those purchase monies. So our total investment in Regional Cable today is well under 15 million.

Mr. Huyghebaert: — Thank you. The reason it was a little bit vague is whether it was keeping in line with our '98/'99/2000 report because I know some of this is dynamic and is ongoing today.

What I was leading to is, are you aware of the amount of money that Bell Canada and TELUS have put into cable in the last few years and decided to totally walk away from it because it was a project that they figured was totally not worthwhile financially?

Mr. Ching: — Well I'm not sure your last sentence is quite correct. I know that especially TELUS has made an investment into a cable product as a trial process a couple of years ago, and they have discontinued that particular project and stepped away from it.

But Bell Canada . . . and incidentally, just on a broad-brush basis, as nearly as I can make out, and bear in mind that we're into an area of some conjecture here, it appears as if the strategy which is being followed by TELUS is to focus primarily on what we would call traditional lines of business in the telecommunications industry.

Bell Canada has not stepped away from what could broadly be called entertainment or cable. They certainly are not into what would traditionally be called cable, where you run a coaxial cable out to your customer base, which is traditionally what cable companies do. But they're very much competitors to cable companies. They've got a major, major investment in ExpressVu as you know. And their focus on entertainment is probably more pronounced than any other company in Canada in the telecommunications industry, with their acquisition of certain outlets like CTV and *The Globe and Mail*.

It's a little bit difficult to segment this whole area into telephone, cable, and other forms of communication and entertainment. One of the phenomenons that's occurring in our industry is that there's coming a merger of all of those types of businesses, and the technologies that underpin them, and it has resulted in really a very murky picture. And query whether or not there is any such thing any longer as a telephone industry or a cable TV industry.

What I think we're more preferring to use by way of terminology is that there is a communications and entertainment industry, which seems to be coming almost interwoven with itself.

And you can see how SaskTel is reacting to that a little bit because if you look at things like Hospitality Network, that's

clearly an entertainment-based project. If you look at TappedInto, that's an entertainment-based project too. But both of them are strongly integrated with communications activities. Sorry to wander a field there.

Mr. Baldwin: — I think maybe just to add to that, I think both the TELUS and the Bell projects were not intended to be commercial launches. I know TELUS launched into . . . it was a \$60 million trial of video cable-like services. I think Ted Rogers, who's the chairman of Rogers Cable, said it would have been easier if TELUS had just bought everyone of their trial customers a car, because the cost per unit was extremely high.

And those trials involved overbuilds. Building an overlay network to deliver separate signals. In our view, and in our analysis, overbuilds don't work. We don't . . . they don't work economically we don't believe, today.

Mr. Huyghebaert: — Well I guess that's where I'm coming from and we might be infringing a little bit on the year 2001, but it seemed on the initial brush that as TELUS have walked away from 60 million, Bell has walked away from 100 million, and yet SaskTel is getting into it.

And I agree they're murky waters, and I also feel that in murky waters, you can't see too well sometimes.

And I'm wondering, I guess, we're jumping into a venture that two other, call them, pretty sound companies have walked away from \$160 million because it's not, in their terms, a viable project. And we can change the name. We can change a smidge of the business plan and call it a good deal. I'm not sure I'm there yet.

Mr. Ching: — Yes. Bear in mind that you're right in referring to what TELUS and Bell have done.

But remember that there's another telephone company out in the Maritimes called Aliant, which has resulted from the merger of four telephone companies in the Maritimes. Aliant is very much into the same type of project as we are. They're a little further along in some respects and a little behind us in some respects, but they're essentially venturing down the same path. I think they're trying to do it in the same way as we are too, not only using essentially the same technology, but also approaching it with some care and caution.

Your point is well noted that the fact of the matter is this is a murky area. Nobody's quite certain of whether or not there is a sound and valid business case here. There's a lot of loose ends.

As with any new technology, the people who are building the boxes and the equipment that make the whole system work are innovating as they go along. The products that they put out tend to be not mass-produced yet and, as a result, they tend to be kind of expensive. On the other hand, if they are successful, what immediately happens is that these companies go into mass production and the price point for their equipment drops like a stone. So we see that phenomenon happening of their equipment starting to drop in price.

We see a number of other companies around North America

that are very interested in watching what has happened in Aliant and what's happening in SaskTel. And I think we're still fairly convinced that the DIV project or the complimentary thing that Aliant is doing has an awful lot of potential to it.

That's not unanimous incidentally. In our discussions with Bell, Bell is very reserved on this issue. Now, partly that's because they've got a very major commitment into a different type of technology run over satellite, namely ExpressVu. And so, for them to change horses, so to speak and get into the type of technology that we're using in DIV is a much more significant decision for them than us going into it through SaskTel because we're starting from scratch on this particular type of project.

Mr. Baldwin: — Maybe just to add to that that we view the digital interactive video project as a natural extension of what we've been doing with our high-speed Internet rollout. We're putting in place, and have been leaders around the world in rollout of high-speed Internet in our urban areas. And our urban definition is a lot smaller than a lot of other jurisdictions today.

And so we look at this, what potentially might make this project work — and as Don said there's a lot of loose ends yet — is the fact that we aren't overbuilding the network, we're using an infrastructure which would have been put in place to enable high-speed Internet. And technically there are some loose ends.

But it's very important that we probe around in these areas, and let me tell you why. I think the average person in Saskatchewan is intrigued by the idea of having access to high-speed Internet. And as you know SaskTel has been charging forward in this area and trying to build out a large part of our network to supply that particular product because there's a lot of interest on the part of citizens to have access to high-speed Internet.

What we're finding is that the business case for high-speed Internet all by itself, when you get into the smaller centres especially, starts to become very, very shaky. And so when we look at DIV or digital interactive video, what we're looking for is other products which can travel over essentially the same equipment that we use to bring high-speed Internet. And the more products that we can travel over that particular equipment, then the better the business case becomes for deploying our high-speed Internet network throughout Saskatchewan.

So we're in a situation where, if we restrict the usage of our equipment to strictly high-speed Internet, then there is going to come a point at which the type of technology which we're using — which is DSL (Digital Subscriber Line) technology — simply cannot be justified as a valid investment when you get into the smaller centres in Saskatchewan.

On the other hand, if we can take that very same equipment and start delivering other products over it for which we can realize additional revenue streams, now that particular high-speed Internet project becomes more viable, a stronger business case, and our ability to go into the smaller centres with DSL technology is opened up a little bit.

Mr. Huyghebaert: — Mr. Chairman, I'd just like to change my focus a little bit on a couple of questions. And there's some . . . I agree with you about high-speed Internet and there's a lot of people in this province that probably want high-speed Internet.

My focus change is going to be that there's an awful lot of people in this province want cell phone coverage also. And I don't know if you have a percentage of area coverage of cell phone, but I know in my area there's limited to nil.

And it strikes me as a bit of a dichotomy because I believe, Mr. Ching, the other day you talked about SaskTel providing the best service, you talked about the focus on Saskatchewan as number one. We work for people of Saskatchewan and yet every attempt that we have to try and get cellular coverage out into some rural areas it comes back in a letter I believe I received from yourself, or under your signature, that said it's strictly a business deal we can't provide.

The people in my area would not agree with that, and especially if the focus is on Saskatchewan first and we see some of the investments that are going elsewhere. And we have people that are sitting here at a time — and my preamble is going to be long — at a time when everything is deteriorating so rapidly in rural Saskatchewan. The need for communications is increasing dramatically because of hospital closures, ambulance consolidations or attempted to; it's all the more need to have a good cellular coverage. The day where you could walk a half a mile to your neighbour is long gone.

And my question, I guess: is SaskTel looking into areas of Saskatchewan — and in my area specifically is the south central — is SaskTel looking with any real interest in providing cell coverage into the areas of the extremities of rural Saskatchewan?

Mr. Ching: — Let me just back up a little bit because I think it's important to understand what has been happening here.

Historically with our hard-wire business we had a monopoly, and with the monopoly came the obligation for universal service. And I think most people in Saskatchewan grew up under the system where no matter where you located, SaskTel would always get you a line. And that was part of the monopoly structure of that part of our business.

The cellular business, on the other hand, right from the very beginning has been competitive and was never structured on the basis of a monopoly. And so wherever we expand the cellular system, we go through the rigours of looking at the locality that's being targeted to determine whether or not there is going to be sufficient revenue streams to justify the investment of building a tower and putting the facilities on that tower to supply cellular service and connecting it into our cellular system.

And of course because of the thinness of our population in certain parts of the province, you simply can't find a valid business case within a time frame that is justifiable. Let me just pause and tell you what I mean by that last phrase.

When the cellular system was built, it was built on an analog technology. And it started to be built about 12 years ago. The anticipation was that somewhere between 10 and 15 years that technology would become obsolete and would flip over into another technology and that to some extent, the system would have to be rebuilt to accommodate the new technology.

So that dictated to us that when we were looking at our business case we had to recoup our capital investment within approximately a 10- to 15-year time period. And in fact what was anticipated has come true because as you know right now, the old analog cellular systems throughout North America are being replaced by digital systems.

So the technology is flipping over, and so determining our business case based upon a 10- to 15-year time frame or something in that neighbourhood is absolutely the correct decision to have made.

So when you look at an area of the province and say to yourself, can we justify building a tower in a given area, we've got to find a business case within about an 8- to a 10-year time period. And that's the way in which we've been assessing these things.

As well, because of the way in which the regulatory system is set up, we cannot take monies from other parts of the system and cross-subsidize the cellular system. So the result of that has been that certain parts of the province you just can't find a valid business case for extending cellular service.

Now fortunately this is not a particularly large part of the province, although to the people who are located in it, it's a pesky bit of business. I think our cellular system at the present time, and again it depends a little bit on what sort of a set you're using, but where you use a car set for instance, where you have an external antenna, I think we cover something a little bit larger than 92 per cent of the population of the province. But unfortunately there are parts of the province where, struggle as we might, we simply can't find a business case.

So we're caught in the bind of balancing two competing interests — the desire of people within that particular locale to have cellular coverage and the responsibility that we've got to the citizens generally to run a valid segment of our business on a sound, solid, commercial footing. Because the truth of the matter is, that if we were not interested in what our bottom line was in the cellular business, we could cover the entire province with cellular service. It's not an issue of technology. It's not an issue of lack of knowledge on how we could get universal coverage.

But it's an interesting bit of business in this respect because unlike the old hard-wire system, we should be aware that some of these new technologies which are growing up within a competitive marketplace are not going to have the universal characteristics, the ubiquitous coverage, that is characteristic of the old hard-wire system which grew up within a monopoly structure. And it's simply one of the fallouts of moving from a monopoly structure into a competitive environment.

There's a lot of benefits from moving from a monopoly structure into a competitive environment. And don't get me wrong. I'm not arguing that we should go back to a monopoly structure. But one of the things we should realize is that when you move out of the old monopoly structure, you do leave behind certain things like universal service, like ubiquitous coverage, and that's simply the result of a competitive marketplace.

The Chair: — It's almost 9 o'clock now. We've been here

about an hour. This would be our normal time to recess. Are you almost finished your questions or would you like to recess and resume?

Mr. Huyghebaert: — I have a couple more if you'd like and then I'm done.

The Chair: — Perhaps what we can do is maybe recess for five . . . well let's say ten minutes. Come back at 10 after 9 and then we'll resume your questions at that point.

Mr. Baldwin: — May I just add one more thing to the last question?

The Chair: — Yes.

Mr. Baldwin: — Yes. Under the years under review — '98, '99, 2000 and even last week — we've been expending a lot of dollars in rolling out digital cellular. And in excess of \$50 million has been expended or will be expended in expansion of digital. As Don had indicated, under our analog cell service we have about 92 per cent coverage. Under digital, we believe that that coverage will expand to 95 plus. So there will be incremental coverage expansion as a result of our three-year significant cellular expansion program which we announced last week.

I'm not sure whether it's going to help your particular area and we can look at it to see what happens, but there will be enhancements into rural Saskatchewan. I'm just not sure today on what precise areas.

Mr. Ching: — And the strange reason for that is that our old cell towers under analog had a certain coverage area. It's actually smaller under the digital technology. And the result of that is that we're going to have to put additional towers in. But in doing that, to make sure that we don't increase the non-covered areas, we actually expand the covered areas.

The Chair: — Okay. And with that we'll recess until ten after nine.

The committee recessed for a period of time.

The Chair: — I will call the committee back to order at this point. And we'll resume with questions from Mr. Huyghebaert.

Mr. Huyghebaert: — Thank you, Mr. Chair. Just a couple more questions to follow on with what I was . . . the line of questioning I was on before in cell coverage.

Again, I understand 8 per cent . . . or 92 per cent is covered by cell and 8 per cent is not. Well it's unfortunate I live in the 8 per cent area, as do most of the people in southwest Saskatchewan. The digital service that's coming in will increase that to 95, and I think we'll be speaking afterwards about coverage, if that's going to increase in our area or not.

This has some very profound problems within rural Saskatchewan as we all; I believe we all are aware, business-wise. We have businesses that are attempting to set up or wishing to set up and they've got enough impediments already and then to find out that they don't have cell coverage,

it actually is hurting the start-up of some businesses.

But my question now is in . . . I'm going specifically to my area, but there's FleetNet service that covers basically the whole area. And for an individual to stand in his or her yard and see a nice SaskTel tower sitting there and yet cannot have cell coverage, there's an awful lot of questions that I am asked. And I would like to relay those questions as, why cannot a device — I called the horn in my flying days — be put on the tower to extend cell coverage?

I know FleetNet is different frequencies, et al., but the tower is there; they're in place. Even from my own house I can see two towers. And the question that needs to be answered, I guess, is what would it cost to put cell coverage in those existing SaskTel towers that are FleetNet towers or if it's even feasible or possible at a reasonable cost?

Mr. Ching: — I think our people have looked at it and you'll appreciate that the actual tower, while it is the most apparent part of the system, is not necessarily the total capital cost of supplying service. The facilities on the tower, of course, cost a certain amount of money and they have to be tied back in to our central office, which also takes a fair amount of money as well.

So the existence of the tower itself probably only says one thing, and that is that there really is a tough area to find a business case, because part of the capital cost is already there. If we could justify the rest of the capital cost, we would certainly be delighted to put the cellular facilities on that particular tower.

If you wish though, if you want to target any particular area, we'll tell you what we estimate to be the problem dollar-wise in so far as that particular area is concerned. Maybe if you wish, when we go off-line, you can tell me precisely what areas and we'll try and get you as much information as we can as to the work that we've done in trying to look at those areas and see what the problem is.

Mr. Huyghebaert: — Thank you, Mr. Ching. Mr. Chair, I'd just like to follow up just a bit on that. Yes I would like that. And I don't think we have to be off air. I'd like the coverage for my whole constituency. Because right now I'm sitting with the town of Assiniboia that has coverage. A few miles out I do not.

And my constituency — just for the geographics of it — is from Assiniboia to Shaunavon, and we're without coverage basically the whole area. There is slight coverage in Shaunavon. But when you leave Assiniboia, south of the border, I understand there's some pretty rugged land in areas. But a town like Willow Bunch and Coronach, their coverage comes from the United States. And it's very much a question of why we can't do something more than we are now doing.

In correspondence that I have received, it's always referred to as the almighty cost to put up a tower. And that's why my question. The towers are there. Granted there's an awful lot of cost that's associated with the electronics of the cell service, but the hardware of the towers are in that area.

So I'd very much appreciate if you could come up with some cost figures or some hard business arguments why there cannot be cell coverage in that area.

I do know, and I go back to the business situation, and I receive this from a number of people transiting the area and some businesses that are attempting to get started in the area, and when they don't have cell coverage it's very much an impediment to business.

So if you could find that information for me at least that I can pass on to my constituents why they cannot have . . . until we regenerate and revitalize rural Saskatchewan, there'll never be a business plan. And we're continuing to need cell coverage more so, as I mentioned earlier. And it's issues like this that actually will end up driving businesses and people away. So here we try to revitalize rural Saskatchewan, at the same time we're providing blockages to it.

So that's all the questions I have now, Mr. Chair.

Mr. McCall: — Thank you, Mr. Chair. I guess, pursuant to the matter of cell coverage, who are — in providing cell coverage in Saskatchewan — who are your competitors, and do any of them provide coverage outside of the Regina and Saskatoon corridor?

Mr. Ching: — When cellular licences were first issued this was really a duopoly, not only here in Saskatchewan but all across Canada, in the sense that the so-called Stentor companies were issued licences and that included SaskTel in those days and another company which was called Cantel, which is now called AT&T Cantel, I believe, or Rogers Cantel.

They of course have been operating in Saskatchewan I think pretty much since the cellular licences were originally issued and the systems built, and that's about 12 years ago.

About three or four years ago, the federal government announced that they were going to allow a number of new entrants into the field, and those new entrants now would probably be described as Microcell and TELUS who bought Clearnet. Those are probably going to be the four major operators across Canada.

So far, TELUS Clearnet has not shown much interest to build a system within the province of Saskatchewan. But of course that may change at any time. They have Spectrum within the province, so they have the legal licences that are necessary to be able to supply service, but so far have not shown any propensity to actually build the actual system. Microcell, on the other hand, has shown that they're going to start building within the province, but as yet, to the best of my knowledge, they've not turned up any service.

So we still continue to have essentially two operators within the province — SaskTel Mobility and the old Cantel system.

The Cantel system has focused, I would say, almost exclusively on the major urban centres. To the best of my knowledge, they have built out a system in Saskatoon and in Regina. I believe that they have some coverage on the corridor between Regina and Saskatoon. They've also built out I believe Estevan/Weyburn, and they may have also out on the Yellowhead towards North Battleford. And I believe they have P.A. (Prince Albert). They've pretty much covered, I think, Highway 1 going through the province.

But their interest appears to be almost exclusively the major urban centres and the major traffic corridors between those centres. To the best of my knowledge they don't have any interest at all in the rural parts of the province and they have practically no coverage in those areas.

Now you'll know that they were built as part of or connected to the old CN-CP (Canadian National-Canadian Pacific) Telecommunications system which was built by the railways. So there's a bit of a penchant on their part for being close to the railways, as well as close to the main thoroughfares.

Mr. McCall: — So they're not providing coverage for Assiniboia then?

Mr. Ching: — To the best of my knowledge they've got no coverage in what we would call the rural parts of the province at all.

Mr. McCall: — Okay, thank you. To move to a different question but picking up on the lines of questioning in the meeting previous.

There's lot of discussion around Clickbid and IQ&A but I was wondering if you could provide an overall picture for the past three years in terms of the positions that were assumed under the growth and diversification efforts of SaskTel. What has been the track record? How have the various ventures that SaskTel has gotten into, how have they fared? What's the, you know, how has this balanced out in terms of money lost, money gained? And what would be the return on equity and how would that compare to industry standards?

Mr. Ching: — SaskTel I guess really got into non-traditional lines of business starting about 15 years ago with the establishment of SaskTel International. Up until that time we had been pretty much restricted to the three traditional lines of business — long distance, local, and the white pages/yellow pages directory.

But there was a belief that SaskTel — because we had been leaders in the use of fibre optics which was a new technology 15 years ago, and we had been one of the first companies in the world to deploy that technology commercially — that embedded within the company were certain skills and abilities and knowledge arising out of our use of fibre to, that we could sell to other companies and make a business out of it. And that was really the genesis of the establishment of SaskTel International.

As you can imagine for the first five years or so the activities, the diversification activities of the corporation were rather small, being built only around SaskTel International. It did primarily consulting work.

Really the diversification activities probably span — of any consequence — span the last decade. So if you don't mind, I'll focus in on more or less the last decade.

Mr. McCall: — . . . I'm fine with the past three years but . . .

Mr. Ching: — Well the last decade I would say that our gross or our profits from successful ventures totalled about \$176

million to our bottom line. We had losses during that particular period of time that totalled just around \$19 million. So the net benefit to our bottom line was about 157 . . . \$158 million in around there over the last decade. In the last three years . . . yes, we've got at our fingertips the last two. I think we've had gains of about 62 million with net gains — that is gains over losses — of about 56 million over the last two years.

So our program has been growing as we've gone further and further into a diversification and expansion mode. And you know there's been a lot of focus on the projects that we've had that haven't been successful.

And I'm not uncomfortable with that. I think there should be focus on it. I think that the people of Saskatchewan have got a right — either directly or through their elected representatives — to probe around and say: SaskTel, did you really have your p's and q's all lined up when you went into this venture. And it's not unnatural, I think, that there should be a fair amount of focus on projects where we've been less than successful.

And one of the interesting things about us becoming involved in these diversification and growth projects is that I can almost guarantee you that there's going to be more of them. Whether we like it or not, getting involved in businesses which are outside our traditional line of business are going to lead us to take chances, and some of those chances are going to pay off and some of them are not going to pay off.

And I guess all I would say to you is so far I think our successes have far outweighed our losses. It is our intention to continue to grow and diversify because we think it's the only way for us to preserve the capital asset that's been entrusted to us and expand it and grow it. It is my personal belief that not only has that growth been good for the corporation in so far as its bottom line is concerned, it's also caused us I think to have a certain mentality within the corporation.

For instance, a lot of people don't realize it but we were far and away the first telephone company in Canada — maybe even in the world — to deploy a commercial high-speed Internet DSL product. We did that a way back in November of 1996. I think that the first commercial deployment of a high-speed DSL product other than ours was at least six months later than we were.

I should tell you incidentally that when we went out to try and pick equipment to deploy that first high-speed Internet product, the equipment that we picked turned out to be less than good equipment. And we made our best estimate of what we were doing in this particular area, but we were out in advance of anybody else and the equipment which our people picked turned out to be less than reliable.

And if anybody actually was some of our first customers in the central part of Regina and Saskatoon in the period of late '96 and early '97, they would have experienced an incredibly improved product from the old dial-up, but a product which had a nasty habit of crashing with a regularity which we weren't very happy with.

And as a matter of fact, our people had to go back and do another RFP (request for proposal) to get better equipment, and

I think we have got now a much superior piece of equipment than we had back in the fall of '96.

But the point I'm trying to make is this, getting into all of these diversified operations has lead SaskTel to be a much more venturesome company than it perhaps was 15 or 20 years ago. And in an industry that is moving as rapidly as the one that we historically are in and the one that we're probably becoming more tangled up in, namely entertainment, if you aren't at least a little bit venturesome, if you aren't prepared to step out and take a few chances in this area — with the risk that you're going to have some failures from time to time — then you're probably on the road to ruin.

I'm a strong believer that SaskTel is on the right course. I think we've got to be careful and cautious. We're not exactly a venture capital company in the sense that you can take a lot of losses and hope for one big win. We're a Crown corporation. We've got to be careful about what we do. We try to do that.

But we can be as careful as we possibly can. And if we're too cautious, we won't proceed with anything. If we're too aggressive, we're going to have more losses than we are wins.

But it has been our experience and our track record, I think, that our people have brought a lot of prudence, a lot of care, a lot of caution. And from time to time, people have taken a few whacks at us and said you're too careful and too cautious, we'd like you to move more rapidly.

But the fact of the matter is, I think that our diversification program has been hugely successful. And adding \$157 million to our bottom line over the last 10 years has allowed us to do an awful lot of useful things for the people of Saskatchewan.

Mr. McCall: — Just to broaden that question, on a more general basis of where SaskTel fits in nationally and internationally in terms of, first of all, return on equity for the company as a whole . . . Over the past five years, it's averaged probably about 12.5 per cent, thereabouts; it was 15 per cent in the last year. In terms of return on equity, how is that in line with your competitors across Canada?

Mr. Ching: — We're set a benchmark by our shareholder, CIC (Crown Investments Corporation of Saskatchewan), I think of a target of . . . to try and achieve 11.7 per cent return on our capital as being our target. So far, I think we have been a little above that target. We like to set a fairly high threshold for what we anticipate by way of a return on our external and non-traditional revenues.

We've got to be a little bit careful because a large portion of our revenue stream is arrived at by virtue of products that we sell to the people of Saskatchewan. And so for us, unless it comes from diversified operations, especially outside the province of Saskatchewan, we've got to be cautious that we don't earn too much, as well as cautious that we don't earn too little.

The point being this, that we could probably raise our local rates and improve our bottom line substantially but from our vantage point, that's not where it's at. As a Crown corporation we have a responsibility, we think, to earn a sensible return on the capital that's been entrusted to us. But at the same time,

we've got to try and offer our products to the people of Saskatchewan at as good a price as we possibly can, commensurate with making a sensible return on our investment.

I think compared to the outside industry where they don't perhaps have the same pressures up and down on them as we do, I think we've compared favourably over the years. Some telecommunications companies have earned more than us, some less. But by and large I would say that we're in the pack, so to speak, and probably in the upper part of the pack.

Mr. McCall: — Just one last question. In terms of the pack in Saskatchewan . . . and again, sorry to shift around on you here, but that's the way it goes.

In page 13 of the year 2000 report, it talks about the role that suppliers and dealers play in terms of SaskTel's policy regarding purchasing of goods and services. In the year 2000, SaskTel spent 275 million on materials and services from Saskatchewan suppliers.

How does that compare to other corporations, both in Saskatchewan and outside of Saskatchewan, but that they do purchasing of goods and services from Saskatchewan businesses. How do you stack up?

Mr. Ching: — I can't . . . because I don't have access to their internal data on this, I can't tell you that our competitors buy less from local folks.

I do know, however, that from talking to our customer base, this is clearly one of the most significant issues in the minds of our customers — the fact that we spend a lot of money here in Saskatchewan. And it's . . . partly it's money which we pay to suppliers. But also our payroll, our donations policy, things of that nature, are all part of a package of trying to enforce and reinforce I think a strong financial commitment to the province of Saskatchewan.

And it's pretty clear from all of the market research that we've done and from the information we get directly from our customers, that these are important issues to them. And one of the reasons why we have such a strong market share in the province is because I think the average person in Saskatchewan sees us as putting a major financial commitment into this province and don't see that from our competitors.

Now it's interesting, because a couple of our competitors have really started to try and focus on this particular issue. Like for instance when TELUS made a little bit of a foray into the province a year or so ago — this has tapered off in the meantime — but one of the things that they really focused on was trying to make contributions to the local community and things of that nature.

I don't think they really got enough of a response from customers to allow them to persist in doing that over any extended period of time. But I think that the point is that it has been a very important part of how we go about our business — an extremely important part.

And we make as big an effort as we possibly can to prefer Saskatchewan suppliers. We've got to be a little bit cautious in

this area because some of the products which we need to make our system run simply aren't produced within this province, and there's no supplier that actually sells them here within the province.

And so we wind up going out of province for some of the things that we need within a very technical business that we're in. But wherever we've got a chance to support local businesses we go out of our way as much as we possibly can to do that.

The Chair: — Okay. I have Mr. Weekes, Mr. Yates, Mr. Wall, Mr. Prebble, and 15 minutes. So Mr. Weekes I guess will be our — depending how many questions you have — will likely be our last today.

Mr. Weekes: — Thank you, Mr. Chairman. I'd like to return to the topic of the poor cellular phone service in rural Saskatchewan. And I appreciate your answers to my colleague. My questions really go in the same area, but I'd like to discuss with you specifically the areas in my constituency which is Redberry Lake constituency and just outline a couple of groups that are trying to do good things in the constituency.

The Chair: — I'd just interrupt to say that we have tried as much as possible in the committee to keep things focused on the province as a whole, rather than allowing it simply to become a forum for individual constituency issues. If there are constituency-specific items, what probably is best is to pose the question and to have the officials get back to us directly in writing on it. But as much as possible, to try and stay focused on the province-wide reports and the larger issues.

Mr. Weekes: — Okay, thank you. I'll try to do that. My questions I believe speak to all of rural Saskatchewan. But in my area and many other areas there's groups that are trying to work towards revitalizing rural Saskatchewan on their own, with no help from any particular government official or MLA (Member of the Legislative Assembly).

In my area there's two particular groups that are working in that area, and one is a community access program which is really working at trying to set up a business office, and they're working on a pilot project. And their concerns are really to access into the people — tourism — that are travelling from southern Saskatchewan, from Saskatoon to Blaine Lake area, to Shell Lake into the northern lakes. Their concern is the lack of cellular service with what their program is.

And the other group, which really revolves around the Redberry Lake Biosphere Reserve. And they've set up a committee to try to enhance the tourism and economic viability in their area. And again they've identified as one of the problems is the cellular phone service.

And when you look at rural Saskatchewan with deteriorating roads and less and less adequate health care, I think many people are very concerned. They're wanting to get better cellphone service just from a safety point of view. And that's another factor that is highlighted.

And I would also ask the official . . . I will send you a letter but I will also ask you now if you could supply me with information whether this area of Saskatchewan will be included

in the expansion of cellphone service.

But it brings to one point that you said, that SaskTel is really focused on Saskatchewan, on working for the people of Saskatchewan. And I agree you should be; you are a Crown corporation which is owned by the people of Saskatchewan. And you've mentioned that you've gone into other areas, other ventures. Sometimes they're winners, sometimes they're not.

And I'd really like to speak to the concern of people in rural Saskatchewan and particularly in my area in Redberry Lake. I would like to ask the question on their behalf, is if you're willing to risk in other ventures, will you also risk some monies and work on the people of rural Saskatchewan by guaranteeing adequate cellphone service in these areas. Because they are working at increasing their economic activity in those areas and revitalizing their particular areas.

And that's really a very important area that we as a province have to look at. And I think SaskTel should be a part of that and take risks in those areas to . . . and the expenditures to increase the prospects of better economic activity in rural Saskatchewan.

The Chair: — I'd ask, Mr. Ching, perhaps what would be useful for the committee is if you could provide us with a list of the expansion plans for cellular — both any analog service expansions for the years under review that have occurred, and any potential expansion under digital, since we have had some discussion about this morning.

And if you could communicate that to me with 15 copies for our meeting next week, that would be appreciated. And on the other issue, I'll let you address that directly.

Mr. Ching: — Let me just make that . . . in response to that, I can tell you right now that we have no plans to expand our analog network. To the extent that there is expansion occurring, it's occurring because the process of overlaying the digital network overtop of the analog network is causing us to build in a slightly different manner and thereby expand our coverage a little bit. But we will certainly give you whatever information we possibly can on the analog network.

You make an interesting observation, I think, in saying that the average person in Saskatchewan looks at us making investments, sometimes within the province, sometimes it's out of the province, and say if you've got money to put into an investment in New Zealand, why don't you have money to build a cellular tower and the necessary facilities so that we can have cellular coverage in Blaine Lake. Just simply to use an example.

That's not . . . that's an argument or an observation that I've heard a number of times, and it's not an illegitimate way of looking at things. But I think when you look at it closely and examine what's really going on there, I don't think it's a fair observation when you look closely at it.

When we do investments, we do a fair amount of due diligence on all of them and try our best to determine which ones are going to be successful and which ones aren't. We take some risks in doing that, and from time to time we're wrong and we lose.

When we look at cellular coverage and try to determine whether or not a particular cell site is going to economically justify making the investment of building it, I can tell you that our error factor there is pretty small. Our people are getting pretty sophisticated in knowing what the drivers are for usage of a cellular site in any particular area. And the fact of the matter is, is that it's not like an investment. We aren't simply going in and taking a risk. We know pretty well and very precisely where you're going to find that a cell site is economically justified and where it isn't.

And believe me, we love to build cellular sites. If we had our druthers, if we were still under a monopoly system, we'd have cell coverage throughout the entire province. To the extent that anybody doesn't have good cell coverage within the province of Saskatchewan, it's certainly not borne out of some cantankerousness on the part of the people within SaskTel, because I think if we could find a business case to build one more cell site we'd be out there building it.

And maybe one can mount the argument that somewhere a block of funding should come which would justify us building cell sites even where it's not commercially proven to do so. But the mandate that we have been given is to run that part of our business on a commercial basis. And once you have that as your mandate, going out and building cell sites where we can't commercially justify it simply conflicts with the mandate.

And I'm sorry. I mean, as a person who drives around an awful lot in Saskatchewan, I don't like it when I get out of cell coverage and suddenly find that my conversation is interrupted or dropped. I don't like it either. And when other citizens within the province experience that, I have a large amount of sympathy for them, because it's not good.

But you've got to make a decision as to which side of the fence you are on. Either your cellular network is built on a prudent commercial basis or it's built under the old paradigm of ubiquitous service regardless of whether or not there is a commercial justification for building in certain localities.

And that's simply the facts of life. And I apologize to you and through you to the citizens of Saskatchewan for where we have a lack of good cell coverage in the province. But believe me, it's not out of cantankerousness. It's out of the fact that we are operating under a mandate to be commercially prudent in this area.

Mr. Weekes: — Thank you. Mr. Chair, I move on to another topic. Have SaskTel officials or the agents travelled to Toronto in the three reporting years under consideration to meet with any security firms or national brokerage houses to discuss corporate evaluations or potential restructuring of SaskTel, or any discussions of a process that could lead to an IPO (initial public offering) of SaskTel?

Mr. Ching: — First of all, I'll ignore, if you don't mind, for the time being anyway unless you draw me up short on this, your reference to whether or not we travel to Toronto to do these things. If you're particularly interested in that aspect of your question, I'll focus in on it in due course.

You know that the provincial government started a process, I

guess now about five years ago, of examining all of the commercial Crown corporations to make sure that they are being operated in a prudent manner. And that has been done a number of times.

I think that SaskTel, for instance, has been examined no less than three times over the five years, by an external entity. The first time it was by RBC Dominion Securities and Deloitte Touche. The second and third times, I think it was strictly by RBC Dominion.

And in the context of those examinations, the issue of the value of SaskTel — whether it's going up, going down, whether it's staying the same — have been part of the discussions and part of the analysis that was done of us.

The issue of whether or not value could be realized out of SaskTel through an IPO or through a strategic investor or through a private sale of SaskTel, all of those issues have been discussed at great length between SaskTel officials and CIC officials, as our shareholder, and the entities that were examining us, as a logical and sensible extension of the examination of whether or not we're operating properly.

And I can tell you that in addition to issues of IPO or strategic partnership, an examination of our present partnership arrangements and strategic alliances has been looked into.

The issue of whether or not we should spin off SaskTel International and run it as a private entity. The issue of whether or not we should sell off the Mobility part of our operation or DirectWest. There's been an awful lot of examination of all of those types of issues, both within the corporation, within our shareholder, and in consultation with external entities like RBC Dominion.

Maybe I'll stop my answer there and you might want to focus your question a little bit more if you want to know more about that whole particular process.

The Chair: — Just to make sure we're clear in terms of what we're discussing now. There seems to be three parts to the question, and the answer I'm not sure completely lines up. Let's just make sure we understand what we're talking about.

One part of the question is have we looked at doing an IPO to get rid of SaskTel, to privatize it. That's really what the heart of the question is. This answer comes back saying what we were looking at is evaluation of the company. Is that what I understand?

Mr. Ching: — Well the problem you got is that when you as a prudent shareholder say to yourself, what's happening to the value of my company, you're inevitably drawn into a discussion of how do you fix value.

And one of the ways of fixing value of course is to do an IPO. Another way is to sell the company, lock, stock, and barrel. And another way is to sell it in parts. And another way is to sell a portion of it to a strategic investor. All of what was done for instance in Manitoba.

So inevitably when you examine whether or not a company's

being operated properly, you go into the issue of what's happening to the value of that company. And as soon as you get involved in looking at the value of that company, you inevitably are looking at trying to determine value within any particular mode of establishing value, which involves concepts of sale.

The Chair: — Well the exercise is one of valuation, not one of attempting to structure an IPO.

Mr. Ching: — Well I have to answer that question strictly from the point of view of SaskTel, because how CIC has been approaching this, you have to get their view of the thing.

Certainly from the point of view of SaskTel, the government has always indicated to us that if, as the operator of the entity, we believe that there is something which is needed by SaskTel that can only be attained by virtue of selling some portion of SaskTel to a strategic investor, that we should feel free to bring that forward and the government would look at it. There was certainly no assurance that it would be received either favourably or unfavourably. But we were always told that as the operator, you've got an obligation to operate as best you possibly can.

And if when you look around at how you're going about your affairs and what's happening within your industry, you come to the conclusion as the operator that the company could be enhanced in value, and that you are struggling to accomplish something that you want to accomplish that could be perhaps attained if somebody came in and bought 20 per cent of you, or something of that nature, to bring that forward. And we've always felt free to do that.

So from time to time we've paused as an operating entity and looked at that issue, and there's been extensive discussions with various companies who know that we're talking about this and who maybe come into town, and you might for instance find that a Nesbitt Burns would come into town and say, we know that you are examining the issue of maybe selling some portion of the company.

And we say no, what we're doing is we're looking at trying to run the company as best we possibly can, and that's one of the options that needs to be investigated. And they would say then to us, well good, here we'll make you a presentation on how you could perhaps go about that and what we estimate the value to be and whether or not it would be useful for the company over the long haul, and things of that nature.

So as an operating entity, separate and apart from the shareholder as constantly looking at the issue of what to do with their asset, as an operating entity we've examined the idea of selling off a portion of SaskTel. Because that's one of the prudent things that any operating entity would look at, because it may be a way to enhance the operations of SaskTel in its totality.

The Chair: — Okay, seeing no other questions, and it being 5 minutes to 10, we have Committee of Estimates booked into this room at 10 o'clock. I'd like to thank the officials for attending today, and the members.

I understand that next week we'll be sharing the room again. I'll

try and negotiate us the 10 o'clock slot instead of the noon, but I suspect we'll be back here at 8 a.m. next Thursday.

So with that, I'll accept a motion to adjourn. All those in favour? It's carried.

The committee adjourned at 9:55.