



# **Standing Committee on Crown Corporations**

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**STANDING COMMITTEE ON CROWN CORPORATIONS  
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**Saskatchewan Telecommunications**

The committee met at 09:06.

**The Chair:** — We'll call the meeting to order. Good morning, everyone. I'd like to welcome the SaskTel officials back for a third day of testimony before the Committee on Crown Corporations.

What I will do to start is to ask Mr. Ching to once again introduce his officials.

**Mr. Ching:** — On my immediate right is Dan Baldwin, who is the senior vice-president of business development and corporate planning. And at the end of the table is John Meldrum, who is vice-president, corporate counsel, regulatory affairs. Between the two of them is Diana Milenkovic, who is the senior vice-president, customer service operations and mobility. Over here is Mr. Byron Pointer, who is the VP (Vice-President) of human resources and industrial relations. And beside him is Mr. Randy Stephanson, who is the chief financial officer. To my immediate left is Darcee MacFarlane, who is the director of corporate affairs. And beside her is Gord Farmer, president of DirectWest. And behind us is Gary Zeiler, who is manager of finance.

**The Chair:** — Thank you. I won't read the standard caution but I will remind you that your testimony before the committee is considered privileged and you are afforded the rights and privileges that go with that.

This morning we have substitutions on the government side. We have Mr. Harper sitting in for Ms. Jones and Ms. Higgins sitting in for Mr. Prebble.

From discussions with Mr. Wall, it's my understanding that today; this will be our last day of testimony with SaskTel. I understand that there will be a motion to approve the annual reports probably around 10:30 this morning.

I'd also note that Ms. Junor will be filling in for Mr. Addley.

I think that covers off all the administrative business and substitutions. Questions?

**Mr. Wall:** — First of all, Mr. Chairman, on the motion to vote off the annual reports, I think when we discussed it I used the word maybe, possibly, perhaps.

In any event I'll start with some questions this morning. Thank you, Mr. Chairman. And I'd like to start, if I may, with a question regarding a potential acquisition that may be occurring currently on the part of SaskTel. But I'll keep my questions on the question on this particular issue to the year 2000, which is one of the years being considered by the committee specifically.

Did the corporation initiate discussions in any of these three reporting periods — '98, '99, and 2000 — with BC Rail for the acquisition of one of their subsidiaries called WestTel in those years? I would imagine it would be in year 2000 if it was in any of them. And if so, could you briefly describe the nature of SaskTel's interest in that BC (British Columbia) company.

**Mr. Baldwin:** — I think with respect to BC Rail in particular, it decided three or four years ago to spin out its communications unit, and as a result of that, it created a company called WestTel. It sold off WestTel to an American company in; I believe it was late 1997 or '98. They actually . . . we were approached and offered a package of information around WestTel from BC Rail. At that point in time, we decided that it was probably a little bit too big for us to chew on, so we passed when BC Rail divested itself.

**Mr. Wall:** — So BC Rail has sold it to an American-based company. That's what you're saying today, Mr. Baldwin, and then . . . and as a result of that SaskTel, in the reporting period of 2000, didn't undertake any discussions or negotiations with the purchase of WestTel from the new parent then. Is that correct?

**Mr. Ching:** — No. Maybe if I can make a comment. Subsequently to that, the new owner of WestTel, I think, has indicated that they're interested in divesting themselves of the part of their operation which used to be called WestTel. And I know that a number of companies have shown interest in that, as has SaskTel.

I can tell you that there are ongoing activities related to this particular issue. And I don't want to be unduly coy with the committee, but I'm not sure that it would be commercially prudent on our part to disclose too much more related to those discussions. But those discussions are ongoing and active at the present time.

**Mr. Wall:** — Thank you, Mr. Ching. Mr. Chairman, what would be . . . and I understand that, you know, and maybe we'll ask some general questions if we could. What would be the . . . I mean my understanding of it is fairly rudimentary of the nature of what WestTel would do, or a company like that. So bear with me please.

But my understanding of, just to oversimplify it, is they'd be akin to what CNCP Telecommunications was for their parent on a smaller scale perhaps, given it was BC Rail as the original parent. I see Mr. Baldwin shaking his head. That's maybe not the appropriate analogy.

What sort of business would a company like WestTel be involved in . . . activities?

**Mr. Ching:** — You're right in the sense that many of the railway companies — not only in Canada but around the world — had a need for and certain capacity to become involved in the communications industry. And you know that in many respects they were one of the first entities to become involved in a communication industry through telegraph at a very early stage. And similarly I think it's correct to say that BC Tel developed a communications capacity.

I think the analogy with CNCP Telecommunications is a useful one to some extent but not quite proper in this sense, that by the time CNCP (Canadian National and Canadian Pacific) spun off their entity CNCP Telecommunications, it was still at a fairly early stage of developing its telecommunications capacity, I would say. Whereas I think in the case of WestTel it probably

was a little more advanced, technologically speaking, when it was spun off from BC Rail.

It is essentially a traditional telecommunications company. Its main mode of trunking tends to be wireless rather than wired, but it serves many small communities in the rural part of British Columbia.

It also has some other aspects to it which are very advanced. These are support services like the ability to create and make cards that are useful within our industry in a very tailored fashion.

**Mr. Wall:** — Thank you very much, Mr. Ching. Mr. Chairman, on this particular acquisition, interesting when Mr. Baldwin addressed this, my first question, he indicated that SaskTel passed when BC Rail was looking to divest of this particular asset because of its size. Because it was a little bit too much to bite off, I think — not to be unfair to his characterization, and I apologize if I have not reflected it accurately — but I think that's the understanding I got. And I guess what I'm hearing now is that in 2000 and up to the current time, there's been interest in this company on the part of SaskTel . . . now negotiations with its new parent.

And so, if it was too big in '97, why would SaskTel have been interested in the reporting periods?

**Mr. Ching:** — Well you have to understand that, first of all, this interacts with other things we're doing. In other words, at a certain point, we're doing a number of things and something becomes a pretty big bite if we're busy with an awful lot of other things; whereas, at a later point, might not be.

Second thing is that there has occurred a very dramatic change in circumstances surrounding a group of companies in our business which are generally called CLECs (competitive local exchange carrier), C-LECs. And I would say that the old WestTel or what's now RSL Communications falls into the category of being a CLEC, competitive local exchange carrier. And they tend to be, not in all cases, but they tend to be the new start-ups in the communications business that are challenging the incumbents in the traditional lines of business primarily.

And I think that what we have seen in the last year or so is that, with the dramatic reassessment by the financial market of especially the dot-coms, so-called dot-com group of companies, that it has been increasingly more difficult for companies who generally fall into the category of being CLECs to secure additional financing from the equity market to sustain and to grow their businesses.

And as a result, there has been a rather dramatic drop in values amongst CLECs. Companies, that maybe two years ago were treated as if they had an equity value of \$200 million, suddenly are now offering themselves for sale on the marketplace for maybe 20 or 30 per cent of their original imputed value.

And so companies which if you looked at them a year, year and a half ago, might very well have been dramatically outside of any range that a company like SaskTel is prepared to pay are suddenly now well within reach. And as a matter of fact, as you know, a number of these companies have gone so far as to

actually go into bankruptcy or into creditor protection because that part of our industry is really dropping in market value.

**Mr. Baldwin:** — I might, if I'm able, Mr. Chairman, just add to Mr. Ching's comments.

Back in '97-98, we didn't seriously contemplate looking at WestTel because at that point in time, as Mr. Ching has indicated, the market for these type of assets was very, very strong and we understood that there was going to be a strong competitive situation with a lot of well-financed potential bidders. So we did, I would say, almost less than preliminary work on WestTel at that point in time.

Today the situation is dramatically different in that there aren't a lot of well-financed competitors for particularly valuable assets that might be available in the marketplace today. And some of the people that might have been competitors two or three years ago for an asset like WestTel just don't have the financial wherewithal today to even contemplate it.

**Mr. Wall:** — Thank you, Mr. Baldwin, and Mr. Ching. The nature of SaskTel's interest in this, you know, the obvious question I would like to ask — and I don't know if it's in order — the obvious question I would like to ask is with respect to the kind of numbers we're talking here, but I doubt you'd be able to provide that answer.

So what I will do is sort of throw that out there anyway and as a preface to a question which I think you can address, which would be: if you could please describe the . . . You know, it does seem, as we have heard your testimony at this committee, or your presentations at this committee, that SaskTel is in an acquisition mode.

There is no question about it and we can have honest disagreements about whether or not those are good, regardless of the potential of business, the viability of the ventures. And then we can also have a discussion about the viability of the ventures, I guess, as well.

But clearly SaskTel is in an acquisition mode. We've seen some of the acquisitions here of late, seem to be emphasizing more sort of the Internet, Internet-based ventures. This one would, again with the limited knowledge that I have of it, seemed to be more of a traditional telephone company.

What is the nature of SaskTel's interest in this kind of a company? Is it a matter of . . . Because certainly this isn't necessarily diversification; this is very similar, on a smaller scale, to what SaskTel has done successfully for many, many decades here in the province.

So is the nature to simply try to grow. Is there a concern on the corporation's part, I guess, that increasingly SaskTel is a smaller fish in a very big ocean in terms of other telcos, and the company is doing what it can to grow itself. Is that the argument, and in this specifically, what's the rationale for pursuing something like a WestTel?

**Mr. Ching:** — First of all with regard to the nature of offers, or the amounts of money that we might consider it to be worth, I would decline to go into that particular area, if you don't mind.

Secondly, I wouldn't use the terminology that we're in an acquisition mode. Rather I think it is a somewhat broader thing which acquisition plays a role in. We're in the mode where, when we look at our business, number one, we see some very interesting opportunities. Secondly, I think we see pressures upon companies like ourselves to enhance their revenue streams.

And in particular in SaskTel's case, we have to add to our revenue streams, and we have to develop margins in areas which are not necessarily our traditional lines of business, if we're going to continue to be able to offer the level of service that I think has become accepted within Saskatchewan.

There's a number of other things as well. When you look at some of the things that we've done of either creating companies or acquiring companies, and blending them into what SaskTel is doing, or taking a chunk of SaskTel and blending it into what that other company is doing, those all fit into a pattern of trying to grow the revenue side of our business. And to as much as possible, contain our cost side or make better use, if I can put it that way, of our cost side.

When you look at, for instance, some of the things which we have to do as a viable company, it's very useful if you can spread the cost of doing that over a larger revenue base. And in our traditional lines of business, to be able to add a significant size to SaskTel's customer base so that we can spread our costs over that larger customer base, it keeps and contains the cost to each individual customer at a lower level, and still allows us to do the things that are necessary to offer people advanced . . . technologically advanced communications.

So when we look at a type of acquisition which takes us outside the borders of the province of Saskatchewan and our traditional lines of business, one of the things that we look for is opportunities to, number one, take the strengths that we've got within SaskTel and use them to good effect in the entity that we may be looking at. We also look for opportunities to be able to glean from that entity useful things that can help us back in SaskTel in our home base, and we also look for opportunities to share the cost over a larger customer base of any new technology that we may be interested in bringing into the province of Saskatchewan.

**Mr. Wall:** — Thank you, Mr. Ching. Mr. Chairman, another question on this particular line, one on a detail. You mentioned . . . moments ago, you mentioned the name of the new parent with whom you may or may not be purchasing this company from. And I didn't get that, so I'd ask.

**Mr. Ching:** — I think that the company in Canada that used to be called WestTel is now called RSL Canada, RSL Canada, and I believe that its parent is RSL . . . it may be RSL International. It's based I believe in the eastern United States, New York.

**Mr. Wall:** — We understand . . . and again, I'll be careful, Mr. Chairman, to keep it in 2000. But we understand that there is a . . . that the MOU (memorandum of understanding) is signed on this deal. I don't know if it's true or not; it's information that we have. Certainly that's in the current year; that would be very current.

But as it relates to 2000, I guess I would ask this question on behalf of others like me who don't understand the telephone industry necessarily, but would ask this question when they hear the rationale that we had earlier as to why SaskTel wouldn't be interested in '97 because of the size of the company and why they would be now. And the analogy that was used — and don't get me wrong, it was effective — as I understood your line of reasoning when you answered it, you used this analogy though of the dot-com industry.

And again, partially based on fact and partially based on you know speculation, the dot-com industry of course raises certain spectres in people's minds about the viability of those ventures. You also said that, you know, the company was perhaps too big in '97 but has basically been discounted. It's been devalued by the market to the point where SaskTel is in the game.

And so on behalf of people who wouldn't understand the industry, small telcos especially, what . . . how can you assure the people of the province that this is going to be a good investment if it's in the middle of a . . . or at least either at the tail end or in the middle of a slide in terms of its value, and be given the analogy to the dot-com industry?

**Mr. Ching:** — Well don't confuse what I said earlier. I didn't mean to suggest that all CLECs fit into the category of being dot-coms. That wasn't my point at all.

It was really that I think that the financial markets throughout the world, but most pronounced in North America, became almost wildly enthusiastic about dot-coms for a period of time. That is, we saw the value of dot-coms simply skyrocketed. Some of which were hardly more than an idea and a concept with somebody who is out raising money to support that concept. Many of the dot-coms were good, solid, sound businesses. And some of them are doing well even under the present rather jaded view which the market has got of them.

But many of the dot-coms were really, I guess, more of a hope than a reality. And when the capital market again, especially North American but throughout the world, sensed that the dot-com industry had a lot of fluff to it and maybe a lack of reality, I think the financial market retrenched and it became very difficult for, first and foremost, so-called dot-com companies, to get financing from the financial markets.

But a number of other companies, many of whom you wouldn't really describe as dot-com companies, got caught in the downdraft created by that particular phenomenon in the financial markets. And some fairly solid, sound, traditional-looking companies have had an extremely difficult time accessing funds from the capital market, especially equity funds, because of the way in which the total market reacted to the dot-com phenomenon.

So please don't take my comments as suggesting that many of the CLECs, including WestTel or RSL Canada, fits into the category of being a dot-com. And the extent to which they have suffered from a retrenchment on the part of the financial markets, I think maybe partially their fault but it also may be that they simply got caught in the backdraft of what was happening to a group of companies that were somewhat similar to them but not identical.

What has happened . . . first of all let me go back and say that when WestTel first came up for sale, it wasn't a question of us not being interested in it. We could see some interesting opportunities related to WestTel at that particular point in time. It was simply that the going price for companies of that nature, we thought to be extremely high. And from our vantage point the benefits to us didn't justify us getting involved in the bidding process for WestTel given the price ranges that were being contemplated at that particular time for that type of company. So we backed away from it.

**Mr. Baldwin:** — Yes I think I would just add one other element. There has in the period under review been a substantial change in the way telecommunications is structured within Canada.

Early in the reporting time period, '97-98, the provincial-based telephone companies generally stuck to the provincial boundaries. And there are good reasons for that. We are partners with BC Tel, and we're partners with TELUS, and partners with Bell.

In late 1998 those old arrangements and partnerships disappeared so that opportunities became available in Canada that, for a variety of business relationship reasons, we would not have considered prior to that.

So when we look at things like whether it's RSL or things like Hospitality Network, there are opportunities for us to pursue business opportunities closer . . . closely related to some of our core competencies in our home market, which is Canada, and a market which we should understand.

So that when we went back to the original sale of WestTel, one, as Mr. Ching has indicated, very, very hot market; lots of money chasing dumb ideas at very inflated prices. We just didn't see the value at that point in time.

The industry fundamentally changed in the meantime; the market has cooled off. And some assets that we thought might have been a little more highly priced in the past, today are more in a reasonable range.

**Mr. Wall:** — Thank you. I guess a follow-up question then. I just want to make sure I have this right. And I understand you were giving — it was in an earlier answer, Mr. Ching — and I understand you were just giving ranges and speaking very generally about a large industry. But you indicated that CLECs have either been . . . you know, experienced a devaluation in the last period of maybe three or four years of, were you saying of 20 to 40 per cent that's been the amount of the devaluation, or that these companies are now worth, generally speaking, 20 to 40 per cent of their values four years ago?

It's a pretty . . . it would be a pretty important distinction, and I guess depending on the answer there, the follow-up is then if your company . . . in the year 2000 and currently is considering this acquisition and others of companies of this like then, you know, what sort of work do you do, what sort of industry advice do you have — and I hate to use the word due diligence; it's almost been ruined for everybody — but what's the process . . . what's the process there because of course that's . . . Again I'm trying to get to the concern that people would have that it's an

industry that's experienced obviously an extreme devaluation either way — whether it's worth 20 per cent of what it used to be or it's dropped 20 per cent in three years — and that would concern people that of course that drop is simply going to continue.

**Mr. Ching:** — Yes, and there's no precise pattern here. You see some companies that have ceased to have any value at all. I mean they've literally gone from wherever they were valued at a year and a year and a half ago down to zero.

I mean you get a company like Connect that has, for all intents and purposes gone into bankruptcy. There may be some small value to them as a break up . . . breaking up and selling off their individual assets, but as an operating entity, they were on the marketplace and nobody bought them, and when they ran out of money and couldn't pay their employees, they simply ceased to operate as an operating entity.

And there's a number of companies that have experienced that particular phenomenon that would generally fit into this category which we call CLECs.

There are other CLECs which are going along not too badly. You get a company like Group Telecom which has been valued fairly well in the recent past. And it's a function of how they have been operated, how they've been financed, the type of technology that they use, the competition that they've managed to put themselves against, and the types of markets that they've focused in on.

And so what you find within this broad, general category called CLECs is some that are still doing pretty well, maybe even increasing in value. There's others which have actually ceased to exist and ceased to operate so that they arguably have a value of zero. And the range is all of where in-between.

So all I can tell you is that companies have . . . in this category, some companies in this category have dropped very deeply in value. And in some cases that's justified, their value is practically nil.

There's other companies that have dropped in value in this area, where they still have a lot of value, especially under certain circumstances and used in a certain way. And the trick, in my mind, is to find those companies which have dropped down into your price range, where you can reasonably afford to acquire them, but only then should you buy a company which has got value which you can extract from that company or which you can enhance in relationship with your base company.

And that's the strategy that we generally follow in this area.

**Mr. Wall:** — Do you have a big speaker's list, Mr. Chairman . . . (inaudible interjection) . . . I have a few more if I can.

I'd like to switch topics if I may, Mr. Ching, and talk a little bit about Retx.com (Retail Energy Transaction Exchange). And it's referenced in the annual report for 2000.

And I've read that it's, you know, a bit of a business to business Internet-based business venture down in the United States, down in Georgia, in that we're partners in it now through our

telephone company, through SaskTel. And I wonder if you could talk a little bit about the financial performance of that particular venture as it relates specifically to the year 2000? I think that partnership began . . . and I don't think it's in any of the other reporting years — or maybe it was '99, I'm not sure — but could you talk a little bit about the financial performance of that venture on behalf of the taxpayers?

**Mr. Ching:** — Sure. Let me back up and make a few general comments about it and then Mr. Baldwin will add to it, I'm sure, because he has more detailed knowledge about this particular investment.

The opportunity here that was identified relates to really two general lines of business. One line of business is to offer to energy-based companies a load management function. The price of power can vary dramatically depending upon times of the day and demand and supply. It is in the interests of a supplier of power to be able to maximize its utilization of its power-generating and transmitting facilities.

And so one of the lines of business that was identified as an opportunity was to supply software and software support which allowed power companies to maximize the utilization of their power-generating and transmitting capacities to minimize their cost, maximize their revenues.

Related to that, very closely related to that was an opportunity which is based upon the fact that the power industry throughout North America is in the early-to-medium stages of deregulation. This is — like the telecommunications industry — an industry which was highly regulated and highly structured, regionally based. In Canada, for instance, you had companies like a SaskPower which operated within Saskatchewan, had a monopoly within Saskatchewan, covered the entire province but didn't go anywhere else.

Deregulation, as we see it starting in the United States and to some extent also in parts of Canada, looks like it will probably break down some of the old, traditional geographically based boundaries that have been the protected areas and, to some extent, the sanctuaries of the individual power companies.

In addition to that, what you see within deregulation is power companies segmenting themselves into generating companies, transmission companies, and distribution companies, and maybe also sales companies. And there is a need within the industry to have those various parts of the power industry be able to do financial transactions one with the other, especially where when the segmentation occurs, ownership changes. And so you have one company owning production facilities, another one owning transmission, another one owning distribution, and perhaps even a further company that's actually doing direct sales.

So the opportunity there was to create again a company which was software based, which permitted the financial transactions to take place in the settlements . . . the financial settlements to take place between these various component parts of the industry.

We are approached by some people who we believed, after a lot of due diligence on them, that are very knowledgeable in this

area, lot of experience in this area, to create a company, a start-up company which would supply software products in those two general lines of business.

And in addition, they also were a company that was going to need a lot of server-based facilities, which of course is one of the core services which we sell, and which we sell to people really all over the world, I guess, when it comes right down to it. Because this is one of these things that's largely not distance sensitive.

And so we saw a number of synergies between SaskTel and the project which was identified as being ultimately called Retx and so we became one of the original partners to go into that venture.

It's a start-up company. Like all start-up companies, it's going to go through a number of years of where you are still putting in money and where it's still building up its revenue streams and where its revenue streams are much smaller than its expense streams. And hence you're going to have losses.

And what you look for is you look for reasonably solid growth in your revenue streams and either holding your cost streams static or containing them so that, in due course, you see cash flow positive coming forward and following on the heels of that profitability.

**Mr. Wall:** — Mr. Ching, what would be the losses to date on the 49 per cent equity, well I guess for the year 2000, on the 49 per cent ownership that we have of Retx?

**Mr. Stephanson:** — As Mr. Ching mentioned, it is a start-up organization and it is on plan. It has put in its back office, its billing systems, marketing, sales, advertising, all those things.

So it is on a plan, the plan that we had when we bought it and lost 265 . . . our share, pardon me. Our 49 per cent share was \$265,000 in the year 2000. All the while building the value which we anticipate with it, which has led to things like the \$23 million gain that we got on our investments in 2000.

**Mr. Wall:** — How many people would be employed at Retx in Georgia, and how many in Regina or Saskatchewan?

**Mr. Stephanson:** — There are 25 people employed in Atlanta today. I'm not sure what the number was at year-end, but it's 25 today. One of those is an actual Saskatchewan person who we sent down there.

But there are no . . . oh, I shouldn't . . . there are no direct employees for Retx in Saskatchewan. However, we provide hosting services and I couldn't begin to guess how many employees we have in our hosting area.

**Mr. Wall:** — Given the fact that it's a . . . and I don't mean again to oversimplify Mr. Ching's explanation of the venture and I appreciate that. I thought it was pretty, you know, very informative.

But we understand it's a dot-com. It's an Internet-based business — very portable, obviously. That's the beauty of the Internet.

What efforts has SaskTel made with its partners in light of the fact that it is a minority shareholder in this company, in this venture, though not by much — what efforts have you made to relocate this particular venture to the province of Saskatchewan in light of the fact that there's 20-some jobs there and I'm assuming they're IT (information technology) jobs, exactly the kind of industry that we want to pursue?

Surely, if SaskTel's expanding and diversifying as some sort of public policy initiative of the government, then part of the benefit of that should be employment as well as whatever future profits that we might receive from Retx.

So maybe this is not a fair question to the gentleman that's been answering, but what direction have you had from this government, from your cabinet minister, Mr. Ching, for you to pursue the relocation of this venture to the province of Saskatchewan?

**Mr. Ching:** — I don't think that we have made any effort to try and relocate the head office functions of Retx to Saskatchewan. There may be something useful in that area some time in the future, but not at the present time.

You'll know that there's a number of benefits which we can get from an investment of this nature. One of it is locating head office, and head office jobs therefore, in Saskatchewan. We try to do that in a number of instances, but not necessarily all of the instances of our investment program.

Second thing is of course, hopefully profits and cash flow that flows back into SaskTel as the shareholder.

And thirdly of course, supplying services to the facility itself. At the present time I would say that the major benefit that we're getting from Retx is the supplying of services to it in the form of hosting, as we said.

The issue of where it locates its head office, for better or for worse, I think it's correct to say that the United States is forging ahead in this whole area of deregulation more rapidly than the bulk of Canada.

Now I should tell you that Alberta, and to some extent Ontario, are in what would I think one would call the early stages of exploring this whole area of deregulation. So it isn't as if that phenomenon isn't prevalent some place in Canada, but I think it's correct to say that the Americans are much further out in front in getting involved in this particular field of endeavour.

And on top of that, I think it's correct also to say that the market for the services which Retx would sell is much larger in the United States than it would be here in Saskatchewan or in Canada.

So there's an argument for trying to locate this head office facility and the jobs in the company back here in Saskatchewan, but I would think that that would not necessarily be conducive to them being able to flourish as a company where they really need to be closer to what their home market would have to be, which is United States.

**Mr. Wall:** — Just one final question and then I'll yield here,

Mr. Chairman. I apologize for the length.

In my former life I was the economic development officer for the city of Swift Current. So may I just say on behalf of the city of Swift Current that we have a very aggressive six-year tax incentive program for new businesses, including IT companies that are based on new jobs created. That we in Canada of course have a 65-cent dollar to offer any venture relocating from the United States. And also that this is . . .

And I understand what you're saying, clearly deregulation so far is more of an issue in the United States — there's no question about it. But it's coming here. Your sister Crown introduced in this legislature this session — SaskPower — a Bill that's clearly aimed at facilitating deregulation here in the province. And it's happening.

Now even when it is here in Canada on a full-scale basis, there is no question that there will be more potential clients for Retx in the United States. But that notwithstanding, it's an Internet-based company. And where your sales force is, may be completely irrelevant to where your head office is.

And I guess there's no question in that, except if you are interested in the city of Swift Current economic profile, I can contact my fellow in the job now and have one sent to you.

**Mr. Ching:** — Well certainly, Mr. Chair, the member makes a very interesting observation. And I can tell you that every time we look at a venture that is outside our, I guess, our traditional scope of activities, that has a separate corporate structure from ourselves, we do look as best we possibly can for opportunities to locate them in Saskatchewan.

As a matter of fact I'd say we go one step further and we really look for opportunities to try to have these companies flourish in some of the smaller centres rather than Regina and Saskatoon, which has I think an automatic attraction as compared to the smaller centres, for this type of an enterprise.

It's not an easy thing to achieve, but it's still a worthwhile objective to try and go looking for, I must say.

**The Chair:** — Thank you, Mr. Wall. Thank you, Mr. Ching.

**Mr. McCall:** — I guess I wanted sort of a general comment from you. When things are discussed in this forum, the answers are very forthright and often very detailed. But it's when they move out of this forum, say on a question of due diligence, in this forum you can outline the procedures for due diligence that SaskTel undertakes. When it moves outside of this forum, certain people feel free to characterize SaskTel as not having any due diligence whatsoever.

A further characterization would be that all of your investments are of a dot-com, blow-up-in-the-middle-of-the-night nature; that your evaluation processes since '96 have been geared at some kind of secret plan for whipping SaskTel into shape to privatize it; and that you're itching for a shopping spree — I'm sure will be part of how this debate here will be characterized in other fora.

I just . . . and, you know, if this was all . . . if these



characterizations were the case, obviously that would have a great impact on the kind of return on equity that you have, on the kind of impact that you have on Saskatchewan's economy, the kind of returns to the General Revenue Fund that you provide for the people of Saskatchewan, and the fact that in the year 2000, last year under review, that SaskTel was ranked among the 35 best companies to work for in Canada.

So how would . . . what is your reaction to this disparity in what reality is and what's the attempts to mischaracterize reality?

**The Chair:** — Obviously before I ask Mr. Ching to answer the question, I would just encourage both Mr. Ching and the member not to engage in debate. Mr. Ching, certainly there's lots in that question I think you can work with without engaging members in debate. And I would just ask you to deal with those issues, please.

**Mr. Wall:** — That's all very relevant to the annual reports in question, too.

**The Chair:** — I'm going to rule the question in order, in that he does specifically deal with the questions for the year 2000.

Mr. Wall, I allowed you a great deal of latitude and certainly didn't call you to order over what I thought were in many cases interesting, although unspecified, questions focused on, perhaps, the year 2000.

So I'll afford Mr. McCall the same generosity I did you, sir.

**Mr. Ching:** — Well I hope my answer addresses your question. I'm not sure that I understand precisely the issues that you want me to comment on. But I'll make a couple of observations.

I think that, for better or for worse, I've said in other areas with tongue-in-cheek a little bit, that right after the weather and the state of the crops, people in Saskatchewan like to talk mostly about privatizing SaskTel. It probably seems to be one of the most interesting topics that people in Saskatchewan can focus on. There's a lot of debates backwards and forwards.

I happen to personally have strong views in the area. I think SaskTel does a good job. I think that a public company owned by the people of the province should be able to operate, and operate well. I don't accept this suggestion that simply because you are publicly owned that you shouldn't do a good job of what you do. As a matter of fact I think you should try harder and hopefully succeed oftener than perhaps the private sector which operates under a somewhat different set of circumstances.

From my vantage point, I know that there have been a number of comments about the due diligence that we do. And there's no question that in a couple of cases at least, and maybe more, where we have done our research work leading up to a project that we've become involved in, we have either misread the situation, or the situation and the main driving factors that impinge upon success have changed since we actually did the assessment.

But I would say that as a general proposition, I think our due diligence process is really excellent. And I think our track

record speaks to that as well, because we've had many more successes than we've had failures.

And it's not only that, but the fact that people out there in the world actually turn to us and ask us to do due diligence for them, I think, is a form of external ratification of our due diligence process.

The truth of the matter is when you become embroiled in the new world that surrounds us, which is a very competitive world, if you are going to capture benefits, you've got to be prepared to take some risks.

I can tell you that that has not been an easy characteristic to develop within SaskTel, a company whose roots are in the utility business, that has lived within a monopoly, within a confined physical jurisdiction for a large number of years, doesn't automatically step right out and become an aggressive entrepreneur. And it's something that we're still working at. We're still a pretty cautious company.

We've learned to take to some risks, however, and I think that for better, for worse, that's a phenomenon that we've got to cultivate within the company because there's a lot of opportunities. We sometimes become focused upon some of the negative aspects of the way in which our economy's unfolding, with a lot of competition, a lot of breakdown of old mores within our society. But wrapped around in all those changes, and some of them negative, are an awful lot of very interesting opportunities.

And frankly, over 93-odd years, the people of Saskatchewan have created a very interesting vehicle for capturing some of those benefits. And I think it's incumbent upon us to not simply sit status quo and sit on the asset that has been handed off to us from previous generations, but to take that asset and with as much prudence as you can possibly bring to bear on it, develop it and grow it and leverage its strengths and bring that value back here into Saskatchewan, to allow us to continue to provide a good communication system within the province at what are turning out to be, compared to other jurisdictions, very affordable prices.

So in my mind it's important for us to step out and to take some risks, be careful about them, but at the same time take the strengths that we've got and develop value within SaskTel, make it worth, hopefully, twice as much as when we inherited it as a management team for instance. And at the same time keep our prices very much in line with what's happening throughout the rest of certainly our marketplace and indeed across Canada, and make sure that we stay very much abreast of our technology.

And all of those things meld together. It isn't, in my mind, enough to simply try to make sure we're technologically advanced and that our prices are good in our traditional lines of business. Because the margins in some parts of that business just are not enough to be able to sustain that program all by itself.

The other thing is that, in doing the traditional things that we've done here in Saskatchewan, we have to some extent almost inadvertently created a real value within the people and the

things that we do within SaskTel. And to simply sit on that as an asset, in my mind, is extremely wasteful.

There are people within the company who are simply some of the best in the world at what we do, and to take that skill, take that talent and leverage it for other values and bring those values back to Saskatchewan, I think is our responsibility.

I don't know whether that addressed your question, but I hope it did.

**Mr. McCall:** — Well I guess, just following up on something that was in the media yesterday that certainly bears some relevance to the years under question. With the introduction of Fido into the cellular markets in Saskatchewan, I note with some interest that they're not planning on extending their operations beyond the Regina-Saskatoon corridor, and that SaskTel provides 63 per cent . . . or has 63 per cent of the market share in terms of cellular in Saskatchewan.

Now the growth and expansion strategy that we've talked a fair amount about in this committee is that, in your view, essential to providing the extent of service to the people of Saskatchewan as symbolized by the fact that you've got private competitors coming in and they only want to serve Regina and Saskatoon and, you know, ignoring places like Assiniboia, where we have petitions read in the Chamber about various communities in Saskatchewan that want SaskTel to expand coverage to them in terms of digital, in terms of analog cellular service.

So I guess, you know, do you view the growth and expansion strategy as key to be able to keep up with providing those services to the people of Saskatchewan?

**Mr. Ching:** — Absolutely. And, you know, whether you like it or not, when you deregulate a marketplace, you create all sorts of benefits. You also create all sorts of detriments. Those two things come cheek to jowl.

And some of the benefits of course we have seen, and that is that there's a lot more vigour within the North American communications industry. There's a lot of people exploring things, changing things. Technological change I think has jumped forward and deregulation has been part of the stimulus that has caused that.

On the other hand deregulation and wide-open competition means that most companies look around and where they have the responsibility to their shareholders only to maximize their bottom line, they look around and build and develop their networks where they have got the best chance of simply maximizing their bottom line.

And I think it's correct to say that some companies come into jurisdictions like Saskatchewan or for that matter Alberta — and use Alberta as an example. I know that there are some companies that come in and not only do they not want to serve rural Alberta, they don't even want to serve the residential areas of a city like say, Calgary.

They're focused only on high-rise apartments and high-rise business locations because obviously where you've got that sort of concentration of users, you have got your minimum capital

expenditure to access customers, you've got customers that tend to be high users of your product. And you can see from that, that you should have robust revenue streams and contained cost base. And that's generally the formula for having a very strong bottom line.

And of course what happens then is the company which has the responsibility for historically looking after the rest of the province — in this particular case TELUS — watches as competitors come in and for all intents and purposes they cherry-pick or they cream off some of the most lucrative parts of the communications market.

And that for better, for worse, is simply a phenomenon of a deregulated, fully competitive marketplace. You can't stop that from happening if you want to have a deregulated, competitive marketplace.

And I think TELUS, like any incumbent company, has looked around for ways in which they can better serve that segment of their marketplace which is at risk to competitors. And they've also looked around for other ways in which they can develop revenue streams to sustain the rest of their business, should they lose a portion of that part of their market or, what is more prevalent, the competitor comes in and cause prices to drop dramatically in that part of the marketplace.

And certain companies who are incumbents — again using TELUS as an example, but it also applies to SaskTel — we have a very awkward time in dropping our prices to meet competition in a large urban centre and not having similar prices in the thinly populated parts of the province which are more difficult to serve, more expensive to serve.

And yet where you've got people flowing back and forth and maybe have family in Calgary and live on a farm 50 or 60 miles away from Calgary, and they know that the price of long distance or local service is thus in Calgary and thus in their rural area, and you can explain to them that the competitive marketplace dictates that the price should be less or the service more in a built-up urban area.

But that has not been the tradition of the telecommunications industry in Canada which has existed under a monopoly system for years. And so people come to expect the same level of service in rural parts of the province as there is in the urban parts and the same prices. That has been a phenomenon of our industry.

And so you're right. I mean, the competitors in this industry have tended to cream off the good parts and leave the incumbents with the difficult parts. And every company that's caught in that sort of dilemma . . . and SaskTel is one of them. And as a matter of fact in many respects we have a more pronounced problem because a greater ratio of our population is in those rural areas as compared to the urban areas than any other place in Canada.

And so it's a very acute problem for us. And one of the strategies is to try and maintain the loyalty of all customers, including the ones in the urban areas that might be subject to a higher level of competition. And in that respect the people of Saskatchewan have rewarded us with a very high sense of

loyalty. We've been very, very fortunate in that regard.

So one of our strategies is to try and keep those customers; to give them the very best of service so they stay with us. Another strategy is to sell more products to our present customer base, and hence we adopt technology and bring new products to market as quickly as we possibly can.

And the third strategy is to try and secure revenues and net revenues from other sources to replace the ones that we lose through either lost customers or reduced profit margins where competition has produced either one of those two phenomena.

**The Chair:** — Thank you, Mr. Ching. It's just after 10 a.m. It's about 5 minutes after at this point. I'm going to suggest that we take our morning recess at this point and reconvene at quarter after 10.

So with that the committee will stand recessed until quarter after.

**The committee recessed for a period of time.**

**The Chair:** — Okay, I'm going to call the committee back to order then. And next on the list is Mr. McMorris.

**Mr. McMorris:** — Okay, thank you very much. Mr. Chair. Mr. Chair, I wanted to ask questions, I guess, based more inside the province rather than going outside the province. And my questions will be dealing more with the 911 system and the implementation, and how far along down that road SaskTel is.

There's been lots in the media. And of course we get phone calls all the time, mainly because we represent rural constituencies throughout the province, and we're receiving calls continually on the 911 service and maybe some of the problems that people are experiencing with it.

There's also been talk over the last couple of years of the provincial government and how they wanted to have it implemented province-wide and by certain dates and that type of issue.

And I notice in your annual report, the 2000, of some of the different expenditures and where your assets are, compared to 1991 . . . 1999, I guess.

So first of all, just a bit of a broad overview of the 911 system, where it stands today in the province, and how many areas are covered.

**Ms. Milenkovic:** — Basically, what we started off with the province was those areas that had enhanced services. And there were four areas at the time when the provincial government decided to proceed. Those were Prince Albert, Regina, Saskatoon, and the southwest area had their own enhanced services.

Since that time, there's been an expansion and an agreed-upon plan through the Saskatchewan 911 Advisory Committee, which is co-chaired by the Department of Municipal . . . I forget what it's called now but it was Municipal Affairs. And representation on that committee also included health officials,

SARM (Saskatchewan Association of Rural Municipalities), SUMA (Saskatchewan Urban Municipalities Association), and also key individuals from each of the enhanced areas.

There was a three- to five-year plan that was developed for the expansion of 911 and it is contingent upon the agreement of the individual municipalities in terms of a readiness. There was a checklist that the municipalities have to go through to participate and basically, once they're ready to go, then SaskTel's component is probably more easily accommodated than the work that has to be done prior to the switchover to an enhanced service. There have to be formal agreements in place with us as the telecom provider, also with the enhanced . . . with the call-taking providers as well.

What we look at is a range of every expansion. Takes approximately six months from the time of the close of the previous expansion, so we look at six-month incremental time frames.

Unfortunately, the path that we were on was somewhat delayed due to the difficulties that we had in getting co-operation among all the jurisdictions. And service providers in the Saskatoon and Regina areas were the main holdups for a while. Those issues have now been resolved and the expansion is well underway.

I think the south corridor . . . And I can't name all the municipalities offhand, I don't know if I have that information with me. But basically what we have done is the southwest was fairly well established with 80 municipalities. It is then expanded through to Moose Jaw and beyond, and we're in . . . moving to the southeast part of the province, with those people coming on-line, I think in terms of billing, in this time frame right now.

We are then moving into the Prince Albert area. There has been some rural development or rural expansion around P.A. (Prince Albert). There will be more of that, and the Regina and Saskatoon expansions are last. And that was agreed upon with the Advisory Committee and with representation with all the providers as well.

**Mr. McMorris:** — So roughly you would say then, what percentage of the province would be covered? There's roughly 300 RMs. Maybe that was one of the points of having less RMs last year.

**Ms. Milenkovic:** — To date, I'm sorry, it's about 309 total municipalities have access to the system, and with full implementation set for, I think, the end of next year.

**Mr. McMorris:** — The end of next year? So the whole province will then be covered with 911 . . .

**Ms. Milenkovic:** — Hopefully.

**Mr. McMorris:** — . . . system by the end of 2001?

**Ms. Milenkovic:** — 2002.

**Mr. McMorris:** — 2002. Okay. What, as far as the billing, how is that . . . how does that process work? I know I had the chance to sit down with some of the people in Moose Jaw who had a

bit of a . . . had a 911 system in their own city at really no charge to their people, and now an added dollar to every telephone line in the city. And there was some concern with that.

So how far down the road are you with the billing and how is the charges . . . how are the charges laid out?

**Ms. Milenkovic:** — There are two components to the billing. One is the communications charge and the other is the call-taking charge. So half of the dollar goes to what's required for equipment and call taking and the dispatch of that . . . limited dispatch of that. The other half is SaskTel's investment and communication charge and administration fee.

So that's how the communication fee is . . . or the Sask 911 fee is divided.

**Mr. McMorris:** — So it's my understanding then there's a dollar charge on every phone line in the province for 911.

**Ms. Milenkovic:** — Well, not on every line, no. There are different charges for business and for Centrex. But for residential customers and single-line business, it's a dollar per access.

**Mr. McMorris:** — And what roughly then, would that generate?

**Ms. Milenkovic:** — I don't know if we have it in our . . . no, we don't have it for every line in the province now. We would have it for Regina, Saskatoon, and a smattering of municipalities.

I think the difficulty that we had in terms of the system — and we're always reviewing the charges — is that we anticipated that Regina and Saskatoon would have been on two years earlier . . . or a year earlier. There was a delay in revenues while the expansion was taking place and while some of the municipalities were paying that dollar charge. But we anticipated that the revenues coming in from the cities would have come in earlier.

And it's challenged the call taking — the PSAPs as they were known; the public service answering points — with respect to what their revenue streams were to be. So there's been challenges in that regard.

I don't have the total amount of the budget. That is something that SaskTel facilitates. Or the 911 account is not really under SaskTel's jurisdiction. We administer it and it's a separate reporting through to the Provincial Auditor, but basically it has been set up through legislation and through Municipal Affairs. So what we are is basically we take in and disburse the amounts to the various municipalities.

**Mr. McMorris:** — The PSAPs . . . you mentioned the PSAPs. There are three now in the province as opposed to four. You had said that there were four areas that were . . .

**Ms. Milenkovic:** — Yes. We started out with the four existing enhanced services, and now there's three. The southwest calls, on an interim basis, are routed through to Prince Albert.

**Mr. McMorris:** — On an interim. So that meaning that you're planning on setting up another PSAP in the southwest or . . .

**Ms. Milenkovic:** — It's not SaskTel's jurisdiction to do that. It's the Advisory Committee that makes a recommendation to the minister. They are reviewing the call volumes to see whether or not it makes economic sense to have four PSAPs, or whether or not they could facilitate that with three. But that's not SaskTel's jurisdiction.

**Mr. McMorris:** — Just I guess again some concern regarding . . . and I'm not sure if it's a function of the location but, you know, someone in the southwest with problems . . . and it's just a perception of they phone 911 and the call goes to Prince Albert and then back to the local area, and whether the information is transferred back and forth.

I know again, visiting one of the PSAPs and there was some question on that. The phone call came into the local PSAP and then it . . . if it went out to, you know, an ambulance in whatever community, the information then was exchanged verbally I believe, as opposed to the whole point of the 911 was location and all being computerized. And there was some concern with that.

**Ms. Milenkovic:** — Well there's two parts to the 911 system. One is the call taking, which is what the provincial system entails. The dispatch and the location — that's a separate function. And it's very dependent upon the arrangements of who is doing the dispatch and who is the first responder — whether it's ambulance; whether it's police. So every area is a little bit different.

**Mr. McMorris:** — So I guess from your comments then, we can be pretty much assured that the whole province will be under 911 by the year 2002, and to the end of 2002.

**Ms. Milenkovic:** — That's the plan. Now whether or not we can get the full co-operation and readiness — it's a readiness factor that we need to do that — is the question.

**Mr. McMorris:** — I guess finally then, so it was a little unrealistic to have assumed that it would be in place by the year 2000 or 1999. I forget exactly the date that the government had said that we would be under 911 province-wide.

**The Chair:** — Some of these questions may be better addressed to the minister responsible, namely, Mr. Osika as the Minister of Municipal Affairs. I assume you'll have a chance to question him during estimates on this. There's no need for officials to answer political questions.

**Mr. McMorris:** — Well I think that covers it then for the most part.

**The Chair:** — Thank you very much.

**Mr. Yates:** — Thank you, Mr. Chair. I have two questions I'd like to ask. And I'd like to start with a general question about the return of investment on some of the diversification activities over the last number of years. What has the return on those investments been to the province of Saskatchewan, and what is the . . . would you forecast for the future?

**Mr. Ching:** — You understand that each one of these investments performs in a different manner. And some of them range all the way from being ones that we have deemed to be failures, all the way through to ones that we've deemed to be successes.

**Mr. Yates:** — I'm just looking at the bulk numbers.

**Mr. Ching:** — The bulk numbers?

**Mr. Yates:** — The bulk numbers, not on individual investments. How we done in general on our diversification activities. What are our profits, what our losses have been, and . . .

**Mr. Ching:** — Well I think I gave you some information or gave the committee some information at our last session. And perhaps I can just refresh that.

I think we have had enhancements to our bottom line over the last decade or so of about \$176 million that was on the positive side. We've had projects that have been negative to the tune of about \$19 million. And so the net addition to our bottom line from our diversified projects would be about 156 . . . \$157 million over that period of time.

In 1999 and the year 2000, we recognized gains of approximately 62 million for the corporation with net gains of approximately 56 million that would fall into this category of being diversified. So approximately one-third of our net revenue has come from diversified operations over the last few years. So hopefully it's a building phenomenon within the financial structure of the corporation.

**Mr. Yates:** — Thank you, Mr. Ching. Supplementary question: what would the impact be on the corporation if the government were to change its current investment strategy or policy on the long-term future viability of the company in the current global environment that we now operate in? If we were to take away the opportunity, as a example for diversifying the portfolio, what would the impact be on the company and its long-term viability?

**Mr. Ching:** — You will recall in response to an earlier question I said that we really follow, I guess, a three-pronged attack on trying to maintain our viability: we try to maintain our customer base as much as we possibly can, we try and keep our revenue streams as robust as we possibly can, and we try and contain our costs as much as we can. And from our vantage point, if you take away from us the tool of seeking out diversified revenues and diversified net revenues, then you shift us back to only being able to rely upon the other tools that we've got.

For instance, if you look at the \$157 million that we've added to our bottom line over that decade, we would either have had to forego whatever expenditures resulted from having that net revenue or we would have had to cut our dividend by that amount or we would have had to cut our services by an equivalent amount or we would have had to raise that revenue from some other part of our operation, whether it be local service or whether it be long distance charges to our customer base.

So we either do without that block of money and the results that come from that, or alternatively we get it from some other source which would be our present customer base. So unless our rates go up or our dividend-paying capacity goes down or we have less technological development within our network, we simply have to do the types of projects that have led to securing that sort of an addition to our net revenue base.

**Mr. Yates:** — Thank you very much, Mr. Ching. My third question has to do with cellular service. Last week we had a long discussion about cellular service and my question today is twofold.

My first question is: we had our discussion last week about the rate of return and longevity of the analog system that was originally put in place. We've now moved into a digital service throughout most of the coverage area. And I'm wondering what we know about our longevity or lifespan of the current digital service and are we going to have to make more investments into the current service area as digital technology changes?

A little bit about that and a little bit about our plans for cellular service in the year 2000-2001, if we could, in the future?

**Ms. Milenkovic:** — With respect to the technology, analog probably had the longest life and we've been able to sustain that with some upgrades and some modifications.

The way we see the evolution of digital is that our current digital infrastructure, already we have 65 sites that we've deployed currently. We have 144 remaining analog sites with an aggressive expansion to overlay them in the next three years.

Of those 65 sites that we just deployed in digital, we have to go back now, probably by the end of — and I'm looking at a technology evolution plan — probably by the latter part of 2002, which is next year, and do yet another overlay or an actual card insert into those sites that we just deployed in the past couple of years.

And what basically is driving this change in the technology is the speeds at which the consumers and businesses are demanding of the wireless network. And so we're looking at trying to increase our speeds on the network by tenfold. So approximately — we're doing a rough guess; we don't have firm quotes — but probably another 2 million on the existing sites, plus incorporation of that expansion into the new sites.

That only takes us to the concept that's known as two and a half G, or halfway between the first generation and second generation networks to the third generation networks. And third generation networks, we really don't know what the cost will be.

And when I think about deployment, some carriers are looking at 2003 and beyond, if it's affordable. Others are going, it's more a wait and see. So in terms of . . . It's like software upgrades, but except for it costs a little bit more than a software upgrade. We have to go into our network and completely revisit all the sites that have been deployed.

**Mr. Yates:** — All right. My second question then has to do with current service as it's delivered to the province in the

continuing expansion. Could you give us a little bit more about . . . sort of what some of the challenges are? And what the future looks for the expansion to new areas in cellular service or the expansion from analog to digital?

**Ms. Milenkovic:** — Are you specifically referring to unserved areas or just . . .

**Mr. Yates:** — No. Those that are maybe currently analog going to digital or some of those that may not be serviced today. What are some of the plans?

**Ms. Milenkovic:** — With respect to the areas that are in analog service today, our plan is to completely do a digital overlay on those services. Some of the driving factors are that we . . . handset manufacturers are discontinuing analog handsets. We've already had notice that this year is the last year for two of our big providers.

What this means is even though in a digital set you have analog capability, it's not a very satisfying experience because the battery life is depleted once it flips to analog. And so customers' tolerance of . . . when they have a digital capability of security and longer battery life, they're not very satisfied when the analog component of that drops very quickly.

So we're almost forced to do an overlay, and because the changing of the handsets requires . . . When the network was designed, it was designed for larger handsets, greater capability, 3-watt boosts. As the technology has changed, the handsets are . . . the sizes are reduced, the coverage isn't as good as it was when it was originally designed and so you see deterioration. So we're almost compelled, because of manufacture discontinuing, to do an overlay in digital.

And because of all the enhanced services that come with digital which people have come to expect on our traditional wire-line business, now they want those services on the wireless network as well.

With respect to unserved areas, we look at sort of three factors . . . well many factors. And I know that some of this was addressed and I won't go into a long response on this. But just to clarify some of the things that we are looking at to see whether the unserved areas should have service.

And I'd like to say that our list is always a very long one. We review it every year. But we look at population levels; cellular penetration, and usage in the area or the adjacent areas; highway traffic volumes; economic activity; proximity to existing coverage so that we don't have islands of coverage but we have continuous coverage, and it helps in terms of the engineering designs; availability of SaskTel-owned land to put our towers up; whether or not there are facilities, SaskTel facilities, in the ground at that point to reach the towers; availability of resources and contractors; and competitive network bills; what the competitors are doing; and what the revenue impacts would be; and also where coverage is weak.

Now it sounds like a big laundry list, but in terms of 2001, every year before their budget cycle, we go through and review a list of the unserved areas. We have, with respect to the ones that were mentioned in the past couple of sessions here, sites

that are being evaluated. Currently in the communities in the Redberry area are Hafford, Blaine Lake, and Leask; and in the Wood River area on the list of evaluation are Consul, Climax, Val Marie, McCord, Wood Mountain, Rockglen, Coronach, and Willow Bunch.

Now I say evaluated because part of the consideration for expansion into unserved areas is whether or not the capital that's required for future technology advancements — plus what we have currently into unserved areas — has to be balanced out, goes to the budget, and has to be approved by the board. So it's not something that we do unilaterally.

Secondly, one of the reasons that we are looking at these areas to see whether or not they look . . . they fit our parameters, we're trying to have a net present value of over seven years with the . . . and cost of capital of ten and a half per cent payback. When we look at those parameters, we've been able to get a volume buy on some of our infrastructure from some of our suppliers and it has decreased the cost for these sites, and so we are revisiting them.

This would not mean that if any of these sites surfaced or locations surfaced as possible areas to be served, they would have to go into the 2002 time frame with that budget. We don't have a current budget for those sites, but they are on the list to be evaluated.

I'm sorry, one more consideration for what we do with our capital is what our competitors are doing. TELUS has basically informed us that they would like to build on the . . . and they're looking at a different kind of a network, not their traditional cellular network but their Mike network. And they look like they'll come into the market down the west side and across the base of the province. And that's basically for oil; they want to garner the oil market. So we need to come up with a competitive strategy for that.

**Mr. Yates:** — Thank you very much. I very much appreciate the answers to the questions. At this time I would like to move a motion, Mr. Chair:

That the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements of SaskTel and its subsidiaries for the years ending December 31, 1998, December 31, 1999, and December 31, 2000.

**The Chair:** — It's been moved. Is there a seconder? Seconded. Discussion on the motions?

**Mr. Wall:** — Mr. Chairman, if I may. I think one of our members has some questions and I would ask for the committee's indulgence for . . . It's Mr. Brkich; if he's given some leeway here to also ask some questions here today. It's only 20 to 11 and we were scheduled for 9 to 11, so I think the time permits and I think it's a reasonable request.

**The Chair:** — Mr. Wall, we have a motion on the floor. I would note that your party has had approximately an hour of time this morning to have allocated amongst itself the questioning. The government members have restrained themselves in the number of questions that they have asked and

have taken up approximately 20 minutes — roughly one-third the amount of time your party has had.

Motion is in order. And you know if members have questions, there are certainly other ways to proceed with those. Obviously the decision is one of the committee, but the motion is in order.

**Mr. Wall:** — Mr. Chairman, I think that if there is government members that have questions — and that's what you're alluding to, that they have yielded to us to ask questions today — we would be more than happy to either bring SaskTel back for more questions or have them ask them now. The allotted time on the note that I got for this meeting and the notice that I got was 9 to 11. We've now wasted four minutes discussing a motion that seems a little premature.

And so I would say a couple of things. One, if the government members have some questions to ask, we'd certainly support that and want to give them that chance to ask questions. We don't want to monopolize the business of this committee. And secondly, then we would ask for Mr. Brkich . . . I think he has two, about two wrap-up questions on the annual reports in question.

**The Chair:** — Well whether the debate is a waste of time is certainly a question for the members to decide. I have one government member on the list, I have two opposition members on the list, and I have a motion which is in order on the floor. So debate is on the motion.

Do I see anyone interested in debating the motion?

**Mr. McMorris:** — Well just a question, a question that . . . I mean if there is, if we've monopolized this session, there's no reason why SaskTel cannot come back and we'll yield; we'll take 20 minutes and the government can have an hour and 20 if that is the issue; and as that's the point of why, why we're going to put this forward right now. We have no problem with that, of extending it if that's the argument for closing it down now.

**Mr. Yates:** — Thank you, Mr. Chair. The reason for the motion at this time is we have several other Crown corporations that need to be reviewed and we need to get to those Crown corporations. We have spent now several . . . three full days basically on the issue of SaskTel, and there are other Crowns we need to get to. So after looking at the discussion this morning, and basically spending three days on SaskTel, I think it's adequate time for us to move on.

It does not prevent the ability of members to write letters asking individual questions, but we need to get onto some of the other pressing business of this committee if we're going to get through the annual reports on a timely basis. And we need to get through these reports on a timely basis.

**The Chair:** — I think one of the options that we have available to us is to . . . We have two options: one is to vote the motion at this point, or at least finish our debate on it; the second is to stand it for a brief period of time to allow Mr. Brkich and Ms. Higgins to ask their questions, should they so desire, with the understanding that we would vote this closer to 11, if that's the argument Mr. Wall is putting forward.

**Mr. Yates:** — And I'm fine with that if that's . . . you just need a few more minutes to stand the question as long as we get to the issue today.

**Mr. Wall:** — Precisely what we said at the outset — debate on this motion.

**The Chair:** — Okay, we'll stand the motion for this point then. I have Mr. Brkich. I'm going to ask, for obvious reasons, Mr. Brkich that you be brief. I'm going to ask equally that officials be brief as well.

**Mr. Brkich:** — Thank you, Mr. Chair, and thank the member for the latitude in that. I'll keep my question brief. It's on one question that a member had brought up, and I think what he was hinting at, and I'll simplify it maybe for him, was were you going to use your international profit, which I think is around 56 million, to subsidize cell coverage in rural Saskatchewan? Yes or no?

**The Chair:** — Mr. Brkich, we addressed this issue last week. I don't believe you were here. I think Mr. Weekes asked the same question. But certainly I know Mr. Wall is concerned about the time.

I hate for us to waste the committee's time by reviewing the same answer, but Mr. Ching if you'd like to again review why we cannot cross-subsidize cellular coverage, please feel free to do so.

**Mr. Ching:** — I think it's correct to say that when you say cross-subsidize, taking money out of one part of the business and putting it into another part of the business is obviously clearly cross-subsidization.

But there's probably a more subtle cross-subsidization that occurs, which is that we try to have all of our lines of business profitable and to operate them in the best way that we possibly can, and we do, in fact, not maximize our profits in certain areas. Cellular is probably a good example of this.

I mean if we wanted to simply maximize our bottom line, we wouldn't serve much of rural Saskatchewan. In that particular portfolio of business, we forego, I guess, maximum profits in return for, I think, trying to balance making that a profitable portfolio but at the same time maximizing the coverage that we can put throughout Saskatchewan.

You see other companies, for instance, that try simply to maximize their bottom line in this area, and they don't really go outside the major centres and the major corridors between those centres. And that obviously is a strategy based upon simply maximizing your bottom line by either minimizing your capital investment, your costs, or maximizing your revenues.

Our strategy there is to try to balance the . . . maintaining a commercially proven portfolio with the broadest possible coverage we can get.

**Mr. Brkich:** — Thank you. Getting back . . . one more question on the cell coverage. What would it cost to put a tower up, let's say, between Outlook and Kenaston, No. 15 Highway? What would be the cost there to subsidize, if you had to subsidize

there? Because that is an area there is no cell coverage.

And also you talked about 911. Is that tied in with the cell coverage? Will you need more towers for that?

**The Chair:** — And before I ask the officials to deal with this, we have in the past obviously said that officials need not come prepared to answer specific questions. I doubt very much whether the officials have in their records today what the cost of constructing a cell tower between Outlook and Kenaston would be.

However, if the question is more generic, then perhaps we'll have the answer. But this is certainly ground we've covered before.

**Mr. Ching:** — Well, in fact . . . (inaudible interjection) . . . yes, it, I wish it was that easy and that sort of regular. When our people look at these things, they're mindful of the fact that we may have towers in an area, and we may have a tower over here. If we had our druthers, we'd like to have that tower right there. But the fact that it's over here may very well dictate that it's commercially prudent for us to put our facilities on that tower and sacrifice maybe some coverage over . . . beyond where the present tower is, but would have been covered had we built the tower where we absolutely wanted to.

So I think when we look at these things, we try to look at it from the point of view of, as Ms. Milenkovic just indicated a few minutes ago, of trying to determine where we get the maximum of coverage, where we keep our costs as prudently low as we can, where we expend our capital as wisely as we can, and where, frankly, we can give the broadest possible coverage but at the same time keep that line of business as being commercially prudent and commercially viable.

**Ms. Higgins:** — Just a quick question, and I apologize if this is something that you have already dealt with at the committee.

In your report you talk about high-cost serving areas. Is there a criteria that designates these areas? Is it something that's picked by SaskTel, something that's established nationally?

And also going with the CRTC (Canadian Radio-television and Telecommunications Commission) ruling that came into effect January 1 from a regionally based contribution to a national revenue-based subsidy, what difference does that make to SaskTel?

**Mr. Meldrum:** — Why don't I try the first question first? The CRTC is the ultimate determiner now of what is or is not a high-cost area, and actually just recently issued a decision called the banding decision where they have said what is high cost and what is not high cost.

Forty-two per cent of our customers actually now live within the high-cost area as determined by the CRTC. And what it is, exchanges less than 1,500 as well as exchanges between — 1,500 people as in customers — and exchanges between 1,500 and 8,000 that have an average length of wire to the customer's house of less than 4 kilometres, I believe.

So surprisingly some areas that we thought would have been

high cost actually didn't end up qualifying for high cost.

**Ms. Higgins:** — So then that will affect what type of a subsidy that SaskTel gets out of . . .

**Mr. Meldrum:** — In terms of the national subsidy fund, this decision again provided a lot further information about the national fund and how much money you'll get out of it.

In the year 2001, it's a bit of a transition year and the fund is \$960 million in Canada. And that \$960 million is then dispersed to all the phone companies.

In the year 2002, the size of the fund is likely to be more like \$250 million. So they're decreasing it substantially.

In our case in the year 2002, we expect to have a net from the fund of \$33 million. That is less than the amount of money that we believe is necessary in terms of a sustainable, national high-cost fund. So we're monitoring it very closely and may in fact appeal the decision back to the CRTC itself.

**Mr. Ching:** — Just a few comments on that. Originally as you know, we had a fund that was strictly within Saskatchewan. And it drew monies into the fund from long distance suppliers, ourselves included, and then that fund was used to, in effect, support the local service.

I think that there was a coalition of entities within Saskatchewan built around, really, around SaskTel, who argued very strongly with the CRTC that they should implement a national fund across Canada rather than being specific to given areas. And we won that argument.

That was a big, big victory from the point of view of Saskatchewan because what it meant was that instead of treating the subsidy issue strictly from long distance to local, it became a fund which drew funds from all parts of the communications industry and all across Canada to support local service. And that was a major victory.

But as John indicated, now we've got to look very closely at that system and make sure that it is properly funded, so that local rates don't rise too quickly, and that there's adequate funds in there to maintain the services that are encapsulated in that group of services which are called local service.

**Ms. Higgins:** — So when you talk about 42 per cent of Saskatchewan, are we talking population-wise or area-wise? How is this . . . or the 42 per cent would be geographical?

**Mr. Meldrum:** — By customer.

**Ms. Higgins:** — Customer.

**Mr. Meldrum:** — The 42 per cent of our customers live in high-cost areas.

**Ms. Higgins:** — High-cost areas. Now if that fund is dropping that drastically over the next couple of years, is it the CRTC's eventual — or ultimate goal maybe — to disperse of it totally? That it's gone or . . .



**Mr. Ching:** — I don't think they'll ever completely get rid of the subsidy system. Because as you can imagine, you have certain very remote areas.

Use Frontier, Saskatchewan as a good example. The cost of getting service to the individual customer in Frontier as compared to the revenue stream that you get is very much out of balance, and to expect the individual person to pay the total cost of supplying communication services in an area like that is really extreme. Same is true with individual farms.

But there's no question that the CRTC is very strongly oriented to trying to get rid of as much of the subsidy system to local service as they possibly can. They're going to continue, I believe, to put a lot of pressure upon individual companies to continue raising local rates to the point where the subsidy which sustains the local system is as small as they can make it and sustain the viability of the local system, which creates some very significant problems for a company like SaskTel which has a very large portion of its customer base that falls into that category.

**The Chair:** — Mr. Wall?

**Mr. Wall:** — All my questions have been answered.

**The Chair:** — I never thought I'd see the day. Okay, we will revert to the motion on the floor, moved by Mr. Yates, seconded by Ms. Junor:

That the Standing Committee on Crown Corporations conclude its review of the annual reports and financial statements of SaskTel and its subsidiaries for the years ending December 31, '98; December 31, '99; December 31, 2000.

Debate on the motion? Seeing none, all those in favour of the motion? All those opposed to the motion? The motion is carried.

I'd like to take this opportunity to thank Mr. Ching and his officials for giving us . . . giving generously of their time over the last three weeks.

In terms of our next agenda item, I think we had initially discussed bringing in CIC (Crown Investments Corporation of Saskatchewan). We'll check as to their availability.

I think we're still room-sharing with Estimates Committee so in terms of the time, hopefully . . . (inaudible interjection) . . . We may be able to return to our normal meeting times next week.

So I will circulate a notice once we have the room and the time sorted out and make sure we have officials available.

**Mr. Wall:** — If I may thank you. Thank you again to the fellow committee members for the latitude for the last part of this meeting. And also just on behalf of the opposition, thank you to the officials of SaskTel — Mr. Ching, you and your officials — for the last three weeks here at the sessions. We appreciate your candour and the forthright way in which questions were answered. So thank you very much.

**The Chair:** — Okay. With that is there a motion to adjourn? Moved. All those in favour? Carried. Thank you very much.

The committee adjourned at 10:59.