



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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The committee met at 09:34.

SaskTel

The Chair: — Good morning. I should like to call the meeting to order. At the outset, I would like to ask Mr. Ching, who is the CEO (chief executive officer) and president of SaskTel to introduce his officials. We will extend to you the courtesy of, if you want, to make an opening statement — say 5, 10 minutes.

And then before we get into questions, turn it over to Mr. Martens of the auditor's office to introduce those who have joined him and ask for the auditor's to make any comments they should like to make. And at that point then, turn it over to the members of the committee for questioning. So, Mr. Ching.

Mr. Ching: — Thank you, Mr. Chairman. Members of the committee, good morning. My name is Don Ching. I'm the president and CEO of SaskTel. I have a number of people here with me this morning.

On my immediate right is Mr. Dan Baldwin. Dan is the senior VP (vice-president) of business development. Beside him is John Meldrum, who is our corporate counsel and VP of regulatory affairs. On my immediate left is Diana Milenkovic, who is the senior VP of customer service operations and mobility. Also on my extreme right, Randy Stephanson, who is the chief financial officer.

Behind me is Darcee MacFarlane, the director of corporate affairs; Mike Unick, who is behind me on the right, manager of finance; Barry Ziegler, who is directly behind me; and the fellow who just come in the door, Mike Anderson, who is the vice-president of marketing.

I think, Mr. Chairman, that anybody who has been reading the papers and paying attention to the news media will be aware of the fact that the communications industry worldwide has been in an acute state of turbulence. I think if I just mention a few names like Teleglobe, Global Crossing, WorldCom and I see in the paper this morning that France Telecom has had their bonds reduced to junk status. You'll be aware that throughout the world the telecommunications industry has gone through a meltdown in certain aspects of their business and acute turbulence in practically everybody's state of business.

Most of this has been centred on the parts of the industry which serve the actual telecommunications companies, like SaskTel. It has been companies like Nortel and Lucent and companies in that particular category that have perhaps suffered the most severely.

But as well there is a group of other companies throughout Canada which were new entrants into our line of business who also have collapsed along with them. And of course this was all preceded by what was called the dot-com phenomenon. And an awful lot of very enterprising but perhaps poorly financed and poorly thought out business cases led a number of companies that were innovators in our area to collapse.

In the midst of all of this, I think SaskTel has done quite well. We have a relatively stable market segment here in

Saskatchewan. We've tried to be relatively cautious and conservative about venturing outside of our home base. And we followed a strategy which I think has served the corporation well.

That strategy is based upon a number of concepts. First and foremost is that our network here in Saskatchewan is fundamental to the success of our business. Our first order of business is to make sure that the people of Saskatchewan have the most advanced and most reliable telecommunications system that we can offer to them. And that has resulted in us focusing on keeping our network strong and as ubiquitous as possible.

As a matter of fact you will recall that during the period of time '96-97 that we went through a process in Saskatchewan called Crown Review, and during that particular process we were evaluated by a team from RBC Dominion Securities and Deloitte Touche.

And I can recall that that evaluation and the subsequent updating of the evaluation two years later drew attention to the fact that SaskTel was investing more in its network than the average of the industry across Canada. And as a matter of fact at some points in the mid-1990s we were actually exceeding the national average of capital investment per customer by as much as 200 per cent.

And I can recall getting into a discussion with the people who were evaluating SaskTel at that time, when they made the observation that we were spending too much capital on our network as compared to other parts of our industry, and indicating to them that as a general rule Johnny's out of step with the army, but every once in a while the army is out of step with Johnny.

And I think when we look back on it, that was a good example of where SaskTel was doing the right thing, and perhaps the rest of our industry was slow in taking note of that. And as a matter of fact, what you see today is other major telecommunications companies such as Bell and TELUS, MTS (Manitoba Telephone System) and Aliant scrambling to invest the dollars that are needed to get their networks up to the standard that we got ours up to in the mid-1990s.

So strategy no. 1 is to focus on making sure that we have a state of the art network in Saskatchewan. It's on the basis of that network that we're able to roll out high-speed Internet before any other telecommunications company in North America, maybe even the world. It's that network which is allowing us to also provide video products, entertainment products. And it's that network which I think people in Saskatchewan have become used to depending upon. So that's strategy no. 1.

Strategy no. 2 is to emphasis customer service at all times. This is a job that is never done. I'd be the last to suggest that SaskTel has been successful in achieving a level of customer service that we are content with. However I think it's correct to say that over the last half dozen years, the focus on customer service within SaskTel has been paramount.

Coupled with that is an effort to make sure that our prices are

competitive with what we see across Canada and in particular within our particular area of Saskatchewan. We are not nor have we ever been a price leader in certain areas such as cellular or long-distance. We have always tried to be competitive in those areas but we've focused, I think, rather on making sure that we have some of the best prices in local found anywhere across Canada.

The fourth part of our general strategy within the corporation has been to focus on diversification and growth within the corporation. And as a matter of fact you will be aware, Mr. Chairman, that over the last number of years perhaps our external investment part of our diversification and growth program has been much of the focal point from outside of SaskTel on SaskTel itself. To some extent that is somewhat misplaced because our external investment portfolio represents probably about 1 per cent of the value of SaskTel, is really in many respects a very small part of our operation. Arguably our corporation is worth about a billion and a half dollars and I think our present investment portfolio stands at about 150, \$160 million.

So while it is a significant aspect of our growth, it is certainly a very small part of the totality of SaskTel. By far the great bulk of our investment has been within the province of Saskatchewan and has been focused on our own network.

That is the strategy in general terms that we've endeavoured to follow. Clearly balancing the demands with the aspects of that particular strategy has been difficult from time to time because price, customer service, growth, and capital for your network all are competing demands. But I think that we've achieved a balance between those particular thrusts which has served SaskTel well and hopefully serves the people of the province of Saskatchewan well also.

So those are my opening remarks, Mr. Chair, and we'll endeavour to answer whatever questions you put to us.

The Chair: — All right, thank you.

Mr. Martens: — Thank you, Mr. Chair. With me today is Judy Ferguson, the deputy provincial auditor responsible for the audit of SaskTel. And as well we have representatives from the firm of PricewaterhouseCoopers, the appointed auditor. I'll have Judy make some comments and introduce the appointed auditors.

Ms. Ferguson: — Thank you, Andrew. Thank you, Chair, members. This morning I just want to really touch three things: let you know what we audited — we being ourselves working with PricewaterhouseCoopers using the report of the task force on the roles, responsibilities, and duties of auditors. Secondly, I want to provide you with the results of our audit; and then thirdly, just a brief comment on the annual report that you have before you.

First off on what we audited. We actually . . . Our audit work focuses on the operating entities of the SaskTel group of companies. And they are: SaskTel Holding Corporation, SaskTel itself, SaskTel International, DirectWest Publishing Partnership, SecurTek Monitoring Solutions Inc., Hospitality Network of Canada, Inc., Navigata, Business Watch

International, Ag Dealer, SaskTel pension plan, and the Sask911 account. So altogether, that's 11 different organizations.

For them we take our traditional approach where we look at the reliability of the financial statements, the adequacy of internal controls, and compliance with the law. I'm very pleased to report to you that in our opinion, the financial statements are reliable for each of those organizations. They do have sound systems of internal control and they did comply with the law, given the scope of our work and our activities.

I'd also like to comment on the annual report that you have before you. As you know, our office is trying to . . . is working with the government as a whole and the individual sectors encouraging each of them to improve their reporting to the public, making the documents more of performance reports. And the document that you have before you in terms of the annual report for SaskTel, they have made improvements from the 2000 report and we're very pleased to see that they are making strides in moving the reporting forward. And we recognize it is an evolutionary process and look forward to continued changes in that area.

I'd like to introduce the appointed auditors I have with me today, is PricewaterhouseCoopers. It's Howard Crofts; he's the partner in charge of the SaskTel group of audits. And with him he has Adynea Russell, who's the manager in the PricewaterhouseCoopers office here in Regina.

With that, I'm going to turn it over to Howard for comments.

Mr. Crofts: — Thank you, Judy. Mr. Chairman, members of the committee, members of SaskTel, it's our pleasure to be here this morning. As Judy has indicated, she's outlined the entities that were included in the audit examination. What you have before you this morning is the 2001 annual report for SaskTel which is the . . . includes the consolidated financial statements for the holding corporation, which includes all of its consolidated subsidiaries and includes its investments that are not consolidated.

We've examined those consolidated financial statements for the year ended December 31, 2000 and rendered our audit opinion dated January 29, 2002. That audit opinion is presented in . . . on page 36 of the annual report that you have in front of you.

We also, in conjunction with our examination of the financial statements, went beyond that in . . . as part of our role and rendered assurance reports with the same audit report date of January 29, 2002 to Mr. Fred Wendel, the Provincial Auditor, on the corporation's systems of internal control and compliance with legislative and related authorities.

In addition to that, we rendered an opinion on . . . or to CIC (Crown Investments Corporation of Saskatchewan) to the . . . their auditor in conjunction with the consolidation of SaskTel's information into the Crown Investments Corporation of Saskatchewan audited financial statements.

All of our reports expressed unqualified audit opinions. There were no reservations in any of them. In conjunction with our work, we worked closely with SaskTel's management, with

SaskTel's audit committee, and with representatives from the Provincial Auditor's office and received their full co-operation throughout the conduct of our audits. Mr. Chairman . . .

The Chair: — Thank you very much. Questions? Mr. Wall.

Mr. Wall: — Thank you, Mr. Chairman, and welcome to the officials from SaskTel. Mr. Chairman, just a couple of housekeeping questions. First, our last corporation to appear before the committee was the Information Services Corporation, and originally their original list of payees over \$10,000, which the committee receives a report of, got changed and got much . . . they added to the list in . . . at the second meeting which was . . . It was good to have all the information.

And I just notice here that SaskTel's list, not necessarily in total amount of money, but just in the number of . . . it says firms and advertising agencies paid over \$10,000, if that is indeed the entire list or if we're also going to be expecting more. For example, SaskEnergy reported consulting over \$10,000, and I'm just wondering if there's a difference between what the two Crowns are reporting to this committee and also if the list is to expand. That's the first housekeeping question.

And the second is related to your . . . related to international investments. Last week in the legislature we asked the minister . . . we re-asked a written question and the written question was for the minister to explain exactly his claim that SaskTel International investments over the last 15 years have returned X millions of dollars to the taxpayers. And we've asked for this breakdown. So you know, we've asked for somebody to present some evidence to that effect.

So those are two. Could we have that breakdown?

I should add the reason that we raise it here this morning is that the minister who answered the questions, the Government House Leader, indicated that that was a proper question for Crown Corps Committee. So here we are today seeking for that list for the last 15 years and also your comments at all if you have any on this payee . . . payments over . . . consultants over \$10,000.

Mr. Ching: — I think you have a list which is headed Crown corporations, SaskTel, legal firms and advertising agencies paid over \$10,000, and the total of that is eight million, three hundred and thirty-one . . . (inaudible) . . . That as far as I know is the correct list. Now that only deals with legal firms and advertising agencies. So it does not take a sweep wider than that.

But if that's the question, yes, that's the correct list.

Mr. Wall: — Is there a reason why SaskTel reports this then differently than for example SaskEnergy which would appear to be reporting to this committee all of the — and SaskPower as well — has reported all consultants paid over \$10,000?

Mr. Ching: — I think that's what we understood we were being asked for, was legal firms and advertising agencies. We can take a wider sweep if that's the wish of the committee.

Mr. Wall: — If you could, that would be appreciated. Thank

you.

Mr. Ching: — So what precisely would you like, then?

Mr. Wall: — Well here they . . . I can . . . I just probably refer you to the other . . . Maybe the Clerk could get you a copy of this submission that has all of them and you can probably see what the other major Crowns have done. And certainly we don't need anything more or less, I think, than what they have. It looks like they literally have included all of the consultants at the over \$10,000 that have been retained by those major Crown corporations.

And just the . . . And the second point was this list of or a breakdown of how international investments have fared for Saskatchewan, SaskTel customers. Is that possible to also get?

Mr. Baldwin: — Yes, I believe we have an answer here. Probably the best thing to do is just make copies and provide it to all members of the committee.

Mr. Wall: — Sure. I'd appreciate that. Thanks. The material . . . Thanks for those two housekeeping items, Mr. Chair.

I'd like to discuss some SaskTel Mobility issues here initially and certainly they would impact their year under review, and then there's a much more current application to it that I think the Crown will want to take the chance to talk about.

You know, as MLAs (Member of the Legislative Assembly) we can kind of gauge, all of us, I think, government and opposition can kind of gauge public interest in an issue just, you know, by phone calls and e-mails and concerns.

And I want to tell the officials here from SaskTel that of all of the call . . . all of the perhaps issues, if you want to call them, that have raised themselves with respect to SaskTel, none have created the amount of interest and the amount of phone calls that all of us — at least all my colleagues have received in opposition — as the prepaid cellular policy change that has happened.

Believe it or not, this has been by far and away the most incendiary issue that we've dealt with at SaskTel and we'd like to give you a chance to discuss that. People have some very serious concerns. And I have the note here that was sent out to customers who have this prepaid thing, and just for members of the committee, what I could do is just basically summarize it.

Previously the policy was when you were prepaying for minutes for your cell, you purchased a . . . the minutes you purchased on your account stayed active as long as you placed a billable call every 60 days. And I think anybody would, even if they didn't understand why that needed to be, would think, well okay fair enough, I guess we'll have to make at least one call and keep this prepaid account alive.

But the policy has now changed to one where you now need to add minutes to your account once every 60 days just to carry forward your balance into the next 60-day period. So here's the understanding people have from this note. And if it's wrong, then by all means correct us.

The understanding that customers have is that I buy 50 — let's say five zero — 50 minutes of prepaid time. I've paid for it; they're my minutes to be used. And maybe I only in 60 days can use 30 minutes of the time. So when that 60-day period expires, is it true then that I would lose the remaining 20 minutes, notwithstanding the fact that I made a number of calls — I've used 30 minutes and I have 20 left that I've paid for — but I'm going to lose those and I'll have to start over again?

Is that correct? Is that what the new SaskTel policy involves? Or have I misrepresented it?

Ms. Milenkovic: — Maybe I can give a little bit of background to prepaid and the whole notion of the service.

When we launched prepaid service, it was based on market analysis both from, you know, what was happening in Europe and in the United States. And what the Canadian market base has found, including our competitors, is that prepaid service in Canada hasn't had the same kind of usage that it's had elsewhere.

The intent was to have a low usage service for people that wanted to use occasional calls. But also the costs associated with providing that service were supposed to be minimal comparing to a post-paid type of service.

In fact, what we've found in the marketplace is an increasing number of customers wanting to go to this service asking for additions to this service like voice mail. They want to be able to roam. So they want packages added on to the service. They want bundles of minutes to give them free time evenings and weekends and akin to almost a post-paid type of service but only wanting to use it on an occasional basis.

There's also increasing calls into our care centre which is costing SaskTel and other carriers increasing amounts to support this service.

So suffice it to say the intent of the service which was a lower end service for the occasional users or safety and security is not materializing in terms of the benefits that we're getting on the revenue side versus the cost to support the service.

We have reluctantly gone into the marketplace with this adjusted package. When I look at what our competitors are doing — for instance, Rogers — customers, depending on the amount that they've paid for the card, must top their account up with any of the 30, 60 or 90 days depending on the amount of the card. Microcell, 30 and 90, and TELUS, 30 or 60 days depending on the amount of the card. Those companies have put those policies into place for some time and we've been quite reluctant to do that.

We tried to look at some market analysis to see if there's other ways that we could stimulate calling on the service to promote that, but that hasn't fared well for us.

So we knew that this was going to be controversial in terms of trying to indicate that there is a change to the policy. The difficulty becomes is that every one of those cards is open-ended for 150 days. A customer doesn't have to make a call for five months before they lose their prepaid number so

those cards can be outstanding. And no matter when you try to institute a new policy, you still got services that carry over because people have paid for those cards upfront.

We have told customers who recently purchased their \$50 card that we would help them out by giving them long distance or some other, some other services with SaskTel to support the idea that they paid for \$50 recently. So that's a little bit of a background.

But yes, the idea is that within 60 days you need to top up your prepaid card or carry the balance forward. It's not unlike other services in the marketplace, not necessarily telecommunication service, but other services in the marketplace that, where you have to use that by a specified time or you lose that loyalty program or whatever it is.

Mr. Wall: — Thank you, Mr. Chairman. And so when this note to your customer says that with the current top-up guidelines it's difficult to sustain and cover all the costs of providing the service, that's what you're talking about — the current one being, make a call, make at least a billable call within 60 days or lose your prepaid package. That's the current top-up guideline.

So many customers would say, well — and you know, again, we can get into what other telcos are doing, that's fine — but lots of customers would say, well it's not my problem. The fact that telephone companies — ours, the Crown-owned company, or others — didn't plan properly is not my problem. That's the telco's company. And I entered an agreement and an arrangement with this telephone company and I prepaid for a product.

And they would have . . . they wouldn't have a lot of sympathy, frankly. They might understand the argument but they might not care. They would say, well that's your problem. Why don't, you know . . . I guess you'll have to pay a price for that.

Now the telephone company would then argue, well we have to be competitive. And this is where we get into this whole debate that's always very interesting because it strikes us that not just the officials at SaskTel but in debate in the legislature, you know, we get into this sort of moving target. Whenever it's good for SaskTel to be like a private sector company, it's a private sector company. But then whenever it needs for its arguments, for whatever they might be, to portray itself as a different company — it's different because it's owned by the people — it does that.

And I would ask you to explain to your customers, if you could, those who would . . . who wouldn't really care whether or not you made a mistake in planning for this or whether Rogers did or anyone else as to why they should they pay for this planning problem.

Ms. Milenkovic: — Well I think it's not just a planning problem. And yes, maybe we did err on the side of misunderstanding the market usage, as all carriers did, because you do market research before you launch a new service. And I know it's difficult, and we've been very reluctant to change it.

But on the other hand, I think that it's incumbent upon us to say

if this service continues to lose money or cost the company more, we have to do something about it to fix it.

This doesn't help our customers, but on the card it says that all policies and prices are subject to change. So we do notify customers if these . . . Any rate plans that we put in the market need to be analyzed on an ongoing basis. And because the market acceptance hasn't been there in terms of the usage of this type of service, I think it's incumbent upon us to change our strategy to say that the company cannot sustain losses on the prepaid side of the house.

Mr. Wall: — Did SaskTel officials considering just refunding people for their . . . the amount that they prepaid?

Ms. Milenkovic: — For every card that's out there or just up till policy change?

Mr. Wall: — Yes, I'm not sure . . . Yes. No, up to the . . . In terms of the policy change, right.

Ms. Milenkovic: — The only ones it would really affect are people within the last . . . The difficulty with prepaid is the contact with the customers and we don't have the billing records. The whole portion . . . The whole notion is it's an automatic system where the card is . . . you have a PIN (personal identification number) number, you input it into your phone, you get a message telling you how much time; you don't get a bill, you don't get any information. It's a low-end service.

I guess part of it is gauging the reaction of the customers and we might have to do something if the problem continues. We're always open to changing, you know, the implementation of a policy if it's not working. But we have to gauge it on customer reaction as well.

So we're looking at this . . . We're monitoring the calls that we get in our care centre. We understand that there's been calls here. There's been calls to MLAs. And if there's something that we can do to mitigate this, we certainly will look at it.

Mr. Wall: — I appreciate those comments. And, Mr. Chairman, I'd follow them up with a question about the competitors for SaskTel, especially those operating . . . offering this kind of mobility service or a cellphone service in the province.

Have they also . . . You did touch on them and highlighted what their policies were. You touched on them in terms of a very similar, they are now . . . they are either moving . . . Are they moving to something similar or are they . . . they've been there for a while? And did they too start off with a program similar to what SaskTel had initially? Did they too start out with what you would call the current top-up guidelines? Is that what your competitors had as well?

Ms. Milenkovic: — They changed their program and just on an ongoing basis. Well I know TELUS did for sure. I'm not sure about Microcells and Rogers. There have been lots of changes; they change their rate plans constantly, so I'm not exactly sure when their program was instituted.

But it's been a phenomenon in the wireless communication

industry in Canada that the balance in what investment analysts look for is the balance between how many prepaid and post-paid customers you have. And the difficulty with one of our competitors is that balance is out of step. The amount of prepaid customers is too significant to sustain as a business.

So everybody's been moving to trying to increase their post-paid, lessen the amount of prepaid. We don't even advertise prepaid any more. The cards are available, but we're not . . . it's not something that we're pushing. It's a convenience factor for those that need to use it but we're not aggressively advertising this service at all.

Mr. Wall: — When was it rolled out by SaskTel initially, the prepaid service? And for . . . I guess the question is this: when SaskTel rolled it out, were other carriers, other cellphone companies, already moving away from what you characterize as your current top-up guidelines, moving away from some equivalent of that and moving towards what you're moving to now? In other words, were other . . . when you got into this, was it reasonably early or late and were other cellphone companies already experiencing difficulties in making the changes that you're making now?

Ms. Milenkovic: — No, I think we were in there, and I just don't have the dates in front of me but we were in there — except for Microcell was a little bit ahead — but we were in there about the same time because we were actually even using the TELUS platform. We went on their platform at the same time. So most providers were out there in advance. The one lagging one was Clearnet. So we were clearly in the pack when the service was launched.

I don't know if the dates were all synchronized or not, but we were clearly in as part of the group that launched the service.

Mr. Wall: — How much is SaskTel expecting to . . . if they didn't make a change . . . if you didn't make a change what's the exposure for SaskTel? What are you expecting to lose and will this mitigate those losses? Will it turn it around? Or were you expecting to lose any . . . was it just not performing?

Ms. Milenkovic: — No, what happens is that you get a migration. If you have a service like that that's not contract based or you don't have monthly revenues coming in, you get a re-price in the marketplace that goes on so that the cellular users that have contracts or that work on monthly rate plans migrate to this lesser type of service but demand more functionality. And so the predictability for revenues — and for revenue losses I guess — becomes increasingly significant for the company.

In terms of when we see the migration, we just know that . . . We didn't quantify if this continues what . . . I mean I can't give you a number what it would mean in the long term. But it would be significant. And I'll just give you an example. If you think of perhaps an average revenue . . . industry average revenues per subscriber on the post-paid side are anywhere from 48 to \$54. On the prepaid side they can be anywhere from 7 to 10 to . . . a couple of companies, or one company, cited higher average revenues.

The costs associated with acquiring a customer can be anywhere from two-ninety to \$400 per customer. So you need

some predictability in terms of the revenue.

So the exposure just . . . if you think about what . . . how long you need to have a customer paying you a regular amount of money on a monthly basis to cover off \$480, which is a cost of acquisition, let's say that's an example, or \$300 is the cost of acquisition, if you don't get those monies on the prepaid sides, if it's \$8, you have to have that customer with you for several years. And that's not happening on the prepaid side.

So the exposure becomes significant, although I can't quantify it for you specifically in consolidated amounts.

Mr. Wall: — Oh, Mr. Chairman, I guess the question would be then what hard data, what empirical information precipitated this decision to change? Certainly there must be some . . .

Ms. Milenkovic: — Yes.

Mr. Wall: — There must be an estimate of our exposure if we don't change this. And that's what we were . . . that's what I'm wondering about.

Ms. Milenkovic: — Well the . . . if you put . . . The data or the exposure would be calculated on a percentage. If 50 per cent of your customers were on prepaid versus post-paid and you couldn't increase your average revenue per subscriber, then you're talking about an average of, let's say, 250,000 customers . . . 125,000 customers, \$10 a month, maybe, \$8 a month, maybe. Take into account the other services that we want to offer in terms of the next generation digital, the expansion of cellular service, the evidence is we can't afford to invest in this company in terms of capital investments ongoing with those kinds of revenues.

As it is when there's a little bit of a downturn in the market, as there is in the telecommunications market, we have to keep our costs in line to make sure that we can sustain the revenues and the expansion that are warranted in the marketplace.

Mr. Wall: — Thank you, Mr. Chairman. Is this change going to fix the problem for SaskTel? Again, it's a difficult question for us to ask, and maybe difficult to answer because we don't know what . . . how big the problem is financially for the corporation, potentially if the change doesn't happen.

But how confident then are officials that this change will fix the problem?

Ms. Milenkovic: — Well, I'm confident in that if we don't have a plan out there that erodes our stable base, then customers have . . . they've got some choices. They either go to the prepaid option that we roll out on the market or they go to a competitor who has similar plans.

A couple of the competitors and even our alliance partners were actually looking at whether or not they wanted to withdraw this service from the marketplace because it was hurting the company. And it has, you know . . . it could have serious effects if you don't mitigate the migration of the customer base.

So hopefully our customers will see this in the long term as . . . It may not be a popular move at this time but will see that

perhaps we can add value to the service that will give them some options to choose either from this prepaid service or some re-vectored post-paid plans.

Mr. Wall: — Thank you, Mr. Chairman. I just would maybe offer the comment at the end that I know Mr. Ching mentioned in his discussions earlier in his presentation that customer service was, I think, was a pillar . . . one of the pillars of the corporate strategic plan . . . of the corporation's strategic plan. And it also characterizes . . . I think the Crown, it's fair to say, characterizes itself as different.

And this is a big issue. I think I hear you and I know that you're getting a lot of calls. So are we. We're getting an amazing amount of calls on this and I just . . . I think that on behalf of those people who've had something switch on them midstream and it's fairly important to them obviously, enough to phone and e-mail and write letters, and that some change be considered. And we have some other questions on some other subjects, so if there's others that want to enter this one, Harry then . . . or Mr. Chairman, sorry.

The Chair: — I just have a question. When did you make this change?

Ms. Milenkovic: — It's effective June 17. It was announced last week.

The Chair: — June 17, this year?

Ms. Milenkovic: — This year.

The Chair: — Okay.

Ms. Milenkovic: — This policy change.

Mr. Ching: — I think it's correct to say, Mr. Chairman, that we're acutely aware of what the member has raised here because, like he indicated, not only is he or other members of the legislature getting some feedback on this, but so are we.

It's something which I think that we're going to watch very closely because if it continues to build as a concern out there, I think we have to stand ready to try to see what we can do to mitigate any bad feelings about it.

It's clearly a situation where I think SaskTel and the other companies that are in the cellular business, I think put a product out into the marketplace which we assumed, from what we had seen elsewhere, would function in a certain manner and it hasn't functioned in that manner. And the cost back to the corporation is significant if we don't make adjustments to the program. We're tried making an adjustment to the program and your point is a valid one.

Does it solve the problem? I'm not sure we can answer that question at this particular point. But I think from our vantage point, we've got to find some way to make sure that this particular program doesn't become a financial burden upon the corporation and at the same time not annoy a goodly portion of our customer base to the point where they would start to lose a little faith in SaskTel in the process.

The good thing from our vantage point, as pointed out by Ms. Milenkovic, is that our competitors are all doing somewhat the same thing; in some cases, a little . . . perhaps more draconian than what we're doing. And that has, I think, put us at least in the situation where there isn't a competitor out there who's saying, we're going to handle the problem differently.

But that really doesn't 100 per cent answer the point of how SaskTel handles it. You make a good point in the sense that I think there is a higher obligation on us to be sensitive how our customers look at these things than perhaps our competitors are.

And all I can say to you is that it's a developing issue. We're going to watch it closely. We're going to try and make sure that the problem gets solved. But we're also going to try our level best to try and make sure that we don't in the process create a lot of heartache for our customer base.

The Chair: — I just, for the committee, I just want to remind the committee pursuant to the question that I asked that our mandate — and I assume this is a mandate that all of the committee members have agreed to at some point — is derived from the Legislative Assembly in the form of terms of reference. And those terms of reference indicate that this committee is empowered to examine and inquire into all such matters and things as may be referred to them by this Assembly and to report from time to time their observations thereon.

Having said that, the only thing that's been referred to us from the Legislative Assembly has been the annual reports of SaskTel and SaskTel-related companies and the comments of the auditor.

And so I just want to raise that, that if the members see a need to change the terms of reference, then we should discuss that. We shouldn't cherry-pick issues and say well, this is an issue that interests me today and ignore the work that the committee is supposed to do.

Mr. Wall: — Well I'm not sure where you would . . . what you wish me to do here. Do you want to . . . We have some more questions on this.

And maybe you can call it cherry-picking an issue that interests any individual member, but I think you've heard even the officials agree that a number of people are raising this concern and you know, the committee can either function and do the work of taxpayers and if there's a big problem, maybe we should address the mandate right now. And on several other issues, members of this committee have said look, let's open up the scope a little bit and not be too heavy-handed about the year under review. We did that with Information Services Corp. If the government members of the committee don't want to do that, I guess they should indicate that, because otherwise we can get some work done and make some progress. And I think it's been a constructive process so far. I don't think there's been any, you know, difficulties in discussing this thing.

So we can move on to another subject if that's your ruling then that you're making or . . .

The Chair: — Well I guess I would like to have an explanation. You say, do the work of the taxpayers and the

taxpayers say, through the Legislative Assembly, this is your job. And then you say well no it's something else that I determine is the work of the taxpayers. Well how does that work?

Mr. Wall: — Well I think there's several . . .

The Chair: — I think it works that you have to go back to the Legislative Assembly and say, we need to change the terms of reference. But I've never seen that.

Mr. Wall: — Or we as a committee can have a little common sense, Mr. Chairman. We as a committee can have a little common sense and deal with some issues that are obviously very important. Well I mean we've done it before. There's a precedent before you sat in that chair. And we got a lot of good work done on Information Services Corporation. This is an important issue. If you don't want to go there, you're the chairman, you're ruling, and we'll move on to another subject.

I mean there's plenty of them that we have to discuss.

The Chair: — I'm not making a ruling. I'm simply pointing out for the committee the terms of reference that the committee members have adopted, I think at some point committee members agree are the terms of reference. And then you decide that those terms of reference aren't appropriate, that you want to go down your own track.

Mr. Wall: — Mr. Chairman . . .

The Chair: — And you know, I'm prepared to allow some latitude and not make rulings. But if there are further questions in this area, I would encourage you to conclude them and to move on to the areas that have been referred to us by the Legislative Assembly.

Ms. Atkinson:— . . . a question. Well thank you for the presentation. In terms of SaskTel Mobility, as I understand it, SaskTel Mobility does not receive revenues from other parts of SaskTel, and so it is not subsidized by revenues earned from other SaskTel operations.

And so when SaskTel expands cellular coverage, digital service, and so on and so forth, it does so based on a market analysis that is determined as to whether or not those areas will generate revenue that is self-sustaining into the future.

And I just want to ask you about your plans for digital in the province of Saskatchewan. Because I know that SaskTel has announced that it plans on covering a large portion of the province with digital cellular coverage by 2003. And I'm just interested in knowing whether or not you've met your targets for 2000, 2001, 2002, and whether the digital service will be fully operational across the province by 2003.

Ms. Milenkovic: — What we have done in terms of our expansion is actually escalated some of the areas. So in terms of the digital expansion announcement, that is an overlay on our existing analog network. And that network was fairly extensive and by the time we finish we should be covering somewhere in the neighbourhood of 90 per cent of the population.

What's key also for people is not just where people live but where people work and travel. And so we're trying to ensure that we do this with the corridors and the major thoroughfares as well.

We are on track to complete by early 2003. And in fact we made an announcement recently on additional coverage over and above our expansion plans that are white areas, what we call white areas. There are areas in the province that are today unserved at all by either analog or digital. So those areas will also be completed in 2002.

And we look at this list for unserved areas for communities and corridors. We have a new look at that list every single year to see if there's ways that we can afford to expand in those areas.

Over and above that, we just recently announced the next generation of digital service, which is something called 1xRTT, which doesn't mean a heck of a lot to anybody except for it's supposed to be bigger, faster, more power to do whatever anybody wants to do.

We're in a market trial that'll be happening this summer and early fall. And then, depending on the success and the technology assessment, we will look at deploying that, specifically starting off in Regina and Saskatoon and maybe beyond that.

Mr. Ching: — If I could also make a comment with regard to this because I think that your observation raises an interesting question which I think members of this committee and maybe the rest of the legislature might want to think about from time to time.

When we were a monopoly on the wired side of our business, the rule of thumb was that as a monopoly you had an obligation to provide 100 per cent service throughout the province. And practically no matter where you went in the province of Saskatchewan, we'd get a wired connection to you.

When the federal department of Industry started to issue licences and structure the cellular mobility industry, they did so on a fundamentally different basis. Right from the beginning that was set up to be a competitive service offering. Initially it was a duopoly between the incumbent companies like SaskTel and Cantel, which has become Rogers Cantel, which has become AT&T Rogers Cantel. But recently, like in the last couple of years, it has been opened up further to the point where there are at the present time I guess four or, arguably, five different suppliers of cellular services across Canada.

But the result of that particular program, of making that a competitive service, meant that companies like SaskTel wherever they were considering a cellular installation, did so on the basis of building it on the basis of a successful business plan.

It may very well be that at some particular point the Legislative Assembly or the government decides that it is time to move away from that model and instructs SaskTel to build a ubiquitous cellular network throughout all of Saskatchewan so that no matter where you are, you've got coverage. I can tell you that a number of things would flow out of that sort of a

decision.

First of all, we would then be building cellular sites in areas where so far our analysis shows that there is not a successful business case, so that the ability of the mobility part of SaskTel to maintain its successful business case would be eroded by that, which of course would impact our ability to pay dividends to our shareholder.

Secondly, it would mean that our network design would have to fundamentally change. We have built our network to put our towers and our equipment where we perceive the large usage and good business cases to be located. If we were to design a ubiquitous network, that particular fundamental design that we've been working off for the last 15 years would be fundamentally wrong because we would have built our network altogether differently had we designed it from the very beginning to avoid any white spaces throughout Saskatchewan.

Nevertheless I think it is an interesting question as to whether or not it is the considered opinion of the representatives of the people of Saskatchewan that it may be time for SaskTel to build out every part of the province. But I can tell you that there would be significant financial implications to that and provided that those financial implications were acceptable to the Legislative Assembly, it would certainly not offend SaskTel in the least if we got instructions to, for all intents and purposes, build out the entire province.

Believe me, SaskTel loves to build communications networks, and the fact that there are white spots within our cellular mobility network throughout Saskatchewan is not because we don't want to build there, it's because there's simply not a viable business case to do that.

However, we get letters from people — and you have to, I think, accept this as being a valid point of view — that in some places where there is a very thinly populated part of the province, maybe that's where the need for the security and safety of cellular connectivity is arguably the highest.

But a competitive model such as has driven the structuring of our network so far does not cater to that particular dimension of cellular usage.

Ms. Atkinson: — If I can just follow up, now when you think about public ownership of a Crown utility like SaskTel, you think about the public policy objectives that go along with that public ownership. And those public policy objectives can be social policy and economic policy.

Social policy in terms of providing service in areas that perhaps private companies would not be interested in providing service. And economic policy in that margins that are developed, profits that are developed, by that service are retained in the province of Saskatchewan. That wealth is not shipped elsewhere in the form of dividends and so on.

But when I think of cellular coverage, I think of this — that we are in the process in the province of Saskatchewan of developing a nine nine . . . or 911 system across the province. We're in the process of developing a province-wide emergency system in the form of ambulance care. We have GIS

(geographic information system).

I mean, it's . . . I think what we will see in the future in terms of emergency care in the province is ambulances with satellites that will be able to . . . with the GIS system, which will be able to determine where that farm accident is located, on what particular quarter of land, what area. I mean technology is amazing in terms of what we're going to see in the future.

Which then gets me to my own personal experience recently with a car accident in northern Saskatchewan. And I just happened to be in a place where my cell worked, and it was at a particular . . . it was early in the evening but there wasn't much traffic on this particular grid road. And it was very helpful to have cellular coverage at that particular moment.

And I think about places, remote places in Saskatchewan where we have farmers, ranchers, and so on. We have a display out here with farm accidents. And so I do wonder, while SaskTel Mobility is an operation onto its own and it doesn't get revenues from other parts of the company — and I know that they have to expand based on the possibility of returns into the future — I do think as legislators we have to look at the social policy objectives of a public utility.

And so I think you raise a very important point as CEO of this large Crown corporation in the province. And I do think as legislators we get focused in on particular issues but I think there are some broader public policy issues that we need to be discussing. And unfortunately we don't necessarily get to those points as members of this committee.

So I frankly think that we do need to look at cellular coverage for a much wider portion of the province because I know there are areas, while they're remote, they're far away, accidents do happen, and I think people need to have access to this particular form of new technology.

The Chair: — I have Mr. Wiberg and Mr. Brkich.

Mr. Wiberg: — Thank you, Mr. Chair. I think for the most part through the conversation between Ms. Atkinson and the SaskTel officials, that my concerns have very much been I think taken care of to this point.

I think there should be . . . I just wanted to make a short comment, Mr. Chair, is that although . . . I know members of the government seem to understand that in rural Saskatchewan we certainly don't have the telephone coverage for cellular service that is certainly available in the four major cities and some of the smaller cities also.

But I also want to make the government members aware that rural Saskatchewan begins approximately 15 kilometres outside those cities, and the second-most travelled two-lane highway in the province is north of the city of Prince Albert. And once you're 15 kilometres north of that city, you're in what Mr. Ching has clearly indicated as a white spot. And so I think we need to continue to remind ourselves that even though SaskTel is contemplating a further expansion of the cellular network in the province, is that virtually all of rural Saskatchewan is without cellular coverage in this province.

And I know very well that in northern Saskatchewan . . . And I'm not sure where the members . . . the government members consider northern Saskatchewan to start because it's certainly . . . certainly not north of the Qu'Appelle Valley, Mr. Chair. And Mr. Chair, we need the members . . . government members to understand that northern Saskatchewan starts much farther north than that and not only are there white spots in northern Saskatchewan, Mr. Chair, there are huge blackout areas where there is a significant amount of traffic on Saskatchewan highways that simply do not have cellular coverage and cellular telephones simply do not exist in those areas because of the extreme lack of cellular coverage. Thank you, Mr. Chair.

The Chair: — I just want to say that while the officials are here, I certainly wouldn't want to discourage members from asking questions of the officials about matters pertaining to the year under review or that may be related to that. And if members want to make speeches to save those for a time that we've excused the officials.

I have Mr. Brkich, Mr. Prebble, and Mr. Wall.

Mr. Prebble: — Mr. Chair, a couple of questions with respect to cellular service, and I'm pleased with the headway that's been made with respect to cellular service.

I have a couple of questions around use, but I do want to ask a question . . . I do have a question with respect to just clarifying in exactly how much of the province we now have fully functioning cellular coverage in.

Can you give us a . . . I realize that we're going to get different numbers for the North, but in terms of the area, first of all, that's outside of what would be officially considered northern Saskatchewan. How much of southern Saskatchewan, southern and central Saskatchewan do we now have covered by cellular service?

Ms. Milenkovic: — We look at it in terms of population so it would be 90 per cent of the population by the time we finish our expansion in 2003. I do have a map that I could circulate for your information, for the committee's information if they're interested in seeing it and that might help.

Mr. Ching: — Now bear in mind, I think it's important to understand that if you have a hand-held device which is perhaps of an older vintage, you may not get the same coverage as somebody who has a fairly modern piece of equipment which has . . . operates in your vehicle with an external antenna.

So to some extent being able to state for a certainty exactly what our coverage is, the design that you see on the map, I think, is more or less on the basis of a piece of equipment that has an external antenna.

And so every once in a while we'll get somebody who says, look, you say that on the map I got coverage, but here's my phone and I can't get a dial tone. Well, it just depends a little bit on what piece of equipment you're using at the user end as well.

Ms. Milenkovic: — I think the other consideration is that most of the phones now are components of . . . or they're dual mode or tri-mode, which means they have chips in for digital and

analog, and two ranges of digital actually. And the analog portion of those phones does not work very well on those digital phones. And that's just the nature of the manufacturers, they're trying to remove those from the marketplace.

So when you see the highway coverage just north of P.A. (Prince Albert), you're going into analog coverage. And if you have a digital phone, your analog service will be less than adequate but that will be covered by, probably first quarter of 2003. The yellow that remains on the map will be all covered in with digital service in 2003.

Mr. Prebble: — Mr. Chair, I have two other questions that are related to cellphone use, if I may.

The Chair: — I am wondering, if at this point, we might take a five-minute break.

Mr. Prebble: — Sure, absolutely.

The Chair: — And then let you finish up here.

The committee recessed for a period of time.

The Chair: — I will call the meeting back to order. I had Mr. Prebble on my list, but no Mr. Prebble. And so let's go to Mr. Wall and . . . Oh, here he is.

Mr. Prebble: — Thanks, Mr. Chair. I have a couple of other questions of our officials on cellphone matters. And just to change the focus from coverage on to public safety. And I realize this just doesn't involve SaskTel, but as you know across North America, in the year under review, a couple of important issues related to cellphone safety began to kind . . . to get more public attention.

One, Mr. Chairman, was related to the relationship between cellphone use and automobile accidents. And the other was around the question of cellphone safety as it pertains to use by children. And we now have some scientific research to suggest that cellphone use may not be advisable for children. And there's also some growing evidence that use of cellphones on the road, particularly in urban areas, may not be advisable with an increased incidence of accidents.

I'm wondering if, in the year under review, SaskTel and SGI (Saskatchewan Government Insurance) met to discuss these issues and how to . . . how best to present these issues to the public because this, it seems to me, is a very difficult . . . these are difficult issues for our telephone company. And I'm wondering if there's been any discussion of them.

Ms. Milenkovic: — Yes. As a matter of fact we've been very proactive with not only SGI but Saskatchewan Safety Council, Department of Highways, trying to encourage motorists and others in the safe use of cellphones while driving or to pull over.

We are also involved with all of the competitors. As an industry association, it's called the Canadian Wireless Telecommunications Association, which have also been running ads and being very proactive in Safety Week.

We have programs that we roll out to our dealers and the businesses that sell our service to also advise customers about other options instead of cellphone usage, like headphones or voice activated dialling. So we are encouraging the use . . . or just simply pull over.

So with SGI, the Safety Council, Department of Highways, and I think there's another body that's involved as well in the Saskatchewan marketplace, we are very much encouraging the safe use of cellphones.

Mr. Prebble: — And have you looked at the question of cell use by children and what has . . . is SaskTel offering advice at all in this area, in the year under review?

Ms. Milenkovic: — No. Specifically SaskTel isn't, but again with our industry association, and part of our membership fees goes to ongoing monitoring of medical reports and any significance that's identified as a result of these. Not . . . but specifically not our company.

Anything we get from the industry that might help us in this regard, we're advised of, so it's an ongoing monitoring. I did read something recently, but I'm not sure that there may have been a study done with respect to children; but I'm sorry, I'm not aware of the outcome of that.

Mr. Prebble: — Mr. Chair, maybe just to conclude this. I don't want to spend an undue amount of time on it. But because there is growing scientific evidence about health hazards to children from the use of cellphones, I wonder if this is something that — if I could just make a request — that SaskTel review the evidence in this regard. And I'm concerned enough about this that I'm wondering if there should be actually some kind of, you know, warning to customers when they buy cellphones that, you know, use to children should be limited to emergency situations.

This is something that's generally not well understood. I think the vast majority of the Saskatchewan public will be assuming at this point in time that cellphone use by anyone is just fine. And there is . . . I'm not declaring that it's not fine, but I am saying that there is now a growing number of studies that are suggesting that cellphone use by children may not be advisable.

And I think that this is something I'd like to see SaskTel, maybe in co-operation with the Department of Health, examine, look at the evidence and make an assessment about, whether there is no need for a warning or there is a need for a warning, whether there's need for customer education in this regard. Because there is a growing incidence of publication around this that I think is worth examining.

And it is very awkward for our telephone company because we're in the business of promoting cellular use, but I know we're also in the business of promoting responsible cellular use above all. And we obviously want to expand coverage on the one hand, but we want to be concerned about matters of public safety, so I want to see both of those measures pursued. And thank you very much, Mr. Chair.

The Chair: — Okay, I have Mr. Wall and Mr. Forbes on this issue of cell coverage.

Mr. Prebble: — Maybe I should just clarify if you don't mind, Mr. Chair. Are the officials comfortable with examining that? Is that something that is doable? Thank you very, very much.

Mr. Wall: — Thank you, Mr. Chair. I'd just like to discuss a little bit about the corporation's intentions and activities. I guess more to the point, their activities with respect to this convergence technology in the year under review and their foray into the cable television industry in the province of Saskatchewan through that technology.

If they could tell us if . . . I wonder if the officials could give us an update as to where that project is? How much has been budgeted . . . was budgeted for that project? How much has been spent? Is it on target in terms of the budget? Is the technology working? Just a general update if the officials would please.

Mr. Ching: — Maybe I can start that and then I'll turn it over to Mr. Anderson to embellish on my answer.

The committee will be aware that initially the cable industry was focused really on one-way transmission for the purpose of entertainment — primarily cable TV — whereas the telephone companies have primarily been focused on two-way voice communications. That has been the essence of our technology and their technology has been based upon the idea of one-way transmission of entertainment.

Probably the advent of high-speed Internet caused both the telephone companies and the cable companies to start down the road which has led to what we call convergence between our industry and theirs. And we have evolved our two-way, voice-based communication system to allow us to roll out a high-speed Internet service based upon our network. And so the cable companies have moved down that same road and they offer a high-speed Internet connection which changed them from being just a one-way transmission system to being a two-way transmission system.

And of course for us, building our network in such a manner as to allow us to put a high-speed solution down our network gave us the ability to put video streaming down our network. What they did by getting into the high-speed Internet world was to retune their network so that they could do two-way communications.

And the result of it has been that the cable companies are now — some of them — actually in the business, some of them getting ready to get into the business of offering two-way voice communications as part of their package of services to their customers. We in turn are in a position where we are getting ready and are actually in the process of a . . . what we call a soft rollout of a video offering which competes with what we call cable TV.

So I think it's correct to say that the telephone industry and the cable industry are going to wind up being head-on competitors in the three fundamental parts of our business, that being: two-way voice, local and long distance; entertainment, which is primarily video of one form or another; and the third one is high-speed Internet.

And there's a bit of a scramble by both sides of the two industries to try and get to the point where they're offering an acceptable service offering in those three components quicker than the other ones. We think we're probably a little bit ahead of the cable companies in being able to roll out the three components of that particular service, but they're clearly right on our tail and it's our understanding that they will be out in the marketplace fairly soon with the third component of their particular package, which is the voice portion of it.

At the present time, and for, I guess probably a month or so now, we've been in the process of what we call a soft rollout of our video entertainment component of our service offering. By soft rollout I mean that we've been offering it only to employees. And that's because of course we want to make sure that by the time we get out into the marketplace offering it to the general public that we've worked out as much as we possibly can all the kinks and all of the bugs in not only the technology of the service, but also the processes that surround the installation and support of the service.

The general rule of thumb in any industry is that where you have an incumbent that has set a certain level or a certain standard of service, that if you're a new entrant, you must meet or exceed that level of service or you're in jeopardy of failing. And the cable companies have established a certain level of service for their video products, for their entertainment products, and SaskTel must try as best it possibly can if it wants to get into that line of business to meet or exceed the standards which the cable companies have set.

The cable companies have got the equivalent or reverse of the problem. Insofar as our voice products are concerned, we've set a certain standard of service and support in that particular segment of the communications industry. And for them to get into the business, they have to either differentiate themselves from our product lines or meet or exceed the service levels that we've achieved over the years as an industry.

So when you refer to convergence, that can mean a whole number of things. But in particular to us at the present time, convergence really means the merging of service offerings primarily between the cable companies and the telephone companies to offer those three lines of products.

Mr. Wall: — Well thank you, Mr. Chairman. And in the year under review, what was budgeted for the . . . for this particular project in the years previous; how much was SaskTel intending on spending to offer this product?

And I'm taking it from the officials from the CEO's comments that SaskTel fully plans to proceed with this offering, this product, to the general public. But I would ask the amount that was budgeted and how much it cost specifically? Is it on budget, and those sorts of financial information, please.

Mr. Anderson: — For 2001, we spent a total of 8.5 million, which was on budget. That was for basically building the head end for the service, kind of like almost, I guess in telephony terms, your central switch.

For 2002, we are currently about 66 per cent of budget, which in total . . . Now this is a little complex, I guess. Some of this

spending is spending that's happening in the core network and the access network, and it's spending that would go towards supporting High Speed Internet and other services as well. But it also supports DIV (digital interactive video), so I'm including that spending in addition to the spending that is specifically for the DIV.

So we've spent about 42.7 million so far; that is 66 per cent of budget. The budget which is '02 and '03, I believe, is for 64.4 million.

Mr. Wall: — Thank you, very much, Mr. Chairman. And through you to the officials . . .

Mr. Ching: — Can I just add some comments on this, because I think it's important to understand what's happening here to make any sense out of what information we're giving to you.

We built and assigned a voice-based network. Then we adjusted it to be able to also handle high speed. There was a major cost involved in doing that. We had to redesign and rebuild parts of our network to be able to do that. That's the cost that I was saying that we injected into . . . or the investment that we injected into our network in the mid-'90s that I think is now serving us very well.

When we did that, we knew that developing a business case which justified that capital investment only on high speed Internet was going to be very difficult to do. So right from the beginning when we were doing this in the mid-'90s, we had anticipated trying to layer other products on top of that network that we built and designed for high speed Internet.

And the concept was to try and develop as many revenue streams as we could to justify the capital investment that led to the creation of our High Speed Internet network. And one of those product lines — which we have to inject further capital to be able to capture, but nevertheless is prudent in my mind to do that — is this whole area of entertainment, or what we call a cable product.

Mr. Wall: — Thank you, Mr. Chairman, and through you to Mr. Ching. I appreciate that. The technological platform — I think is the term they use — that we're talking about here that SaskTel is using, is it using something called i-Magic?

Mr. Anderson: — That's a small part of the overall architecture. The i-Magic component is basically the interactive programming guide. So if you're familiar with satellite TV service, when you turn on your TV you get . . . or it would be similar to, is it channel 7 on Access Communications? It shows you the programming lineup for the day by the hour. That is what the i-Magic component is. So it's just straight programming guide. It's actually a very small piece of the overall architecture.

Mr. Wall: — Thank you, Mr. Chairman. Although a very important piece?

Mr. Anderson: — Oh yes, absolutely. Very important.

Mr. Wall: — Mr. Chairman, I think Mr. Ching's highlighted how, yes, you know, SaskTel when this hits the market, yes,

they'll be competing with cable TV and cable TV competes with SaskTel and other telcos, and that's sort of the way things go.

You know in the last number of years though, including in the year under review, I think some of your alliance partners perhaps even have . . . I mean as a layman, someone not familiar with your industry would sort of estimate that they've voted with their feet on this technology. You know, they've gone the way of Bell ExpressVu in the case of BC (British Columbia), and I think TELUS walked away from a large pilot.

And I'm wondering if you have a comment on that in light of that other telcos seem to think . . . And I'll grant this, what I've read anyway, these other telcos have not given up completely on this technology. But in terms of money at this point, they're just really pulling in their, you know . . . And so I'm wondering if you have a comment on that.

Mr. Ching: — First of all I think it's correct to say that most telecommunications companies, most telephone companies like SaskTel in Canada and maybe even most of them in the United States believe the fundamental principle which is that the cable companies are going to develop a capacity to supply voice services and that the telephone companies are going to develop the capacity to supply an entertainment part of their package.

But companies have taken various approaches to try and address this particular issue. For instance Bell Canada — you're absolutely right — owns ExpressVu or more properly, the holding company of Bell Canada, BCE (Bell Canada Enterprises), owns ExpressVu. And so they have an entertainment offering which they supply by way of satellite.

Some years ago both Bell Canada and TELUS explored the idea of actually building a cable based entertainment system, basically reproducing the technology or redoing the technology which the cable companies were already making use of. I think when you say that there has been an abandonment, I believe that that probably is what you're referring to because I think both TELUS and Bell have stepped away from trying to build, in effect, a cable network.

With regard to the thrust that we're involved in, that is a thrust which tries to send a broadband solution down a traditional telephone network which is robust enough to provide for streamed video, which in effect creates a product like the cable companies offer which is capable of giving you video entertainment.

The first company to venture down this particular path was one of the four companies in Maritime Canada called New Brunswick Tel. It became one of the four companies that merged into what is now called Aliant. And Aliant is owned 53 or 54 per cent by Bell Canada. Aliant started to continue the process that NBTel had gone down of trying to get involved in somewhat similar technology to what we're exploring.

I see by notification today that Aliant has formally abandoned that particular project. It's interesting because they went in at an earlier stage when the technology was still evolving rapidly — as it is, for that matter, at the present time. And their offering I think was based upon offering traditional voice — which is

your telephone, long distance, and local — high-speed Internet, and a video product which allowed for only one video feed. That is, you could have any number of televisions that you wanted to accessing that feed, but they're all going to get the same program at the same time within your house.

When we looked at that, I think our market intelligence told us that that was probably not a product line that was going to be successful — that you had to have at least two video feeds. That is, there had to be two independent televisions operating at the same time. And as well, we found that in our market research that it was important that you also be able to access the Internet via the telephone . . . or sorry, via the television feed.

So our product line is distinctly different from that offered by NBTel, subsequently Aliant, which has now been abandoned.

I don't think I'm telling any tales out of school by saying that both TELUS and MTS (Manitoba Telecom Services) are watching very closely what we are doing, because if we can successfully do what we're doing with our particular product, I think both of those two companies are very interested in doing the same thing.

I'm not sure Bell Canada has made up its mind what it's doing as yet because it is worried that products of this nature, which are offered through the telephone connection, will erode their customer base with regard to ExpressVu. And clearly that's one of the customer lines that we would compete with.

So you're right, we're out near the front edge of what the telephone industry is doing in this area. I think we feel kind of comfortable that we've got a package that we think will be acceptable to our marketplace. But you're right, telephone companies have been exploring this whole area and as yet it is not clear exactly what the solution is. We think we've got the right one but we're not 100 per cent positive of that.

Mr. Wall: — Mr. Chairman, thank you. On this same subject, I'm very confused. Because just barely a year ago the CEO said something that was markedly different than what he just said. In fact I would offer him the chance to clarify himself.

My colleague, the member for Wood River, was questioning this particular issue here and referencing the fact that TELUS had walked away from \$60 million, a look into this project. Bell walked away from a \$100 million look at the project.

And then we got into Aliant specifically. And I'll just read into the record so you can clarify . . . or the official can clarify himself, when the member for Wood River questioned the business . . . whether there was a business case for this anywhere in the country. And here's what . . . Here's what the official had to say:

. . . remember . . . there's another . . .

I'm quoting now:

. . . remember . . . 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 . . . (that)

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 are 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 . . .

I continue the quote:

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

Now just moments earlier, the official indicated that . . . highlighted what's happened with something called VibeVision in New Brunswick, that the parent company is walking away from 3,300 customers. In fact, they're going to give them all Bell ExpressVu equipment and replace their previous service with VibeVision. And in . . . maybe in a proactive way, the official just testified that well the difference, Mr. Chairman, is that they're not really doing the same thing.

But last year, to justify why SaskTel would continue down this route of looking at this project when other telcos were walking away, the official testified to this committee, well Aliant though is doing the same thing essentially and so we're not all that different.

And I have a problem with that. And on behalf of people who would be concerned about a very, very large expenditure today, I think we would express that concern and give you the chance to clarify yourself, based on your testimony today and what you said on May 17, 2001.

Mr. Ching: — Sure. Well first of all, I think when we were referring to what happened when TELUS shut down their project, that was what I was talking about — an entirely different type of technology. That was an overbuild of the cable system, and I think they abandoned that as being an approach to trying to solve this riddle of supplying an entertainment package that nobody believes has got any chance of success.

What NBTel did was that they started down the same road that we're going down, which is not to try and overbuild their system with a different . . . with a cable system for all intents and purposes, but to try and evolve their network to be able to send a video stream down it which could supply that entertainment portion of their package.

There may be either one of two reasons — or maybe both reasons — why they have now abandoned their project. As I said, when NBTel merged into Aliant, suddenly it became part of an entity that was owned by Bell Canada. And quite clearly, I think, Bell Canada has got reservations about the type of product that NBTel was working on and the type of product which we're working on, which is to try and send a streamed video product down telephone wires.

Bell has signalled repeatedly their reservations about that type of a project. They prefer to sell what they've already got in

place in which they've got a major capital investment in, as you know, have lost a lot of money at, namely, Bell ExpressVu.

But the other side of why Aliant may have backed away from their particular variant of what we're doing is because, I think, that over the last 18 months it's become clear to us that the package that they were offering simply would not succeed in the marketplace. They were offering one video feed and, as I understand it, no Internet over the television.

From our vantage point those were important components to this type of project. Ours offers those two parts to our particular project. So while essentially they use the same technology, what we're doing is different than what they were doing.

So they may have abandoned their project because they came to the realization that the technology that they were using, the equipment that they had purchased, gave them a product which wouldn't be successful in the marketplace. They may have abandoned their project because their owner and majority shareholder really was not comfortable with creating a product line that was going to compete with another part of the majority shareholder's lines of business. I don't know which it was; I suspect it was probably a combination of both of those two things.

Mr. Wall: — Thank you, Mr. Chairman. In that . . . On that day, the official went on to say that a number of companies around North America are very interested in watching what is happening in Aliant and what's happening in SaskTel. And I understand the difference is that the . . . that you've highlighted clearly, you, yourself, and SaskTel has lumped Aliant and SaskTel in the same category, those as telcos that were proceeding with a television, a television product of some description.

The TELUS project, on that day Mr. Baldwin commented on at some length, and I think he quoted what Ted Rogers had said, the chairman of Rogers Cable. That was an interesting quote that . . . about TELUS's pilot with this that it would have been cheaper for TELUS had they just bought all of their customers a car as opposed to proceed with this sort of thing. And I think that's an interesting quote from Mr. Rogers.

And notwithstanding the fact that the overbuild there, would the officials confirm whether or not what they were looking at in Alberta included this Internet, this . . . the true convergence then; in other words where you'd have a cable television and Internet services. And also would they comment on whether or not did Bell . . . that Bell's look at this considered that?

And then if they could, on the same line of questioning, what other telcos in North America then have . . . are proceeding with this kind of a technology that does pursue the Internet as well as the television on a convergent basis?

Mr. Ching: — I'm not sure I'm in a position, maybe some of my colleagues are, to give you any sort of assurances as to exactly what that first effort by TELUS, which I call in effect a cable overlay, whether or not it was aimed at supplying high-speed Internet as well. I suspect that it was, but I don't know that for sure.

I know that they've abandoned that and to the best of my knowledge they have no plan, that I'm aware of anyway, to reinvigorate that. What their plan is, is to explore doing what we're doing, which is to not overbuild their network with a cable overlay but to try and drive a video product down basically your telephone line.

Now I can't speak on behalf of TELUS. All I know is that there's been some discussions between them and us. They're watching what we do very carefully. It was my understanding that they were going to apply for a broadcast licence, which is a prerequisite. But to the best of my knowledge, they haven't yet applied for that broadcast licence.

MTS on the other hand, it's my understanding that they have made an application for a broadcast licence, which would position them to be able to do what we're presently now doing. You remember we applied for a broadcast licence, I guess, probably two years ago and got one, awarded one probably about a year ago.

So all I can tell you is this: is that yes, we're out near the leader of the pack and it's dangerous country. At one time NBTel was the leader of the pack in this area and has stepped back. We're now probably the telephone company anywhere in the world that is at the front edge of developing this type of a product line. And there's risks inherent in that.

It is conceivable that we stub our toes on this and come back to you a year from now or two years from now and say hey, we made a mistake. And one of the things which we can do as a company is to sit back and not be the leader in any of these things and not take the risk involved in being the leader.

We were the first one basically . . . first telephone company basically in North America to roll out a high-speed Internet solution over telephone lines. And I can tell you that the equipment that we used when we first did that in the fall of 1996 is not the equipment that we're using today.

So you got to, you got to . . . If you're wanting to evolve a state-of-the-art network, you got to take a few risks and from time to time you're going to get your nose bloodied over it. But by and large I think we've been pretty successful, especially with our base network of developing a good network and good products.

We're taking a bit of risk with regard to the video product. But from my vantage point everything I've seen so far shows that we're probably going to be able to solve the technology problems. The issues are going to be primarily around processes that support those technologies.

Mr. Baldwin: — I think maybe just to clarify a little bit about TELUS and what they did. TELUS and Bell both launched their video trials in I think the '97-98 time frame. Our understanding is that it was a basic coax cable overbuild. They built a brand new network that overlaid their copper so it was almost a stand-alone, and built a head end to deliver cable TV. And that's all they did.

At that point in time I don't even think Shaw and the cable companies were very aggressive in the high-speed Internet

business at that point in time, so that when TELUS and Bell both looked at this it was solely from the perspective of delivering cable service — almost an identical mode to what the cable companies did. And you know, we've looked at it over the years and it just doesn't work.

Mr. Anderson: — I think I'd also add in addition to, as Don mentioned, TELUS and MTS being very interested in following what we're doing, Bell Canada is also deploying the same . . . similar technology in some of the core centres in Ontario. So Toronto for example, they're using similar technology to what we're using in some of their multi-dwelling unit complexes. So they've got . . .

I think my understanding is their strategy is to use ExpressVu and satellite service outside of Ontario and Quebec where they have a network similar to ours. I think they're still wrestling with which technology they will deploy and potentially may deploy all of them were they in Ontario and Quebec where they have a network similar to ours as well.

I think Qwest is also — in the US — is watching what we're doing, are in the process of building the network. And we understand there's a couple of very large European telcos, and one that's probably weeks away from making an announcement very similar to ours, actually with some of the same vendors.

Mr. Wall: — Which major telcos have rejected . . . have looked at this. I mean you've distinguished TELUS and Bell a little bit in terms of the fact that they were looking at a . . . that basically a cable build out? But what telcos have looked at this and either shelved it or said, look we'll look at this later, we're not interested right now, or just altogether abandoned it?

Mr. Baldwin: — . . . just take a first crack at that. I think one of the biggest problems for a telecommunications . . . a telephone company to look at this technology, sort of the table stakes to even look at a business plan, is what sort of shape is your network in? And we've said for many, many years that we have one of the best networks in the world. I'd say right now our network is probably about the best, certainly in North America, in terms of capability to deliver lots of bandwidth into neighbourhoods in our cities.

When you look at some of the big companies in the States in particular, and even in Bell, their network isn't even capable of delivering the table stakes across the board to get into the business.

So I think you know, for some of these companies, they've got to build out a network that can do high-speed cable to even start to look at step two. Step one, as Don indicated earlier for us, was build the network with high-speed capability and capability to deliver multimedia to the home.

Some of these companies aren't even there yet. And you know so there's . . . When you look at it there's a whole range of telecommunication companies that are in different states of development.

Mr. Anderson: — Unfortunately I think some of the large US RBOCs (United States Regional Bell Operating Company), you know to Dan's point, their networks aren't there yet. And with

the current environment within the industry and the capital shortages, they're having trouble figuring out how to even provide some basic services like high-speed Internet.

I think some of them, Bell Atlantic for example, I think had some visions around these kinds of services going back 8 or 10 years. But their networks are far and a cry away from being able to support some of those services.

Mr. Ching: — If you take a look at what has happened here in Saskatchewan, you get a little bit of an indication of what my two colleagues are saying. We actually I think have connected well certainly every town in Saskatchewan that's got a 1,000 or more population, and given high-speed Internet to them. There's just simply no other place that I'm aware of in the world that makes that sort of a claim.

So the network that we built in the 1990s allowed us to do something which now allows us to take the additional step of layering on video streaming product line on top of that network.

When you say who else has done this? I can say with a large amount of confidence that probably nobody in the world has done it. And that's because they really haven't gotten their networks ready to be able to do it.

I think however you'll find that most telephone companies will accept the basic proposition that they've got to find some way to provide a video entertainment package, at least by time the cable companies are in the two-way voice business. If they don't, they're in great jeopardy of losing the competition wars to the cable companies.

Mr. Wall: — Well thank you, Mr. Chairman. Aliant characterizes the service they've just discontinued as delivering TV shows, movies, e-mail, and Web surfing to television sets. What then, again, specifically, what is substantively different there than what you're . . . Just to give you a chance to clarify, what's the huge difference between what they characterize their product as and what you're saying is going to be offered to Saskatchewan?

Mr. Anderson: — The key difference . . . From a product and service point of view the functionality, I think, will be there in both service offerings — what we're offering and what Aliant's offering. The key difference is the cable TV portion of it, the video on demand. The video portion is going to be provided by satellite.

So there'll be a satellite downlink where the video will come. And they will be using the same network that we've got . . . (inaudible interjection) . . . No, I'm talking about what Aliant will have. The difference is in Aliant's case they'll be using satellite for the video feed for the cable TV, which is ExpressVu service. And they'll be using the same basic network architecture as what we're using for the uplink and the interactivity.

So to get Internet onto the PC (personal computer) and to do some of the interactivity, like ordering a movie on-line, some of that will be provided through their network, their voice network, high-speed voice network. And the video feed will come from a satellite dish. And they're working on this, what

Bell's been calling this combo box where all of the signals will connect into the back of one set-top box essentially.

Mr. Ching: — Just so we don't confuse you, it's our understanding that Aliant started down the road of what we're doing. But they had a more restricted product that they were offering into the marketplace. They've now backed up and followed, I think, the direction which Bell favours, which is to try and marry up the telephone system with the satellite system.

So that the product that you're looking at now is this new product that they're looking at, which is generally called the combo box.

Mr. Wall: — But I understand, and I don't want to put words in anyone's mouth, but I understand you are using the future tense. So I understood you to be talking about what they're going to do to try to replace this product.

How they characterize what they were currently offering . . . I mean previously offering was, the delivery of TV shows, movies, e-mail, and Web surfing to television sets. So what they were previously doing, how does that differ — if you could . . . if this is getting repetitive, I apologize — but how does that differ from what SaskTel is going to be offering with its product, the delivery of TV shows, movies, e-mail, and Web surfing . . . and Web surfing to television sets?

Mr. Anderson: — Well Don's comments earlier were right. Where they started out about a year ago, they were not providing Internet on the TV. They were basically providing video to the TV and they were providing high-speed Internet to the computer all through the one high-speed line.

We had told them that our research had indicated customers wanted that same functionality on the TV as well, and we've been sharing information back and forth for some time.

They had switched gears I think probably late last year, early this year, switched gears and had decided to follow the same kind of path we were going so that they were providing interactivity over the TV as well.

But where they originally started out with was basically video on demand, cable services to the TV, and high-speed Internet to the computer.

Mr. Wall: — The *National Post* really does characterize what they have shelved as providing all those things through the television. Just so you know, I mean unless the *National Post* got it wrong.

The very last question is: is there . . . the very last question has to do with is the technology that you're relying on for this, one of the major sources for it or one of the major suppliers of the technology, Nortel Networks? Are they . . .

Mr. Anderson: — No, we're not using Nortel anywhere in the network.

Mr. Wall: — Okay.

The Chair: — Pursuant to discussions with Mr. Wall and Ms.

Atkinson, the committee . . . it recommended not meet next week Tuesday because Monday's a holiday, and to provide members an opportunity to travel on Tuesday morning. But we will convene the following week which would be July 9 at the regular time.

I look forward to seeing you then unless of course legislative events suggest that we may not want to meet at that time and pick it up at some other day. But you will be notified. Thank you.

The committee adjourned at 11:35.