Standing Committee on Crown Corporations

Hansard Verbatim Report

No. 37 – November 27, 2002

Legislative Assembly of Saskatchewan

Twenty-fourth Legislature

STANDING COMMITTEE ON CROWN CORPORATIONS
2002

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Published under the authority of The Honourable P. Myron Kowalsky, Speaker

The committee met at 9:35.

SaskTel

The Vice-Chair: — Good morning, everyone, and welcome to the officials from SaskTel. This is a continuation of our Crown Corporations meeting in late June. I'd ask the SaskTel officials if they have any opening comments, and then I would ask the auditor's office if they have any comments as well. So you can begin, Mr. Ching.

Mr. Ching: — Good morning, Madam Chair, and members of the committee. I do not have an opening statement but I will introduce the people that I have here with me. On my immediate right is Dan Baldwin, who is the senior vice-president of business development, corporate planning; behind me is Diana Milenkovic, who is the senior vice-president, corporate services, operations, and mobility.

Over to my right is John Meldrum, who is the vice-president, corporate counsel, regulatory affairs. And then between Mr. Baldwin and Mr. Meldrum is Randy Stephanson, who is the chief financial officer. Mike Anderson, the vice-president of marketing, is on my immediate left. Michael Unick, manager of finance, is behind me.

Darcee MacFarlane is behind me, and Barry Ziegler is back there as well. Barry Ziegler is the vice-president of SaskTel International.

The Vice-Chair: — Thank you very much. Does the auditor's office have anything they'd like to say?

Ms. Ferguson: — Thank you very much, Madam Chair. Just to let you know that KPMG, the appointed auditor, sends their regrets. They were unable to attend this meeting due to conflicts. And no additional comments. Thank you.

The Vice-Chair: — Okay. Thank you. So we are open for questions to the officials.

Mr. Wall: — Thank you, Madam Chair. There are a number of non-operating companies that SaskTel owns and we would . . . I guess what I'd like to do is have a bit of a discussion about those. If you have any sort of verbal information on them, that would be great. But if you think it's more appropriate that you just sort of forward information to all the members of the committee on those, and what we're sort of looking for there is their status. You know, they're listed in the annual report as non-operating companies and that's fair enough.

We would just like to know a little bit about them, get a snapshot of where they are — to date would be preferable, but we're dealing with 2001 so even that would be useful as well. I don't know if the president has any comment on that, or as to . . .

Mr. Baldwin: — I think the easiest way to handle a question about the non-operating entities is probably for us to do a list and a paragraph on each entity and what it was formed originally for and what it's doing today, or if it's doing anything.

Mr. Wall: — Thank you. Just in general in terms of policy at the corporation, I notice that a number of the holding companies are named after Saskatchewan communities and I understand that that . . . I think you had explained at previous trips to the committee that the rationale behind that is just sort of a way to identify these sorts of things.

But some of them then though are still numbered, even in the 2001 report. And I'm wondering, you know, why that might be, just in light of the fact that you have this process of using Saskatchewan town names. And I'm sure the list isn't exhausted of Saskatchewan town names, so just a curiosity about why some are numbered.

Mr. Meldrum: — Yes, some of those are a little bit older so that was before we started using the names. And I think a couple of them we may have inherited through some of the transactions that we did and just didn't bother renaming them.

Mr. Wall: — Thank you very much.

Madam Chairman, I would like to spend a little bit of time discussing the status in the 2001 report of the non-core, what I'll call the non-core investments, I guess — some on the international side and others not. But some of the non-core . . . I'd like the officials, if they would please, to give us updates for the 2001 report on Navigata Holdings, which I understand is the name for the RSL acquisition that was made not long ago by the telco. If they could please just highlight what the 2001 report for that investment has to say.

Mr. Baldwin: — We acquired a company formerly known as RSL Com Canada in August/September of the year under review. Subsequent to the acquisition we changed the name to Navigata Communications.

The rationale for buying into Navigata was three or fourfold. Firstly, we were looking for an entity which would provide us with some service delivery capabilities into BC (British Columbia) and Alberta. They have some smaller operations in Ontario and Quebec.

They also provide a means for us to lower our costs. And since we have acquired Navigata, we have been successful in lowering the cost of services that we require outside the province. A big one would be Internet transit, long distance termination.

A number of contractual relationships that Navigata had served to dramatically improve our internal results. So they had . . . we were buying a series of relationships, business relationships that they had previously established.

I think probably the third reason we acquired it was we acquired it at a very attractive price relative to what the previous owners had put into the business. And it's our feeling that with our expertise and our backing we can turn Navigata itself into a profitable entity.

In the year under review, it lost 2.5 million when . . . from the time we bought it till the end of the year. We think it's going to take a number of years to turn the thing around. It had been losing money prior to our acquisition.

But when we look at the overall intent of the purchase we think it's a very strategic acquisition for us and is really pertinent to how SaskTel will do business in the province and in Western Canada.

Mr. Wall: — Thank you, Madam Chair. Mr. Baldwin, the year under review then, the loss as indicated was $2.484 million and it begs a question, I think. You said that you thought that SaskTel was enthused about the acquisition because of the price that you could acquire it for relative to what the previous owners had invested. And that seems like . . . that just . . . I wonder if you could clarify that because of course, I mean, you would understand these things I would think better than most of us sitting at this table. But it seems that you'd want to purchase an asset based on what it could generate in terms of revenue and profit, not on what the other previous owners might have invested in.

Mr. Baldwin: — As you're aware, with the recent downturn in capital and equity markets, no other segment or industry has been as negatively impacted over the last two years than technology and telecommunications. And what we were seeing and what we are seeing today is that there are a number of assets that are on the market for a variety of reasons that are dramatically . . . are priced dramatically below cost.

And certainly in the case of Navigata, previous owners had offered to sell formerly WestTel and then RSL at prices significantly higher than what we paid. And certainly RSL paid WestTel or paid BC Rail significantly higher than what we paid. They also invested the significant amount of capital.

But what we saw in Navigata was infrastructure, hard assets in the ground, an established customer base, 50 to $60 million of existing revenue, gross revenue. And our feeling was that the company itself had been starved of capital and it had been unable for a variety of reasons to complete its business plan. And our feeling was that with our expertise and our ability to expand and I think give credibility to the company as SaskTel, that we could serve to improve their business on a top line and a bottom line over a period of time.

Mr. Wall: — Thank you, Madam Chairperson. I think that the concern that we are going to have as we go through this morning is that there are too many ventures out there that are starved for capital or at least in need of capital and found a ready and willing supplier in the taxpayers through SaskTel. And the story from 2001 in the annual reports is not a pleasant one by any stretch.

SecurTek also filed its report in 2001. I wonder if you could please highlight for us SecurTek's activities.

My understanding is they continue to acquire business. They acquired one close to Swift Current, by the way — I think that would have been in 2001 — in Medicine Hat, All-Knight Security solutions, which caused some interest in my home community that has to compete with that city, that their telephone company was indeed investing in that same city.

Nonetheless, I wonder if you could highlight for us what else SecurTek was up to and their profit or loss for the corporation.

Mr. Baldwin: — Certainly. SecurTek was a venture that I think we formed in 1999 as a start-up with absolutely no business or no employees. Since that time, significant progress has been made towards developing a strong business.

The business of SecurTek, in essence, is the operation of a monitoring call centre in Yorkton. We acquire monitoring contracts through a series of agents and dealers throughout Western Canada, 14 of which are in Saskatchewan. All of SecurTek's current dealers were previously in the security business either in Saskatchewan or outside.

Today or the year under review, the head office of SecurTek is in Yorkton. There's approximately 70 employees in Yorkton involved in head office and monitoring functions. In the year under review, 70 to 75 per cent of the customer base is outside the province, primarily in Alberta and Manitoba, with a number of customers in Ontario and British Columbia.

The result for the year was a loss of about $1.4 million which was a dramatic improvement over the year prior. The company has been cash flow positive in the year under review and generated free cash. We think that the company is on track to be a significant cash generator and provide net income in the very near future.

Mr. Wall: — Thank you, Madam Chair, and Mr. Baldwin. So to summarize, SecurTek lost 1.3 million. It's lost $4.1 million to date and Navigata has lost 2.5 in the year under review.

Craig Wireless International Inc. I'd just ask, they also . . . they're also filed for 2001 and certainly part of this review. And I'd ask again if officials could please highlight the status effective at 2001, and up to date if they wish, of Craig Wireless International, of SaskTel's investment in that and of its profit or loss for the corporation.

Mr. Baldwin: — I need to be a little cautious with respect to Craig Wireless in that we are a minority player subject to the terms of a shareholder's agreement so there are certain things that I can't disclose. But generally speaking, Craig Wireless is a company formed by the Craig family out of Winnipeg. Craig Wireless International has business . . . it's focused on delivery of wireless cable and higher speed Internet into Manitoba and parts of BC.

We are a minority owner of the company. Significant funding for the company is coming from the Craig family. We currently, in the year under review, I believe we owned about 37 per cent of the company. The company is not profitable in the year under review. Certainly when you look at technology and telecommunications industries, probably no sector has probably been as negatively impacted as some of the wireless companies. And certainly Craig has not been immune to some of the downturn that's occurred with respect to provision of wireless services.

Mr. Wall: — So it would be fair to say, based on the annual report, that the . . . at least the loss in equity, using the equity method in 2001, would have been for SaskTel, 2 million, just over $2 million, $2.043 million?

Mr. Baldwin: — This is one area where I've got to be cautious because I think we're under some confidentiality obligations with respect to our shareholders. So I think the annual report speaks for itself.

Mr. Wall: — It does. And so you're confirming then that on page 44 of the annual report, in terms of note 8 under investments, Craig Wireless is valued at $6.1 million, that SaskTel's investment in that is valued at 6.1 and at 2001, it's valued at 4.1.

Mr. Baldwin: — Well certainly we've disclosed that the book value that we're carrying, the investment on our books, has declined.

Mr. Wall: — Thank you. So in terms of the book value loss or loss using the equity method, it's over 2 million for Craig Wireless, 1.3 for SecurTek, 2.4 for Navigata. All losses. I'd ask, Madam Chair, through you if Mr. Baldwin could please walk us through the status as of the year under review of Soft Tracks Enterprises and SaskTel's investment in that venture, please?

Mr. Baldwin: — Soft Tracks is a venture that we invested in. It's headquartered out of Vancouver — Burnaby. It's principle service is a wireless payment gateway. Probably the way you would see it on the street would be with respect to a credit card swipe with a pizza delivery at home, where you could pay on the spot using your credit card through a wireless device. It provides software and back office expertise with respect to the payment process at the door in a mobile fashion.

We've invested in it strategically along with a number of other companies. Scotiabank's involved, and Bell Canada, Mobility's involved. Certainly it's a product that we use in Saskatchewan and there are a number of companies in Saskatchewan that are using the wireless credit card payment gateways.

It is a company that is in development, is pursuing some major contracts in the US (United States), and at this point it's still in a business development stage.

Mr. Wall: — Thank you, Madam Chair, and Mr. Baldwin. Some of us, the last thing some of us need are easier ways to order pizza into our home but we understand that that's part of it.

Mr. Baldwin: — That's only one example, there are other examples.

Mr. Wall: — I understand that. Mr. Harper says speak for myself, so I will.

But I draw your attention to page 44 then again. The investment of SaskTel in this particular enterprise in 2000 is booked at $5.4 million and the book value in the 2001 report is 3.2. And so if my math is correct, that's a $2.18 million loss in equity or in the book value in 2001. Would that be correct?

Mr. Baldwin: — Yes, that's what the annual report shows.

Mr. Wall: — So the numbers are climbing in terms of the losses.

And I guess we would move on to Retx.com Inc. (Retail Energy Transaction Exchange) as per the 2001 annual report and ask if you could please highlight for us the nature of and the status of SaskTel's investment in that Atlanta dot-com?

Mr. Baldwin: — Sure. Retx is a company that's headquartered in Atlanta. It's a Internet-based company that provides software and management services for deregulated power industry in Canada and in the US.

Like the other companies we've talked about in our portfolio, this investment is in the same state as Soft Tracks and Craig Wireless and Navigata. It's a business under development, and it's tracking to plan and is moving towards profitability and securing a fairly significant market share in the United States.

Mr. Wall: — Thank you, Madam Chair. Mr. Baldwin, I'm not sure it was you and frankly I'm not sure it was even in the committee and so I'm not going to . . . I don't have a *Hansard* to that effect, but I think Mr. Ching indicated when we dealt with this issue at some point in some forum that the government's initial entry into this particular Georgia-based dot-com was about 43 per cent, I think, of the company.

That was the initial foray and there was a, I believe — if I'm wrong, just jump in — I think there was also a commitment on the part of SaskTel that they certainly didn't want to become majority owners of this thing, that that wasn't their intention but we're at that point now. We're at over 60 per cent of the company — well over 60 per cent and climbing upward — over $20 million of invested money by SaskTel. What has changed at SaskTel that now they decided to increase their position in Retx?

Mr. Baldwin: — Well when we first looked at Retx, they had a business plan that contemplated that there would be further ongoing requirements for capital as it moves through its growth and development. Certainly we invested the first tranche of monies pursuant to the business plan. The business plan contemplated further investment to move the business forward.

Retx is one example of a company — and there are lots of them out there — that got caught in the downfall in technology and telecommunication markets and was unable to secure third party financing that would move the business forward as contemplated in the original business plan. When we examined the business — and we examine it regularly — we continue to believe that Retx has a viable product. It has a viable business. It's gaining significant traction in the power industry, particularly in the northeast US. And when it came time to look at moving the business forward we stepped up to the mark to ensure that the business would continue to develop pursuant to the business plan.

Mr. Ching: — I think as well there's another thing to be added to that as well. When we first went into the investment, I think we acquired something like 48 per cent. And while we knew the management a little bit and they knew us, it was certainly their desire to bring in other investors into this particular project so that the project wouldn't be dominated by SaskTel, if you can put it that way.

And I think that over time the working relationship between

SaskTel and the on-site management has become a very good relationship. I think there's a fair amount of trust on their part for us and we for them. And I think that some of their concerns that lead them to want to be in a position where they had other significant investors in the project probably weren't as pronounced after we got to know one another and as the business was moving along, as it was at the beginning when we were perhaps a lesser-known quantity to them.

So I think you had a number of drivers originally. Certainly from our vantage point we were comfortable at being a 48, 49 per cent participant in the investment. I think we were also strong believers in the investment itself so we're prepared to go higher than that.

I think the partners in it though, the management team who hold significant equity and position in the company would have preferred at the very outset to have other significant investors besides SaskTel in the project rather than SaskTel having a majority interest it. But I think some of their concerns have fallen away in the meantime.

Mr. Wall: — Thank you, Madam Chair, Mr. Ching, and Mr. Baldwin. What had changed? I mean, I still don't know what changed because the government was indicating it wanted to be below . . . I should say SaskTel, I think, was indicating they wanted it to stay below 50 per cent when they had bumped it up to over 60. And now we're even higher yet.

And there's, you know, there's two things that I think that you've indicated here that beg more questions. One, because of what's happened in that particular sector, SaskTel's jumped in further — or I guess despite what's happened in that particular sector — SaskTel's jumped in further into this company. And secondly, if they want another majority, if the managers who have . . . the management team that has equity position in this wanted other large equity investors other than SaskTel, I mean where are they? How could . . .

Mr. Ching: — Well I think Mr. Baldwin put his finger on the point and that is that the equity market has become a very difficult place for all sorts of companies, large and small, to be able to access additional capital. Investors are much more cautious, the significant losses that have been experienced by large funds in the telecommunications business has caused all those funds to tighten up and to be pretty reluctant to advance additional funds into this particular industry.

I mean, and the fact that I think SaskTel has done extremely well in an industry that has been in marked state of collapse, hasn't of itself been able to encourage third party investors to come into projects that were interesting. Like there's still a very strong belief in SaskTel that Retx is a good business of the future and that it has an incredible future out in front of it. But it's been a hard sell to try and sell that concept to private sector investors. We think that there is some possibility that's going to change in the very near future but in the year under review we were unable to come up with a third party investor.

Mr. Wall: — Thank you, Mr. Ching, Madam Chair. So what the president of SaskTel is telling members of the committee is that this investment — the additional investment — was too risky for the venture capitalists and players in the equity market across the continent but it was just the right amount of risk for the taxpayers' own telco in Saskatchewan.

Mr. Ching: — Well I mean you can construe my answer in any way you want to, sir, but what I'm telling you is simply this: we went into this investment at a time when the market was very, very open and when I think it would have been relatively easy for this particular investment to have secured financing other than SaskTel or in addition to SaskTel. As the market tightened up, that became difficult for them to do.

If you want to construe that in the way in which you did, you go right ahead and do it. All I'm doing is telling you is what I consider to be the facts surrounding the investment.

Mr. Wall: — Well I don't want to misconstrue what you're saying, Mr. Ching, and Madam Chair. So that's why I want to give you the chance to clarify it. What I heard in the end . . .

Mr. Ching: — But then, sir, understand the proposition, that we made our initial investment into this at a time when the market was of a certain flavour. As this particular investment progressed, the market dramatically changed. And so it's not fair, I think, to characterize the investment in the manner in which you did. Because you seem to suggest that the private sector wouldn't touch this but we would. That's not the point at all.

What happened was that we made our initial investment in this particular thing at a time when the market was very fluid, very open, and very receptive to this type of investment. To say that that investment that we made was made, and the private sector would not have made it, I think is not correct. The market then tightened up and at that particular point in time, you're absolutely correct, that the market was not prepared to put additional funds into this investment and we were.

Mr. Wall: — Thank you. That does clarify the point that you made, I think. And it's still frankly alarming, you know, that that's the case. Because at the end of the day the markets represent private investors who voluntarily make investments in whatever particular instrument they choose. The taxpayers of Saskatchewan are involuntary investors in what you've said is a very . . . is a risky company, is a risky investment, in a risky environment in a down market. So I think that's precisely our concern.

The upshot of it all is that the book value decrease for Retx in . . . on page 44 for the year under review is $251,000 in book value or equity loss — the least of the losses so far that we've talked about. However, the year-to-date loss in equity is $7.5 million for the corporation. Is that correct?

Mr. Ching: — I think that is correct. But let me just make a comment on your statement a few moments ago. SaskTel is not the only company that started an investment during a period of time when the market was much more open. It's not the only company that has gotten caught in a situation of where the market has tightened up and access to further or diversified capital isn't available to investors. There's many, many companies throughout North America who are in exactly the same situation as we are, where they're faced with the proposition that you either abandon a market or . . . sorry, abandon an investment during a time when the market tightens up or you don't.

And at that particular point in time I think every investor has got to be prepared for the proposition that either they abandon their investment and give up on the product, give up on the business, or add further capital to the company out of their own product . . . pocket, rather than going to the market. And we're not the only company that is faced with that decision. We're not the only one who's made that decision. And as a matter of fact if it were that people simply stopped making further investments into projects that started during an open market, what you would find is that not only would the market when it tightens up nobody make any further investments, but every project which there was no additional investment money going into it would collapse. And in fact a goodly portion of our sector has suffered from that. But I think that the good projects, whether or not it's Retx or whether it's other projects that are funded by other communications companies around the world, continue on.

Mr. Wall: — Do officials anticipate investing more into Retx?

Mr. Ching: — It is not yet cash flow positive and so we are in a position where we're going to try and see it through to the end of its business plan. But we are actively looking in the marketplace for additional funding and it's our belief that there will be outside, private sector funding joining that particular investment.

Mr. Wall: — Thank you. I think, and back to your comment earlier, I think the difference is in terms of companies that may find themselves in that similar situation is that, again, those companies will have voluntary shareholders. I would . . . My understanding is that only, in terms of telcos for sure, only SaskTel would have involuntary shareholders, only SaskTel would be 100 per cent Crown owned. So you know, again there is a significant difference. That would be my opinion.

I'd like to move to tapped*into*.com if I could, Madam Chair, and ask again if officials could please highlight the activities of that SaskTel investment in the year under review and whether it booked a loss or a profit in terms of its value as recorded in the annual report.

Mr. Baldwin: — In the . . . Certainly. In the year under review we made an investment into tapped*into* which is a start-up venture which was headquartered in Nashville, Tennessee. It's involved in what we think is a developing phenomenon for the Internet, which is live video being streamed over the Internet. It's, we think, an area of the Internet that's going to see incredible growth over the next few years.

In the year under review, it was a start-up. We established technical offices and acquired space, tools, computers, a number of factors, and implemented the technical resource centre in Regina. There are six to seven employees in Regina that provide all of the technical skills for tapped*into*. There are salespeople in Canada and in the US.

As a start-up business certainly it was planned and expected that in the year under review it would lose money and it did. But we are starting to see that the future that we envisaged with a media-rich Internet is starting to come to the fore. And it's on track with its business plan as we contemplated.

Mr. Wall: — Thank you, Mr. Baldwin. Madam Chair, you didn't touch on the book loss in the 2001 annual report. Just for the record, it's also recorded on page 44 at $939,000. And I understand Mr. Prebble has some questions, so we'll return to this subject in a moment.

Mr. Prebble: — My question is . . . well I have two or three questions, but to look at the bigger picture for a minute — and I do think these individual investments bear scrutiny so I also have some questions with respect to those.

If you just step back and look at the bigger picture for a minute, could you report to us on first of all, how much of SaskTel's assets are out of province versus in province, and how much of our investment is in province versus out of province over, say, the last 10 years or 10 to 12 years?

Mr. Ching: — Well there's no question that the investments' — and I think Mr. Wall only touched on some of the investments that are in our total portfolio — diversification and growth have attracted a lot of attention.

But the fact of the matter is that far and away the huge bulk of our investment and our activity is here in the province, within the traditional lines of business. Although just exactly what is traditional lines of business to a company like SaskTel is an interesting question.

We spend a huge amount of money in our own network every year. I think year in and year out over the last 10 years we've probably spent well in excess of an average of $100 million per year in our own network.

I think if you go back and look at the time period over the last 15 or 20 years, the amount of money which has been invested outside the province of Saskatchewan in investment and diversification programs really is quite small as compared to the amount of money which we have put into our actual network.

And maybe, if you don't mind, I'll ask Mr. Stephanson to give you some figures, and maybe within sort of a 10-year time frame which is when some of these investments have taken place. It gives you a sense of how large or how small the diversification program is compared to what our normal capital programming.

Mr. Stephanson: — The time frame I've got is from '87 until 2001, '87 being more or less the first year of SaskTel International's beginnings.

On infrastructure and facilities in Saskatchewan, we spent $2.2 billion in that time frame. Out-of-province investments have been $210 million, and in-province investments have been $59 million.

Mr. Prebble: — So the out-of-province investments are roughly 10 per cent of the . . . a little less than 10 per cent of the overall.

Mr. Baldwin: — As indicated in the annual report for the year under review, we do place Saskatchewan first, and the rationale for looking at diversified investments are multiple: one, to acquire new core competencies, particularly in some of the Internet areas. Internet has become a very big business for SaskTel, and we are acquiring and developing new skills as the Internet unfolds. Certainly, with some of our investments, we're using existing core competencies to move business forward and expand addressable markets.

When we look at our overall portfolio today, we take a portfolio approach to manage risk and lower risk for the overall business. We have a number of start-ups. In fact I think the portfolio for the year under review is three or four established companies that are profitable, and about nine companies that are in start-up, or new mode, or have been newly acquired, which are moving through business plan growth and evolution to become profitable.

When you look at the investments that are profitable, the one thing they have in common is we've been in them for a long time. I think if you look at DirectWest, in 1992 we owned 10 per cent; today we own 100 per cent. It's a very profitable business for us.

SaskTel International founded in '86-87, it has been profitable for a period of years. Hospitality Network, founded in '94, is profitable, and is moving forward to becoming even a greater financial contributor to SaskTel. And then Persona, or Regional Cable, we made an investment in Regional Cable West in 1992. It's now called Persona and it continues to be profitable and a good investment for SaskTel.

All of the other entities in the portfolio have been acquired or started business in the last two to three years and the business plans contemplated that there would be start-up losses while it grew its business.

Mr. Ching: — We've tried to, as well, diversify our portfolio in size of investments. And some people look at some of our investments and say, some of these are really small and are they worth the time that you spend on them.

But we've tried to diversify our portfolio, not only over time, and that's still evolving, but also in size and in types of areas that they're in.

And I may say that like any portfolio there is going to be some of the investments within this portfolio that are successful and some that are unsuccessful. We've already experienced investments that have been very successful. We've experienced investments that have been absolute busts.

And whether you like it or not, if you decide that you're going to become involved in a diversification and a growth program, you're going to suffer from the benefits, you're going to suffer from the detriments of both sides of that particular type of a program, and we have and will in the future.

Mr. Prebble: — I have a second question and that pertains to going back to page 44 and the companies that are listed in note 8 which Mr. Wall's been referring to.

Can you give us an overview of, and I realize that this is somewhat hampered by the downturn in the market and the uncertainty about what will happen in the technologies and communications field generally, but what is the projected time frame over which the companies that are listed here are anticipated, and just to focus on Retx, Craig Wireless, Soft Tracks and tapped*into*, what is the projected time frame in which we might be looking at profitability in these operations?

Mr. Ching: — There's no real set pattern to this. If you look at a company like SecurTek, essentially what we do is we do the monitoring function within the array of activities that take place in the security industry.

We don't sell and install security devices. We don't supply guards. There's a number of things that make up the security industry and we don't participate in that at SecurTek. What we do in SecurTek is we do the monitoring.

Now monitoring is something which is a thing that SaskTel has done for decades.

We do a very advanced form of monitoring of our own network. And that's an area where it's . . . the knowledge, the technology in that particular area is fairly well developed and it's being adapted to a slightly different use. But it's essentially SaskTel doing something which it has done for decades, namely performing a monitoring function but in a slightly different manner.

That has moved fairly rapidly through the process of start-up to cash flow positive and we think it's fairly substantially into the area of being cash flow positive now. And the profitability stage, which is the next stage after you achieve cash flow positive, I think is reasonably close at hand.

Similarly, Hospitality Network is something which we've been working on for quite some period of time and we've been sort of feeling around trying to find the part of the marketplace that that particular technology and that particular company would fit into. And there we managed to, I think, be fortunate in the sense that we acquired a company that was in effect serving a group of customers but in a manner that was less advanced than the way in which we anticipated serving those customers through Hospitality Network.

And so the move was really a jump into profitability. But then you find some other companies — Retx is probably a good example of it — where in addition to the company developing some new technology and some new software, it's also supplying the solutions that come from that software into an industry that's in a state of evolution.

I think anybody who has been reading any of the newspapers will know that throughout North America there is a transition occurring where the generation transmission distribution and sale of electrical energy is transforming itself from essentially being a monopoly industry into being a competitive industry.

And some places — and California is probably a good example of this — there has been a lot of disruption in that particular evolutionary process. Other places like New England, to some extent Texas, to some extent Alberta, to some extent Ontario, there has been moves towards deregulation and they've been much more successful, in the sense that there hasn't been the hiatus and the disruption that occurred in California.

So that whole industry is slowly moving through the various stages of deregulation. And for Retx to be successful in the two lines of business that it's in, depends upon it not only being able to evolve and build its technology — its software products, if you will — but it must wait for the industry to pass through the various stages of evolution that it's going to.

And you can wish as hard as you want to that Retx would get closer to cash flow positive and profitability more quickly, but whether you like it or not, that's dependent upon the move through to deregulation and the acceptance of the products that we're putting into the marketplace to assist with the handling of deregulation, if you want to put it that way.

So each one of these businesses depends upon what stage of evolution it is in its own business. And it depends also upon what's happening in the business community or business part of the economy that it's seeking to find a niche within. And where they've been fairly traditional lines of business, they've moved fairly quickly through the evolutionary cycle or in some cases, have moved through the evolutionary cycle and were satisfied that they're not going to achieve cash flow positive, and so we've discontinued the lines of businesses.

So a little hard for us to sort of cookie cutter it and say, you know, you make your investment and two years later you get the cash flow positive and two years after that you get to profitability. I wish it were that easy but it isn't. It varies from company to company.

Mr. Prebble: — I have one more question, Madam Chair, and that relates to how SaskTel is comparing to other similar companies across Canada. And I note in the annual report that SaskTel made a net income of 101 million. And I'm wondering how that compares in terms of return on investment to the industry across the country, the telco industry across the country.

Mr. Ching: — Well I'll start with a few general comments and some of my colleagues may want to augment the answer.

About four or five years ago our industry was undergoing what appeared to be almost phenomenal growth. And I think that were some people at the time that believed that SaskTel was failing because we didn't grow at the same rate as some of the other companies.

Incidentally I think probably Manitoba MTS (Manitoba Telephone System) was criticized for essentially the same factor. That's because, I think, both SaskTel and MTS were rather cautious in their diversification and growth efforts. Some companies, like TELUS and like Bell, were extremely aggressive and some other companies were not only extremely aggressive, it was the totality of their business.

What we've witnessed over the last three, three and a half years, is a fairly significant contraction of the telecommunications industry worldwide to the point where some people estimate that investors in our industry worldwide have lost something in the neighbourhood 2 to $3 trillion US. And so you can see that there has been a massive contraction within our industry.

And all you have to do is read the newspapers and you see that there have been many companies like Cannect and like Group Telecom that have simply ceased to exist.

Some of the companies that were very aggressive about their diversification and growth programs, Bell is a good example of this, have suffered mightily because the contraction has caused some of their diversification programs to collapse and this has resulted in losses for Bell in the billions of dollars. And it has stung us in some cases too.

And as a matter of fact, I think you'll find that it is hard to find a telecommunications company that has made any effort to do what was considered to be the thing to do five years ago — namely, to get into growth and diversification programs — that hasn't suffered some form of reverse in some part of their portfolio. In fact I think primarily because of the way in which we've handled our portfolio, our portfolio has survived the hiatus of the last three or four years very, very well.

And our core business, our basic programs within Saskatchewan have been very successful. We have enjoyed a level of public support and continued market share that most every telephone company in North America would salivate over because we continue to have a market share that is much higher than any other telephone company in Canada and indeed in North America.

Manitoba, I think MTS, has also maintained a very large market share and they have looked to their knitting in much the same way as we have here in SaskTel. And the result of it is that I don't think anybody would argue with me in saying that given the level of capital investment in MTS and in SaskTel, we are two of the most successful telephone companies in Canada and perhaps in North America. We're both in good shape. I think MTS has got strengths and weaknesses compared to SaskTel; we've got strengths and weaknesses vis-à-vis MTS.

I think our network is stronger, more robust, more capable of doing things. For instance we have rolled out our ***Max*** product, our video product over our high-speed Internet system. Manitoba is struggling to try and get that particular same technology to work in their system. It looks like in the next six months or so they're going to roll out a product similar to our ***Max*** product but they're only going to be able to access about 30 per cent of Winnipeg.

So you can see where their network simply was not built with the robustness that SaskTel's network has been built. And this is something that goes back maybe a quarter of a century. So in some respects we've got advantages over MTS and in some respects MTS got advantages over us.

They entered into that arrangement with Bell Canada, which was called Intringa, and they made a lot of money out of the fact that Bell realized that they wanted to own a majority interest in that company and as a result bought out MTS's interest, or a goodly portion of MTS's interest, for a premium price. But I would say without any hesitation that these two little telephone companies in Manitoba and Saskatchewan are two of the companies that are doing the very best in North

America.

The Vice-Chair: — Thank you, Mr. Ching.

We're going to take a 15-minute break, so if we can all be back at quarter to 11 we'll continue our proceedings.

The committee recessed for a period of time.

The Vice-Chair: — I'd like to reconvene the meeting and I understand Mr. Wall has some further questions he'd like to pursue.

Mr. Wall: — Yes, thank you, Madam Chair. Well we had summarized . . . officials had commented on the loss at Navigata and SecurTek, Craig Wireless, Soft Tracks, Retx and tapped*into*. Persona Incorporated is also highlighted in this annual report. On that same page there's a reference to the gain on the sale of the equity position in Regional Cable and the receipt of 1.2 million common shares as consideration for that. Would those . . . Those are the shares in Persona Incorporated?

Mr. Baldwin: — Prior to the year under review, we were a 29.9 per cent owner in a company called Regional Cable West and we made that investment in 1992 and over a period of time it returned dividends and capital to SaskTel. The other shareholder in — who owned basically the 70 per cent that we didn't own in Regional Cable West — was a company called Regional Cable Systems.

They approached us some time ago with the idea that they would like to collapse their ownership structure and reduce the number of entities that they were operating under within Canada. They approached us with the idea that we would convert our 30 per cent, approximately 30 per cent ownership in Regional Cable West to an interest in the Canada-wide company called Regional Cable. Subsequent to us proceeding with that transaction the company changed name to Persona.

Mr. Wall: — Thank you, Mr. Baldwin. Madam Chair, the shares are booked in the annual report or valued in the annual report at $14.7 million, thereabouts, because that was the value at the time of the swap. However, they were trading at the time of the year ended 2000 much lower than that, and my understanding is they trade still much lower today. Could you please provide us, for the actual investment loss, where the shares . . . had the shares been sold in the year under review?

Mr. Baldwin: — Well it's a public . . . Persona was a publicly traded stock on the Toronto Stock Exchange, and its shares have been fairly volatile given the industry that it's in. Certainly, if you looked at the volatility in Persona it would be the same as with Shaw and Rogers and any of the other Canadian telcos.

We carry the Persona shares on our books at $12 per share. That's the way it works out. Today it's trading somewhere less than $5. But when we actually look at Persona, and we do on a regular basis, the company is actually experiencing the strongest operating results of any cable company in North America, and it's basically been caught in a market downdraft that isn't particular to the company. The company's very strong — very strong management. In the year under review Persona has acquired some other assets which we think give it a lot . . . a very promising future.

So at this point in time, while the share price is less than we booked it at, it . . . the share price has exceeded $20 and is fairly volatile, and at this point in time I think we're comfortable with the value of the investment on our books.

Mr. Wall: — Thank you, Mr. Baldwin. Madam Chair, the shares are trading today at just over $4. And you're right — this book value obviously represents the valuation of $12. From what we can gather, the actual . . . my question was, what was the investment loss for the shares sold if you were using the equity method as you do with some of these other assets? And the loss would be $1.639 million, effective December 31, 2001. Were you going to . . . were you updating that to today, or at least November 26, the investment loss would be $9.7 million.

A couple of more questions with respect to Persona. Specifically, I guess, it's a cable company obviously as you've indicated, and SaskTel has very recently spent a lot of money researching and getting into the television business on the Internet side, on the phone line side of things.

So I wonder if you could highlight for the members of the committee how that circle squares.

Mr. Baldwin: — Certainly. I think with respect to Persona and what the overall long-term strategy of the old regional cable systems has been, their strategy going back into the early '90s was to avoid metropolitan, urban areas of Canada, provide a high-quality, robust cable service for smaller communities throughout Canada. So that when you look at Regional Cable and Persona, their customer base is centred basically in rural, small-town Canada.

When you look at ***Max***, which requires a DSL (digital subscriber line) delivery system, we have a licence, one, to only provide it in the urban centres of Saskatchewan; and secondly, there are distance and other limitations as far as delivering into rural Saskatchewan.

So at this point in time, while ***Max*** is a form of cable and Persona is in cable, the addressable markets at this point in time do not overlap.

Mr. Wall: — I'm pretty sure when ***Max*** was unveiled I remember Mr. Ching indicating that there was at least an interest in expanding or applying for a licence for, you know, for centres other than the urban centres down the road, potentially. And if that is the case, what would SaskTel do with these shares that it owns in a conventional cable company when it arguably would be competing with itself in places where there is these . . . (inaudible) . . . in place and they're ready for ***Max*** television?

Mr. Ching: — Well I think there's a number of ifs that one has to get over here. But if we for instance could find that our technology allowed us to go out beyond the large urban centres in Saskatchewan with ***Max*** product, and in addition to that if we could find that there was a successful business case to sustain that form of an investment, and if the CRTC (Canadian Radio-television and Telecommunications Commission) would expand our licence to allow us to go into those areas, all of which are fairly significant ifs to get over, then we would be in a situation where we would be competing basically with a company that we hold an investment in. And at that particular point, I think we would look to divestiture. I think as a general proposition, we went into the Regional Cable investment some years ago to try to have a window into that industry because I think everybody for the last 10, 12 years has foreseen what is actually happening now, namely the convergence of those two industries.

One of the things that SaskTel wanted to do by being involved in Regional Cable, first of all, and subsequently Persona, was to try and see that industry from the inside and understand it. In large measure our investment in regional and subsequently Persona has satisfied that particular need. And I think that the holding of the investment in Persona is not a strategic investment that is a long-term investment.

So regardless of whether we went out into rural Saskatchewan with the ***Max*** project, I think that we would look to divestiture in the long term, maybe even the medium term, of our holding in Persona. But certainly if we were to get over the bumps to actually roll out ***Max*** into rural Saskatchewan, that whole process would be accelerated.

Mr. Wall: — Thank you. Let's hope we're dealing with long-term timelines here in terms of divestiture, at least from the standpoint of value, because if you sold the shares today, the taxpayer shareholders of SaskTel would be in the ditch about almost $10 million on that particular non-core investment.

Austar Communications is the next one and that I think we've had some . . . there's been some discussion of this in a recent article where the *Leader-Post* was able to determine that it's SaskTel's intention now to write down, write down its investment in this particular Australian company. And I wonder if you could please highlight for that . . . I think the reports for that the writedown would be in the range of 15 to $30 million. We would argue that, you know, based on a fairly lengthy history of the share price, current history of the share price, it should be over $40 million.

But that notwithstanding, I wonder if you could highlight the — in terms of the year under review — any further developments with respect to Austar, and as well as its net investment loss or profit, post that right down to SaskTel.

Mr. Ching: — Okay. Maybe I'll start that and then I'll turn it over to Barry Ziegler from SaskTel International to fill in any blank spots that I leave out. And just for the edification of the committee, let's go back and understand what this . . . where this came from and what it is and what our approach has been to it.

You remember I mentioned, I think, at one point in the proceedings that we had an investment in Wellington, New Zealand. We were a 35 per cent interest in a company called Saturn Communications. Our partner was a company out of the United States, and it's called UnitedGlobalCom. And we were responsible for building out the telephony side of a telephony cable build in Wellington. That was going very well.

Our partners approached us; they also owned another company in Australia called Austar which had a video offering off of the satellite. They wanted to merge Saturn with Austar to create a combined company and then they wanted to take it out on to the public market. We agreed to participate in that particular process. We traded basically our 35 per cent interest in Saturn for about a 4 per cent interest — slightly less than 4 per cent — in the combined entity which was called Austar United. Austar United is the entity that exists today, and it is they who have their shares on the market.

Our partners got approximately 80 per cent of the shares. They have withheld their shares from the market so the actual float on the market is around 20 per cent of the shares of the combined creature Austar United. And while we only had about 4 per cent of the shares of Austar United, our share of the float was fairly substantial. It's about 15 per cent or so of the actual shares that were in the marketplace.

At the time that we did the merger, the market was fairly robust and the shares were priced to the public market at $4.70 Australian. The Australian dollar and the Canadian dollar has shifted around a little bit, one vis-à-vis the other. They're roughly the same in value. The Canadian dollar's worth a little bit more than the Australian dollar at the present time.

But the audit rules required that we enter those shares and that asset on our books at the time of the merger, reflecting a share price of $4.70 Australian. We did not sell any shares at that point in time so there was actually no profit in the sense of actual dollars or profit in your hand, but nevertheless there was a book entry which showed a fairly substantial value increase to SaskTel as a result of that transaction. The shares then rose over the next period of time and I think the shares went up to somewhere around $8.50 or thereabouts Australian.

Our strategy when we held the 35 per cent interest in Saturn was to invest our capital but also our knowledge and experience in building that side of the network — the telephony side of that network — and thereby leverage value. Once we stepped back from the investment, in the sense of only being a 4 per cent owner of the combined entity, our involvement at the operational level was quite small. We continued to have some people in Wellington working on the portion of the combined entity which used to be Saturn on a contractual basis, but our commitment to the project insofar as personnel, knowledge, and experience in effect fell away. And so we had targeted that investment much in the same way as we do with regard to Persona as being an investment which we would look for an opportunity to exit the investment. It was no longer a strategic investment from our vantage point.

So when the price went up we sold two tranches of shares, and as the price went up to its peak we sold one tranche of shares just before it reached its peak, and we sold another tranche of shares just after it reached its peak and was on the downside. So we got actually a pretty good price on the shares that we sold. The combined two tranches of shares that we sold was about a third of our holdings. So we continue to hold about two-thirds of our shares. I think in reflection we would have liked to have sold all of our shares at that point in time but I also think that probably if we'd have sold more of our shares, we would have had a significant impact on the market because of the fact that we held a significant portion of the total float.

Nevertheless what has happened is that the price of those shares have now dropped significantly and sit in and around 14 cents Australian. Now as you can see with Persona, the accounting rules don't require that you write the asset down the moment that it occurs, but the accounting rules do require that you have your asset recorded on your books at what looks like a long-term value for those assets, given what's happening in the marketplace.

So you don't have to follow them down and of course you're not allowed to follow them up unless you actually sell. And in the case of the one-third that we sold, there we took in effect a portion of what appeared to be our book gain and actually translated into an actual, real live dollar value to us, if you can put it that way.

As well I should say that during the period of time that we were involved in this investment in Austar United, we were concerned about two factors. One was the shift in the value of the Canadian dollar vis-á-vis the Australian dollar. To protect against that particular risk, we were able to take out a hedge.

The other danger that we could identify was the one that in fact we have actually seen occur, namely, the drop in the value of the asset on the market. We attempted to find some way to hedge against that risk and you can do that in some cases, inputs and calls. But those were not available to us within the market largely because of the small size of the float in the marketplace.

Insofar as the hedge against the change in value of the Australian dollar, we've collapsed that particular hedge and I think we realized a profit on that particular transaction of about $4 million or thereabouts. The amount of money which we received on the collapse of the hedge, plus the money which we received from the two sales of shares, recaptured most but not all of the capital which we had invested in the original transaction in Saturn.

I think that we are, I don't know, somewhere in the neighbourhood of maybe $3 million or thereabouts away from recapturing all of our capital from those particular transactions, might be a little more than that and . . . Sorry?

A Member: — Two.

Mr. Ching: — About $2 million away from recapturing all of our capital.

If we were to sell the remainder of our shares at the present price, the effect would be that on the totality of the project we would have lost about half a million dollars. If on the other hand we hold on to our shares and they drop further, that loss is going to be increased. If we hold on to our shares and they increase in value, we will of course have a resultant improvement in our position. If it's high enough, then of course we remove all of the danger of any loss and move into the area of having a gain on the investment.

It is not our intention at this time, as you can imagine, to sell that last block of shares at the present share price. In our mind the danger on the downside is insignificant compared to the possibilities on the upside. And so we sit at the present time having recaptured, by and large, all of our capital, although not quite all. And we still hold about two-thirds of the block of shares which we got allocated to us at the time that the merger took place.

Mr. Wall: — Thank you very much, Mr. Ching. Madam Chair, some questions that arise from that answer.

The first question is, when did the corporation begin in earnest considering that it would have to write down the value of this portfolio?

Mr. Ching: — I think that the drop-off in the value of the shares occurred during the spring and summer of 2001 — Barry, correct me if I'm off target on this — but I think that that's when the drop-off in the value of the shares started.

We of course look at these things, right in this particular time frame, in our normal cycle of activities. And as a matter of fact we're presently looking at our assets for the year 2002. And as a management we try to form our opinion as to what we think the long-term or the medium-term value of the asset is going to be.

In the case of the year 2001, I think it's correct to say that there was a fair amount of debate internally within the company about this issue as to what was happening to the Austar shares. There was a couple of factors at play. There was some suggestion that there may be a move by one other company to acquire Austar United. And there was a number of other things.

Our partners were putting additional funds into the company. They were caught in somewhat the same situation that we talked about a few minutes ago with regards to Retx — that the market was not prepared to put money in but they, as a majority shareholder, had to examine that as a strategy.

I think that when we got to the point where we had to make a decision, the management team was of the opinion that we should not write down the asset during the year 2001 but that we should try and describe in the notes to our financial statements in detail, as much as is reasonable in a document of this nature, the fact that there was some interesting things happening with regard to the value of these shares but leave the shares at the same value as we had recorded them insofar as our books were concerned.

That, of course, goes from the management to our audit committee of the board. The audit committee of the board agreed with us. And the audit committee then dialogues with our external auditor and with the Provincial Auditor, who I think accepted the fact that for the calendar year 2001, that was a proper handling of this particular asset.

This whole issue of course is up for review in the calendar year 2002. And when I talked to the representative of the *Leader-Post* some little time ago about this — and that gave rise to the article that you referred to in the newspaper — I simply indicated to them that we were looking at this.

Clearly the fact that the shares were down in the fall of 2001 didn't really cause us to believe that the value of the asset had been significantly impaired, but I think that the fact that they have remained languishing at that low level during the year . . . the remainder of the year 2001 and through this portion of the year 2002 has certainly caused us to believe that insofar as our books are concerned we have to reflect this asset as having a lower value than the value that was on our books previously.

I don't think that we've yet made a decision as to precisely where the shares should be valued at, at the present time, and it's really a bit of a guess. We don't want to guess too high because we will artificially inflate our books, nor do we want to guess too low because we will artificially then create a situation of where, if we sell them higher than that, it shows up as a revenue on our books. And that's not the proper way to conduct your books. So this is an issue we're wrestling with at the present time.

Mr. Wall: — Thank you, Mr. Ching. Madam Chair, the other issue that arises from the answer that Mr. Ching provided to the committee just prior to, which was basically a thumbnail or at least sort of a tour through this investment, the conclusion that we're looking at a half-million dollar loss is the . . . is what I'd like to pursue if I may. And so I would like to just very quickly run through a bit of our own sort of schedule as we understand it. And I'd ask you to confirm it or . . .

Mr. Ching: — Okay, sure.

Mr. Wall: — . . . or correct it if it's not correct in your view: that 35 per cent of Saturn Communications that SaskTel purchased was about $27 million; that they had to increase, actually they increased that investment another $12 million; total cash invested — source was a SaskTel news release July 17, '99 — $39.2 million with the Saturn investment noted in Canadian dollars. I think SaskTel officials indicated on December 5, 2001, that SaskTel's total investment was 40.4 million. So it's actually greater than at 39.2.

Subsequent to that came the Austar share exchange at $4.59 resulting in a non-cash gain on the share swap of 22 point . . . about $22.3 million. Then there was an Austar share sale, as you highlighted, at $7.90 or thereabouts for a cash gain of $13.6 million.

The market value of the Austar shares owned by SaskTel then as of December 31, 2001, however, due to the collapse in the share price — and by the way the price, the share price, at that time was 22 cents a share — would have been $2.1 million. The total return then is $34.6 million. The non-cash loss would be, according to our calculations, $5.799 million.

You said you made about four and a half on hedging. We're still left . . . we're out about two and a half million dollars.

Mr. Stephanson: — I can answer that. First off, I'm going to say it simpler I guess. You are mixing cash and accounting entries and that can't be done.

To say this more simply, your number 39.2 is right on the money. That is the cash that we invested. Yes, we did release at one point in time a number that said 40.4. But what we actually did, we had an agreement with our partners that if certain cable penetrations were attained, we would put another $1.2 million into this investment and so it sat in a trust fund. Those penetrations did not get achieved and that 1.2 million came back to SaskTel. So the real number that we put into Saturn was $39.2 million. Cash-wise all those other transactions were accounting book games.

The next real transaction was that we sold shares in 2001 for $32.5 million Canadian and then, not in the year under review but in 2002, we undid the foreign exchange hedge for a cash profit of $4.7 million. So 32.5 and 4.7 gives you $37.2 million actual cash receipt from this investment and 39.2 is the actual cash put into the investment. The net difference is $2 million and we still hold 9.055 million shares.

If we sold those — which is not our intention — but if we sold those at 17 cents, which is the trading price, that would be $1.5 million, meaning a half a million dollar difference. Our break even is 21 cents Australian. If the share price goes to 21 cents and then we sell the shares at that price, which again wouldn't be our intention, we would break even.

Mr. Wall: — Thank you for that. The upshot of all of that is that Austar Communications Limited represents, also as of today, represents an investment loss.

Mr. Ching: — No, that's not a correct way to characterize it. What it represents is that if we sold all of our shares it would represent an investment loss. Until we actually crystallize the issue of valuation by a transaction that involved the disposal of the shares, then you really can't properly characterize it as a loss, in my mind.

Mr. Van Mulligen: — I'm just trying to clarify when you undertake investments, whether it's in Saskatchewan or external investments such as these that we've seen, what is your strategic plan in terms of length of time for that investment to begin to look like a sound investment? I assume this varies with the type of investments that you have, the type of . . . whether it's in an emerging technology or whether it's in an existing stable technology. But I'd like to get your viewpoints on that.

And I want to just say this in the context of we have heard, over the years, calls by opposition members that the government should sell assets prematurely. And if we had listened to the opposition, over the years the taxpayers of Saskatchewan would have lost tens of millions of dollars — whether this is in the Bi-Provincial Upgrader in Lloydminster, where the opposition said get out, or whether this is in Cameco shares that the government held and the opposition said get out and sell. As it turned out it would have been very prematurely. Taxpayers would have lost tens of millions of dollars in Saskatchewan if we had listened to the opposition.

So I just frame that and would be interested to know your thoughts on investment strategies and returns.

Mr. Ching: — Well that's a pretty broad question and I'll try and give you a couple of comments that I think bear upon the subject, but please remember that this is a huge area, that I may miss something or may fail to include something that ought to be included in the dialogue.

As a general proposition, what you try to do I think is identify for yourselves an investment opportunity which tries to harness the things that you can bring to the investment. By and large most of us in our personal portfolios invest in businesses where the only real thing we bring is the investment dollars that we put in. So if you buy, as I did some months ago, Petro-Can shares, I can't do anything to either help or hinder Petro-Can to achieve profitability or a higher level of profitability, other than I guess go down and buy my gasoline at the local Petro-Can station, which I suspect is a rather minor issue in the great scheme of its business affairs.

In the case of SaskTel, we try not to simply invest money in an investment. That's not our investment strategy — our investment strategy is to try and invest capital dollars to either learn something or to develop within the company certain skills and abilities or knowledge or experience or contacts that will serve the company well in some other area. Or we try to take the knowledge and skill that has evolved within the company over the years and harness that to our capital investment so as to increase value and to participate in the hopeful impetus towards increasing value.

And hence you see us in some investments working towards a divestiture strategy because our original purpose for going into it — whether it was to learn something or whether it is to inject some of our experience and knowledge as a company — starts to fall away. Where it's merely a bare capital investment, our tendency is to want to exit the investment.

Then you look I think at each one of the investments that you participate in and you try and set for yourself a hurdle rate. And I think our hurdle rate is 15 per cent as the target that you set for yourself. Because you will, when you do your due diligence, your analysis on an investment, you'll come to the conclusion that it's a good little investment but, as best you can forecast — and believe me, it's only a forecast — the most you can hope for will not meet the 15 per cent return on capital invested, and we have a tendency to not become involved in that sort of investment. Clearly, I mean an investment that has got a projected internal rate of return which has 30 per cent is going to be more intriguing to us than one that has 15 per cent.

You then look for, I think, investments where you can say to yourself, we're going to get back all of our capital and the return that we intend for ourselves within the time period that we believe that the technology that is used by that investment is going to be useful and in play. This is where, when we're thinking about cellular sites for instance, if we were to build a cellular tower in a certain area, we look for a return that has a payback to us of somewhere in the neighbourhood of five to seven years because it is our belief that the technology's going to flip over and be replaced around that particular time period.

And one thing you don't want to get caught in, if you can avoid it, is to be invested in a particular technology; your business case projects that you will earn your return . . . the internal rate of return over 15 years and, lo and behold, the technology flips over after 5, and you're left then with 10 years of an investment in a technology where the underpinnings of your investment have gone, have gone missing.

So those are the general things that we look at. There are other things obviously that play into it. But we try our best to try and find investments where we understand the technology, where we can have an input into it, where our capital is augmented with the skills that we bring as a company to it, and where we think that the return is going to hit our hurdle rate or better, and that we're going to be able to make the internal rate of return that we project for ourselves within the time period that we think that the technology that's being employed is going to be viable.

Mr. Prebble: — My question relates to the risk to taxpayers in these ventures. Now clearly, overall SaskTel has a fairly significant net income, $101 million this year, and according to the previous annual reports, 93 million and 67 million in the previous two years. So it's generally a profitable company. And it's the only publicly owned telephone company actually in all of North and South America. So it's a profitable publicly owned company.

But with respect to the investments that we've been reviewing today, it's always been my understanding that the general principle on which our Crowns have been operating on is that we weren't going to put taxpayers' money — as defined by tax that's paid into the General Revenue Fund — taxpayers' money at risk.

Obviously all of these assets are held by taxpayers; they're owned by taxpayers. But in terms of whether any money was paid in by taxpayers to make them, my understanding has always been that since 1992, when some taxpayers' money was generally invested in the Crowns, that we as a matter of policy were not going to invest taxpayers' money in Crown investments.

And what I want to clarify is, is it correct to assume that there is no taxpayers' money that's been invested in these ventures, from the point of view of money that's gone into the General Revenue Fund and then been drawn on by government to invest in the holdings that we've been discussing today?

Mr. Ching: — Let me just go back into your question. You make an observation that SaskTel is the only publicly owned telephone in North America. Actually not quite true.

There were three provincially owned telephone companies, one in Manitoba, one in Alberta, and one in Saskatchewan. The others were always privately owned. Two of the three provincially owned Crowns have been privatized, as you know. But there's a number of other companies around North America which are publicly owned.

The city of Prince Rupert, for instance, owns their own telephone company. The city of Thunder Bay owns its own telephone company. There's a number of municipally owned and co-operatively owned companies kicking around in Ontario, Quebec, and scattered throughout the United States.

So in the sense of public ownership via the provincial entity, yes, SaskTel's the only one. Insofar as public ownership through other entities, there are a number of examples of that.

Within SaskTel there has been money put into the Crown sector, I think in '92. But I think insofar as SaskTel is concerned there's been no injection of taxpayers' money into SaskTel for some substantial period of time.

When this issue arose some time ago, I actually got our people to try and tell me when was the last time money was put into SaskTel. And it appears to have been around the time that we were created as a Crown corporation. You'll know that I think around 1945-46, in around there, SaskTel became a Crown corporation. And it was in that period of time that actual taxpayers' dollars appear to have been put into SaskTel. We could be wrong in that regard but that's the best information we can find out. Certainly in the last number of years there's been no taxpayers' dollars put into SaskTel in the form of tax monies.

Some people mount the argument that when you pay your telephone bill the taxpayer is paying and that it is something like a tax dollar. I've always responded to that argument by saying that if the average price of your local service across Canada were $10 and we were charging you $20, then you might have a good argument for saying that the additional $10 over and above the average across Canada might be looked upon as being a taxation of some nature. But certainly our rates are very comparable to those across Canada. We have some very good rates. You might even find in a couple of instances where we're a little bit high but, by and large, our rates are right in the ballpark with regard to what the rates are across Canada.

So I think that the argument that somehow or other a portion of what we charge people for the services we provide is in the nature of a taxation just simply doesn't stand up to close examination. So I would argue that what we do is we sell services and we sell products, and for that people pay us a price. And what they pay us is no more tax money than what they would pay to Hudson's Bay for the services they get there, or to the Esso station for what services they get there.

Now having said that, the fact of the matter is that the entire value of SaskTel ultimately belongs to the people of the province of Saskatchewan. And you can argue the proposition, I think quite validly, that everything we do involves taxpayers' dollars — maybe not in the form of taxes but in the form of the equity ownership of SaskTel. And so every time we make an investment one can properly make the argument that we are using taxpayers' dollars to do that. We're not using tax dollars, but we're using dollars which ultimately are owned by the taxpayers of the province of Saskatchewan.

Actually I'd make it more broadly than that. The ownership of SaskTel isn't reserved to the taxpayers of the province of Saskatchewan; it's reserved to all of the residents of the province of Saskatchewan. Because there are people within this province who do not pay taxes, and frankly SaskTel belongs to them as much as it belongs to the taxpayers.

So the truth of the matter is the more proper nomenclature, I would argue, is to say the dollars belonging to the people of the province of Saskatchewan are used by SaskTel in all of our investments whether it's billing out high-speed Internet to Swift Current or whether or not it's putting money into an investment in Newcastle.

The Vice-Chair: — Thank you, Mr. Ching.

Mr. Wall: — Thank you, Madam Chair. And I appreciate the president's answer there. I think that's correct.

I think there's one other element to this. It revolves around dividends which, of course, do go to the General Revenue Fund. So any activity that SaskTel undertakes, I don't care who's running it under what government, if it makes a mistake, honest or otherwise, and it can't submit or remit or pay to the GRF (General Revenue Fund) what it could possibly had it not made the mistake, that's an issue for taxpayers because, of course, it affects the General Revenue Fund or at least the ability of the province or its citizens. Thank you to the Chair.

With respect to the general issue that we have been exploring today and I would like to get a bit of clarification just before we do that because I think the president made some interesting comments about the nature of SaskTel's non-core or international investments, that they're trying to achieve some sort of strategic or technological ends. And I think that that's how this investment started. I don't think anyone would argue with that frankly, Madam Chair, that that's how this investment in Saturn started.

But I would submit and ask for clarification from the president that, at the time the shares were swapped for Austar, and at the time that the shares were then sold at 7.90 at some considerable gain at that point, but then 9 million shares were retained, at that point it became a straight stock market play on behalf of the residents of the province who own the corporation.

I think that is frankly the . . . If we went through the testimony today, I think that's what the comments from officials would show as well. But I don't want to . . . I mean, I don't want to be able to say that without obviously your opportunity to clarify.

Mr. Ching: — Yes. I'm not sure whether or not the terminology, stock market play, is perceived of as being a negative or a positive. I don't know.

If the point that you were making was that when we agreed to roll over our Saturn assets into the combined creature Austar United and, more importantly, shortly thereafter because it was within about a year after that that we started withdrawing our people from the Saturn portion of that investment, it was during that period of time that we lost our participation in that investment in anything other than having a dollar commitment to it.

And at that particular point, you can call it what you want to — you can call it a stock market play, you can call it a benign investment, whatever you want to do. But clearly that was the period of time when we decided that we were going to exit the investment as reasonably as we could and we started on that process. Had the share price not plummeted, I think we would have at this particular point probably have totally exited that investment by now.

The Vice-Chair: — I want to apologize to the member from Greystone, I cut him off. So . . .

Mr. Prebble: — No, you know, I'll just come in again at another . . .

The Vice-Chair: — . . . juncture.

Mr. Prebble: — . . . another time.

The Vice-Chair: — Okay, well let's put it this way, would you need about 10 minutes?

Mr. Prebble: — Just five minutes I think will be . . .

The Vice-Chair: — Okay, so at 5 to 12 we'll go over to Mr. Prebble.

Mr. Wall: — Thank you, Madam Chair. Well we've talked this morning for some time about some of these investments per the 2001 report, and we appreciate the fact that you've brought us right up to date on this particular investment.

You know when we raise these concerns, when we raise them here at this forum or in the legislature in the past, the government has responded, the minister responds, officials respond, and say that they do these things, they pursue these investments so that they can subsidize rates at home. And I don't think the evidence bears it out, neither for this year or if you take a longer view, if you go back five years, if you go back even longer.

According to what we just went through this morning, even reducing our value which we had a loss at . . . if you sold the shares in Austar at $5.7 million, assuming it's half a million dollars — and there's no reason not to assume that — assuming that's the case, we're looking at about $11 million in investment losses or potential losses for the year 2001. If you go back to '99, it's upwards of $30 million.

I have said and — but probably hard for officials to believe if they haven't read it — but I have said very positive things about SaskTel in the last 12 months as the critic, especially as regards the company's obvious core competencies, just as someone who's certainly not an expert but reads through an annual report and understands what an achievement it is to maintain the market share that you've achieved in a deregulated market in this province. When the company sticks to its core function, it is very successful.

I think the president, a year ago, just before this report was . . . would have been tabled, in an interview in the *Leader-Post* said as much, said that you know — and I'm paraphrasing a bit and I apologize if it's . . . does a disservice to the spirit of your remarks; and if it does, you can clarify it — but I certainly read from that that the president was saying, you know, because of the strength of our core function we're able to offer this kind of a dividend and record this kind of a profit. And that's precisely the point we make.

What I think is unfortunate, however, is that the facts of what we've raised this morning, in terms of these investments, are either disputed or ignored by the government and by SaskTel officials in order to make this argument, to draw this very long bow that these outside investments help subsidize rates at home. We would submit to you that rather, customers in Saskatchewan are subsidizing misadventures abroad. And the facts bear it out.

In May . . . And maybe you want to comment at this point, I don't know. There is an article in May 2, 2002 as a result of a debate in the legislature that dealt with these very issues that we're dealing with the annual report. And officials, I think the CFO (chief financial officer) is quoted in the article. And this is May 2002, well into this last year where I think the telco was realizing that a writedown was imminent. And there's still a $13.7 million gain pointed to by SaskTel and a non-cash gain at Soft Tracks of $1.7 million as evidence that in fact these foreign investments and these non-core investments resulted in a positive $7 million.

Well even if it was true then — and I would argue that it wasn't — it's certainly not true today. Today these investments have resulted in a loss and SaskTel customers have to pick up the tab. And I would ask for your comments on that. I know the minister concludes his — and I'll quote him — he concludes this article by saying:

> We make those investments to return revenues to the province and provide services in the constituencies that they . . .

That would be us.

> . . . that they represent.

And I don't . . . It's just not fact; 2001 it certainly wasn't fact.

Mr. Ching: — Yes. Well I think that there's a number of comments that I'd make in response to that, Madam Chair. To some extent, this is sensitive to the time frame that you pick. And I think you can choose your time frame and manipulate the results that you get a little bit by doing that.

The best time frame I think is to go back to when SaskTel got involved in growth and diversification programs, which takes you all the way back to the beginning of SaskTel International. If you look at that entire track record I think the evidence is compelling that SaskTel has had honest diversification and growth portfolio, net profit to our bottom line of substantially more than $100 million.

You can select any given year and jar that up or jar it down, but I think that that is taking too small of a snapshot. And especially with some of these investments where you don't expect to be able to make the investment on January and by the end of the year to be in a profitable circumstance, you just . . . I mean, if there was a lot of investments kicking around like that everybody would do them and we'd all be fantastically wealthy. It ain't that easy, to put it politely.

I think there's another factor to be borne in mind as it relates to this as well, because there is this belief that there is something called our core business. And it's a terminology which I use, as well as other people use, from time to time to describe what we're doing. But I think one wants to be very wary of it as a terminology with any sort of sense of precision.

I say that because if you go back to when I was a kid, the core competency of the forerunner of SaskTel was really local service. And as people demanded it, long distance became an additional part of the so-called core competency. As I've said in other forums, when I was a teenager the telephone directory in my hometown was printed up by the *Oxbow Herald* and it was on a piece of cardboard about 2 feet wide and 3 feet long, and you took thumbtacks and you stuck it up beside the telephone.

And if SaskTel in those days had restricted itself to its, quote, "core business," the concept of a telephone directory wouldn't be here today. There'd still be something printed by the *Oxbow Herald* for Oxbow and region. But in fact the telephone directory today, I think most people would admit, is sort of one of the core areas of most telephone companies.

If you go back 15 years, cellular was not our core competency. That was a brand new thing that we didn't know much about and for the first number of years we ran it, we didn't make very much money, made a lot of capital investment. But today people I think would say cellular mobility products is our core business.

And even within that part of our business, we're now putting out on to the market a thing called ***LoadTrak*** which tracks in a mobile world the activities of common carriers like trucks. We've got another product which in a wireless sense allows people to monitor the behaviour of their oil well or their water pump or some other feature. That certainly wasn't our core competency two years ago. Query whether it is today. But it's a nice little product that we think has got a lot of traction in the marketplace.

One might look at, for instance, FleetNet, and make the argument that it's our core competency. That has been a very, very difficult part of our business. I think you've heard me before on this, that we invested something like 30 millions of dollars in FleetNet and we've written off that entire asset because it simply never developed a revenue to sustain the capital investment. That, one would argue today, is our core competency. I would argue it's a part of our business and if there is some way that I can get rid of the darn thing, I'd try to.

Internet. I mean six, seven years ago, no form of Internet was even part of our portfolio. Then we got into the dial-up part of Internet and, arguable today, dial-up is part of our core competency. High-speed Internet is something that we've been in in the last three or four years. Before that, it was certainly not part of our core competency. Today, one would make the argument that it is.

Interestingly enough, when we got into high-speed, there were competitors in the field, the cable companies. Nobody complains about SaskTel being in that business simply because there's other participants in that industry. It's a fully competitive business.

From the moment that we got into the cellular business, there was another competitor in the business. Nobody complains that we got into the cellular business. Because why? Because both . . . In the area of cellular, we billed out more of rural Saskatchewan and urban Saskatchewan than any other competitor in that business and we're proud of it. We consider it part of our core business. But 15 years ago, you wouldn't have.

We are proud of the fact that we've got probably the most advanced high-speed Internet network in the province of Saskatchewan of any place in the North American continent, maybe the world. Well, we've got competitors in that business. They aren't building out rural Saskatchewan. We are. And yet, was it a core competency? Is it today? I don't know.

Core competency is one of these dangerous terminologies that sound simple but, in fact, you got to be very wary of it. And I don't berate anybody for using it because I use it from time to time too to talk about our business. But, be wary of restricting SaskTel to its core competencies because just being able to identify what those core competencies are is extremely difficult. And some of them are lucrative; some of them are not. Some of them are advanced and evolving and going into the future; some of them are deader than doornails.

And frankly, this business and our industry is one of the most dynamic industries of any in the world and tying SaskTel to something called a core business is a very dangerous thing. In some respects it could easily be the death knell of SaskTel if one were to restrict it to its core activities.

And when we look at the danger to the so-called taxpayers or residents of the province who own this particular company, one of the acute dangers one has to be wary of is that SaskTel starts to rest on its laurels, do only the things that it does today which are going to be passé tomorrow, and fails to keep up with the times.

Arguably my colleague, Mr. Baldwin, has from time to time made the argument that SaskTel over its life, and its predecessors, have built somewhere between four and eight telephone networks in the province of Saskatchewan. Now he's wrong in the sense that it's all one network and always has been, but he's right in the sense that that network has gone through various and sundry iterations, and frankly we aren't done yet.

We think that high-speed Internet and very high speeds in our high-speed network, which is what ***Max*** really is, is the be-all and end-all today. But I can almost guarantee you that a year from now, five years from now, certainly 10 years from now, the communications systems that we're going to need and depend upon in Saskatchewan aren't going to look like the ones we've got today. And if we restrict ourselves to not evolving our network and not evolving the projects that we're involved in, we're really going down a very dangerous road.

I accept the point that was made in the question, which is that clearly the bulk of our earnings at the present time come from the traditional legacy things that we sell to the people within the province of Saskatchewan. And I think I would also go one step further and say that if we didn't get into any of these diversification programs, we'd actually have had a bigger bottom line last year than the one that we reported.

Would we be doing the best thing for our owners? I don't think so because SaskTel doesn't exist in 2001 and it doesn't exist just in 2002. It is one of those companies that's got 94 years under its belt, or thereabouts, and hopefully will have another 90-odd years. And so we've got to be doing the things today that not only are wise today but are wise 10, 15 years from now.

And in the same way as you could look at Leicester, for instance, which is probably our most famous and most successful investment — I mean we were involved in that investment for about three years. That investment never ever achieved cash flow positive when we owned a portion of it. It certainly never had a profit. And as a matter of fact there was a number of people — and I was in CIC (Crown Investments Corporation of Saskatchewan) at the time — who looked at the Leicester investment, both within SaskTel and CIC, and said, gee are we really doing the right thing here? As it turned out, we absolutely were because we sold it and we made something like a hundred million dollars or thereabouts worth of profit on it.

So you can't just examine these during the period of time when they're in the process of being built. To some extent, whether you like it or not, you've got to look back at them and say to yourself, are these the right things to be positioning the company to be ready for the world 5, 10, 15 years from now. And both within Saskatchewan insofar as what we're doing with our network and what we're doing on investments in the province and out of province, I think we're positioning the company to be in a position where it can capture value both in and outside the province, not only now but in the future.

The Vice-Chair: — Thank you, Mr. Ching. Mr. Wall and then Mr. Prebble, and then we'll wrap it.

Mr. Wall: — Thank you, Madam Chair. And a final comment and an opportunity for Mr. Ching to respond. I know he will. Our only hope is that noon is perhaps . . . is coming. But I appreciate . . . I'm not trying to be flippant. Well maybe I am trying to be a little flippant.

I'd say this. You highlighted the Leicester deal and it's very . . . that's actually lynchpinned to this whole argument because, as I quoted the minister, he said we make those investments — he's referring to foreign investments there; that's what the article is about — to return revenues to the province to provide services in the constituency they represent.

And on the sheet, you know we would ask — and I know you would be aware of this — we would ask the minister to provide us with evidence of that. And on the sheet that would come around there would be not a lot of winners, but the winners were significant in terms of some of these investments. But Austar was on the list at a significant amount of money and that's gone. And Regional Cable was on the list and it's gone.

You know, in terms of the market today, it's structurally down at four bucks a share. You bought it . . . it came in at 12. And more to the point, Leicester cable, which is the deal, that's the $100 million deal, that, as I understand it, was a deal that was undertaken by the . . . under the previous administration.

So I think the argument that we make — and it's fair to have an explanation — the argument that we make is under this administration and in terms of this, in terms of this executive suite at the corporation, these investments have cost Saskatchewan SaskTel customers. SaskTel customers have had to subsidize them. And I'd submit to you that those are the facts. Without the Grant Devine/Leicester cable deal, there's no argument.

And so if there's one deal, and frankly . . . Well that's not a defence of that deal either frankly, because that's one out of how many? Maybe that's a signal, a signal that apparently many of the telecom analysts are getting on Bay Street and around the world that telcos do much better when they do focus on their — not just their core competencies — their core market. And ours is Saskatchewan.

And that's our point. We think it's essential that the corporation focus on Saskatchewan. It has great success when it does that. It runs into huge trouble when it doesn't.

Mr. Ching: — Well I share with you the proposition that the companies that are doing well today in our industry are the ones who have had a very high focus on their home markets. And the simple proposition is, that I think most people accept in our industry, is that to keep a customer if it costs you $1, to get the customer back it costs you $5, and to get a new customer from somebody else costs you somewhere in the realm of the $5.

So the most economical customer that you can keep is your own home customer. And I think probably when you look at the strategies followed by Bell and TELUS, you've got to scratch your head a little bit because they've suffered mightily in their home markets and they haven't been able to replace their customer base in the markets they've gone into.

So I think your point is a very valid one, which is that first and foremost look after your home market. And without a doubt the great bulk of the capital that SaskTel spends, the great bulk of our operating expense, is aimed at doing that. And I think that you're absolutely correct.

On the other hand, while I think that the recent past has caused people to look at companies that have tried to innovate and evolve and to do new investments as having suffered, it doesn't take a very inventive mind to look around and find a lot of companies who failed to evolve, and who died like a . . . something withering on the vine.

So there's your problem. I think on one side you want to not continue to evolve, not continue to experiment, not fail to try and do new things, but on the other hand don't get so aggressive about it that you bet the corporation. And in that respect I think we've done a good job of being involved in a whole number of things which I believe in the long run are going to be beneficial to this corporation and the province, but haven't risked the corporation itself. And that's one of the cares that we've tried to take.

But you know, the biggest risk in some respects is not doing anything or only doing what you used to do. If we just do that I can guarantee you this corporation will wither and that the value in it will erode and eventually it will not be of any great value, either as a device within our society doing things or as a capital asset.

Mr. Prebble: — Well I have a question. Before that I'll maybe make a little bit of a comment too. Because I think in fairness . . . I think it's been very helpful to focus in on some of the companies that are new investments and have had a difficult time in an uncertain global telecommunications marketplace. I think it's been a very useful exercise.

But I think we also need to look at the bigger picture. And the bigger picture is that we've got a company here in SaskTel that is the only state-owned or provincially owned telecommunications/telephone company in all of North and

South America, notwithstanding some of the municipally owned companies. And over the last three years it's returned to us a return on investment, in terms of net income, of over $250 million and it's made $101 million for us this year.

And it's done all of that in the face of a massive downturn in the North American telecommunications market, so that it's one of the only profitable telecoms in all of North America. And I think that's a remarkable accomplishment.

Now we've been having a debate on core functions and I'll be interested to hear the actual list of what are determined to be the core functions that the official opposition might put forward at some point for, I suppose, potential sale.

Because the non-core functions, I take it, are up on the chopping block. But we'll wait for your list.

Mr. Wall: — There's nothing on the chopping block.

Mr. Prebble: — Okay. Well that's good to know, that's good to know. I hope that's on the public record — that with respect to SaskTel there's nothing on the chopping block.

I think it's clear that we're not wed to every one of the new investments that have been made, in the sense that selling one of these investments at the appropriate time when the share prices are sufficiently high that we can recover our investment is not out of the question.

But the point that I want to make is that we need to, I think we need to discuss here more fully what we mean by core functions. Because does non-core functions, for instance, include DirectWest or SaskTel International, or Hospitality Network, all of which have been profitable? Does non-core functions include SecurTek, which is about to be profitable? So I think we need a much better definition from the official opposition of what in fact is a non-core function.

Finally I want to seek some clarification with respect to Austar, because this is an important investment for us. And in effect what I see having happened with Austar, both good and bad, is that we still own two-thirds of our shares. On the one-third that we've sold, we've in effect almost recovered our full capital investment. We've got the other two-thirds sitting there.

The bad news is that with the downturn in the global telecommunications market they're sitting there at 14 cents instead of at $8. And if they go up again even to 21 cents we recapture all our money, and if they go up significantly more than that we make money. But right now sitting where they are at now, we haven't fully recaptured our capital investment and I'm concerned about that too.

But I think that no one could have predicted the massive downturn in the global telecommunications market that has hit Austar in Australia. But we're very close to recapturing our capital investment. Is it safe to say . . . Can we be assured that we won't have any sale of the Austar shares, the remaining Austar shares, until we are in a position where we cannot only fully recapture our investment but make a reasonable profit?

Mr. Ching: — That isn't the way we look at it because if we were of the opinion that, for instance, we thought Austar United was going to go into liquidation and that the shares might be further eroded in value or sink down to zero, we would look to sell them at whatever price we could get for them.

Mr. Wall: — And just recover what we can?

Mr. Ching: — Yes, I think our belief at this particular point is that there's some positive signs surrounding Austar United. They just reported a larger than anticipated EBITDA (earnings before interest, taxes, depreciation and amortization) figure to the public markets, and certainly from our vantage point we have not lost faith in the long-term success of Austar United. So from our vantage point we believe that it's a share, that any share can go down in value.

I mean, look at how many of us held positions in Nortel and believed that it was virtually fortress North America. And yet that has plummeted. But that doesn't mean that Nortel is dead by any stretch of the imagination. As a matter of fact, I and a couple of my colleagues were down in Dallas earlier this week looking at — because that's where their developmental lab is — looking at some of their new products and I can tell you that Nortel is not dead. And that's for sure.

So you know, you look at what's happening to Austar and you've got to be very, very cautious. When a share drops as precipitously as Austar United shares have dropped you've got to watch it very, very closely. But you can't draw the conclusion that it's dead and that therefore the present position of those shares is where they're going to be on any sort of medium or long term.

The Vice-Chair: — It is now 5 after 1 and I . . . or 5 after 12, yes. I would suggest we return at 1:30 to continue our discussion on SaskTel.

The committee recessed for a period of time.

The Chair: — Good afternoon, ladies and gentlemen. I'd like to call the meeting to order. And in terms of the agenda, Mr. Wall.

Mr. Wall: — Thank you, Mr. Chairman. If I can I'd like to move on to a different subject matter, dealing with SaskTel and CommunityNet— just a few questions there.

However, just before that, and we had a . . . we did have a chance, in fairness I think, with Mr. Baldwin to get some confirmation, but I think it's an important thing to get on the record. There was some coverage of, earlier this month, and some news today even regarding the efforts of the country of Nigeria to take bids for their telecom sale. And in some of the documents here, it listed for example, there were . . . I'll just quote from one particular report. There were nine . . . And by the way, Mr. Chairman, I think this is relevant to the year under review because, on page 32, there's a reference to:

> SaskTel International will also continue to pursue large telecommunications infrastructure projects. These projects may lead to additional business within Africa, the Americas, Asia and around the globe.

So there is a reference there.

The development today, I understand, does not involve SaskTel. However, they were kind of listed as some of the companies, the nine pre-qualified companies for the contract to manage NITEL, which would be the Nigerian telco, I assume. SaskTel was listed along with a whole list of others.

And my understanding though is that that's . . . just to get it on to the record, that that's not the case. SaskTel is not part of it. However they were at one point pursuing an opportunity there on the management side, perhaps not as a purchaser of the privatized assets but on the management side. Is that correct?

Mr. Ziegler: — Yes. That's actually correct. We partnered with IBM (International Business Machines Corporation) Consulting to look at that management contract. We actually put in a proposal for it, but we did not qualify.

Mr. Wall: — And so that matter is done.

Mr. Ziegler: — Is done.

Mr. Wall: — And is the . . . The comment here then in the annual report is still . . . It's still true though that SaskTel International is continuing to pursue large projects in Africa, the Americas, in Asia? Is that correct?

Mr. Ziegler: — Largely correct. Yes.

Mr. Wall: — But I don't suppose you're at liberty to share with members of the committee any of where those pursuits are taking place or what they might entail?

Mr. Ziegler: — They tend to be project-specific, turnkey type projects where we've been successful in the past, such as the Philippines and Tanzania. With the downturn in the telecom sector, SaskTel International has been impacted significantly in its network division.

Right now, the big opportunities look to be coming out of Africa, generally; primarily in Tanzania where we have been for the last 15 years.

Mr. Wall: — And so, those are the geographic areas that this quote from 2001 annual report is referring to?

Mr. Ziegler: — Yes. Africa right now is the focus.

Mr. Wall: — Right. Notwithstanding Nigeria, it would be elsewhere then from this particular project that I referenced earlier, in terms of Africa.

Mr. Ziegler: — In terms of other opportunities?

Mr. Wall: — Yes.

Mr. Ziegler: — Nigeria, as you've mentioned.

There are several actually that we are pursuing in Tanzania. The Tanzania Rail Corporation is going through another phase of their build. We've worked with them in the past. The Tanzanian telephone company, the incumbent there is looking at building out network. We're looking at project management activities there. There's an oil and gas project that's going on. We're looking at doing some telecommunications work there. It's all project management related.

Mr. Wall: — And but just to be clear though, the Nigeria . . . SaskTel's out of this NITEL play completely, whatever happens there.

Mr. Ziegler: — That's my understanding of it. We received notification just last week that we did not qualify; from a bid perspective we don't expect to pursue it.

Mr. Wall: — Thank you very much. I guess one final thing before we move to CommunityNet. And I think my colleagues might have some questions for later on today and I'm sure others do too.

But the question is regarding the investment, the potential investment in the Newcastle, Australia area. And I think there was an update on the . . . one of the provincial media outlets here just today, this morning, that as of yet there aren't any, there haven't been any partners located for the venture. And just out of curiosity then, that interest is still . . . still stands, it's still current in terms of the corporation wanting to find a partner for its $80 million, its share of whatever the total investment might be?

Mr. Ziegler: — That is correct. Our activities over the course of the last year have been focused on business development and due diligence type activities. There was a significant amount of effort required to change planning legislation in the state of New South Wales to facilitate this project. That we accomplished at the end of September when we received approvals from the councils of Newcastle and the contiguous city of Lake Macquarie to actually allow us to do the build. So essentially we have that in place.

Again unfortunately with the downturn in the markets, access to debt capital has been restricted somewhat. We have been working with Export Development Canada actually over the course of the last 10 months to secure their interest in the project and we think over the course of the next two weeks they will bring a non-recourse facility to the project. Once that is in place, we expect the partners will fall in place thereafter.

Mr. Wall: — Thank you. Mr. Chairman, SaskTel did . . . 2001 was a pretty good year in terms of net income for the corporation and its retained earnings are not insignificant, as reflected in this document. Is that where the $80 million . . . that's where the $80 million would come from?

Mr. Stephanson: — I guess the best way to answer that question is retained earnings is an accounting term which just describes the amount of earnings that you have kept in the company rather than dividend out. And you've already used those dollars. The cash that actually exists in SaskTel is again on that balance sheet but it's a very small number. So as we move into any year, and specifically this 80 million, we generate a lot of cash in SaskTel and we have a lot of cash needs. And this 80 million would just be one more of those cash needs; but it would be generated from current earnings, not from retained earnings.

Mr. Wall: — It would. When that deal goes ahead, the 80 million would come . . . it would be cash flow, is that what you're saying?

Mr. Stephanson: — Cash . . . Well actually the way we normally operate is that our debt ratio target, which we're within, is 45 per cent debt and 55 per cent equity.

So it's always our plan and has been and we've been successful at it, is that if we take on . . . so if you did this one exactly that way we'd take on an $80 million — which I think is high — I don't think we would be spending $80 million . . . (inaudible interjection) . . . And it's over a number of years.

If we kept our same debt ratio, 55 per cent of it would come from generated cash flow within the corporation and 45 per cent of it would come from new debt.

Mr. Wall: — Pardon my naïveté about these . . . about how that project might unfold in Australia. But is there, in terms of planning on the international side or on the corporate side, is there a stale date on that? You know, a point at which SaskTel says, look there's just nobody else interested in this thing and we're either going to go on our own or we're going to walk. Is there planning underway? Are there dates like that in mind that the company could share with the committee?

Mr. Ching: — Well let me just make a comment maybe on it. This project we've been working on for, I would say, probably two years — not surprising, given the size of it. There will be a point at which we will say to ourselves, no we're not going to put any more time and effort into a project.

That's not usually a function of a date as such. It's more a function of us coming to the conclusion that either there is something wrong with the investment that we have discovered in the process of our due diligence or that we just don't believe that the fundamental drivers that make the project a good project remain as we first thought they were.

And we have had projects in the past which we've gotten approval all the way through the system, including from our shareholder, and we have determined not to go ahead with them because things have come to our attention as we got closer and closer to making the actual investment that we didn't like. And hence we backed away from the project.

In this particular case I think that the delay in actually getting down to business here has been occasioned by the fact that there is a sequence of things that have to occur. And some of them are dependent upon others.

For instance, I don't think anybody, ourselves included, could or would go ahead without approval of the councils. And of course as Mr. Ziegler just mentioned, we didn't get that approval until this last September. That was a more laborious process than we thought it was going to be and it took longer than we thought. But nevertheless in the end the two councils I think gave their approval to the project go-ahead.

It was really only after that that you could get down to business on other things like pulling together the financial structure of the deal, including the debt. And of course while the debt comes in at the end after the equity has gone in, all of the equity investors including potential partners want to make sure that there's a good chance that that debt's going to be there so you don't get caught sort of two-thirds of the way into the project and suddenly the debt isn't available to you and hence you have to dig down and put in more equity.

So until we clear each one of these barriers, the final barrier which is the issue of signing off with our partner has to be put into place, then all other issues we've had to grapple with . . . It's an aerial build. We're putting it on the local power poles and we had to get permission of the power company down there. That was a long process and we couldn't sign off with them until we had the approval of the councils.

So these things all start to . . . there's about four or five different tracks that you're proceeding on and as each one of them start to fall into place they start to narrow down and you're left with some key critical issues at the end. And right now the key critical issues are getting the debt financing in a non-recourse basis guaranteed to the project, and getting our partners signed off on. And the partners are sitting back and saying, until these other things fall into place we aren't going to make a decision. So as each one of these particular problems have been solved we're getting closer and closer, and when the final one is solved then the partners will make their final decision.

Mr. Wall: — This is maybe a picayune sort of an issue but yesterday we had, related to your answer you just gave — thanks, Mr. Ching — yesterday we had SaskPower here and Mr. Brkich asked a question about the relationship between SaskPower and SaskTel vis-à-vis poles. And so I'd just ask — you mentioned negotiations with the power company in Australia — just out of curiosity what you've been able to negotiate there. Is that more favourable than what SaskPower is wanting here in Saskatchewan and causing some difficulties?

Mr. Ching: — The contract that was negotiated between SaskPower and SaskTel, I think now is I think about five years old — John, you might know the details — maybe even longer than that.

Mr. Meldrum: — Ten years old.

Mr. Ching: — And probably needs looking at again. This particular contract being a brand new contract has a whole set of dynamics that would be maybe the same but maybe different from the one here between us and SaskPower.

Mr. Wall: — Thank you. When you were here last we talked at some length about the TV project at SaskTel. And this relates to some CommunityNet questions actually, but I do want to clarify something because the testimony that the committee received at that time related to the cost of this project, spoke to, and the coverage I think summed it up. And I think both you and I are in this particular story from June 2002 where the story, the article depicts the cost . . . SaskTel's foray into television is a cost to the phone utility of $42.7 million. And then as the article goes on . . . The headline on the article is "SaskTel spending another $20 million on TV."

So then when it was unveiled, when ***Max*** TV . . . or when the product was unveiled, I caught the coverage and listened carefully to yourself on an open-line show and I think the cost that you pointed to at that time was — sorry, through the Chair — I believe the cost that the president referred to at that time was significantly less than 42 million. I think it was maybe 16 million or maybe it was . . . it was, it would be $13 to $16 million. And so, you know, those are two different bits of information from the same Crown. And I wonder if you could tell us a little bit about that in terms of clarifying it?

Mr. Ching: — I'm going to make a few comments and then I'll ask Mike Anderson, who is the VP (vice-president) of marketing, under who the ***Max*** project has been placed, for operational purpose and for development.

Here's the way I think you have to understand this because it's not surprising when you hear how the confusion on dollars has crept into this. We started out with a very strong desire as a company to try and build out a high-speed Internet network throughout Saskatchewan because we believe as a company that that's the communication wave of the future. And so we were very receptive when the government, the treasury side of government, came to us and said we have a lot of needs in the area of high-speed . . . access to high-speed network to connect all of our offices throughout the province.

And so we sat down with them, them as our customer, and cobbled together a transaction which has generally been described as CommunityNet. And the concept there is that the customer's aggregated all of its needs — whether it's the Department of Health or the Department of Education, Department of Justice, any part of the treasury side of government's Internet needs — and they've mapped those needs out to us. We have a program which is a three-year build, approximately, but a seven-year contract with them to build a network to supply them with their high-speed Internet connections throughout the province.

We then step back and try to assess the market and say to ourselves, well that's one customer but what about the rest of our customers? What are the additional needs? How much can we sell in this town as compared to what the government will need?

And we tried to layer on as best we could on anticipated demand. And then we designed the network in such a manner as to meet the needs of the one customer — government — and as well to provide us with the facilities to supply Internet to private citizens and to other businesses.

The building out of that high-speed network is about $100,000 by the end of this year, maybe $125,000 by the end of this year. The project goes on for a further period of time and that will . . . Sorry the build-out of that network will be about another $100 million, maybe about 75 million, thereabouts, by the time we're finished. Mike will give you the precise figures, I'm giving you the outline of what's happened.

Now then, that network, I don't think we would build that network if all we were going to put over it was high-speed Internet because the business case is simply not there to do it.

So what we've got to do now is we've got to find products that layer on to that network which produce revenue to sustain that network without increasing the capital cost by a commensurate amount or the operating cost by a commensurate amount. One of those things is ***Max***. There are other products that we're looking at as well that ride on that high-speed Internet network.

Now what happens is that in ***Max***, there's a block of capital, I think about $20 million that gets us a head end, which distributes the signal — the video signal — and certain other capital that makes that plug into the network, as it were.

Then there is capital on top of that because if you were connected up to ***Max*** we would have to put a box on top of your TV to make sure it worked in conjunction with our network and the head end.

So that capital is what we would call demand capital. In other words it will only be spent if customers come and ask for the connection. But that could be a substantial amount of capital if we get a substantial amount of customers.

What happens is that as we get additional customers and the ***Max*** project consumes more and more of the high-speed network, more and more of the capital cost of the high-speed network will be attributable to ***Max***.

So it is not an easy thing to explain in actual dollars. And when you start saying is it 40 million or is it 45, to some extent, it's because we get caught in trying to answer what the question is really asking.

And sometimes it's hard to determine exactly what the question is. If somebody said to you, how much does it cost you to deliver ***Max***? Well we couldn't deliver ***Max*** . . . (inaudible) . . . a high-speed network. Theoretically, you could make the argument that ***Max*** is costing, what, close to $200 million. But that really doesn't answer the question properly. What additional capital does ***Max*** cost? About $20 million, if you assume that the high-speed network already has to be built.

So Mike, why don't you track to the actual figures and these will be as close as we can give you, the actual dollars and cents.

But you understand what the problem is here. And that is you're building a network and then you're trying to use it for a series of products and trying to determine what is the proper allocation of the capital from that communal network to those various products.

Mr. Anderson: — Just with respect to the question about the confusion around the . . . and I believe the number was 18 million at that time versus the 42. The 42 million that I mentioned last time we were here is, as Don said it was, the total combined spending for 2001 and to that point in time in 2002 for both high-speed Internet and the ***Max*** service. So the total that we had spent over that period of time was $42 million. Of that, $18 million of it is unique capital spending for the ***Max*** service — so the head end and the set-top boxes.

Mr. Wall: — Mr. Chairman, the CommunityNet project though is to focus on hooking up communities, for lack . . . to use the vernacular, that mightn't see it otherwise. For example, cities where you were going . . . the cities which are the only place, as you've indicated, they're going to have access to ***Max*** as a product. Isn't it true that, in those cases, the high-speed infrastructure was going to be going there anyway? Isn't that true?

Mr. Ching: — Well we had . . .

Mr. Wall: — Whereas the CommunityNet . . . I mean, you wouldn't even be able to deliver ***Max*** in most of the CommunityNet head ends because they're not in these major centres that you've highlighted as exclusive to ***Max***.

Mr. Ching: — We had started building the high-speed Internet network before we struck the agreement with the government which is called CommunityNet. And so, you're right, we had started that particular build.

What CommunityNet did for us was to say hey, we're a customer, we're a big customer, here's what our needs are. And so we could start redesigning our network and making it larger and more robust because we knew that that customer had to be served and we could then estimate other users and add that on and build the network in contemplation of all of that. But you're right, we had started to build the high-speed Internet network even before the CommunityNet project matured into an agreement between us and the government.

Mr. Wall: — Is it true, would you say that CommunityNet helps the viability or at least the sort of the foundational offering of ***Max*** as a product in any way?

Mr. Ching: — Well they're connected but I don't think one can say that we wouldn't have done ***Max*** without CommunityNet. You might be able to say a little bit in the opposite direction which is it would have been much harder to do CommunityNet if we don't do things like ***Max***, but even there we've tried to structure our deal with the government in such a manner that it will justify itself within the high-speed Internet bill.

But basically what you've got here is you've got a situation of the corporation building a network throughout Saskatchewan which requires usage in a number of different ways. CommunityNet's one of those ways; private sector usage is one of those ways; layering on additional product is one of those ways, and that includes ***Max***. All of that network requires those and hopefully more products to ride on that particular network to make it a viable long-term capital commitment for SaskTel.

Mr. Anderson: — If I could just add . . . Sorry, this might help. Actually in the major centres, in the nine major centres, the majority of the services that the schools, the hospitals, government agencies are using are actually a service called LANspan IP. It's a business high-speed service; they're not actually using — you know, unless in some extremely remote situations — our consumer high-speed service. So there really isn't much of a relationship between CommunityNet and ***Max*** or high-speed Internet in the urban centres.

Mr. Wall: — And just so we're all clear, CommunityNet is all part . . . about a $70 million initiative of the government, and it's government proper that has made this arrangement with SaskTel and SaskTel's going ahead and providing it — I see the heads nodding, so that is correct. Okay.

Mr. Baldwin: — With respect to CommunityNet, certainly the government was playing a role as the, I guess, the head lessor of the network. And they were going to enable us to take fibre optics into towns that didn't otherwise have it. But I think the accompanying public policy goal and objective relating around that expansion into smaller towns was more of an economic development focus.

For example, Radville, where there's a company down there that's running basically a $3 billion investment fund and they needed high-speed Internet and had been talking to us for some time about high-speed Internet. Because of CommunityNet we were able to not only provide high-speed connections for government facilities but we've given the businesses in Radville access to high-speed Internet. And he's going to be able to stay there and run his whole back-office operation out of Radville.

Mr. Wall: — I appreciate those comments and I certainly, you know, I certainly agree with that. I think though it's important then to . . . for SaskTel and for all of us as, you know, people in government, to distinguish then that the build-out out of the high-speed Internet sector isn't — especially in those areas — isn't about SaskTel inasmuch as it is about the government proper, the taxpayers deciding to do this.

Because no doubt SaskTel does a good job of getting that service to where they're supposed to get it, but we should be honest and recognize the fact that it's the CommunityNet initiative — the dollars represented by that — are allowing this build-out to occur. And I'm not trying to downplay the work that SaskTel does with that, but I think it's important that it's not about which . . . the company, it's about the program, the initiative itself.

So when the head end is available in various spots in rural Saskatchewan, whatever the units are there, and CommunityNet has effectively paid for them although SaskTel has done the work, are there . . . what other opportunities are there for other providers to . . . Can other providers somehow utilize the infrastructure in those areas?

And I think I know the . . . I know the answer to it but I would like to get it on the record because I . . . and I appreciate the response that you provided in a letter that asked that question. Maybe we have a chance here to explore it a bit. But that's a question that's been asked of me and I would appreciate your comments on it on the record.

Mr. Ching: — But understand what happened with CommunityNet. With CommunityNet the government only pays for the portion of our cost of going to Radville to service the government offices. We didn't design, however, our network just to serve that one customer. So to the extent that we extended our high-speed Internet network to Radville, it isn't just CommunityNet. It's CommunityNet plus SaskTel because SaskTel is adding something to the mix and building the system more robust than it is needed by CommunityNet.

CommunityNet doesn't pay for that. That has to be part of our capital commitment and we have to find a business case that allows us revenue from people other than community offices to justify that portion of the capital structure of CommunityNet.

Mr. Wall: — Fair enough. Do you have any comment on the use of the infrastructure then, by any other providers?

Mr. Meldrum: — Certainly our entire network and all of our services are available for competitors who are regulated by the CRTC. And what we have in this province in terms of what's available for competitors and other service providers to use is no different than any other province in Canada.

The extent to which somebody can develop a business case to use the facilities and the services that we have to be able to offer service in these towns, I guess is up to them to try and cobble that together.

Mr. Anderson: — Technically a competitor — I guess that's what we'd have to classify it — a competitor could come in. They can . . . Our local access routes are unbundled. They can take local loops from us in the community. They can establish a POP (Post Office Protocol), an Internet POP, basically a Web server. They can buy high-speed modems, just as we do, and they can cobble together a service if they want.

Mr. Wall: — Thank you.

Mr. Hart: — Thank you, Mr. Chair. I'd like to do a little follow-up with regards to CommunityNet, just so I understand the process. SaskTel provides . . . or puts the hardware and so on into the community so that schools can have access to high-speed Internet, and any health facilities and that sort of thing. And then you were mentioning that you . . . part of this whole process is that you plan for private sector use.

I wonder could you just explain sort of the timelines and so on, because I've had a number of communities in my constituency where SaskTel has put high-speed Internet into the schools and some of the business people are asking, you know, when can we hook up, and they're being told that it's going to take some time. And I was just wondering if you could explain that process and perhaps maybe some sort of an indication of the cost . . . or cost to a business in a rural town.

Mr. Anderson: — Sure. This is a very labour-intensive service to roll out. So what we have done is we have worked with the province. They have identified those communities that they want SaskTel to provide service to, and we are not providing service to all of the CommunityNet communities. In fact, I believe SCN (Saskatchewan Communications Network) is providing service to about 129 of the 366 communities so that $71 million contract is not all coming to SaskTel.

What we have done is worked with the province and tried to do the build-out in a fashion such that we're kind of going basically down our lines, and we're turning communities up as we follow kind of the main fibre routes. We have got a . . . we're presently tracking to try and get the full 237 communities of CommunityNet up and running by the end of next year. I can give you a list of the communities that are being turned up this year if you want. I believe it's just under 100 will be turned up by the end of this year. We are tracking to try and have them all on line by the end of next year.

What we are trying to do is, as we turn a community up on CommunityNet, we are trying to, within a couple of weeks, two to three weeks, make our commercial high-speed service available to that community as well. We've got ourselves in a situation where we have to backtrack a bit. We got approval on 191 communities . . . to roll the commercial service out to the 191 communities after we had actually gone in and put CommunityNet into some communities last year. So with our construction season, we're trying to get all the new communities up, turn up commercial high-speed service this year, and then by the end of this year go back to some of the ones that we missed last year, and get those turned up.

So we're kind of halfway through the program; hope to have everybody up by the end of next year is kind of the current plan.

Mr. Hart: — Now another question that I have had asked of me is when you provide high-speed Internet to various communities, and the schools are usually the first place that gets hooked up as I understand it, I'm told that a number of schools already have access to high-speed Internet through other service providers. Would you have any kind of an idea as to how many schools would have already had access to high-speed Internet?

Mr. Anderson: — I believe there is somewhere in the range of 12 to 15. Some of those schools in the past have chosen to build their own high-speed service. They've bought equipment — it's generally wireless equipment. I believe it's called Wi-LAN as the technology, and some of the school districts have actually gone out, procured that equipment, and built their own high-speed network access in the past. So those are likely the ones that you're referring to.

Mr. Hart: — Well, I'm not familiar with all the technical terms and so on, but I know Image Wireless was providing high-speed Internet to a number of schools in my constituency . . .

Mr. Anderson: — That's possible. The ones I was referring to are a different technology where the school has gone and bought its own equipment. If they are schools that are on the Image Wireless system, I'm not aware of those ones, but it's very possible that they could be using it, sure.

Mr. Hart: — Okay, now for schools . . . well let's deal with the schools first. Is there a charge to the schools for this service? Is it provided by your corporation free of service or is the government picking up the costs of the monthly charge that you would assume would go along with such a service? What's happening in that area?

Mr. Anderson: — I believe that it's some arm of the province that is paying for the service, not the individual schools.

Mr. Baldwin: — SPMC (Saskatchewan Property Management Corporation).

Mr. Anderson: — SPMC is who the contract is with. SPMC is paying the bills essentially for the service, not the end user.

Mr. Hart: — And that would be the same scenario for health services and government offices and that sort of thing? SaskTel doesn't present a bill every month to these various offices and that sort of thing?

Mr. Anderson: — I don't believe so.

Mr. Hart: — So would that same service be available to MLA (Member of the Legislative Assembly) offices in rural Saskatchewan?

Mr. Ching: — You have to talk to SPMC about that. I mean, SPMC is our customer here and they basically tell us where to connect and we tell them what our charges will be and we render the account to them and they pay it.

Mr. Baldwin: — And there are other preliminary discussions under way with respect to CommunityNet and then perhaps bringing in other layers of government that might usefully use the infrastructure that's put in place.

Mr. Hart: — Mr. Chair, I have one other question that, it's not directly related to this CommunityNet program but it is related to your fees that you would charge government offices for regular telephone services. Could you explain your cost structure as far as providing regular telephone service, whether it be dial-up Internet service and that sort of thing to just regular government offices like . . . I can give you as an example, there's a rural service centre in my constituency in the town of Wynyard. What sort of fee structure would you have for their telephone charges?

Mr. Baldwin: — We have a series of master communication services contracts with SPMC and we provide service and we bill SPMC for provision of those services. SPMC then bills the departments directly. So in a lot of cases we're providing a bulk long-distance service to government, we're providing bulk network accesses to government. Certainly it's fair to say that the way the government has structured itself and its contracts through SPMC. SPMC represents, and is our largest single customer, quotes, in the province.

And certainly when you're buying 8 to 10,000 lines and millions of minutes of LD (long distance), they're getting pretty good rates.

Mr. Hart: — So how would those fees compare for that office, as I mentioned in Wynyard, how would their fees compare to say, let's take a bank that's located in that same community? I would think that perhaps the requirements would be equivalent. And so my question is, the telephone charges for the rural service centre versus the telephone charges for one of the banks in that town, how would they compare?

Mr. Anderson: — Well I'll see if I can take a bit of crack at it. It depends on the services. If there are regulated access services, they are according to tariff, regardless of customer — the exception of Centrex, if you're a large customer. There is an ability to get decreased prices based on volume in term of contract, which is available to anybody.

If it's long distance, while the province is our largest customer inside the province and gets preferential rates, the banks are affiliated nationally and get national rates generally through . . . Bell Canada is usually prime on most of the big banks. So even though it may be a small bank office, compared to, you know, the province of Saskatchewan, the government, they may be getting very similar rates because that bank is leveraging buying power nationally through Bell.

Mr. Baldwin: — Or perhaps even lower rates.

Mr. Anderson: — Yes, in some cases, probably lower.

Mr. Hart: — So now if we use the example of a single-person office that's a government office, basically has a telephone, perhaps a fax machine, and a dial-up Internet service, and we had the same sort of services being provided to a small business person, and let's say for argument purposes, let's say that their telephone usage was exactly the same, how would their telephone bills compare?

Mr. Baldwin: — Well it's difficult to answer that precisely, but I think it would be fair to say that the government telecommunication services would be less because the government is using its buying power. So they're buying 10,000 Centrex lines from us. So they're buying in bulk. And a lot of their services . . . and they drive, they drive pretty tough deals, actually.

Mr. Hart: — So what you're saying is you would think — you don't know for sure — but you would think that that government office would have a lower telephone bill than the private individual, business.

Mr. Baldwin: — Yes.

Mr. Gantefoer: — Thank you very much, Mr. Chair. It's a pleasure to be back in Crown Corps after an absence of some years.

What I'd like to talk about is the digital and the wireless system that you have in place. And I understand, from the technological standpoint, the world is moving from analog to digital. But I know just little enough to get confused because I understand digital is sort of an all-encompassing phrase that cobbles together different formats and different methodologies, I guess, of delivering services.

For example, could you describe please how your digital service works? And I'm thinking in terms of I understand that, for example, competitors' digital products can operate — like BlackBerry devices — where your digital service is different and not compatible with exactly the same devices, or is that not true? Or please describe a bit your digital system, first of all.

Ms. Milenkovic: — First of all, just to give a little bit of a history, with respect to analog, it was on a common standard, industry standard to which was called AMPS (advanced mobile phone service). It's an acronym for wireless-speak. But in terms of the standard, you could go anywhere — for instance in North America, in the States, in Canada — and would not have to worry about whose network you were on because the devices were transparent to whosever network, because everybody went to a common standard.

In Europe, you may know that they have a type of GSM (Global System for Mobile Communications) standard which is a digital standard that all Europe collaborated on. And so, it's independent of what carrier they're on. Their handsets, if they switched, could operate on that common standard.

Then what happened in North America, in a little bit of a lag time after that, was that they basically have come down to two different standards right now. There was a little bit of a shift. There were three at one point. But it was a standard, a new one, which is the GSM standard plus CDMA (code division multiple access) which we are on, which TELUS is on, which Verizon is on, Sprint PCS.

And the opposite standard, which is the GSM standard, is the Rogers, Microcell, Cingular, and some other carriers in the US. Those standards are not compatible and those technologies are not compatible. So if you are a user or a customer on GSM and you want to switch providers, you also have to switch handsets. You cannot do this . . . (inaudible) . . . and it was actually because CDMA became a made-in-the-US standard and there was lots of political competing views on where the technology should evolve.

That discussion is not over. And when we talk about digital today in terms of the Saskatchewan marketplace, with respect to SaskTel we, as you have seen the maps, are intending to have a complete digital CDMA overlay on our existing analog services by about mid-2003. We should have that completely covered.

Having said that, there is another evolutionary iteration of CDMA which we are looking at launching in the new year. So that's an evolutionary path and in . . . worldwide, CDMA is getting significantly more recognition. There has been some downturn in the GSM subscriber or carrier base. And then a new version is entering in the European market which is UMTS.

Now all this is is a fight over technology. You start out the same; then somebody leapfrogs and then we leapfrog and then hopefully, somewhere down the path, these will converge into one global standard. We're not betting the farm on that, but certain . . . each of the carriers is certainly betting and trying to have the best foresight in terms of the technology that they are deploying, and hopefully have a vision of evolution.

So I don't know if that's clarified it for you but it's not particularly bright in terms of a strategy for users because we confuse everybody because we have to get into the explanation of technology, and users don't really care about that. They just want their phones and their devices to work. Unfortunately we are in this conundrum and it's difficult to get out of it.

In terms of the devices, in terms of BlackBerry or RIM (Research in Motion), SaskTel Mobility will be launching on their . . . on a new iteration of CDMA those kinds of devices.

What we have not had in our marketplace has been an all-data network which Rogers has had and which Bell has had, and they were called Ardis and Mobitex. And the RIM devices were like a paging device where you needed a data-only network for those to work. Well we never implemented those networks. The paging devices, as you know, now are a lot of . . . we went out of the paging business a little while ago. Other carriers are doing so because the device is evolving to have all those integrated services within one device. So we are going to launch those kind of devices on the next iteration of CDMA within the SaskTel Mobility networks.

Mr. Gantefoer: — Thank you. You have sort of absolutely substantiated the confusion for most civilians about this issue. And I guess that I can see the dilemma that the corporation would have in terms of trying to position itself and trying to anticipate which form of this digital system that is going to be most appropriate in the long term.

And I'm interested to hear, when you talk about completing the province map or footprint with the CDMA by mid next year and launching a new version or an upgraded version of the CDMA that will provide support for devices like BlackBerry, will that be a small launch again that starts in the major cities and spreads out? Or is that going to have the capability because you're into the digital CDMA network province-wide that you can really superimpose the new version on the entire system? Or does it have to be, you know, a progressive type of a format?

Ms. Milenkovic: — Well it is certainly capital dependent. But the advantage that we have with the technology that we are on, it is an evolutionary technology and so the cost to you from where we are today for the next iteration is significantly lower than it would be for a GSM player to move to UMTS. Ours is using cards in our existing stations in terms of our units around . . . in our towers for instance, whereas theirs is a complete new network.

Now having said that, we are still also in tandem with covering our existing analog. We are still expanding our network into white spaces where there is no coverage today. So we're trying to do both. We're trying to look at launching services in those communities who have had no analog or digital, and in tandem with that trying to stay current with the next iteration. But it certainly is going to be a cost factor and, dependent upon some of our alliances and partnerships, how we can manage those costs of infrastructure down so that we can expand that service more quickly, is a little bit of a balancing act.

So the intent would be, and we do this because — not only for our customers, but we do it for national customers and outside roamers that come into our province — it is important to get those services in Regina and Saskatoon, or that next iteration of the network in Regina and Saskatoon, because that's where the predominant amount of big users and travellers come. And they have to be able to use their devices because we get the benefits on our networks if they do when they travel. So it's a combination of that balance.

We are always looking at how we can accommodate the smaller marketplaces with new technology in tandem with that. But it's how much capital do we have available to spend in any given year.

Mr. Gantefoer: — Yes, I guess that's the dilemma for people. In terms of customers, you know, embracing the technology or getting the digital phones or looking to buy Palms or BlackBerries or those sorts of things, that end up only working in Saskatoon and Regina, and sort of then are of little value anywhere else in the province, either because they live there or they travel there — so it always becomes that dilemma.

The other thing I would assume that the new versions, or the evolutionary versions of CDMA, would also be backward compatible, if you like, so that in the new areas it would handle the existing service. So it covers that or does it an exclusive different version again?

Ms. Milenkovic: — It's predominantly up to the manufacturers of the handsets of the phones. Like we have been given notice by some phone manufacturers that they will no longer have the analog chip in their phones. So . . . but some will.

So that is a signal to all the carriers saying that you either got to go digital or your analog networks . . . there's going to be no new devices for those networks. And so we have to be cognizant of that.

Certainly carriers try to have influence in terms of their marketplaces in negotiating with vendors. But you can see where some carriers, who have customers in the millions, SaskTel making their particular case with subscribers with the amount that we have is a little bit of a challenge.

Therefore we rely on our partnership with our existing alliance, which is the Bell alliance. And they have just signed an alliance agreement with Sprint PCS in the US. So hopefully these kinds of issues can be accommodated. But it is a challenge.

Mr. Gantefoer: — In these digital signals, in your report on page 21, it talks about wireless data connectivity. And I'm thinking about those areas of the province that can't reasonably be served by CommunityNet or a land line based high-speed Internet.

Does your digital signal capability include remote users potentially being able to hook up for, you know, like data transfer? And is the bandwidth such that it operates at what kind of speeds or is the capability looking forward to be able to look at an expanded digital network that could include reasonably speeded if not high-speed data connectivity?

Mr. Ching: — We know that SaskTel has been looking for a methodology of reaching what we call deep, deep rural — acreages, farms, and very small hamlets — with a data service, a high-speed Internet service of some nature. And the possibility that that's going to be a wired solution is very, very small. It's simply too expensive to try and achieve that.

What we've been trying to assess is whether or not there is a business case for some wireless technology. And at the present time I think we have got two possibilities and we're nowhere near coming to a decision on which of those two possibilities to pursue at this particular point.

One is some new iterations of the digital cellular network which may offer a higher speed solution to individual farms or acreages. The other, as you know, is that we've got a licence for MCS (Multi-point Communications Systems) spectrum which is simply another block of spectrum. And we've been looking at ways and means of using that for a wireless high-speed solution in deep rural.

I think we're some months away from deciding which of those two solutions is the better. It may be that there's an argument for some combination of the two. We don't know, but clearly it's an area of great fascination for the corporation because there's a very strong desire to sort of reach out to deep rural with a high-speed solution of some nature because frankly, there's a big need in that particular area.

Mr. Gantefoer: — Is this technology . . . And again it must be quite a challenge for the corporation to try to anticipate where technology is going because I think even those of us who are pretty naive about it realize that it's a tremendously evolving kind of technology in the whole digital field. But I also sometimes wonder, is there existing examples? For example, how does this compare to what Image Wireless does?

You see their towers all over and they say that's a digital signal or whatever. And it always seemed to me that . . . are they doing it and is this what we're looking at with this special licensing or is it something different again as was said earlier that's this leapfrogging technology? How does this . . . is this going to put you in a position to again be a direct competitor of services that are provided by, say, Image Wireless?

Mr. Ching: — Well not only is it tricky to try and determine which technology is going to be the one that is a successful one and that has got some significant life to it, but very often what you find is that some of these interesting and . . . (inaudible) . . . technologies, inventive technologies, are embedded in companies that have got very shaky corporate foundations financially. So it's not just a question of trying to get the right technology but it's also important that you secure that technology or the devices that you use to exploit that technology from companies that are going to be around to tend to that particular product for the foreseeable future.

Yes, there's no question that we might start bumping into Image at some particular point, and as a matter of fact we do even now because their wireless high-speed solution is available in places like, for instance, Yorkton. And indeed there are places around Regina that use their particular product and some of those places we can reach with our particular solution; some we can't at the present time.

And as a matter of fact what's happening here is that people . . . like telephone companies like SaskTel are competing with cable companies, who are competing with wireless, fixed wireless providers, who are also competing with them and the satellite providers. So people like Image wind up competing with the cable companies, they compete with us, they compete with the satellite providers, and all of us compete with each other. It's really becoming quite a confusing array of competitors.

And some of them in the long run are not going to survive this particular competitive pressure. There's no question in my mind that as we move along, some of those technologies will simply not have a long life to them or the cost of providing the service through one technology isn't going to be as financially rewarding to the investing company as other technologies. And there's a lot of, there's a lot of suppliers in this industry right now.

Mr. Baldwin: — Let me just add a little bit to what Don said with respect to Image. Image is utilizing a block spectrum called MDS (Momentum Data Systems). We've got MCS. In terms of radio frequencies they're very close together. The difference, the principal difference between Image's spectrum and ours is the licensed use of the spectrum.

Their principal use of the spectrum is to provide wireless cable TV. They have some capability of providing wireless Internet but the bulk of their frequency by licence has to be used for delivery of wireless cable. With respect to our spectrum, the licence is for 100 per cent for data, so that . . . and it was licensed by the government for 100 per cent use for data. So with respect to a high-speed Internet or a data service, our spectrum is going to be used solely for that.

Ms. Milenkovic: — I guess just for a little bit of clarification, if I might, Mr. Chair. When we talk about wireless, there's two principle types. One is fixed — that's like wired except that you don't have wires; you don't have any wires, or it's like a fixed service. The other is mobile and the mobility network is mobile, the next iteration is. Now the mobile services can be used in a stationary environment and vice versa. The MCS licence is fixed only — you can't have any mobility with that, it's stationed. So that's the difference. So sometimes we get confused because it's wireless, that they're interchangeable. Not necessarily they're not.

Mr. Gantefoer: — Okay thank you very much. Actually it does clarify some of my questions about this great word of digital, digital wireless because it is, as I said in my opening statement, is an all-encompassing concept but there is so many different variations and specific applications within that.

If I could, Mr. Chairman, I have one other area that relates to the health sector and I'd like to talk about two things is . . .

The Chair: — Is there anybody on this particular topic?

Mr. Brkich: — My, kind of, question was on technology.

The Chair: — On this issue?

Mr. Brkich: — Well kind of. It's a technology issue . . . or question, I guess.

Thank you, Mr. Chair. Just to follow up on the technology end of it, talking about where it's going. And, like Rod, I'm trying to, you know, follow it.

Satellite use. Will that be coming into play? Do other companies . . . are they using satellites? Are you using some in some of your technology now delivering services instead of building towers? Could you give me some information maybe on that end of it?

Mr. Ching: — Sure. There's a lot of satellite communications capacity around the world and over top of Canada in particular. It's a well-known technology. It is a very expensive technology; it's subject to some very substantial risks. I don't know whether you remember — it might be about six or seven years ago — a number of stations all of a sudden went off the air and that was because a sunspot had affected the rotor . . . the devices on Anik E1 and Anik 2 . . . Anik E2 satellites that keep that in a stationary position, and as a result it was moving around, fouling up the signal, and they had to adjust for that. So it's a tricky technology; a very expensive technology. It costs a lot of money to get a satellite up in the air.

We do use satellite in northern Saskatchewan because in some of the very, very thinly populated parts of Saskatchewan, it's simply the best way to get communications capacity there.

We personally at the present time don't have any interest in any satellite operations. We used to have an interest in Telesat but, as did all the rest of the telephone companies that were in the Stentor alliance, we sold out our interest a number of years ago. You remember an Alouette investment that's in our investment portfolio. That was our interest in Telesat's satellite operation and all of the telephone companies sold out their interest to Bell who owns that particular entity at the present time

Mr. Brkich: — Well I guess, Mr. Chair, going through you, will the technology be able to catch up or will it make costs favourable to eventually be going to satellite in the near future, or is that a long ways down the road yet?

Mr. Ching — At the present time this is roughly the parameters. On a land line right now you're probably spending about 9 or 10 cents per minute for long distance. On a cellular — and these are very rough figures, very all over the place but they tend to centre around this — that same minute probably costs you around 30 cents. For satellites it's about $5.

So you can see that the gradation in cost is of such a nature that if you've got any choice, you're going to select a system which is different than satellite. Where you don't have any choice — rural and remote areas — and satellite's your only connection, then it obviously is the one you use because you don't have any choice. But if you've got a choice, you'll use some other system because the price of it is onerous compared to the other forms of communication.

Mr. Anderson — If I could also add, the service is not as robust or complete as some of the services that we offer. So if you look at high-speed Internet, for example, through satellite, you're probably looking at download speeds of 400 kilobits to 640 kilobits per second on the connection as opposed to the wire line, SaskTel's consumer high-speed Internet service, which is 1.5 megabits. So there's limitations, technical limitations, on the satellite service as well.

Mr. Brkich: — Yes, I understand. Like right now there . . . (inaudible) . . . in place. My question is in the future do you think it will be moving there? You said Bell Canada bought some of the interest. Do some of the bigger telecommunications, are they starting to provide more and more service in Europe using satellite or are they still staying more with what systems we're compatible with?

Mr. Ching: — About 10 years ago, maybe even less, there was a real strong belief that satellite communications was the wave of the future. You remember there were some people put huge amounts of money into these, what they call LEOs (low earth orbit) and MEOs (medium earth orbit), which were low-flying satellites, moving very rapidly. I think the wheels have come off virtually all of those particular projects. Literally billions of dollars worth of capital investment have been lost in those particular projects.

I don't think, certainly I'm not familiar anyway with any indication, that the technology that surrounds satellite communications has got any significant improvement in it recently that would say that that whole field of communication is going to come back to life.

Ms. Milenkovic: — I'd like, Mr. Chair, to add that we have been in negotiations with some satellite providers just in terms of minute rate, and they are coming down. But it's for a particular use.

For voice communications still, satellite is a good option. And satellite providers are willing to negotiate so I think there's options there, if you don't have any other choices, or if you have a special needs.

And also on the data side, too, they've been very amenable too, because we use a satellite provider for our ***LoadTrak*** service, that's out of the reach of other networks. And they are starting to negotiate and realizing that they do have to come down in their per-minute rates, so . . .

Mr. Hart: — Thank you, Mr. Chair. If I could just go back for a moment to that area of wireless data transmission. One of the gentlemen mentioned that SaskTel has a licence for a band that's very close to Image Wireless and that Image Wireless's licence . . . I believe the statement was made, that the majority of the licence was to be used for tele . . . or satellite transmission of TV programs and the small portion of the licence is for data transmission.

I'm not familiar with the process of obtaining these licences and that sort of thing. I guess one of the questions I would have, and I wonder if someone could answer it is, is it an onerous process for a company like Image to have their licence changed so that they could devote more of their activities to data transmission rather than to the other activities that they are licensed for now?

Mr. Baldwin: — Actually the spectrum that Image Wireless has is exactly the same spectrum that Craig Wireless is using and you can't change it. We've tried.

Mr. Hart: — So what you're saying then is that Image is locked into this position where they have to devote most of their activities to the . . .

Mr. Baldwin: — With the current technology the bulk of their radio use will be required for wireless cable. But it may be that down the road the technology may change where transmitting the wireless cable channels will use up less spectrum which would leave more spectrum for high-speed Internet or data. But at this point the bulk of the spectrum is being used for wireless cable.

Mr. Hart: — Well it's been my experience talking to constituents that it seems the growing part of that particular company's business — at least that's my impression from, as I said, from talking to constituents — would be the data transmission part of their business.

And I guess I'm a bit concerned when I hear you people talking about . . . you're looking at doing that exact same thing. And I'm wondering I guess, have you been in discussions with Image or has Image been in discussions with you folks as far as corporate takeovers or those sorts of things?

Mr. Ching: — I want to be extremely cautious because, as you know, certain things like this are . . . have a lot of confidentiality wrapped around. But suffice it to say that we look at a lot of options and we have tried to understand the wireless business as best we can.

We're obviously deeply involved in one wireless provider already, Craig Wireless. We've looked very carefully at Image, have considered a number of options insofar as Image is concerned, but I don't think I can say anything more than that.

Mr. Hart: — So what you're saying then is that you've thought about it then and you're not prepared to divulge whether Image has . . . you've talked to Image or Image has talked to you.

But I guess if I was in control of that company and I knew that SaskTel was going to become a competitor of mine, I would be very concerned. And I'm . . . I guess this leads to this whole area of the Crowns competing with private industry. And it seems to me that we may be going down that road again. And I think that's . . . I can conclude . . . draw that conclusion from your comments, can I?

Mr. Ching: — Yes, you can certainly draw the conclusion that we're competing with the private sector and they with us. Because don't forget that, while there aren't very many people offering local service — because that's a part of our business which is still subsidized — the fact of the matter is that every line of business that we're in is competitive; that is to say, it's open to competition. There's no regulatory reason why a person can't offer any line of business that we're in. And in fact we were in the Internet business and Image has entered that business and does compete with us.

Mr. Hart: — But Image was not in the Internet business as far as land lines. They were in wireless and I mean, that's an area that SaskTel has never been into. Now I guess my question is why would you be going there if that service . . . if there are other companies out there that could provide those services, and in fact already are doing that?

Mr. Ching: — But companies don't go in or not go into lines of business because somebody is already there or not there. They go into lines of business because they believe that they've got a product offering and a price and a service package wrapped around it that would be attractive to the customer, and that they'd get enough customers to build a successful business case.

I mean, Image obviously does what it does because it thinks that it can do it and do it well and that they will have a customer base that justifies their investment. We do what we do for exactly the same reasons. The fact that they are either in the business or not in the business doesn't either draw us in or keep us out of that line of business. The truth of the matter is the entertainment and the communications business is rapidly converging into one large, ill-defined group of companies offering a group of services.

And from the customer's point of view you may have a preference to deal with this company over that one, but in truth what you want is you want the products and solutions that satisfy your needs at the best possible price that you can get them for and you want a service package wrapped around that that meets whatever your needs are and your wants are. And whether you get them from SaskTel or from Image cable, or whether you get them from a satellite provider or another cable operator is really secondary.

Most people really don't even care what the technology is. What they want is that they want the types of service that meet their needs at prices that they like and with good service.

Mr. Hart: — But from a public policy standpoint, do you think it's a good idea to have one company that's dominant in all these areas and is basically driving all these other companies out of business or else encompassing them? Is that healthy for that sector of a provincial economy where we have one company that's so dominant that it virtually is that whole sector of the economy?

Mr. Ching: — Well I think that what you'll find is that it's extremely difficult for any company to become completely dominant in these areas. As a matter of fact the technology jumps that are made from time to time make it extremely difficult for any company to really dominate. And companies — there's no question — companies are going to be successful and some companies are going to fail.

And as a general rule what you'll find is in an open market like we've got here, the companies that succeed are the ones that have good products, good service, good prices. The ones that fail have — for technological reasons or personal reasons or whatever — a flaw in that particular formula. They wind up with products that don't meet the needs of people or service levels that people don't like or prices they don't like. And those things are interchangeable.

I mean, we could double the level of service for all of our products by hiring a whole lot more employees and allowing every 20 people to have a personal CST (customer service technician) guy in a truck. But of course what happens is that the price skyrockets.

So the trick is to try and balance those things because what you want again is the best combination of the product, the price, and the service level — and you don't want too much service; you ain't prepared to pay for too much service, but you are prepared to pay for a certain level of service. And we've got to find that out as best we can from you. And some people do very good jobs at that.

By and large I think SaskTel has been very good at trying to find that balance. And there are some customers who complain to us about not having enough service; some complain about having too much service. But we get a pretty good balance between price and service and products.

And it's a constant struggle trying to get the right products as you heard from the discussion on wireless, is really a web of difficulties. Some companies are going to struggle to find that good balance and they're going to as a result struggle to survive. I'm not sure that's the fault of the ones who do it right.

And I don't think, I don't think in Saskatchewan that any entity which would be the very small person — say the Coronach Co-op — is necessarily going to win or lose. I don't think the medium-size companies like SaskTel or maybe Image are going to necessarily win or lose. I don't think the really big companies like Shaw are going to win or lose. I think that at any level of size and regardless of who your shareholder is, if you don't do the fundamentals of doing it right for the customer, you aren't going to be one of the ones that survive.

Mr. Hart: — Well that may be all well and good, but when you as a small company in this particular area are looking at competing with a large company that has a monopoly in a certain sector of the business from which they can base their operations on, I'm wondering first . . . I mean that's something that companies in this province have to think about along with all the other aspects of running a business, that the business people have to think about in other jurisdictions.

But now my concern is that if SaskTel looks at a certain area and then decides that they don't want to go there and therefore there's no service provided to that area — in this case, data transmission in remote areas in rural Saskatchewan — yet by SaskTel moving into the areas like Image is, it's sending a signal to other companies that may be looking at providing a niche service in other parts of this whole information and telecommunication services.

I guess the message that we're sending to these people and the result being that perhaps some people may not have services that they normally would have, I guess I would just caution that SaskTel weigh that when they're making some of these decisions.

Mr. Ching: — You know, it is a difficulty. Because the truth of the matter is one can make an argument for the fact that once a provider is providing a service in an area, that all other providers should defer and should stay out of that particular area.

But you know, like, if you look at Yorkton, for instance, I mean Image wasn't the first one in there with a video product. There were other providers in there with a video product before Image went in there. And they aren't the only one in there with an Internet product and they really came in behind other people that were in there with an Internet product.

But in my mind, I know it sounds harsh and I don't mean it in that particular way, but the truth of the matter is that a free and open market like this really allows numerous providers to try and find ways to provide those services to customers in a particular area. But then it has a selection process which says some are going to succeed and some are going to lose.

And you're right, I think that SaskTel tries hard to cultivate its image in communities like, say, Yorkton. But the fact of the matter is, in some respects, Image has a great advantage on us. It's local to Yorkton. It can expect a level of loyalty if it goes about its business, that SaskTel from being out of Yorkton, if I can put it that way, with its head office and with its main part of its workforce, has to work hard to counterbalance.

We found out that in spades because when long distance competition came to Saskatchewan there was a number of us, myself included, that were scared to death that big operators like AT&T and Sprint were going to really come into Saskatchewan and eat our lunch.

But when we stopped and thought about it and we started to focus our attention on it, the fact of the matter is we had a lot of advantages over AT&T. This is in a fully competitive area of business. We knew our customers. If AT&T knew customers in Saskatchewan better than us, we really should have packed up and left the field to them. And in some respects if we know customers better in Yorkton than Image, we're doing something right and Image ain't doing it quite right because they're the local folks and they really have an advantage over us.

There is this argument which says that because we provide local service, which looks a little bit like a monopoly but I can guarantee you it is not a monopoly, the fact that we have local service does give us advantages. But I mean, that's true with regard to high-speed Internet in Saskatoon and we got a real fight trying to win market share from Shaw up in Saskatoon. The same is true right here in Regina with Access. Access is a tough competitor. And the same is true in Yorkton, frankly, with Image. They're a tough competitor.

Now do we want to organize our society in such a manner that our market isn't free and open and all parties participate in it? We could do that. To some extent we used to do it with the monopoly structures which we had in communications. Do we want to take the position that entities which are owned by the government or by the people of the province of Saskatchewan don't participate in some parts of the province where other people have staked out their territory? I guess we could do that too but we don't do it.

That's not the way in which we've structured the activities of SaskTel. There's nothing that says that Image can't come right into where we are and compete against us, and nothing that says we can't go right into where they are and compete against them. And for better or for worse we have structured our communications industry in Saskatchewan in that manner. And I don't know what one does about that other than to say our responsibility is to make sure that we do as best we can for the consumers of Saskatchewan. And the same is true with regard to Image, they will do the best whatever they can too.

Mr. Gantefoer: — Thank you very much. Just briefly there are two communications initiatives that the Department of Health is working on that I'm aware of. One is the new one, for lack of a better word, the telehealth, the informational support desk type of project, and the other one is the health information network otherwise known as SHIN (Saskatchewan Health Information Network). And I'm wondering if you could update us on your role in each of those projects.

Mr. Baldwin: — Sure. With respect to the telehealth or, for lack of a better word, phone-a-nurse call centre, we are participating in a consortium that includes the Regina District Health and another software provider. And our understanding is that we've submitted the bid. Regina Health District is actually the lead on the project. We're providing essentially technical support to the consortium, mainly around our expertise running call centres and provisioning call centres.

I understand it's down to two finalists and Regina District Health is one of the finalists. And at this point we're waiting to find out which way the Department of Health is going to go.

With respect to SHIN, we basically provide a range of telecommunication and hosting services. The Health Information Network runs a number of software elements for health. Those software programs are loaded onto servers which are in our data centre on Lorne
Avenue. So the bulk of our service that we provide to SHIN is with respect to the hosting of their software and providing security around the software and the information that's contained therein.

Mr. Gantefoer: — In regard to SHIN, does SaskTel provide the data security in terms of backups and is the data going to be embedded in a SaskTel network system or is it embedded into a system that's operated by SHIN?

Mr. Baldwin: — SHIN has a segregated server farm inside our data centre. The data centre itself is highly secured physically in a number of ways and it's highly . . . the information is highly secure in a number of ways with respect to hacking and other unlawful intrusions.

Mr. Gantefoer: — Thank you.

Mr. Wall: — Thank you, Mr. Chairman. I'll make this quick. Just one question though. On June 25 when you were here last, we had noted in the provision of documents that SaskTel had, for whatever reason, omitted a list of consultants over $10,000 that other Crowns had provided.

And I'm wondering if . . . There was I think an undertaking that we could maybe have a look at that and I'd sure appreciate that. There is — oh here it comes — and maybe the . . . so the question might be in here. It's just a question regarding . . . If you'll just bear with me for a second here, Mike.

I do notice a number of . . . I do notice some IT (information technology) firms here that are highlighted as consultants that have been retained. And I wonder if you could tell us about the process that SaskTel uses when it retains IT firms, for example, local or multinational. Is there a RFP (request for proposal) process or how does SaskTel do those sorts of things?

Mr. Stephanson: — There is certainly normally an RFP process in the majority of cases. The rare instance where there is not an RFP they do a thing in fact in advance of an RFP and call it an RFI, or a request for information, where we find out the capabilities either of a piece of software or consulting or whatever, that a particular IT firm will have.

And we match that against the required criteria and the requirements we have. And if in fact that process gets you down to only one vendor can handle the particular requirements, that's possible. But for the most part it's an RFP process.

Mr. Wall: — Thank you very much. We appreciate that. On the list here on page 2, I notice a $140,000 to Saskatchewan Limited 604045 and I wonder, can you tell us what that contract is all about and who that is?

Mr. Anderson: — Well I'll start. That is a contract to a fellow by the name of Jim Nickel. He was the owner and operator of a company called DLC-West (Data Link Canada West) in the province here. We acquired that company's Internet customer base, I believe, in 2001.

Mr. Baldwin: — In 2000.

Mr. Anderson: — In 2000. And we kept Mr. Nickel on contract for at least a year to maintain some of the equipment and to manage the transition of that customer base over to SaskTel.

Mr. Wall: — Thank you. Could you please highlight the nature of the work of the Points West contract for $11,000?

Mr. Baldwin: — Perhaps I can respond in part with respect to Points West. We retained the services of Garry Aldridge to do some customer focus work . . . or not focus work but customer perception work with respect to SaskTel that we utilized for part of our strategic planning in terms of what SaskTel's current perception was within the marketplace and some of the things we needed to work on to improve the perception.

Mr. Wall: — Thank you. The appointed auditor for the year under review for Tel is PwC (PricewaterhouseCoopers) and they're listed here. But also significantly Ernst & Young was retained for work in the order of $114,000. Can you explain what that . . . the nature of that would have been, and as well as Deloitte & Touche?

Mr. Stephanson: — We could . . . used Ernst & Young to assist us in distributed computing disaster recovery risk assessment. Said another way, that's — I got that from the IT guys, sorry — said another way, we use, like, our SAP (systems applications and products) system; it's our general ledger system and it has an awful lot of information and it resides on a couple of servers.

Distributed computing is the fact that everyone has access to this thing and there's risk associated with other people coming in and hacking into your systems, etc. So we employed E&Y (Ernst & Young) to do an assessment of that and let us know where there were weaknesses so that we could improve.

Mr. Wall: — Thank you. And Deloitte Touche?

Ms. Milenkovic: — Deloitte & Touche, the majority of the contract or the contracts with Deloitte . . . I'm just going to get my price point here. Oh it was for phase one of our enabling business sales, and that's for consulting services and to consolidate all of our customer information on the business side so that our service reps and everybody that has access to service a customer can see the whole end-to-end process of the customer. Right now they're in separate databases.

And the second . . . Another contract further on from the customer service side was helping them establish business sales function analysis and the development of metrics as to compare to other communication companies to see whether or not our metrics were of . . . we could view our metrics on an equal basis.

Mr. Wall: — Calibre consultants for $388,000?

Mr. Anderson: — Calibre does all of our customer research for us so after there's been a transaction with a customer they will call that customer shortly thereafter and follow up on how that customer experience was with respect to all aspects of SaskTel's business. We do surveys by various market segment on a monthly basis and most of that's done through Calibre.

Ms. Milenkovic: — There were actually 22 surveys, SAM (satisfaction measurement) surveys, done and then other segment markets to see how our installers did or to see how they were serviced.

Mr. Wall: — That's a Regina-based company, Saskatoon-based company?

Mr. Baldwin: — Our best guess right now is Saskatoon.

Mr. Wall: — And just one more I believe on this specific thing, ChangeBridge Incorporated for 149,000?

Mr. Stephanson: — We utilized them to lead and consult on our internal IT group's Capability Maturity Model standard process, or CMM. And I'm sorry I can't tell you any more than that.

Mr. Wall: — All right. Thanks. And just, I notice there's no firm like an RBCDS (RBC Dominion Securities Inc.) or any company like that listed this year and I wonder then if that means that the corporation undertook no valuations in the year under review?

Mr. Baldwin: — I think it would be fair to say that, you know, we regularly use a number of firms to do some valuation and some advisory work. I think the fact that they don't show up on this list is probably just one of timing of when they actually complete an assignment. Because I know during the year under review they did do some work for us.

Mr. Wall: — But they mightn't be until 2002, perhaps even this year. Is that what you're saying?

Mr. Baldwin: — Yes.

Mr. Wall: — Inroad Solutions for 158 is the last of . . .

Mr. Baldwin: — Inroad Solutions is a company based out of Saskatoon that provides a fairly sophisticated group of on-line learning tools. And one thing we've done a lot of work on in the last year and a half is providing a lot of high-tech, on-line courses so our employees wherever they are in the province can take Cisco training at their desks or in their community or at home.

Mr. Wall: — Thank you, and just a small point. It was in June that we had made the request, so we were going to receive this whether or not we asked it today or not. That's correct?

Ms. MacFarlane: — Yes, I had it ready for this afternoon.

Mr. Wall: — All right, I thought that was the case. It seemed to be handy. I have nothing else, Mr. Chairman.

Mr. Prebble: — Yes thanks, Mr. Chairman. I want to go back just for clarification.

Just before lunch we were having a discussion on the . . . an article that appeared in the May 2002 *Leader-Post* with respect to the record of SaskTel on its investments. And I wondered if . . . Maybe I'll direct this to Mr. Stephanson for further clarification about exactly was . . . first of all, was that article accurate? And secondly, what has our record in regard to out-of-province investment been?

Mr. Stephanson: — At least with respect to the numbers that were quoted in that article, it was accurate. I was given a document by the *Leader-Post* reporter that had four of our investments on it and losses over the years 2000 and 2001 which totalled $16 million, and asked to comment on it.

I said those numbers were ballpark, roughly the right numbers for those four companies; however, it doesn't include all our investments. And just by example, I guess again, alluding to page 44, you can see in those two years that we had $23 million in gains. So the net, as I described it, was these four companies lost 16 and these three transactions gained 23, for a net positive number for those two years of $7 million.

I want to say that those are accurate numbers. They are according to generally accepted accounting principles. One can make a statement that not . . . that some of the gains are non-cash and have not been realized, and I would agree with a statement like that.

I would also say you can make exactly the same statement on the losses. The $16 million losses are also accounting numbers and they are not cash related, and have not been realized as losses either.

Mr. Prebble: — Thank you for clarifying that. I have . . .

A Member: — Mr. Prebble, could we ask the auditor if they would concur with that statement.

Mr. Prebble: — Sorry. I'll just maybe . . . Maybe I'll direct that to the auditor. Could I ask the auditor then, with respect to the statement just made by Mr. Stephanson, would you concur with that statement?

Ms. Ferguson: — The numbers are calculated according to generally accepted accounting principles. Yes. Yes.

Mr. Prebble: — Thank you very much for that additional clarification. I appreciate that.

Mr. Chairman, I just have one other brief area of questioning and that is with respect to the long distance initiative that was launched a few years ago by SaskTel aimed at lower income customers and particularly customers who didn't have telephone service in their homes at the time. And I'm just wondering if we can get an update on how we're doing in this front.

I'm not aware of any other province in Canada, any other telephone company in Canada that has launched a similar initiative. But I'm wondering how we are doing with respect to our initiative now? How many customers currently have telephones in their home with long-distance blocks on them? How many customers under these arrangements are paying off their previous debts to SaskTel and, I don't know, then moving back into the regular system? Just a little bit of a progress report on that file. And I'm not sure who's in charge of that, so . . .

Mr. Anderson: — Well the program, the design for the program came out of my area, out of the marketing area. The program is still in place. We have received accolades from the CRTC for that program and I think they have made suggestions to the other telcos that they should look at something similar to what we've done here.

But with respect to numbers of customers that are utilizing that program, I don't have that information available with me today . . .

Mr. Prebble: — Could you . . .

Mr. Anderson: — . . . but we can certainly provide that.

Mr. Prebble: — Just at your convenience, could you provide that to the committee in terms of the number of customers and also where we stand now in terms of what percentage of our population has an actual telephone in their home because, of course part of the purpose of that program was to move that percentage up. We were already well above 95 per cent, but I'd like to know where we are now. Thank you very, very much.

Thank you, Mr. Chairman. That concludes any questions I have.

Mr. Hart: — Thank you, Mr. Chair. I have a few questions with regard to installation of telephone service to new locations in rural Saskatchewan; whether it be an acreage, a private home, a new business, what have you.

What's the policy on that? What are the costs for providing a service, basic telephone service to a new location in rural Saskatchewan?

Mr. Meldrum: — Well in terms of a business, the first line is $400 plus the service connection charges that would be applicable to that particular location. After that, subsequent lines are $1,300 per pair per mile, and then after you get to 6 lines up to 25 lines, then there's a series of discounts.

In terms of residential customers, I didn't bring the precise numbers but . . .

Mr. Anderson: — I believe it's $400 is the upfront cost to put the first line in for a residential customer, with a service connection charge of $75. The service connection charge for the business customer is $99. So basically 475 for the residential customer, 499 for the business customer for the first line.

Mr. Hart: — So that charge is standard regardless of distance from existing lines and that sort of thing. There's no charge for if you happen to be 10 kilometres away from a existing line and so on; that's still the basic charge.

Mr. Anderson: — For the first line.

Mr. Meldrum: — You could incur . . . On the residential side you could incur extra construction charges; usually you don't. You would pay 50 per cent of the amount over $10,000 for up to three cable pairs. So it's only if the construction was over $10,000 would the residential customer incur them. It's not very often that that arises.

Mr. Hart: — So how far will $10,000 take you, then? You said something about $1,300 per mile for the second line. So is that what you'd use as the calculation? So basically if you do the math, $1,300 into 10,000 will tell you how far that first $10,000 will take you?

Mr. Ching: — That tends to be our average construction cost.

Mr. Anderson: — Our folks will actually go out and estimate the cost of doing the job when we've got a firm order to do it. But to provide a budgetary quote to somebody, yes, that's the way it's calculated.

Mr. Hart: — I guess my next question then is for existing customers who request a second line. I know in my own case I live on a farm and we had an instance this fall where moles got . . . ate through the cable and your people came out and found the break and they were able to hook us up to some existing line. So that, you know, I assume that in a lot of locations you already have more lines to a customer than you are actually using. Is that a fair statement to make?

Mr. Ching: — Yes, it is. But our construction charge is based upon our average cost of constructing a line. And whether we have to start from square one and build it or whether or not it's partially in or whether it's completely in, the same charge is made regardless of whether or not facilities are completely or partially in place. So that the charge is a charge which . . . it isn't reflective of the actual work we've got to do. It's reflective of the cost of providing that particular line.

Mr. Hart: — Well that brings me to my next point because I have been dealing with constituents who have requested a second line and they already, you know, and they're . . . They have a great, frankly, a great deal of difficulty understanding why it would cost $15,000 for a second line if you're approximately 12 miles from the service and that sort of thing; or your exchange, I guess.

And frankly I have some difficulty in understanding why, if you've already got lines there, that you wouldn't look at providing those customers with a second line. They'd be certainly willing to pay some of the cost but in many cases, you know, the cost of the second line at $1,300 a mile is prohibitive and they're just not going to do it.

And therefore even though you already perhaps have the hardware, the line's in and so on, there's no additional revenue being generated from that. But in your estimation I guess I'm going to presume that you would say, well it probably going to . . . if we were to do that all . . . that would . . . in those areas where we have to actually go and lay a second line, our costs are considerably higher than $1,300 a mile. Is that what you're . . . Perhaps I should let you answer and then I can react to your answer.

Mr. Meldrum: — We've looked at this off and on for the last few years, in fact really since this particular policy was put in place and you're really faced with two choices. One is to charge each and every customer the actual cost of putting it in or you charge everybody an average cost. And I guess a number of years ago we chose to go with charging everybody the average cost.

If you go the other route, which is to charge everybody the actual cost of putting in their particular line, in some cases it may be only a couple hundred dollars; in some cases it may be 30 or 40 or $50,000 because the investment tends to get very lumpy. In other words when you go to reinforce, sometimes you have to do a lot of reinforcing, you have to do a lot of ploughing, and sometimes you don't have hardly to do any ploughing. So we chose charging on the basis of the average cost.

Mr. Anderson: — But with respect to the plant that's in the ground, we have still incurred the cost of putting it there, whether the . . . you know the customer, you know, sometimes I think forgets that yes, it is in the ground, but we still incur the cost to put it there and have not yet recovered those costs of placing that facility in the ground.

Mr. Hart: — But that's the point that the customers are making. They're saying the lines are already there and if you didn't charge us . . . charge me an arm and a leg to hook up that second line, I would have that second line and I'd be paying . . . you'd receive some revenue from the hardware that's already there.

Mr. Stephanson: — The opposite of that is . . . The greater concern I have as accountant is that that's fine if we have two spare pairs, and the first two people who ask for it, you give them that reasonable price. And then everybody else on that line says, but how about me at that same price, which means now we've got to go in and spend a lot of money.

So you point is well taken that you've got non-revenue earning investment there that you could get a nickel for, but the greater danger is if you set some kind of policy and then start ploughing at tremendous cost.

Mr. Hart: — Just one final question on . . . You say your average cost is $1,300 per mile. Could you give me a rough breakdown of what . . . how you arrive at the $1,300? I mean there's material costs and labour costs and whatever. How do you arrive at $1,300 per mile as an average cost?

Mr. Meldrum: — Well it would have been on the basis of a cost study, and the costs that would come to mind — and people, other folks can jump in here — but the copper wire itself is quite expensive. It's a semi-precious metal, and you have to have copper all the way from that person's business location all the way back to the central office. The installation of that copper wire is not quite as expensive as the wire itself, but again you've got the men, the equipment, the ploughing crews, the crop damages that you incur when you cross the landowner's land. On some occasions, depending on what kind of facilities you're installing, you might be paying for easements.

Mr. Stephanson: — It's been a while since I've been close to it myself, but the rule of thumb is . . .

Mr. Hart: — There'd be an allocation for it to look after overhead or fixed costs in that $1,300 a mile?

Mr. Stephanson: — No, that's straight construction costs . . .

Mr. Hart: — Okay, thank you.

Mr. Meldrum: — Just to give you an idea, in terms of ongoing maintenance per year on average, just maintenance alone is $137 a month for a line in rural Saskatchewan.

The Chair: — That concludes those on the list for questions. Therefore, I would entertain a motion by Ms. Atkinson.

Ms. Atkinson: — Yes, that the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements of SaskTel, its wholly owned subsidiaries, and SaskTel pension plan for the year ending December 31, 2001.

The Chair: — Is that agreed? Agreed.

That then concludes the hearing for SaskTel. Mr. Ching, I want to thank you for your attendance today and all your officials. And we look forward to another appearance at some future time.

Mr. Ching: — Thank you.

Mr. Wall: — Thank you, Mr. Chairman. Through you to Mr. Ching and his officials, I also want to thank them for their answers and our discussion this morning, but also to thank them for much of the correspondence that I send, or our MLAs send to the minister, is dealt with by the corporation and officials and we appreciate the information. It's not always what everybody wants to hear but it's provided in a timely manner. And we appreciate that and their work in that regard. Thank you.

Ms. Atkinson: — Yes, on behalf of the government members of the committee, I too want to thank the officials from SaskTel.

And just observe that it was certainly under Mr. Ching's leadership — because there was some reference to the executive suite before lunch — that we were able to gain massive gains on the Husky Oil Upgrader at a time when we were being told to sell it for 10 cents on the dollar. And also it was under Mr. Ching's leadership when we successfully sold our shares in Cameco at I believe $77 a share and it had huge returns to the province.

So we want to acknowledge that work on behalf of the citizens of Saskatchewan . . . (inaudible interjection) . . . Well we didn't listen to you on the Upgrader and we didn't listen to you on Cameco, and thank goodness we didn't.

Ms. Jones: — Move adjourned.

The Chair: — Move to adjourn moved by Ms. Jones. All agreed? Thank you very much.

The committee adjourned at 15:25.