



# **STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES**

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**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES  
2006**

Ms. Sandra Morin, Chair  
Regina Walsh Acres

Mr. Dan D'Autremont, Deputy Chair  
Cannington

Hon. Graham Addley  
Saskatoon Sutherland

Mr. Dustin Duncan  
Weyburn-Big Muddy

Ms. Donna Harpauer  
Humboldt

Hon. Warren McCall  
Regina Elphinstone-Centre

Hon. Mark Wartman  
Regina Qu'Appelle Valley

[The committee met at 16:00.]

**The Chair:** — Good afternoon and welcome to this session of the Crown and Central Agencies Committee. At this point, I'd like to have the committee members introduce themselves. Perhaps we'll start with substitution. We have Andy Iwanchuk sitting in for Minister Mark Wartman. Mr. McCall?

**Hon. Mr. McCall:** — Pardon me. Warren McCall, MLA [Member of the Legislative Assembly] for Regina Elphinstone-Centre.

**The Chair:** — Thank you.

**Hon. Mr. Addley:** — Graham Addley.

**Mr. D'Autremont:** — Dan D'Autremont, MLA for Cannington.

**Ms. Harpauer:** — Donna Harpauer, MLA for Humboldt.

**Mr. Duncan:** — Dustin Duncan, MLA for Big Muddy.

**The Chair:** — Thank you. And my name is Sandra Morin. I'm the MLA for Regina Walsh Acres and the Chair of this committee. I'd now like to introduce the Minister Responsible for SaskTel, Minister Debra Higgins.

#### SaskTel

**Hon. Ms. Higgins:** — Thank you very much, Madam Chair, and members of the committee. I'd first . . .

**The Chair:** — I'd just like to . . . sorry. I should have clarified. At this point I'd just like you to introduce your officials.

**Hon. Ms. Higgins:** — Oh sorry . . . [inaudible] . . . Deb Higgins, Minister Responsible for SaskTel.

**The Chair:** — Thank you.

**Mr. Watson:** — Robert Watson, president of SaskTel.

**Mr. Anderson:** — Mike Anderson, CFO [chief financial officer].

**The Chair:** — Did you want to introduce any of the other officials sitting behind you, Minister Higgins?

**Hon. Ms. Higgins:** — Yes. No, for sure I will. The officials from SaskTel that are with us here today besides Robert Watson, who is the president and CEO [chief executive officer] and Mike Anderson who is the chief financial officer, behind us we have sitting Diana Milenkovic, senior vice-president for marketing and mobility; also John Meldrum, who is vice-president, corporate counsel regulatory affairs and chief privacy officer; Kym Wittal, who is the chief technology officer; Dale Baron, who is the controller; and Michelle Englot, who is the manager of corporate affairs.

**The Chair:** — Thank you, Minister Higgins. And I'd now like to introduce our Provincial Auditor, Mr. Fred Wendel, and

perhaps you could introduce your officials as well at this time.

**Mr. Wendel:** — Thank you, Madam Chair. At the table with me I have Judy Ferguson from my office, Mark Lang from KPMG, and off to the side I have Andrew Martens, Mark Anderson, and Kelly Deis from my office.

**The Chair:** — Thank you. And now, Minister Higgins, did you have any opening remarks that you'd like to make?

**Hon. Ms. Higgins:** — Thank you very much, Madam Chair, and I appreciate the opportunity to make a few opening remarks. As Minister of SaskTel, I'm extremely proud of the ongoing and significant achievements that this company has attained that have greatly benefited the people of Saskatchewan. From the completion of the individual line service program that upgraded at the time over 70,000 party lines in rural Saskatchewan, to being at the forefront of fibre optics, to being the first in Saskatchewan to introduce cellular service and today having the best coverage in Saskatchewan, to being the first telecommunications company in Canada to deliver high-speed Internet using ADSL [asymmetric digital subscriber line] technology, to participating in the largest construction project of the 20th century — the English Channel tunnel, to the most recent announcement of being the first in North America to deliver HDTV [high definition television] over an IP [Internet protocol] infrastructure — the list goes on.

SaskTel has a proud history of serving the people of this province and today continues to provide the people of Saskatchewan with reliable, affordable, and leading-edge communication services. In the midst of an industry that continues to evolve, SaskTel has been very successful and is poised to continue the success well into the future. For SaskTel, serving the people of Saskatchewan remains its number one priority.

2004 and 2005 were both successful years for SaskTel, and Robert Watson, the SaskTel president and CEO, will outline those successes for you in his introductory remarks. Thank you very much, Madam Chair, and members of the committee.

And I think I missed a page. Anyway Robert will cover it.

**Mr. Watson:** — Thank you, Minister, and thank you, members of the committee, for giving me the opportunity to give an introduction and fill in the blanks.

I'll begin by giving an overview of the 2005 financials. 2005 was a good year despite intense competition and regulatory concerns. SaskTel's 2005 net income was \$64.4 million. SaskTel's revenues grew to \$982 million in '05 from \$574 million in 1990. And of that \$574 million in 1990, 260 million of it was long distance. And just to put that into perspective, our long-distance revenues in '06 will probably be below \$80 million, so a significant changeover happening in SaskTel's business model and continues to change.

SaskTel's dividend payment of \$57.9 million declared and \$88.3 million paid to Crown Investments Corp. in 2005, for a total of \$972 million paid in the last 16 years. SaskTel's external investment program is increasing in value, fulfilling its

goal for the future. At the end of 2005, the estimated value of SaskTel's external investment portfolio was 242 to \$298 million, compared to \$116 million spent.

Over 2004 and 2005, SaskTel achieved \$43.5 million in operational efficiency. Initiatives such as the early retirement program and other cost containment measures such as process improvement contributions to the savings were realized in '05.

From a product perspective, Max continued to be the company's fastest growing product, hitting over 42,000 Max customers in 2005. Recently we launched our high definition service, which is the new standard in television. As Minister Higgins stated, SaskTel is the first broadcaster in North America to deliver HDTV using new compressions technology, MPEG-4 over IP infrastructure. I can tell you that today we have a market penetration of close to 20 per cent. To give some comparison, it took Bell eight years to achieve 15 per cent market penetration with ExpressVu. And just to give you some perspective, the consumers in Saskatchewan now have four separate choices for their TV offering. They have SaskTel, they have Access, Shaw, and they have the two satellite providers which gives them some of the best cost comparisons in the country and therefore value for the competitor. I refer to Max as a product of the future and we are definitely ahead of the curve on this one.

SaskTel faces challenges over the next few years. Growing our business is essential to meet those challenges. In the coming years we will continue to lose long-distance revenues. Local access competition is coming as we anticipate Shaw's announcement of a service offering using voice over Internet protocol technology; and as far as we understand, Shaw will be in the market by the end of November in Saskatoon. Because of that, prices are declining and therefore margins are getting tighter. This is good for the consumer.

As you are all aware, SaskTel is facing unfavourable regulatory climate also. The CRTC [Canadian Radio-television and Telecommunications Commission] has chosen to regulate SaskTel within Saskatchewan while allowing other voice over IP competitors to raise or lower their prices at will. We are appealing this decision to the federal cabinet because we feel all companies operating in Saskatchewan should be treated equally. We are disappointed that the outcome was yet another regulatory proceeding while the marketing restrictions on SaskTel and other incumbent carriers remain in full force.

Just to put that into perspective, when we launched our Max product the cable companies were not regulated in competing against us. When they're launching their voice over IP product, we will be regulated to try and compete against them. And as you know, Shaw is three times our size, and out-of-province competitors can come in and not be regulated.

It is now clear that substantive and speedy regulatory change will only occur if new laws are passed by the federal government. The report of the telecom policy review panel has provided a blueprint for reforming regulation to the benefit of all Canadians and should be followed rather than ignored. The most recent decision indicates to us that the CRTC is incapable of reforming themselves. Accordingly the federal cabinet should respond to the local forbearance decisions by rewriting

that decision to confirm that the recommendations of the telecom policy review panel are followed.

We know that we will have to deal with a lot of industry change as our customers adopt more IP pay services and customers continue to look for inexpensive alternatives to existing products and services. With these new markets and new products come new competitors. And we're going to have to find ways to make our services the most attractive ones while battling entrenched competitors for our existing legacy services.

Competition is nothing new to us as we have faced it in different degrees with all our products — long distance, high-speed Internet, cellular, and Max. The difference in recent years and the difference that is going to continue to make itself clear is that the face of our competitors has changed. We aren't just dealing with telcos any more but cable companies, ISPs [Internet service provider], voice over IP providers, and others. And also companies like Google, Microsoft, and Vonages are here to take our customers away. In other words, 2006 and beyond represents a significant change in the landscape that we're going to be facing.

To meet these challenges, SaskTel has developed five core strategies which are intended to focus the organization on areas deemed to be critical to SaskTel, SaskTel's long-term stability. Each of these strategies has a set of objectives and measures through which we will measure success. They are financial, customer, innovation and growth, people, and public policy.

This brings me to SaskTel's number one objective. It is to serve the customers in Saskatchewan. Some of these successes in meeting these objectives are cellular service. In 2005 SaskTel announced another \$28 million expansion program to our cellular network. At the end of the program, which is projected to be in '07, SaskTel will have invested over \$120 million in its digital network offering cellular service, which will get to over 95 per cent of Saskatchewan's population.

High-speed Internet service. As you know, SaskTel leads the way in deploying high-speed Internet to rural communities in Canada and probably North America. Upon completion of CommunityNet II, which is also currently under way, SaskTel will have invested nearly \$173 million in expanding this service, and approximately 86 per cent of Saskatchewan's widely diverse population will have access to high-speed Internet, clearly the largest geographical area to have such high penetration for high-speed Internet.

To sell some of those products and services such as Internet and cellular, SaskTel has partnered with over 140 Saskatchewan businesses in over 50 locations and paid over \$26 million in commissions to its dealers and spent more than \$277 million on material and services from over 4,000 Saskatchewan suppliers in 2005.

Further example of SaskTel's commitment to Saskatchewan is in investments in excess of \$2.7 billion in infrastructure in Saskatchewan over the last 16 years. In 2005, SaskTel invested a total of \$116 million in capital on improving and maintaining our network, including the continuing evolution of CommunityNet, SaskTel's wireless network, and NGAI, next generation access infrastructure program, resulting in

Saskatchewan's residents having one of the most sophisticated networks in the world.

And in 2005 SaskTel donated over \$3.6 million to over 1,600 non-profit organizations throughout Saskatchewan. SaskTel's telecare donated \$221,000 which was matched 50 per cent by SaskTel for a total of \$332,000 to 150 Saskatchewan charities.

In 2005 our environment team developed a new ecological strategy to ensure development as leader of environmental sustainability. SaskTel also implemented a representative workforce strategy so our workforce is representative of the diversity of the province.

In addition, 2005 was the sixth straight year SaskTel was recognized as one of Canada's top 100 employers by Mediacorp Canada. And we recently announced we received this honour for the seventh year recently. And 2005 was indeed a very successful year for SaskTel.

I thank you for allowing me the opportunity to relate some of the 2005 achievements and look forward to your questions. Thank you.

**The Chair:** — Thank you, Mr. Watson. I would now like to invite the Provincial Auditor, Fred Wendel, to deliver his remarks as well.

**Mr. Wendel:** — Thank you, Madam Chair. I'm going to have Judy Ferguson summarize our three reports that are before the committee and she'll have a short presentation for you.

**Ms. Ferguson:** — Thank you, Madam Chair, members, officials, Madam Minister. As Fred indicated I'm going to provide a brief overview of chapter 5 of our 2004 report volume 1, chapter 13 of our 2005 report volume 1 and chapter 10 of our 2006 report volume 1. For ease of reference I'm going to refer to SaskTel Communications holding company as SaskTel throughout the presentation.

Chapter 5 of our 2004 report volume 1 sets out the results of our audit about the adequacy of SaskTel's processes to govern the companies that it owns and controls.

Chapter 13 of our 2005 report volume 1 sets out the results of our follow-up of this 2004 audit and the two recommendations that we made in that audit, along with the results of our 2004 audits.

As set out in page 194 of that report, SaskTel, its subsidiaries, and its pension plan for the year ending December 31, 2004 had reliable financial statements, adequate rules and procedures to safeguard the public resources it manages, and complied with the laws.

SaskTel has a complex corporate organizational structure. It operates its business through many separate companies. Each of these companies has its own board. At March 2005, SaskTel owned all or part of 17 companies with active operations and 27 other companies with no active operations. Good governance helps ensure all parties have a clear understanding of who is responsible to whom and for what.

As reported in chapter 5 of our 2004 report volume 1, we examined whether SaskTel had adequate processes to govern the companies that it owned and controlled. We made two recommendations. These are set out on page 195 of our 2005 report.

On pages 196 and 197, we describe SaskTel's progress towards meeting these recommendations. In general at March 15, 2005, we found that while SaskTel had made some progress in addressing these recommendations, more work remained. Based on this progress in our 2005 report volume 1, we make the following two recommendations for your committee's consideration.

First, on page 196, our first recommendation focuses on SaskTel improving its processes to communicate its governance expectation to the companies it owns and controls. We recommend that SaskTel regularly highlight where its board has delegated to the president its authority to name the board members of SaskTel's companies. We recommend that it ensure the companies it owns or controls, or plans to control, are subject to shareholder agreements and articles of incorporation that reflect the governance expectations placed on SaskTel.

Our second recommendation, on page 197, focuses on SaskTel's processes, improving SaskTel's processes to assess the effectiveness of the boards of its companies that it owns and controls. We recommend that SaskTel document the governance risks and identify levels of governance risk that are acceptable for each company. We also recommend they require each company to provide the SaskTel board with its own board evaluation.

These recommendations are important for SaskTel's effective governance of the companies that it owns and controls.

Moving on to the next report, chapter 10 of our 2006 report volume 1 sets out the results of our 2005 audits of SaskTel. On page 118, SaskTel subsidiaries and pension plan for the year ended December 31, 2004 had reliable financial statements, adequate rules and procedures to safeguard the public resources it manages, and complied with authorities, except for Navigata Communications Partnership and its pension plan.

For Navigata Communications Partnership we make two recommendations for this committee's consideration. On page 120, "We recommend Navigata Communications Partnership follow its established procedures to check the completeness of revenue and the accuracy of its financial records."

We also recommend it "... establish computer security policies and procedures."

For Navigata Communications Inc. pension plan, we make two recommendations for this committee's consideration. On page 122, "We recommend Navigata Communications Partnership ensure the Pension Committee monitors the Navigata Communications Inc. [partnership] ... Plan in accordance with the Plan Text."

We also recommend it "... prepare and implement policies and procedures to monitor the administrative activities of the ... Plan."

Also you'll find in this chapter we described the objective and criteria for a future audit at SaskTel. We plan to examine whether SaskTel has adequate processes to manage intellectual property.

In summary, the two last reports make six recommendations for your committee's consideration. I would also like to acknowledge the excellent co-operation we received from management and KPMG throughout these audits.

This concludes my presentation, and we'd be pleased to respond your questions. But first I'd like to turn it over to Mark Lang for his comments.

**Mr. Lang:** — Thank you, Judy, and thank you, Madam Chair. I'm a partner with KPMG. We're the appointed auditors for the corporation, and under date of February 21, 2006, we provided our audit opinion on the consolidated financial statements of the corporation. And we did conclude that the financial statements presented fairly in all material respects the financial position and results of operation and cash flows of the corporation for the year ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

That was all I was going to mention. Thank you.

**The Chair:** — Thank you, Mr. Lang. I would now like to open the floor to questions. Ms. Harpauer.

**Ms. Harpauer:** — Yes, thank you. My questions begin with the 2004 report, page 78. And it lists the active operating companies controlled by SaskTel and percentage of ownership. Who owns the additional 5.9 per cent of the Hospitality Network Canada Inc. that SaskTel does not own?

**Mr. Watson:** — The company name? Simpson Video owns the 5 per cent.

**Ms. Harpauer:** — And again with 5.1 per cent of Business Watch International which I know is gone completely now, but . . .

**Mr. Watson:** — Five . . . It was owned by the original shareholders. Business Watch, John? Two or three individual shareholders.

**Ms. Harpauer:** — Just individual . . . And then there's Retx which again I know is no longer there but there was 8.3 per cent of Retx not owned by SaskTel.

**Mr. Watson:** — Retx is before my time.

**Ms. Harpauer:** — Okay.

**Mr. Watson:** — John, Retx? Individual shareholders.

**Ms. Harpauer:** — The other question that I had was the report states that there were in 2004, 17 active companies which I believe are listed in page 43 of the 2004 Annual Report would be the 17 active companies. But it also states that there are 34 inactive companies. Where would I find the listing of the 34 inactive companies?

**Hon. Ms. Higgins:** — Ms. Harpauer, they say they're listed on page 44, 2004 report.

**A Member:** — Note 2 at the top of the page.

**Ms. Harpauer:** — And then the following year which would be 2005, the inactive companies were reduced from 34 companies to 27 companies. So what happens . . . What happened to these?

**Mr. Watson:** — You probably want our legal answer, but generally we started to clean up any companies that were dormant and no longer of use to SaskTel.

**Ms. Harpauer:** — So were they sold?

**Mr. Meldrum:** — No, they'd just be lapsed. So they just no longer exist as a corporation. Effectively just stopped registering it, filed some papers and they no longer exist as a company.

**Ms. Harpauer:** — Okay. So the Provincial Auditor states that it gets very complex when you have companies that are stand-alone apart from SaskTel within SaskTel. And I noticed in your 17 active companies, and again referring to the 2004 report, that they were the same companies that were in 2005. Like you've got Navigata Holdings, you've got Navigata Communications Ltd., you've got Navigata Communications Partnership. What's the advantage of having three companies under the name of Navigata?

**Mr. Meldrum:** — The formation of the companies was all part of the purchase and the creation of Navigata, and we had a partner that was involved with us called Monarch Communications.

**Ms. Harpauer:** — Okay.

**Mr. Meldrum:** — So it would have been negotiated between ourselves and Monarch at the time that they became a partner in Navigata, basically driven substantially by tax considerations on their part.

**Ms. Harpauer:** — That doesn't answer my question though. Or at least I'm not understanding it. So what is the point to Navigata Holding and Navigata Communications Ltd.?

**Mr. Meldrum:** — Our partnership was the operating entity. Navigata Holding CCIV, Inc. I believe was how we held our interest in the partnership. That's why it was 100 per cent owned. But you see the partnership then was 96.3 per cent owed. And I don't believe Navigata Communications Ltd. was an active entity.

One of the problems is that the structure of Navigata has now been changed so it's not sort of top of mind. Navigata has now been integrated into SaskTel, save and except for the sales organization.

**Ms. Harpauer:** — That's fair enough, but that's 2004. Those three entities are still being stated as active in 2005.

**Mr. Meldrum:** — Right.

**Ms. Harpauer:** — And I guess that was one of the major concerns that we as the opposition had, is in folding it into the parent company, this confusion just gets more confusing. Because you're having a difficult time explaining the responsibility of each of those entities now. In the future I can see where they won't be broken out of the parent company at all.

Like, I don't understand. What was the purpose of Navigata Communications Ltd.?

**Mr. Baron:** — Data Communications Ltd. was the original company that we purchased several years ago. And as John mentioned, subsequent to the partnership agreements with our new partners, we subsequently now changed what was an incorporated company into a partnership. And that's how we ended up to where we're at right now, at the end of the year.

**The Chair:** — Could I just ask that if we have any people coming to the microphone that you state your name first before you provide an answer, just so it's easier for Hansard to pick up please. Thank you.

**Mr. Baron:** — Dale Baron, controller.

**The Chair:** — Thank you. Okay.

**Mr. Meldrum:** — To me, I think the important thing is that the integration has actually cleared up a lot of this. There are now only . . . There's only one entity other than SaskTel in terms of operating this business and that's Navigata Communications, which then has the sales organization. All other assets, employees are now SaskTel employees. So if anything, the integration has cleared up some of the past issues of companies and partnerships and those sorts of things.

Monarch is no longer a partner. They did buy out their interest effectively as part of the integration.

**Ms. Harpauer:** — What was the cost of buying out Monarch?

**Mr. Meldrum:** — We actually made money when. . .

**Ms. Harpauer:** — Monarch paid you to take it over?

**Mr. Watson:** — Yes. Well you see, step back a bit. When you set up corporate structures, you set up corporate structures. They bought limited. And this happened before I arrived. They bought limited. And then to form a partnership, you have to form another company to be part of the partnership and the limited was made dormant. So you form a company to form the partnership. We had 96 per cent, I'm guessing?

**A Member:** — Yes.

**Mr. Watson:** — 96 per cent of the partnership and Monarch had 4 per cent of the partnership.

When we were integrating it back into SaskTel, Monarch wanted to keep their ownership of the partnership in order to realize ongoing financial commitments that they had made to the partnership. So they've actually bought their way to take over the partnership. It was a shell company left over, so they

took over the partnership. It's not unusual, I can tell you that.

**Ms. Harpauer:** — So I'm assuming then when I look at two entries in the active company for Hospitality Network, it's the same type of thing. One company is created to basically secure the money for the other company. Like we've got Hospitality Network and Hospitality Network Partnership. So again one is actually the active company and the other is just a holding company?

**Mr. Watson:** — To explain . . . that's not proper. I mean Hospitality Net is the company. Now the partnership is formed, we formed the partnership because that partnership owns part of Hospitality Net.

**Mr. Anderson:** — We go towards that partnership structure because as a Crown corporation we don't pay tax. So when we're in a venture with another company that's a taxable entity, we go to a partnership structure so that the earnings flow back directly to us. So there's no tax paid within the corporation . . . well it's not a corporation, it's a partnership. The earnings flow back to the other party back through into whatever kind of corporate entity they want to put in place. And then if they're a taxable entity, they're taxed at that point. So it's a way for us not to incur taxes in one of the operating companies.

**Ms. Harpauer:** — Okay.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I'd like to welcome the minister and her officials here today. On the Navigata partnership you say Monarch basically bought you out of it, paid you more than what the value was that they had originally put in. Or you said you made a profit on it at least. Were they buying paper losses for uses for tax purposes?

**Mr. Watson:** — Well they bought what was ever left in the corporation. We took all the assets out of the corporation that we wanted — the employees, the assets out of the corporation we wanted, and what was ever left behind, yes, they bought. That included a few assets and some financial implications.

**Mr. D'Autremont:** — So those financial implications would have been negative financial implications that they could use then to offset some other financial advantages at another place.

**Mr. Watson:** — Well you'd have to ask them why they bought it, unfortunately. You know, we can't comment on why they bought what was there.

**Mr. D'Autremont:** — But there were negative financial implications there when they took over the remaining portion of Navigata.

**Mr. Watson:** — Yes.

**Mr. Meldrum:** — There were tax losses within the partnership, yes.

**Mr. D'Autremont:** — Okay, thank you. That's what I wanted to know.

**The Chair:** — Ms. Harpauer.

**Ms. Harpauer:** — . . . sort of try and understand the different complex structures that we have within SaskTel. SaskTel International then is part of SaskTel holdings? Because it's not listed as a separate company. So is it considered part of SaskTel holdings?

**Mr. Watson:** — It's the second one down, SaskTel Communications, Saskatchewan Telecommunications International, Inc.

**Ms. Harpauer:** — Okay, so there is a number of entities under international then?

**Mr. Watson:** — No, SaskTel International is by itself.

**Ms. Harpauer:** — Sure there are. There has to be.

**Mr. Watson:** — Oh there are? Sorry. Sorry, there is. Sorry. I apologize.

**Ms. Harpauer:** — So where would I find the listing of what falls within SaskTel International?

**Mr. Meldrum:** — I don't think the annual report has broken it out. It just took it between sort of these are the operational entities and these are the non-operational entities. It didn't then actually say which ones are owned by which people.

**Ms. Harpauer:** — So is . . . Can we get a list of what falls within SaskTel International?

**Mr. Anderson:** — If you go to the subsidiary statements that were tabled, and if you go to SaskTel International's statements for 2005, the subsidiaries are listed on page 1 of the notes.

**Ms. Harpauer:** — . . . here tonight. And there is also. . .

**Mr. Anderson:** — I can read . . .

**Ms. Harpauer:** — No. If I have the report, I can look that up. I do have it; I just don't have it here at the committee room. Then SaskTel, there is also a SaskTel Investments, and that has subsidiaries as well. Does that as well have a separate report?

**Mr. Anderson:** — No, it doesn't have a separate report. We in fact table the reports of the investments within it. They are the actual operating entities. SaskTel Investments Inc. is essentially a holding entity for the investments.

**Ms. Harpauer:** — SaskTel Investments, but it's not in the annual report, the breakdown?

**Mr. Anderson:** — Yes.

**Ms. Harpauer:** — It is?

**Mr. Anderson:** — No. Your statement's correct.

**Ms. Harpauer:** — Okay, so that's a separate report as well?

**Mr. Anderson:** — No. SaskTel Investments Inc., there is no

separate financial statement for SaskTel Investments Inc. There will be separate statements for the actual operating companies themselves.

**Ms. Harpauer:** — Okay.

**Mr. Anderson:** — Navigata, for example. The statements or . . . actually that is not a good example.

**Ms. Harpauer:** — So in the future statements then where would I find Navigata? It would be under SaskTel Investments Inc.?

**Mr. Anderson:** — In future reports Navigata is essentially a division of SaskTel.

**Ms. Harpauer:** — So, like Max.

**Mr. Anderson:** — Correct.

**Ms. Harpauer:** — It will be very difficult to get specific expenses or . . . It's difficult to get specific expenditures on Max, and we're going to find that with Navigata as well now.

**Mr. Anderson:** — That's true. Navigata is providing a lot of the products and services that SaskTel provides — just out of province. And we don't do statements on long distance and statements on local service or statements on Internet. We don't provide statements on a product basis.

**Ms. Harpauer:** — I guess the concern is Navigata to date hasn't shown a profit. So now that we've folded it into the holding company, it's going to be very difficult to know if it's worthwhile to have it.

**Mr. Anderson:** — You will be able to judge, I guess, our success out of province by looking at the bottom line of SaskTel.

**Mr. Watson:** — May I comment on that? We decided to bring Navigata into SaskTel to take advantages of the synergies that we could take advantage of. It was no longer advantageous for us to leave it outside there for running the network, running the network operations. Customer support for Navigata actually comes from Saskatchewan now, our own SaskTel customer support people. And we're seeing very positive results of that.

There would be two reasons why we don't. First of all is the difficulty of separating the actual costs of somebody picking up the phone one time and it being a customer from Regina or somebody picking up the phone the next time being a customer from Vancouver. It will be very difficult to allocate those type of costs.

The second thing is, is that we really don't want our competitors to know in detail what we're investing and how we're doing the competitive thrust into Alberta and BC [British Columbia] with our new . . . we call it the expansion division now.

**The Chair:** — Ms. Harpauer, we have some more information that's available to you from the auditor's office if you'd like to . . .



**Ms. Ferguson:** — . . . is actually you'll find in about February, March we actually table a report in the Assembly that goes to this committee, and it actually indicates whether or not we agree with the reports of the appointed auditors on the financial statements.

But in there you'll find that for SaskTel we actually group it by the holding company and break it down as to what the subsidiary is and then what the subsidiary is that by the indentation on that. And so in essence that provides you, between that and the annual reports and the individual documents that you're . . . being tabled, it might assist you in terms of figuring out the corporate structure and who's a subsidiary of whom so . . . [inaudible interjection] . . . You're welcome.

**Ms. Harpauer:** — Is there any . . . Okay the original company in BC, is there anything there any more? Does it exist at all?

**Mr. Watson:** — The original company doesn't exist. That's what Monarch bought, was the original company. There's now a company we still call Navigata Communications . . . [inaudible interjection] . . . whatever. We'll get the proper name for you. The reason we call it that is because we kept the sales and customer support team that is important to have locally on the ground there. We kept them in an entity on their own out there.

**Ms. Harpauer:** — Okay, Navigata as it existed in BC originally, owned by SaskTel, was losing money. By folding it into SaskTel how is it . . . like, why was it a money loser outside of SaskTel and yet you feel it's advantageous within the holding company?

**Mr. Watson:** — Well first of all we've done a lot of work over the last two years, changing it around and changing the entire business model, quite frankly. When Navigata was first purchased it had something like 260 employees. Through synergies and through attrition rates, etc., we're down to about 120 now, employees. Now when we launch a new product in Alberta and BC it's simply . . . you just add the salespeople on required to go sell the product. It would be . . . sell it direct or we sell it through dealers. Most of the support, if not all the support, happens here now and we can incrementally pick that up with the existing employees we have within SaskTel.

So we actually changed the model completely from the original model. We're now going to change over the customer base. Some of the customers we had were local, were lines that we would lease from TELUS and resell to customers. There were some long-distance customers that were not advantageous to the long-term growth of the company so we're changing over the customer base to longer-term customers.

One of the things in SaskTel's many firsts . . . I didn't get a chance to mention it but SaskTel has many firsts, actually starting in 1984. So I'm going to take the opportunity to mention it. Back in 1984 SaskTel was the first in the world, as everybody knows, to complete a long haul fibre optic network. In '06 we were the first company in North America to launch the Cisco Linksys One system which is an IP key system. And we sell that through our expansion division into companies in Alberta and BC and support that from here.

So it's the model that I professed that we should go to when I first arrived, is now with a new IP infrastructure possible. We can now start selling products around the world, quite frankly, and support it from here. Right now you can buy from us a 3-0-6 number and take that anywhere in the world and have it a 3-0-6 number. You could take it and put it on your computer and be in Singapore now, and it's a product available to you.

So this is the type of thing that we're going to do. So we changed the business model Navigata. It's now the expansion division. Any new telco service that we now will develop was a telco service that not only will be launched in Saskatchewan first but will be a service that can be launched anywhere in the world, supported from here.

**Ms. Harpauer:** — The difficulty that we have with Navigata is in 2003 there was a \$25 million loss, in 2004 a \$16 million loss, in 2005 a \$21 million loss. Each and every year the projection was there would be no more losses. I can read a lot of quotes into the record of news releases from SaskTel, from the government, from ministers saying that this is you know, ". . . it's projected to be profitable this year" in 2004 was what the minister said. "Navigata has seen significant revenue growth during 2003, and it is anticipated that it will be [in the] net income positive [position] in 2004." That was a new release in March 2004. It has never happened.

The Provincial Auditor pointed out that you have great mechanisms for identifying a risk, but you don't have sort of any level of risk that's acceptable. So what is acceptable for Navigata? When do we say we've lost enough money?

**Mr. Watson:** — That's a very good question. I mean I couldn't agree more that the losses in Navigata are not acceptable. They're not acceptable. And they weren't acceptable to management, well certainly when I arrived.

What we found, quite frankly, and what we evaluated is, you remember we, in '05, we took the writedown of the assets for Navigata. That's why there was such a large loss. We purposely went and evaluated the assets and took that writedown in '05 knowing that we were looking at an integration plan because once we integrated, those writedowns wouldn't have been recognized . . . well wouldn't have been noticed publicly because they wouldn't be material to the whole SaskTel.

So I think we prudently took the sequence of steps to show that we were purposely trying to change the model. What we also found, well what we found when I arrived is that there was such a passion — and I'll call it a passion — to try and get it right, Navigata right, that they were trying to drive their revenue line. They were trying to drive the cost line. But unfortunately some of the processes were neglected, some of the processes that, you know, weren't malicious or weren't purposefully . . . [inaudible] . . . But the processes about security and stuff were neglected, not that they weren't found because when did it through the audit, we didn't lose any revenue through the process. But they were neglected.

Bringing it in to SaskTel, bringing it in with the whole corporate governance structure, we think we'll be able to handle that much better. In fact we know. We've been able to identify and do it. So when we do revenue assurance within the

company, it becomes part of the revenue assurance automatically.

**Ms. Harpauer:** — So can you tell me how much did it lose in the first quarter of 2006?

**Mr. Watson:** — The first quarter of 2006, well we're cautiously optimistic that it's going to be a much better year.

**Ms. Harpauer:** — I have those quotes. You have been for years.

**Mr. Watson:** — I can tell you there is a significant change in the company this year.

**Ms. Harpauer:** — Okay. Is there any way of knowing how much it lost in the first quarter of 2006?

**Mr. Watson:** — Well quite frankly, to the first quarter 2006 and the first half of 2006, we were evened up positive for the company — first time ever. So we're being cautious, but we expect optimistic finish to the year.

**Ms. Harpauer:** — And so in an upcoming annual report, we're going to see Navigata listed showing a profit.

**Mr. Watson:** — No, you won't see it listed separate any more, right.

**Ms. Harpauer:** — That's right too because of no holding company. Dan, do you want to add to anything? Dan.

**Mr. D'Autremont:** — Sure.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — Okay, thank you. I'd like to return to the questions that I had asked earlier about the financial losses that were transferred to Monarch when they took over the holding company. What was the value of those tax losses?

**Mr. Watson:** — Well that's an interesting question. A fair market value or just the raw dollars?

**Mr. D'Autremont:** — Both if you have different numbers.

**Mr. Watson:** — Well you'll have to ask them for a fair market value because it's . . . Do we have those numbers?

**Mr. D'Autremont:** — What was the benefit you . . . What was the raw numbers of the losses? And then what was the benefit you gained from them on that sale?

**Mr. Meldrum:** — The benefit that we gained was two payments of \$750,000 each for a total of one and one-half million dollars. And we're just looking to see if we had brought with us the value of the tax loss carried forward.

**Mr. Anderson:** — No, we don't have those with us today.

**Mr. D'Autremont:** — Well you must have had some numbers as to what remaining value or lack of value that there was in that company when it was transferred wholly to Monarch. You

must have had some number on your books.

**Mr. Watson:** — I think that we were very happy to get any money for it, quite frankly.

**Mr. D'Autremont:** — But they obviously didn't pay \$1.5 million for something of absolutely no value.

**Mr. Watson:** — No.

**Mr. D'Autremont:** — So there was a value to them of it. But what was the number that you had on the books still for that company when it was transferred, even if it's a negative number?

**Mr. Watson:** — Okay. Well we'll get you the number. We just don't have it with us.

**Mr. D'Autremont:** — Okay.

**Mr. Watson:** — We're guessing — I hear them back here guessing — in the 25 million range of tax losses.

**Mr. D'Autremont:** — So if . . .

**Mr. Meldrum:** — Yes. Well part of the problem is that some of them, they lapse over time. Like there's some tax losses right at the very beginning, and then each year the amounts change. But my recollection, not having brought it with me, was it was about \$25 million.

**Mr. D'Autremont:** — So if they had positive revenues in some other location or capital gains, they could offset that against those losses.

**Mr. Watson:** — Yes. Purchasing tax losses is a very dodgy game. I mean, it's a very risky game, how you use them and everything. So what they were going to do, we have no control over.

**Mr. D'Autremont:** — Since SaskTel doesn't pay taxes, your expertise would not be in that area.

**Mr. Watson:** — Right.

**Mr. D'Autremont:** — So individually, you may pay tax, but the corporation doesn't.

**Mr. Watson:** — Yes. Needless to say, even when you get \$1 for them, it was a benefit to us.

**Mr. D'Autremont:** — You have transferred the assets out of Navigata to SaskTel, other than what remains in British Columbia and Alberta. What is left in BC and Alberta, and what's the value of what you have left in that company? I understand you still operate it, but what's the values there? What are the raw assets and what are the values?

**Mr. Watson:** — All the assets that were within Navigata . . . I shouldn't say all the assets . . .

**Mr. D'Autremont:** — Okay.

**Mr. Watson:** — The majority of the assets that were within Navigata are now SaskTel's assets. We own them. We have full ownership of them and everything and we run them. In fact they're run out of Regina here. The network office and everything is run out of Regina here. Major change from before, it was run out of Vancouver, all of it except for five per cent or something.

**Mr. Meldrum:** — Yes. Just some specific assets and some specific . . . [inaudible] . . . but the assets are microwave towers, land, buildings, switches, sort of your regular telecommunications facilities that you'd expect to see for an entity such as that. We own them — SaskTel.

**Mr. Anderson:** — And the value of those at the end of 2005 was 22.207 million.

**Mr. D'Autremont:** — That number, the 22 million and change, are those book values or are those depreciated values?

**Mr. Anderson:** — They're net book values, so net of depreciation.

**Mr. D'Autremont:** — Okay. The ongoing business that you have in British Columbia and Alberta, how do you currently go about evaluating the benefit of that business?

**Mr. Watson:** — Well we do it two ways. First of all we look at the ongoing business as is, and is it changing over the way we want it to? As I mentioned earlier on, we were looking to change over some of our customer base to a more longer term, sustainable customer, like some of the business Navigata was doing in the past with short-term carrier business. We want to see the revenue changeover. So quite frankly you won't see a lot of customer growth over the next year or two years because we're changing the customers over.

The second part is, is that we add in — when we evaluate a product now to launch in Saskatchewan — we add in how much we're going to get from out-of-province revenue from that and that becomes part of our valuation process.

**Mr. D'Autremont:** — Is that the valuation process for what you're doing in Saskatchewan? You say when you bring the product into Saskatchewan. Or are you talking about the evaluation in British Columbia and Alberta . . .

**Mr. Watson:** — Sorry. To answer your question, both. We look at whether we can offer the product profitably in the province here first of all — because all products we offer we make a profit at — and then we just extend that product and then expand the market base and see what it would take to offer that product outside the province because there is different cost structures outside the province.

**Mr. D'Autremont:** — So how do you evaluate the benefit, the impact on SaskTel, of continuing to operate the businesses in British Columbia and Alberta? Do you have a mechanism for that?

**Mr. Watson:** — Yes sure. We have a definite strategy, is what we call market expansion strategy. And the market expansion strategy is we have certain revenues that we think we have to

start acquiring from outside the province in order just to keep growing the business. And that market expansion strategy is the organic evolution of all our divisions outside the province.

The expansion division now . . . which essentially is our telco products, our telco products are our new voice over IP, the 306 WebCall product I was talking about, the new Cisco Linksys system. Our telco products go through the expansion division.

We have Hospitality Net, which is the health care communications business. We look for organic expansion from it outside the province. SecurTek which is a national security company, we look for organic expansion from it outside the province over the next five years. As well as DirectWest which is our directory business, and we are expanding quite, quite actively and quite successfully in Alberta and now in Manitoba with that business. So we're looking for sustainable growth for our products and services outside the province through those four main — five, sorry, SaskTel International also — five main subs that we focus on.

**Mr. D'Autremont:** — Thank you. Something like DirectWest, SaskTel has been in and out of a couple of times I believe over its history. And so how do you evaluate whether or not something like DirectWest is a positive investment for SaskTel if you're lumping them all together into one entity?

Are you saying . . . well we've got six or seven different parts in this particular division; it's not relevant to us whether any one of those parts is not performing properly as long as the overall division makes a positive return to the Crown corporation? Or do you evaluate each one of those parts to determine its value to SaskTel and then make a business management decision on to whether or not you retain that division that isn't performing properly, whether you change that division in some means?

**Mr. Watson:** — I think that's a good answer. I like that one. I'll . . . No, just to be serious. Almost pretty well what you said. But anyways we look at a Holdco level first. Strategically what do we want this company to be in five years from now is what we look at. And we looked at it, and we've gone somewhat new, quite frankly, in that we've said that SaskTel in five years from now has to be an information, communications, entertainment company. We have to look at it the three ways because the growth is in information and entertainment. And we're like every other communications company in the world . . . is that's the way they're growing.

And then what's happening in this present time right now is true convergence is happening. You're getting the true aspect of carrying a single device that you can place a call on, send an email on, watch a TV program on. And that device could be in your pocket. It could be on your computer screen. It could be your TV screen. And it is growing that way, and the manufacturers are forcing it quite frankly. They're coming out with devices that are going for the three-way. So if we as a service provider don't get our products and services there, then we'll be left behind because the consumer wants it. The consumer is going to want it for the future.

Now what we look at then is we look at our core strategy of again developing products and services . . . First of all network — I should step back — making sure that our customers in

Saskatchewan have available to them one of the best networks in the world, if the not best network in the world, and it's our consumer customers and it's our business customers because we think it's good business. If you don't have one of the best networks, then you'll be marginalized. Then you'll be selling only on price, and that's not pleasant. You got to be selling on quality and service delivery. The network's the one aspect.

Little bit of extending that network now outside the province with the Navigata assets, we now get to the major centres in the West with our own network. And then we can get closer to the NAPs [network access point]. The network access points for Internet connectivity, where you can then deliver your guaranteed own quality of service to your customers, is an extension again because of an extension of SaskTel outside the province. The network's the one thing.

The second thing then we have to make sure we deliver to our customers in the future is services, because they want the services. The customers want, the kids want these tunes downloaded on their cellphone. That's what they want, and they want to watch the clips. Now the broadcasters are coming up with six-second clips of TV programs, so people can watch their six-second clips on their cellphone or on their PDA[personal digital assistant] device.

So it's moving that way, and we can't, we as a company can't ignore it. What we can do is we can take advantage of consumers, not only in Saskatchewan wanting it, but as I say, around the world per se because we can offer these services.

The classic thing that we've been able to do as a company is we put together the first, as we have heard before, first IP high-definition television offering in North America, and we think actually the world — the first one ever. Manitoba Tel has high definition, but it's not only IP layer. It's on a different technology.

So this allows us to offer high-definition channels, 27 channels out of the gates, which is world-class. That we were not able to do ourselves. We had to partner with six other companies to partner to put that product together and offer it. Now the expertise is housed here. The technology is housed here, and we hope to, with our new joint venture with ALCATEL, of having an innovation centre in Saskatchewan, take that expertise and start exporting it around the world.

Now the strategy — still on the strategy — we then want to take that through our main telco, through our other five major subs and expand that out of the province. Even DirectWest, when they now go into a city now, they only hire a sales team in a new city. And in fact they take their sales team and move around the cities in Alberta, and they sell the different books. They support most of it from Saskatchewan. Some of it's still supported from Alberta, but our plans are even to bring that back to Saskatchewan. So it becomes a much easier expansion, less riskier, and you can get much better control of it when you can support it from here and just have sales and marketing organizations out selling.

**Mr. D'Autremont:** — Thank you, Mr. Watson. Interesting answer, but not the answer to the question I asked.

You have a number of entities in a particular division. Do you have the ability to track the positive or negative impact of one of those entities in that division on SaskTel's bottom line?

**Mr. Watson:** — Yes. We not only do that, but we actually . . . Within the company we actually track the product, whether the actual product is possible or not. And we track it. Now a lot of it is allocation. That's where you get into the . . . well we allocate the costs through because we don't track it down to the . . . knowing when the person picks up the phone and who they're talking to about which product. A lot of it's cost allocation, but we certainly try and pay attention to that, yes.

**Mr. D'Autremont:** — So then you could report to the committee if we asked about a particular entity within a division as to its financial benefit or drag on the corporation?

**Mr. Watson:** — For competitive reasons of course, we would prefer to report like any other company would report, for competitive reasons.

**Mr. D'Autremont:** — But you're not like every other company. You're a Crown corporation.

**Mr. Watson:** — I agree.

**Mr. D'Autremont:** — You mentioned another item that is of interest to me as well, and that is the process of giving credit or charges within the corporation for work done within an entity. So how do you . . . Previously, how much work did SaskTel do for Navigata, and how was that accounted for?

**Mr. Watson:** — The way we worked at SaskTel . . . SaskTel or telco or any part of SaskTel, did for Navigata, it was always billed through. It was always allocated and billed through.

**Mr. D'Autremont:** — Okay. Under the current system where Navigata has in the main been rolled into SaskTel, is there similar kind of accounting taking place with the entities within a division so that if DirectWest provides a service to the Navigata implementation that that is recorded someplace within SaskTel?

**Mr. Watson:** — Yes.

**Mr. D'Autremont:** — So it's possible then to track the expenses of the Navigata side of the growth division, the expansion division, including what it would have billed out to the other portions of SaskTel?

**Mr. Watson:** — To answer your question, management tracks the expansion division the same way we track our DIV [digital interactive video], the Max division. We track it and allocate and try and ensure that it is a product that's either progressing towards what we want it to progress towards or where it is either not getting the traction we want it to get or, in other words, not fulfilling its business plan, yes.

**Mr. D'Autremont:** — Okay thank you. I know my colleague wants back in as quickly as possible. So I do have one question more and that is, you say that you can buy a 3-0-6 number for use anywhere else in the world.

**Mr. Watson:** — Yes.

**Mr. D'Autremont:** — Do you sell 3-0-6 numbers to other carriers for use?

**Mr. Watson:** — Sure. If they want to, yes.

**Mr. D'Autremont:** — And what's the cost of a 3-0-6 number?

**Mr. Watson:** — Our web call.

**Mr. Meldrum:** — It's a regulated rate. The rates are regulated by the CRTC. They come in blocks.

**Mr. D'Autremont:** — So from another carrier — you mentioned Vonage earlier — it's possible now to get a 3-0-6 number through Vonage?

**Mr. Watson:** — They wouldn't get a 3-0-6 number for them to resell. They would have to register as a CLEC [competitive local exchange carrier] in the province. And then that's the formal process they have to go through.

Now we have three CLECs registered in the province now to offer services so . . .

**Mr. D'Autremont:** — I won't ask you to advertise for them. But there are three other carriers that can provide 3-0-6 numbers if someone asked for it?

**Mr. Watson:** — They're registered CLECs, yes. We don't know how they're set up yet, whether they're set up to do that. But they're registered as a CLEC.

**Mr. D'Autremont:** — Is there a limited number of 3-0-6 numbers that are available in that manner?

**Mr. Watson:** — Yes, there is a finite number of 3-0-6 numbers.

**Mr. D'Autremont:** — Right, for everybody. But is there a lower finite number for the carriers?

**Mr. Watson:** — No. Not at all, no.

**Mr. D'Autremont:** — Okay. Thank you.

**Mr. Watson:** — We hope there is not many to get. But we're going to surely try they don't . . . try to get them.

**The Chair:** — Ms. Harpauer.

**Ms. Harpauer:** — I just wanted to finish with Navigata for a moment by just one final question of who ultimately made the decision to integrate Navigata into the holding company, and does cabinet have to approve of it?

**Mr. Watson:** — Good process question. It came from executive . . . or the executive of SaskTel went to the growth committee of the board and then went to the board itself for the approval of integrating Navigata. Where did it go beyond that?

**Mr. Meldrum:** — It was approved by cabinet.

**Mr. Watson:** — It was approved by cabinet.

**Ms. Harpauer:** — It was approved by cabinet.

**Mr. Meldrum:** — And CIC [Crown Investments Corporation of Saskatchewan] before that.

**Mr. Watson:** — Well so . . . sorry, just to make sure you understand that it had to go from our board, then it goes to Crown Investment Corp., and Crown Investment Corp., then it goes to cabinet.

**Ms. Harpauer:** — The next questions I have are somewhat a follow-up from the questions that Dan were asking in the entities that are within the holding company, or the divisions that are within the holding company and you have mentioned a few times on your new announcement on high-definition. What is the cost of . . . what monies have been allocated for the high-definition launch?

**Mr. Watson:** — That's a good question.

**Ms. Harpauer:** — You do like our questions.

**Mr. Watson:** — Yes, that's a good question, I think. We were told it's an '06 number not an '05 number.

**Mr. Meldrum:** — Mr. Iwanchuk is sort of thinking of the equivalent that is specifically dedicated to high-definition television or advertising.

**Ms. Harpauer:** — Well my understanding is that there was an announcement that there would be some 137 million this year and some 310 million over the next five years.

**Mr. Watson:** — That's a different project. That's the network project. The network project is — you're right; those numbers are correct — is where we were building out the network in order to extend our bandwidth offering to our consumers. In other words, we were upgrading our bandwidth that consumers could get to households and businesses. And that was where we had to build the infrastructure and invest in that.

Now that delivers more higher speeds. Our competitors are now offering higher speeds Internet. And it allowed us to deliver high-definition TV. It allowed us to deliver third and fourth set-top boxes into the homes. And we actually think that our consumers now . . . This network build will get consumers possibly up even to 40 megs to every home, which is world-class. But we think over the next 5 to 10 years, our consumers in Saskatchewan particularly won't rest until they get up to 100 megs per home. So this is continual network development.

So that is not . . . the network we have to invest in . . . This is my earlier comment about making sure you have one of the best networks, or you'll get marginalized. So this is a continual thing, and this will be a continual thing that SaskTel will be continually investing in. And we're no different.

**Ms. Harpauer:** — Okay but when I look at your investments . . . And we're still a province of less than 1 million people, so that's the challenge. So the technology is getting more and more

high tech and also increasingly more expensive. So that is a lot of money per household, and I would venture to guess probably — what? — less than 50 per cent of those households would be customers.

**Mr. Watson:** — We'd like more of course but . . .

**Ms. Harpauer:** — Of course you would. Like you'd like 100 per cent customer base within the province, but that's not reality. So when do you decide that the investment outweighs the customer base?

**Mr. Watson:** — Well that's a very philosophical question because I don't think you're ever going to get the customer being satisfied . . .

**Ms. Harpauer:** — No, I didn't say you'd satisfy the customer. I'm saying as a business decision, when do you say the investment is too great for our customer base?

**Mr. Watson:** — I think you have to . . .

**Ms. Harpauer:** — You know, if you're looking at thousands and thousands of dollars per customer for a service, do you do it?

**Mr. Watson:** — Well let me answer you. I think you've got two things.

First of all, when we evaluated how we wanted to build our network out, we took a staged approach. We took it that we would build out the first tranche, which is a major expense of the \$345 million, building out fibre to within 900 metres of every home or business within the 10 communities. Then we said, we'll build that out. That gets us at . . . you know, whether we do pair bonding, a technical issue, but uses four copper wires instead of two, that gets you possibly up to 40 megs per home, a good evolutionary stage.

Then we said, over the next five years we will continue to invest in fibre, continue to build fibre out into the network so that we can get up to the 100 meg range. Major corporations in the US [United States] and around the world are investing billions, billions. They're investing 2, \$3,000 per sub to keep going at this range, and we're well below that. I mean, if you don't do it, then your consumer will go elsewhere. SaskTel again would then be marginalized, and we would not be able to offer products and services that our consumers will demand. So it is a necessary evil.

Now we evaluate every product and every offering as we go along. I mean, Max itself still stands by. If we had have stopped investing in Max, then it would have been profitable at about the 35, 36,000 sub level. But you can't stop investing in it because the consumer's demanding more and more.

If we hadn't have gone ahead — and in fact very good kudos to the whole employee base to get that product out, and within 10 months they got that HD [high-definition] product out and customer ready within 10 months — if we hadn't have done that, we would have started losing market share because that's what the consumer wants. I don't know if you know anybody today who's not going to go out looking at a high-definition flat

screen TV. And wait to buy them, by the way. They're going to get cheaper after, we're told after the US Thanksgiving that the prices should come down.

**Hon. Ms. Higgins:** — I'd like to just put in a few comments on this piece. SaskTel is no different than any other business. Even though they are a Crown corporation, they still have to make an adequate business case for any venture that they are going into. So whether it's the expansion of the network, you're not going to spend extravagantly beyond what the expected returns are. And even though they are a Crown corporation and have some public policy mandates and are well known for that here in the province of Saskatchewan, they still have to have the business case.

And this is often the debate we will get into in the House where there will be a variety of colleagues that will stand up and say, we would like wireless, we would like high-speed, we would like more cell towers, we would like even larger expansion of various services. There's still the business case that has to be made.

**Ms. Harpauer:** — But I guess that's my question. With a small population you know . . . And I agree there has to be a business case. I absolutely agree with that that there has to be a business case, although I do understand what Mr. Watson's saying. The customer is going to want more and more and more. And the technology is evolving at an incredibly rapid pace. And SaskTel is a Crown corporation in a very lowly populated province at this point in time although we want to change that.

So when you're looking at investing, in the case that we were talking about, \$450 million, do we have the customer base to support that type of investment?

**Mr. Watson:** — Yes. We think that it was a good investment, and we think that we can give the returns that we should give. The returns, we also look at it . . . To maybe answer your question a bit better, we have an overall . . . Holdco financial hurdles that we want to hit when at a 14 per cent return on equity. So we look at that at a Holdco level.

Now we also, when we look at launching a product, is it strategic? Is it something that you're going to launch and you're going to get a payback within three years and then it starts taking off? Or do you launch it because it's immediate and the customer wants it? If you don't launch it, you're going to lose market share. But every product we look at, we look at those factors, plus we look at the profitability of it and make a very calculated decision as to where we go.

**Ms. Harpauer:** — Okay. If I were to ask you then for the amount of money that has been invested in Max — and that would be the technology, the advertising, you know, the entire marketing, what did it cost per customer — would you be able to tell me?

**Mr. Watson:** — Not off the top of my head, but I could get that for you. I know that Max will be profitable in the near future for us as a product on its own.

**Ms. Harpauer:** — But that's . . .

**Mr. Watson:** — And that's our growth for the future.

**Ms. Harpauer:** — But we, you know, we have no way of knowing that. Once it's gone into the holding company, even to get the numbers of how much is spent to advertise and market Max, can we access that number?

**Mr. Watson:** — Well we prefer . . . Competitive reasons is where we have difficulty. We're more like any other company. I mean, no other company releases their costs of products. So that's the only thing that we don't . . . And it's not that we can't do it, but we just don't for competitive reasons.

**A Member:** — Maybe I could add something just on the advertising just to . . .

**A Member:** — Announce yourself.

**A Member:** — Pardon?

**A Member:** — Who are you?

**A Member:** — You have to identify yourself.

**Ms. Milenkovic:** — Diana Milenkovic, SaskTel.

**The Chair:** — Just one moment. Unfortunately you're not in camera so if you could just move over in front of the microphone that would help everybody on the committee as well as the viewing audience. And just mention your name before you . . .

**Ms. Milenkovic:** — Diana Milenkovic. I'm vice-president of marketing for SaskTel.

What we do for every campaign, regardless of if it's Max or . . . We've launched a whole host of services this year. Max high-definition has only been one of them. Some of them are . . . We've launched a 10-4 service, you know, some content, mobile radio, Say & Send. And after every campaign where we invest marketing dollars — and it's not just marketing dollars; there are other resource dollars that go into launch of a campaign — objectives are set, and we look at a post-mortem to see whether we got the activations, whether we got the uptake, whether we moved customers to different rate plans. So we do post-mortems on every service and on every campaign and evaluate our success. So Max isn't unique in that regard.

So we do an assessment for a couple of factors, one, to see if we're setting our targets realistically. Another is to see whether or not we priced it appropriately and our customers want it. We evaluate, you know, the appropriateness of the service, the way we've positioned it. So there's lots of factors that go into the consideration of marketing dollars. And it's not just what you spend, but what the uptake is.

And so with respect to this particular add-on with Max, the service is there. We look at how many customers we're getting on a monthly basis. But then when we give them things like high-definition or add other features like local video-on-demand or movie channels, we monitor what the uptake is in terms of how many movies are ordered per month. So all of those services within that portfolio and across all of our services are

monitored. So I don't know if that helps you.

**Ms. Harpauer:** — It does and it doesn't. Like I understand and I agree that's just good business sense to run a campaign and then after it's done to take a look at, like you said, the uptake, was it worthwhile, was it worthwhile compared to the uptake.

I guess the question that we always have is . . . Because we don't have access to those numbers, and we're given reasons, whether we think they're good reasons or not, but we're given reasons why we can't access those numbers. And yet we have scenarios like Navigata. We've had other scenarios within SaskTel where, yes, it's going to be profitable next year; yes, we're going to do better next year. But it keeps on losing money. And the uptake of customers with Max in particular wasn't near what was initially predicted. The uptake was quite slow in the beginning to the predictions, and yet money was being spent per customer. It was a lot of money that was being spent, and so now we're not getting the numbers.

**Mr. Anderson:** — Sorry, I didn't mean to interrupt, just to correct that. I think the original business case for Max showed us achieving 55,000 customers in the first five years. We're in year four and we're at just over 51,000. And it's a fact that it's pretty much hit all of the customer targets all the way along. In fact I think it was the fastest growing service we've launched.

**Ms. Harpauer:** — Initially in the first year it wasn't.

**Mr. Anderson:** — Just the first quarter.

**Ms. Harpauer:** — Yes.

**Mr. Anderson:** — We had some technical challenges in the first quarter, but once we addressed those, it took off.

**Ms. Harpauer:** — So again how do we evaluate if the money spent again as a package on mass, compared per customer?

**Ms. Milenkovic:** — But then you would have to do that for every service that we offer, like you know 10-4 service. We have a huge amount of services in our company, and we do that on an ongoing basis. We look at the contribution, the margins. We say whether or not this service should be enhanced. You know, was there more functionality we should put in it or should it be discontinued? And Max is just one element.

So the concern that we have about being in the game with Max is something that our CEO articulated and that was the issue around convergence. It's not just a broadcast unit. But the content that SaskTel looks for is synergies because we want to be able to get the same content and give it to a consumer or a business on a TV, or that content can be accessed through a cellphone, or that content can be accessed on a PC [personal computer], and so Max isn't just a stand-alone. It's part of the integration of interactive services that don't necessarily have a hard and fast line to define what they are.

It's going to be difficult, even in the short term, to tell the difference between a cellphone, a camera, and a MP3 for instance because they're being integrated into that device. The same thing happens with TVs. TVs start to become interactive units because personally you can control them. You can select

programming when you want it, not when it's broadcast. And so I think that's the issue that we have. I hear what you're saying. But it's getting more and more complex, as these technologies are integrated and converged, to differentiate one from the other. We still have product contribution margins that we look for. And as our CFO said, we are well on our way to great progress with Max. We're very pleased with what's happened.

**Mr. Anderson:** — Just to maybe elaborate a little more. Diana's absolutely right. When you look at the numbers that she cited for the NGAI program, if you think about . . . That program put facilities into the homes in the 10 major centres.

Every single product that we offer is going down those facilities, so it's not just Max. Internet is going down there. All your voice services are going down there. So it's pretty hard to say, well you know, you've spent all this money for one particular service. It's supporting all the services that we offer.

**Mr. Watson:** — You have a situation now where the CRTC has regulated that they want us to lose 25 per cent market share. If we lose 25 per cent market share on our legacy business . . . And also the legacy business is getting displaced by voice over IP. It's getting displaced by wireless. If you lose that and you don't do anything about the growth . . . The growth is in high-speed services. Internet and Max are high-speed services. The growth is in wireless, wireless services which uses the network infrastructure, the towers . . . [inaudible] . . . the network's infrastructure, and the broadband services, you know, the business services.

The fifth element is out-of-province expansion. You get the same service as you deliver out of province. We don't keep developing those, and we lose the market share or the revenue on the legacy side, then you've got your company with zero growth. You've got a company that's zero growth with the costs going up.

And a classic example of that right now is Allstream. MTS [Manitoba Telephone System] bought Allstream. Their revenues are not going up; they're going south. Their costs can't get down. They have no way of getting out over their mechanism the way they're doing it now.

**Ms. Harpauer:** — Okay, you've brought up something else I wanted to ask about. Now there was hints that the federal government were going to review CRTC. Do you know where that's at?

**Mr. Watson:** — John can mention it. Yes, there's encouraging signs. I can tell you that, but it's a slow process.

**Mr. Meldrum:** — There's a number of areas in which reform is taking hold. There was a telecom policy review panel's report that came out that the former Liberal government actually initiated. It had 137 recommendations of how to reform telecommunications regulation in Canada.

One of those recommendations was a direction, a policy direction to the CRTC to rely more on market forces than on day-to-day regulation. That's currently in front of the industry committee, the House of Commons. It has been debated, and

unfortunately the opposition members have suggested that the policy direction be put off until, I think, it's March 31 of next year.

They instead want to have a debate about the whole issue of deregulation and where it's going including, I think, probably getting into foreign ownership and various other things unfortunately. So that's the first sort of head.

The second head is that a new Telecommunications Act was recommended by the telecom policy review panel. That will take some period of time to both develop and pass through the House of Commons. With a minority government, the prospects of a new Telecommunications Act aren't great.

The third area is a number of appeals are before the federal cabinet, both on the VOIP [voice over Internet protocol] decision and with respect to the forbearance decision that Mr. Watson referred to in terms of the 25 per cent market share loss that they'd like to see the incumbent phone companies lose.

The VOIP appeal went back to the CRTC to have a look at and then has gone back now to the federal cabinet. Essentially the CRTC said, we're right. We don't want to reconsider the decision. The federal cabinet now has to decide within a short period of time whether or not they're going to accept that — that the CRTC reviewed it and said everything was fine — or whether they will actually overrule the CRTC with respect to VOIP.

**Ms. Harpauer:** — And that will be decided when?

**Mr. Meldrum:** — It has to be decided, I think, within the next month. They have 90 days after it was returned back to them to decide. And they've had it now for one or two months.

So we're hopeful that reform will occur. There's a number of entities in Canada are in favour of it: Canadian Chamber of Commerce, some of the unions. There seems to be . . . The analysts that report on telecommunications, there's almost a consensus that reform of the CRTC should occur. And it's really a question of time. And unfortunately the minority status of the government that may slow it down.

**Mr. Watson:** — Again as you say, here's a bit of an example. I mean, I heard this before. But the way they pick these areas for lose market share loss, the 25 per cent, for Prince Albert they picked the Prince Albert plus the whole area. That means we'd have to lose 100 per cent of Prince Albert itself, before we deregulate it. And if Shaw comes into Prince Albert, they would completely support that product from Calgary. They would not put people in Prince Albert. And so this is where we have a bit of an issue, right, with the CRTC.

**Ms. Harpauer:** — When they did the review of CRTC, were you as a telecommunications company allowed to submit to that review suggestions of what changes or what reforms should take place? So they're not even going to look at it now till March or . . .

**Mr. Meldrum:** — Well that's the one aspect of it, is this fairly general policy direction that would come from the federal cabinet to the CRTC to suggest that they should rely more on



market forces than day-to-day regulation. It is possible that the federal cabinet may decide to proceed because there's nothing in the legislation that really empowers the industry committee of the House of Commons to stop the power of direction from proceeding.

**Ms. Harpauer:** — Okay. Something that I hear a lot, I know you hear a lot, we all do, is economic development in particularly rural areas — of course I represent a rural constituency — and the challenges that are there. And one of them is infrastructure, and phone lines is a huge issue. The first line of course is cost or whatever. It's a very minimum cost. And any subsequent line after that is a fairly large cost, and the reason given by SaskTel is that it is mandated by CRTC rulings.

**Mr. Watson:** — The rural lines are subsidized, right. The rural lines are subsidized as much as \$25.

**Mr. Meldrum:** — Was it the residential consumer lines are subsidized through . . .

**Mr. Watson:** — Residential consumer . . .

**Ms. Harpauer:** — This would be business. I'm . . .

**Mr. Watson:** — Oh, business. Okay.

**Ms. Harpauer:** — Yes. I'm talking commercial.

**Mr. Watson:** — Okay.

**Ms. Harpauer:** — So you know, if you want to develop a business in rural Saskatchewan, you're going to ultimately . . . well I would say almost all of them will need more than one line, and the cost of getting other lines is fairly high.

Is there any way around it? Like is there any way of . . . We're talking public policy here on economic development, and the reason given that any second, third, fourth line is very costly is because CRTC regulations demand that it be so. Is it that rigid?

**Mr. Watson:** — We won't comment on public policy. We'll just . . . [inaudible] . . . what we can provide. We don't think, quite frankly, as a corporation it might be worthwhile investing more in the physical infrastructure in rural Saskatchewan, the copper lines. We believe that it is probably worth looking at review of new technology — wireless; WiMAX [worldwide interoperability for microwave access] technology which gets you broader band services over the wireless infrastructure, very much more cost-effective, much more ubiquitous. But that's a couple years away.

So we're looking at it. We're looking at how we can get better service to rural Saskatchewan for sure. As we evolve the network, it will get that way anyways as we evolve. We're like any . . . [inaudible] . . . starts in the core and the networks start building out the capacity and everything, so we're like any other company. So we'll naturally start to bid more and more bandwidth to the rural communities. But we think the longer-term solution quite frankly is a WiMAX wireless solution and that's a little ways away for the business. Again, we're no different than any other jurisdiction in the world that way though.

**Ms. Harpauer:** — I don't disagree with you that, you know, plowing in a lot of new copper line isn't necessarily wise. But in a lot of cases that line's there, and they're still being required to pay a huge fee to just activate it.

**Mr. Watson:** — There will be technology that will help us get that more capacity on the line, therefore better services. Like voice over IP will be something that our consumers everywhere in the province will want, and that's a double-edged sword. You've got to invest in providing voice over IP because they want it, and yet you'll sell the service for less money in the future. So you've got to bring it in and marginally bring it in the way you can. What we're going to try and do is reduce our costing to the businesses as we go. We've just agreed . . . [inaudible] . . . new lower long-distance rates to be implemented in the new year for our business users.

**Ms. Harpauer:** — Okay. But let's just say I have a business in rural Saskatchewan, and I know that in the trench is six pairs of wires, and I've only had one activated, and I want to activate two more. It doesn't have to be plowed in; it's sitting right there. What stops . . . Why do I have to pay thousands of dollars for the second and third line?

**Mr. Anderson:** — You were right in your earlier comment. It is a regulated service that the CRTC actually has to approve changes to our tariffs and our pricing structures. But beyond that, underlying the tariff, there is a cost issue. So yes, you're right. The facilities are there. We've plowed them into the ground. But we incurred a cost to put those facilities in the ground and still have not recovered the cost.

**Ms. Harpauer:** — You're not going to recover it if I sit back and say, fine, I can't afford it.

**Mr. Anderson:** — Yes.

**Ms. Harpauer:** — Because they're just going to go . . . Because, as Mr. Watson said, the technology is changing. That wire's going to sit there dormant forever. If it is cost prohibitive for me to activate it, it's just going sit there.

**Mr. Meldrum:** — But in terms of . . . If you think of the location of rural Saskatchewan, because they're talking outside the base rate area, the facility has to go all the way from the customer's premise all the way back to the switch, dedicated. So while you might say that there's six pair that's unused in this mile, that doesn't necessarily mean that that six pair is unused all the way back nor does it necessarily mean that we won't have a use for the rest of those facilities — when pairs go bad, when somebody else decides to ask for first line, when a consumer asks for a first line. So again the facility all the way from the central office, all the way out to wherever that person's business is, all that facility is in inventory and has a much greater chance of being used at some point, whether it's because they've gone bad in terms of having to use other facilities or whether a consumer or another business asks for facilities that are going to be used.

**Ms. Harpauer:** — Well I'd love to think that we have these businesses expanding out there, but right now we don't because, boy, that would be great if we did need them very rapidly.

**Mr. Watson:** — I mean I know you know this and I know it's an issue for rural businesses and stuff, but you've got to remember that SaskTel — I mean the province of Saskatchewan through SaskTel — has the highest penetration rate for high speed in the country. It's one of the highest in the world for availability of high speed. Our cellular coverage is 95 per cent which is one of the best in the world. So the network is a pretty darn good network. I know we've missed spots, and we've got, you know, we have individual customers we've got to deal with, and we'll try to. But it's pretty good.

**Ms. Harpauer:** — No I'm not . . . You know, we won't get into how good SaskTel . . . We won't get into cellphones in rural Saskatchewan because that is so incredibly frustrating. And I know you say you've got penetration, but I'm in central Saskatchewan and it's quite populated where I am. And I can tell you from Humboldt to Saskatoon, if I have five minutes of cell coverage that would be it.

**Hon. Ms. Higgins:** — Well I have to say you shouldn't be talking on the phone when you're driving anyway . . . [inaudible interjection] . . . Well and I do . . . no, and I'm serious. While you know we make light of it, we really have to realize that it's just not possible to be on the phone all the time, and there is going to be gaps in service. But I mean Robert is dead-on accurate that we have some of the best coverage in the province of Saskatchewan than . . . I mean in North America — if not the best.

And I'll tell you what. Go to other provinces, go to the United States and drive, and you will have huge gaps that if you aren't right in town you have no coverage. I mean I've done it. I've travelled and we do have the best coverage here in the province of Saskatchewan. And I mean, Robert's been clear that, I mean, the network will continue to build and expand. And I mean that's the focus of SaskTel, to provide the best service. And it is the number one priority of SaskTel is to provide good services right across the province.

But then we also have the business case that needs to be made, and we also need to have the priorities of the people across the province addressed as best we can. So it's a balance. And we will continue to build out the network, even though Dan's eyes, I see them light up. As soon as soon as Robert started talking about 40 whatever's delivered to your house on broadband and the 3-0-6 number, I could hear the wheels grinding in Dan's chair over there about how he could utilize this, and it was appealing to him.

**Mr. Watson:** — Sorry, I give this example all the time. I still have a cottage in the Muskoka area of Ontario which is two hours north of Toronto. And it's . . . I don't own one of the better ones, but there is a cottage up there, and there's three network providers. There's Rogers. There's TELUS, and there's Bell in Ontario, and the coverage is atrocious up there. You get complaints about it all the time also because you get in and out.

So it's a universal, worldwide issue of cellular coverage. And it'll get there, but it will be a while. Well just to make sure that you understand is that we are continuing to put cell towers up, we are continuing to expand the network. Every tower we put up now does not make money.

**Ms. Harpauer:** — I'm not sure how we evolved from poor cell coverage from where I was at, which was business lines for businesses in rural Saskatchewan.

But I wanted to comment before I turn it over to Dustin that the minister can't assume that I didn't pull over to use my cell phone between Humboldt and Saskatoon. She cannot make that assumption that I don't always pull over. But it wouldn't help me if I did pull over because the phone wouldn't work.

**Hon. Ms. Higgins:** — Well then you should make sure you have coverage before you pull over.

**Ms. Harpauer:** — I stop and check first because I don't want to get frustrated when I'm driving.

**The Chair:** — Dustin. Go ahead. Mr. Duncan.

**Mr. Duncan:** — I just wanted to . . . I have a few questions, but before I get to them I do want to just add to the comments that it's certainly frustrating for people in my constituency when I'm visiting with them, and they've grown up with SaskTel. They've grown up with a Crown corporation and understand what that means for the province. But when they don't have reliable cell coverage and yet they know that when their MLA goes to Regina he can watch six seconds of his favourite television program on his phone, that tends to be pretty frustrating. And I don't have an answer for them when they raise those concerns. So I will just say that as a comment.

I do have a question, before we finish, for the auditor, Provincial Auditor. I believe it's in the 2004. I don't have the more recent numbers, but there was 17 active companies underneath the SaskTel umbrella. Does the Provincial Auditor have an opinion as to whether that's a reasonable number for a company the size of SaskTel or for the activities of a company like SaskTel? Or do you have an opinion on if that's a low number or a high number, if it's reasonable?

**Mr. Wendel:** — That would be a policy decision that the corporation would have to decide that. What we want to do though is make sure that it's transparent and the lines of, you know, the accountability's there, and there's good governance structures around it. But there are many good reasons to have subsidiaries.

**Mr. Duncan:** — Thank you. I'm curious about where SaskTel stands in terms of in the city of Regina, in terms of office space. I know there's the downtown office and also the building out at the airport location. Where is SaskTel at in terms of having space for all the employees for SaskTel in the city?

**Mr. Watson:** — Yes. The main office space we have to house employees is the building out at the airport; Lorne St., 1825 Lorne St.; and then 2121 Saskatchewan Drive. There is a training centre on 1st Ave. That is a warehouse and training centre. We do have enough space to house our employees. In fact we have an active program now to make sure that wherever we may have any third party space leased that we use up our own space first.

**Mr. Duncan:** — Just to follow up to that, and I think it'll be my last question for tonight. This is maybe more just because I'm

kind of curious about it. The location out at the airport, is that just for mobility employees, or are there other employees there?

**Mr. Watson:** — It used to be our centre for mobility, where we handled all our mobility business. In the last two years we've gone forward with a program to bring functional programs together, functions together within the organization. So we've transferred a bunch of people down from that office, down in downtown. We've brought all the marketing teams together from all the groups, brought all the financial people together, bring in all the network people together. So that building will be used for DirectWest, because DirectWest has to go out of the building they're in now, and some other operations.

**Mr. Duncan:** — I guess that would explain why the mobility has been taken off the side of the building.

**Mr. Watson:** — That's one. But the other reason is we're going for a common brand. We're going for SaskTel. It's everything SaskTel. So we want to get a common brand. One of the research things we have now was, although SaskTel's brand is the brand in the province — we're way above even Wal-Mart or anything like that — our youth are not identifying with the brand as much as they should. And then also we're looking for a single brand outside of the province. So that's part of the thing also is to go for a strong brand.

**Mr. Duncan:** — Just to follow up on that then. Will your, say, advertising for cell phones for your mobility, will you be just using the SaskTel name now? Will you no longer be saying, like, SaskTel Mobility?

**Mr. Watson:** — Yes. It's just SaskTel.

**Mr. Duncan:** — That's all I had, so thank you.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. Your upgrades to the system, your Max bundle, all that package, 345 million — you say that's for 10 communities?

**Mr. Watson:** — Yes.

**Mr. D'Autremont:** — What about the rest of the province? What do you envision providing them for? Because obviously they're paying part of the price unless all of this expansion is going to be funded from your bundle customer base.

**Mr. Watson:** — It's a fairly complicated answer unfortunately. We're sending the whole network towards IP-based infrastructure network. In other words we're planning a five-year plan to take the old legacy switches, the old TDM [Telecommunicacoes De Mozambique] which is the old technology switches, out. We're putting in IP-based switches throughout the province so it becomes a more meshed network in the future. That's the technology aspect.

With that, with the NGAI project is actually plowing in infrastructure, fibre infrastructure and we're plowing that in everywhere in the province. Again one of our views — and Kym Wittal's here; the chief technology officer has more detail — one of our views is the best way to get high-speed to the

more rural communities of Saskatchewan will be through a wireless technology in the future, not through plowing more stuff in the ground. So it's a bit of a delay for the rural community. But we think if we plan it right, then not only will we save money, but it'll be a better solution.

**Mr. D'Autremont:** — Well while you say there's a delay in this, what's happening across rural Saskatchewan in a lot of communities is someone else is picking up that vacuum and is supplying wireless services. So when that happens and there is an established company operating within a community, when SaskTel is ready to make a move into that community, is this going to be head-to-head competition? Or are you going to say, you filled the void when we couldn't be there because you don't have the capability yet or the financial capability in saying that there isn't enough revenue to be generated there yet, so we aren't there.

What kind of arrangements are you going to have with those companies that are already in place? And most of them are small, local companies that are doing this. It's not the Shaws or the Rogers or whomever. It's local people that are doing it. Are you going to go head-to-head with them? Are you going to say, well you've covered off XYZ territory; we'll allow you to carry on in that area? I would suspect in most cases they're already customers of SaskTel, that they've bought some bulk time on your network.

**Mr. Watson:** — We know that there's companies filling the void right now for individual companies. And that's great. That's competition, and, you know, go ahead and do it.

We cannot right now provide those same services at the cost that the smaller companies do, quite frankly, because they provide on a point-to-point basis with the consumer. We don't think it's reliable enough. We are not willing to stake our reputation on what we think is inferior quality. However the consumer's choice, they can do what they want. We will however think it will be very important in the future when we come with a proper solution, to take that proper solution everywhere in the province and offer it to anybody who owns a house, owns a business in the province.

**Mr. D'Autremont:** — Doesn't that put a bit of a chill factor then on those people who are looking at providing wireless service today, that a year down the road SaskTel is going to come in and be head-to-head competition to them?

**Mr. Watson:** — I don't think so. I think if their business model — and I don't know their business model — it should be if their business model sells them selling a service and they're making money and their operations are sustainable, then they'll be there to compete against us.

**Mr. D'Autremont:** — Well I know that a number of people that have talked to me that to them that's a great concern. If they're going to put up a substantial amount of money — and that's not their main business in most cases; they're providing it as a service into the community — they have a great deal of concern that SaskTel is then going to come along and undercut them and drive them out of business.

**Mr. Watson:** — Yes but I mean, with all due respect, I mean,

I'd love to be able to say that to somebody like Google, don't come into the province here, or somebody like Microsoft, you can't come in here because you're going to take my business away. It's hard, cold facts out there. You've got to provide the services to the customers, and they're demanding. And I think we're in a great position to do that. And we've got to be able to expand our services.

**Mr. D'Autremont:** — So where is SaskTel then going on VOIP internally here in Saskatchewan?

**Mr. Watson:** — We have a product, IP Centrex which is a VOIP service, Centrex service offering. We're going to roll that out to businesses in the province. Case in point — where IP Centrex is a new service, it's innovative because it can allow companies and whoever to do their own servicing and do their own provisioning of features. But you know essentially you get the same service, more flexibility for less money. So even while we change over to voice over IP, we get when we keep the same number of customers, but we'll make less revenue out of that in the future.

**Mr. D'Autremont:** — You say companies. What about individual residential households? Will they have access to that?

**Mr. Watson:** — Sure. Yes. We're going to go with what we refer to as the same . . . what digital telephone service, is what we're going to. It uses digital service to the home, but it uses the IP layer to transport it. It's a technical answer but . . .

**Mr. D'Autremont:** — So it won't then be broadcast over what one would normally think of as your high-speed connection? You would still be using your copper wire and your transmission from centre to centre such as Regina to Saskatoon will be IP somehow, through fibre optics?

**Mr. Watson:** — Fibre optics.

**Mr. D'Autremont:** — But you're already carrying fibre optic on normal telephone conversations between those locations already.

**Mr. Watson:** — Yes. We've got two things . . . I hear them whispering. We've got two things. First of all is that we believe not only that consumers in the main centres of Saskatchewan, but the rural consumers, with the service they get now, the service they get now is some of the best quality and in fact in the future will continue to be some of the best pricing in Canada. The local line rates that we charge right now is the second lowest in the country. And we will continue to monitor that. That's regulated however.

Our LD rates, as I mentioned a bit earlier on, our long distance rates, we are going to continue to look at reducing them to remain competitive. And you'll find that our long distance rates will be some of the best in the country. So if somebody has an existing phone now from us, there will no economic reason for you to change your phone service, we believe. So therefore we will be promoting people to use the existing network.

Now if you actually have a high-speed, you'll have to have a high-speed Internet connection, if you have a high-speed

Internet connection, then you'll be able to get the new digital service from us and get rid of your local line. You can keep the same number and get rid of the local line.

**Mr. D'Autremont:** — Well I happen to have high-speed through a competitor wireless, and I access VOIP already, and it works very well at a cheaper rate than what SaskTel's basic line costs me. And I get a certain number of unlimited time to access North America, not just . . . I know in SaskTel's advertisement on Navigata you could hit, I think it was eight cities. Well for roughly the same price I had an entire North America coverage.

**Mr. Watson:** — You should be looking at our . . . [inaudible] . . . you'd do much better with our bundles. Soon as you get high definition Max from us and then you get the local line plus North American calling . . .

**Mr. D'Autremont:** — But then I'd have to be there to watch it.

**Mr. Watson:** — Yes, well that's also an issue. But I can tell you that our bundles, when we package up our bundles, our consumers get a very good value. There's no two ways about it. Much better.

**Mr. D'Autremont:** — Well thank you very much.

I know we're approaching the time. I just want to ask one question. The minister mentioned the 40 megabyte bandwidth. How much of that will be utilized in your bundle by HDTV?

**Mr. Watson:** — Well okay, that's a good technical question. We right now, I think the HD . . . and you're correct; it takes about 10 megs to deliver HD to the home. Oh, 12, sorry. Today, 12; it will go to 10 supposedly.

**Mr. D'Autremont:** — We hope.

**Mr. Watson:** — So I mean you've got the competitors already offering some HD. Bell ExpressVu offers a lot of HD channels.

**Mr. D'Autremont:** — Well I know that we have more questions, and we haven't even dealt with the auditor's recommendations yet. We got talking about SaskTel's operation, so we'll have to carry this on at another date to deal with the auditor's recommendations.

**The Chair:** — With agreement of the committee, we are going to be recessing until 7:30 in order to continue on with the evening's committee work.

Thank you to the minister, Deb Higgins, and your officials. I for one am bundled quite nicely by SaskTel and feeling quite cosy warm because of that. So thank you again for your answers to the questions and thank you for being here today.

Ms. Harpauer would like to make a comment as well.

**Ms. Harpauer:** — I also would like to thank the minister and her officials for coming in today. Thank you.

**The Chair:** — Thank you. Before we recess for our supper break, I'd like to make mention that we're going to be tabling a

number of reports that the committee members already have, as well as the annual report of the Saskatchewan Snowmobile Association for 2005-2006 which is currently being distributed. This is the report that Minister Serby undertook to provide to the committee on May 10, 2006.

So once again, thank you to the auditor's office. Thank you to the officials and we are recessed for supper until 7:30. Thank you.

[The committee recessed for a period of time.]

### **Crown Investments Corporation of Saskatchewan**

**The Chair:** — Good evening everyone, and welcome to the continuation of Crown and Central Agencies Committee. Just to mention that we have one substitution for Mr. Duncan. We have Don Morgan sitting in. And perhaps now at this time, we'll get the minister, Maynard Sonntag, Minister Responsible for CIC [Crown Investments Corporation of Saskatchewan], to introduce his officials as well.

**Hon. Mr. Sonntag:** — Thanks very much, Madam Chair. And I'll make some remarks as well if that's okay, if I'll just carry on after I've made the introductions. Or would you like me . . .

**The Chair:** — I'd prefer actually that we have the introductions done first, then I'll get back to the opening remarks, please.

**Hon. Mr. Sonntag:** — Okay thanks. Well first of all, seated to my left, Ron Styles, the president and CEO. To my right is Blair Swystun, the vice-president and chief financial officer. Seated behind me directly is Perry Bellegarde, vice-president, labour and Aboriginal initiatives; John Amundson to the far right, corporate controller; Karen Schmidt to the far left, executive director of communications. And just to her right is Kathie Maher-Wolbaum, the special advisor of government relations.

**The Chair:** — Thank you, Minister Sonntag. And maybe at this point now we'll have the Provincial Auditor's office present its officials as well.

**Ms. Ferguson:** — Hello, I'm Judy Ferguson, Office of the Provincial Auditor. I've got with me Andrew Martens and also Tom Robinson from KPMG and Diana Adams from KPMG.

**The Chair:** — Thank you very much. And at this point, Minister Sonntag, I'd like to invite you to give us your opening remarks.

**Hon. Mr. Sonntag:** — Sure. Well I'm obviously pleased to be here again this year, to be in your examination of the Crown corporations by reviewing CIC's annual report for the previous fiscal year. Blair Swystun, who I introduced earlier, will provide you with a detailed presentation on CIC's 2005 financial results when we get to that point on your agenda. Actually I think he's going to make the presentation immediately following my remarks.

I'll provide you with an overview of those results in my remarks this evening, followed by discussion on the pay disclosure report. And finally I'll comment briefly on our new public reporting policy on losses.

2005 was another excellent year for CIC and its subsidiary Crown corporations. It was also a year of accomplishments in public policy. The Crown sector recorded a profit of 306.7 million on revenue of \$4.3 billion last year. Those solid results allowed us to provide 221 million to Saskatchewan citizens through dividends to the province's General Revenue Fund.

This money is used for programs and services that are priorities for Saskatchewan's citizens and for our government — things like health care, education, infrastructure, and agriculture. Continued public ownership of our Crown corporations allows us to make these expenditures that are so important to all Saskatchewan people. At the same time our Crown corporations continue to provide safe, reliable, high-quality services to Saskatchewan people that are the lowest in the country.

In 2005 we again kept our commitment to Saskatchewan families that they will enjoy the lowest costs in Canada for bundle of basic utility rates that includes home electricity and natural gas, basic phone service, and finally auto insurance. As you know in 2004 we kept the commitment by providing a rebate of \$137 to approximately 380,000 households in Saskatchewan.

In 2005 we did not need a rebate. Two factors combined to make Saskatchewan's overall bundle cost the lowest in the country. First of all, obviously good management of rates by the four major Crowns; and secondly, the subsidization of SaskEnergy rates for November and December through the Saskatchewan Energy Share program. We will keep our commitment to the lowest cost bundle again this year. And as the Premier's said in 2003, having the lowest cost bundle in Canada is the ultimate performance measurement for utility Crowns.

As I mentioned just a moment ago, the Saskatchewan Energy Share program was partially responsible for helping us meet the bundle commitment in 2005. We introduced the Saskatchewan Energy Share program to provide short-term relief for spiking energy prices and to encourage energy conservation over the long-term.

Last fall many will know that natural gas prices rose dramatically across North America. SaskEnergy was faced with the unwelcome prospect of passing on a 41 per cent rate increase to its customers.

Instead we implemented a rate that resulted in an overall bill increase of about 10 per cent for most customers, and we also capped that rate for five months. We provided additional assistance for people on low incomes. We also provided grants of \$200 to Saskatchewan residents of Lloydminster and to people in businesses which uses propane or fuel oil as their primary heating source.

We made it clear that this was to be a one-time transitional assistance. We advised people that natural gas prices will likely continue to be volatile, so we encouraged them to take action to reduce energy consumption and make their homes more energy efficient. We introduced six new energy conservation programs to help them make those changes. And I'm pleased to say that both components of the Saskatchewan Energy Share program, the rate relief and conservation programs, have been well

received by Saskatchewan people.

CIC made progress on two other important public policy initiatives in 2005. We kept our commitment to encourage the growth of entrepreneurship and small businesses by establishing the Entrepreneurial Foundation of Saskatchewan and the Saskatchewan Entrepreneurial Fund. The foundation will provide business advice and mentorship and help new and existing entrepreneurs develop business plans. The fund will provide financing of up to \$1 million for each approved proposal. The foundation and fund have been welcomed by the business community.

In May 2006 we announced details of a similar fund aimed at creating economic development opportunities and jobs for First Nations and Métis people. The First Nations and Métis Fund will provide up to \$20 million over the next four years. The fund will make investments of between 1 million and \$3 million in new or expanding businesses which are majority owned or controlled by First Nations and/or Métis people.

Going back to 2005, we also made progress on our commitment to hire more young people and more First Nations and Métis people in our Crown corporations. CIC introduced several programs in 2005, many involving partnerships with the University of Saskatchewan, the University of Regina, and the First Nations University of Canada. Most of these programs are in the early stages, but two are already showing signs of being very successful.

Under the Aboriginal bursary program for students at the U of R [University of Regina] and the First Nations University of Canada, 50 bursaries were awarded last year. That's in addition to 26 awarded in the fall of 2004. Without this financial assistance, many of these students would not have been able to pursue their education.

The Gradworks program, which provides internships in our Crowns for recent post-secondary graduates, is also filling a need. The Crowns filled 88 internships in 2005 in addition to 15 in the pilot year 2004. We currently have 48 interns in the program. To date, Madam Chair, I am pleased to say that of the 117 young people who have completed Gradworks internships, 104 are employed. And all but six of them are employed in Saskatchewan. Sixty-eight have found permanent jobs in the Crowns, while another 30 have been hired by other companies in Saskatchewan.

I think this is a remarkable record for this very successful program. And I am confident that these programs will continue to offer opportunities for our talented, educated, young, and First Nations and Métis people to stay here at home to pursue their careers and raise their families.

Overall Saskatchewan's Crown corporation sector accomplished a great deal in 2005. We had excellent financial results and made significant progress on many public policy initiatives. Along with these accomplishments, our Crowns continue to be mindful that their first priority is to the Saskatchewan people who own them.

As the owners, the citizens of this province have a right to scrutinize the performance and the operation of our Crown

corporations. This is the reason we continue to appear before this committee to review the Crowns' annual reports and answer any questions that you might have. In addition we will continue to provide this committee and the public with payee information for CIC and each of its subsidiary Crowns.

As you know, the payee report was expanded for the 2003 fiscal year to include significantly more information. The report now discloses, on an annual basis, names and amounts for all employees who receive more than 50,000 in salary and taxable benefits. It includes suppliers, including consultants who receive more than 50,000 for goods and services. It includes grants, contributions, donations, and sponsorships of more than \$5,000, and finally, ministerial and board member expenses.

Madam Chair, I am pleased to once again present this information. And I would like now to table with the committee the 2005 payee disclosure report for CIC and its subsidiary Crown corporations. Once you've had a chance to review the information, we'll be pleased to answer any questions you might have about it. An expanded payee disclosure report is just one initiative undertaken by CIC in recent years to improve accountability in the Crown sector.

As you are aware, we have taken several steps, including introducing quarterly financial reporting, mailing a summary annual report to all households, and tabling the Crowns' annual reports on different days rather than on the same day. Beginning today, CIC will also report on a quarterly basis to this committee all losses of more than \$500 attributed to employees and other individuals who are subject to corporate policies with respect to conduct.

The Crowns will also report all losses of more than \$200 to the police. The loss of public money and property is an issue which the Crowns take very seriously. The Crowns have well-established systems of financial and other controls to mitigate the risk of, and detect fraud or illegal activities. This new reporting policy will strengthen these systems and ensure that our reporting on losses is consistent with executive government's practice.

Madam Chair, I am pleased now to table the new policy as well as the first report on Crown losses for CIC and its subsidiary Crowns. The report contains information for the first, second, and third quarters of 2006, and from this point forward we will table our report with you at the end of each quarter.

Madam Chair, this concludes my remarks this evening. We look forward to the coming discussion on our annual report for 2006, our payee disclosure report for 2005, and our policy on public reporting of Crown losses, and our report on Crown losses for the first three quarters of 2006, and of course we'd be pleased to discuss CIC's 2004 annual report. Although the former CIC minister and her officials briefed you on the 2004 report when they met with the committee last year, we understand that you may have some further questions about it as well. Now I'll turn it over to Blair Swystun to give you a more detailed presentation.

**Mr. Swystun:** — Thank you, Minister. Madam Chair, I have a PowerPoint presentation that I understand we can provide on the screen and hard copies of which have been distributed to

committee members as well. The presentation provides the committee with a summary of the CIC 2005 annual report and financial statements. And maybe just working off of the hard copies here as the screen warms up for us. The introduction slide just provides an overview of the CIC annual report. CIC of course is the holding company for commercial Crown corporations in the Crown sector. Crowns are accountable to the CIC Board of Directors.

Within the CIC annual report, there are two sets of financial statements which is a somewhat unique feature for an annual report. The CIC consolidated statements use generally accepted accounting principles or what's commonly referred to as GAAP and essentially treat the Crown sector as a single company. Those financial statements are supplemented by a second set referred to as the non-consolidated financial statements. These ones are special purpose statements that are prepared at the direction of the legislature, and their purpose is to isolate the cash flows at the holding company level. So that would primarily include dividends received from subsidiary Crown corporations, grants paid by CIC, as well as dividends paid by CIC to the General Revenue Fund. This slide simply provides an overview of CIC and its 11 subsidiary Crown corporations.

In 2005 there were two new important developments with respect to accounting policy changes that I'd like to draw the committee's attention to. The first is a policy related to something called variable interest entities. The effect of this accounting policy is that more entities are consolidated on CIC's financial statements. And there were three investments that met the criteria for this type of consolidation, those being the HARO Crown Life investment held by Investment Saskatchewan, the Meadow Lake pulp mill investment also held by Investment Saskatchewan, and CIC PVF Holdings which is the holding company for Investment Saskatchewan's interest in the Prairie Ventures Fund.

The impact of this accounting policy change is that consolidated assets, liabilities, and equity all increased by approximately \$771 million in 2005. So the increase in those accounts that you will notice in reviewing the financial statements is simply the result of this accounting policy change, not because there was growth in the underlying assets of the Crown sector.

The second accounting policy change related to discontinued operations. And this policy change impacted investments that are held for sale and are expected to be disposed of within one year. Centennial Foods, Hypor, the Meadow Lake pipe mill, and HARO all met the definition and were classified on this basis in 2005. Of those investments Hypor and a portion of the Centennial investment were sold in 2006.

Other important developments in 2005, as the minister discussed the Energy Share program was implemented by the government. The impact for CIC on a consolidated basis was that \$53.6 million was received from the General Revenue Fund, those funds being paid to SaskEnergy to assist in mitigating the increased costs of natural gas. With respect to public policy expenditures, as the minister also noted, there was no payment required for the lowest cost utility bundle commitment in 2005, and as a result no payment was made under that program.

Then finally, a significant development was that with respect to income taxes. And in particular, there was about \$56 million in current and future tax expense recorded. These would relate to investments such as the NewGrade heavy oil upgrader as well as others that are taxable.

This slide simply provides an overview of the cost of a bundle of utilities across Canada in various jurisdictions, using the methodology used to calculate this statistic. And it's verified by an external accounting firm using a methodology that's consistent from year to year. It simply illustrates that Saskatchewan did indeed have the lowest-cost bundle of utilities in 2005.

This slide provides an overview of the nature of funding under the Saskatchewan Energy Share program. The \$53.6 million provided by the General Revenue Fund consisted of two components in 2005 — 31.7 million was used to eliminate the deficit in the gas cost variance account at SaskEnergy. This account is used to track the difference between the actual cost of gas purchased by SaskEnergy and the rate charged to customers. A deficit in that account would represent amounts that would be expected to be recovered from customers through future rates. By eliminating this deficit, that amount was not required to be recovered from customers. And secondly, the second component of 21.9 million was used to further subsidize the cost of natural gas from SaskEnergy's actual cost down to \$7.95 per gigajoule.

The slide also indicates of course that the Energy Share program carried through into 2006, and for the first three months of 2006 there was an additional cost incurred as well.

This slide provides a snapshot of consolidated, CIC consolidated results, providing both a budget-to-actual comparison on earnings as well as with respect to dividends paid by subsidiary Crowns to CIC, with respect to CIC's investment in new grade as well as the results within CIC.

Consolidated earnings, as you can see from this slide, can be analyzed over a period of time. The chart on this slide segregates earnings from ongoing operations from non-recurring items — the earnings from ongoing operations being represented by the blue bars, the non-recurring items reflected in the green bars. The reason for analyzing earnings on this basis allows the reader to isolate the effect of items that would not be expected to affect earnings from one year to the other. By looking at earnings from ongoing operations, you can identify trends, and those trends are not obscured by what would otherwise be one-off events.

In 2005 in particular, there was both strong operating performance as in the last three years, but there were significant non-recurring items, those being losses on discontinued operations primarily consisting of a writedown on the Meadow Lake pulp investment held through Investment Saskatchewan. There is significant level of future income tax or income tax expenses and other non-recurring items related to both the Energy Share program receipts at SaskEnergy and other investment writedowns.

This slide provides an overview of consolidated debt in the Crown sector over the last five years. You can see by inspection

that the consolidated debt, which is represented by the green bars, has fluctuated somewhat from one year to the next. There has been an increase in debt from 2005 as compared to 2004. That primarily is a reflection of that change in accounting policy that I referred to on an earlier slide. The debt ratio is also illustrated on this chart — that's the solid line — and, as you can see, the debt ratio has remained more or less constant over the last five years.

Turning now to the non-consolidated financial results which, as I indicated, isolate the holding company's cash flows, this slide simply provides a summary of dividends paid to CIC by SaskPower, SaskTel, SaskEnergy, SGI [Saskatchewan Government Insurance], and Investment Saskatchewan, — which are all wholly owned subsidiary Crown corporations — as well as CIC's investment in NewGrade Energy. It also summarizes grant funding paid to subsidiary Crown corporations and other expenses.

So as you can see, at the holding company level, non-consolidated earnings of \$248 million were better than the budgeted level of approximately \$210 million. And this was the primary reason why CIC's actual dividend to the General Revenue Fund of \$221 million exceeded the budgeted amount at the start of the year of \$175 million.

Looking at the General Revenue Fund dividend from CIC over the last five years, in total there's been almost \$1.2 billion paid by CIC to the General Revenue Fund over the last five years. This illustrates the Crown sector has provided a significant return to the taxpayers of the province. This slide also provides an indication of how dividends paid to the General Revenue Fund in any given year compare to earnings. You can note that in some years dividends are higher than earnings, and other years they are somewhat lower than earnings. However the dividend is set at a level that is sustainable.

So in summary, the Crown sector experienced strong earnings again in 2005, and this resulted in higher dividends to the General Revenue Fund. As the minister indicated, Saskatchewan had the lowest cost utility bundle in Canada, again in 2005, and finally Crown sector debt continues to be maintained at a prudent level. And that concludes my presentation, Madam Chair.

**The Chair:** — Thank you Mr. Swystun. And now I'd like to turn it over to the Provincial Auditor's office for their comments and report as well.

**Ms. Ferguson:** — Thank you, Madam Chair, members, minister and officials. We found the consolidated and non-consolidated financial statements included in CIC's 2005 annual report to be reliable. Also in 2005 we found CIC had adequate rules and procedures to safeguard public resources. And it complied with legislation governing its activities relating to financial reporting, safeguarding assets, revenues, raising, spending, borrowing, and investing.

I'd also like to acknowledge the excellent co-operation we received, both from management and from KPMG, in carrying out our work. We are in the process of finishing our work on the 2005 payee list, and we expect to provide our comments to your committee shortly. From our review so far, it doesn't

appear that we have any significant concerns with the information that has been tabled this evening. That concludes my comments, and I'd like to turn it over to Tom for his comments. Thank you.

**Mr. Robinson:** — Thanks, Judy. As the appointed auditors of Crown Investments Corporation, we have audited the consolidated financial statements of financial position of Crown Investments as at December 31, 2005 and 2004. And in our opinion, these consolidated financial statements present fairly in all material respects the financial position of the corporation as at December 31, 2005 and 2004. And the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. That concludes my comments. Thank you.

**The Chair:** — Thank you very much. Now I'd like to open it up for questions. Ms. Harpauer.

**Ms. Harpauer:** — Thank you. I'd like to thank the officials and the minister for being here tonight.

And I want to comment that I will have no questions, and I want to say why.

There has been absolutely no time for myself as the critic of CIC or any of the members on this committee to prepare for this particular meeting. Yesterday we were told that perhaps SaskTel annual reports may come up. And then we were told that there wouldn't be a Crown and Central Agencies Committee. Then we were told that it would be CIC and SaskTel later. Then we were told it would be CIC and no SaskTel later. We were told that there would be no Crowns committee meeting. And then when I left, because I had a commitment in my constituency yesterday . . . as I left I was told it would be SaskTel. Driving in, and just before session began at 1:30, is when I was told that it was again going to be CIC, which allows for absolutely no preparation time on my behalf for this committee.

I find that this committee is becoming more and more of a farce because even though we ask for specific Crowns to be brought forward, it doesn't happen. We're so far behind in the annual reports that, for example using SaskTel, going back to the 2004 reports, some of the entities that we may have had questions about, SaskTel no longer even owns and so those questions become quite redundant.

I don't think it's fair to the staff. The staff members have absolutely no time to work with us in preparing for the committee meetings.

I do believe the committee has an important purpose, but I don't believe this committee is serving it at this time. We have not met for a very long time, and I know the Chair of our committee has documented meetings when we've met with the different and various Crowns. We haven't met to go through the annual reports on any of the major Crowns. And I appreciate CIC being here tonight, but they are a holding company, so if we had specific questions on SaskPower, SaskTel, or SaskEnergy you would be unable to answer any of those questions.



So for this purpose I will need more preparation time, and I will not have any questions for this committee tonight.

**The Chair:** — Well I appreciate your comments, Ms. Harpauer. There are two versions of course to the scenario that you've painted for the committee this evening, which I don't think is appropriate to going into while we're on camera, quite frankly. So we'll have those discussions later as a committee.

Are there any other. . . Yes, Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. Well I will go into them a little bit further. I have a list before me of the number of times in the last two years that we have met as a committee and what work we have done.

ITO, Information Technology Office, we have met with seven times. Public Service Commission we have met with six times. Sask Property Management we have met with 10 times. You have to keep in mind that those three entities also come before estimates so a good number of those presentations were dealing with budgets over those last two years.

CIC has come before us six times. SaskPower has been up once. SaskTel has been up twice and now a third time today. SaskEnergy has been up twice, SaskWater three times, Investment Saskatchewan twice, STC [Saskatchewan Transportation Company] once, Information Services Corporation once, and Sask Liquor and Gaming once. That's in two years. It's no wonder we're still working on the 2004 annual reports.

I asked the chairman of the committee at the tail end of session last spring to organize meetings throughout June, July, August, September, October. The fact is I even provided a list of dates that our committee members were available through that entire period.

**Hon. Mr. Addley:** — Point of order, point of order

**The Chair:** — Yes, Mr. Addley, point of order.

**Hon. Mr. Addley:** — My understanding is that the agenda for tonight's meeting is consideration of the Provincial Auditor's report, Saskatchewan Telecommunications Holding Corporation, chapter 5, 13, and 10. And currently the item before the committee is consideration of 2004-2005 Crown Investments Corporation annual reports and related documents.

I don't find that the member's discussion is in order with what's on the agenda. I think that that's a discussion that should be held between the Chair and the Vice-Chair and then discussed on an in camera basis if that's what the committee chooses to do. So I would ask that the Chair rule whether this discussion that the member is discussing is in order. My position is that it's not in order.

**The Chair:** — Thank you for your comments. I will just take a moment to confer.

Thank you for your comments. I do find the motion that Mr. Addley has made to be in order with respect to the agenda, this not being on the agenda as to discussion that should be taking

place this evening . . . [inaudible interjection] . . . I'm going to finish with my ruling first, thank you. I do believe these are discussions that should take place between the Vice-Chair and the Chair of the committee or the committee as a whole if so desired. And we will do so at the adjournment of tonight's meeting and have those discussions. Mr. Addley.

**Hon. Mr. Addley:** — To that end, I would move that the committee recess for five minutes.

**The Chair:** — You'd like the committee to recess for five minutes. Okay. Is there any discussion about recessing for five minutes? No. Okay. Seeing none, then we will stand in recess for five minutes and continue on.

[The committee recessed for a period of time.]

**The Chair:** — I'd like to call this meeting back to order. Mr. Addley.

**Hon. Mr. Addley:** — Thank you, Madam Chair. Given that we've heard from the lead critic from the opposition that she's not prepared for this evening, I would move that the committee do now adjourn.

**The Chair:** — There's a motion on the floor to have the meeting adjourn this evening. All in favour?

**Some Hon. Members:** — Agreed.

**The Chair:** — Those opposed? Carried. So this meeting of the Crown and Central Agencies stands adjourned. Thank you for attending, Minister Sonntag, and all your officials as well. And thank you to the Provincial Auditor's office for your co-operation this evening as well. Thank you.

[The committee adjourned at 20:16.]