

SaskTel

The Chair: — Good morning, everyone. We begin our review of the 1996 SaskTel annual reports and all the attendant subsidiary companies. I distributed an agenda. Is it agreed by committee members that this is what we'll consider today?

A Member: — Agreed.

The Chair: — Thank you.

A Member: — What agenda . . .

The Chair: — You received it in the House. Your notice of meeting includes the agenda on it. I'm just being very formal and giving everybody an opportunity to change horses in midstream.

At our last meeting, when we considered SGI, I introduced a new procedure that I think helped everything go very smoothly. And I had asked members of the committee to come to meet with me on an informal basis to give me feedback on that. And since I've not received any negative comments about the way that the meeting was conducted last time, it's my proposal to do the same this time.

What I will be doing is asking the minister to introduce her officials and to make a very brief overview statement — five to ten minutes maximum. I will then ask the accounting firm . . . the auditing firm to comment on the annual statements, and then the Provincial Auditor to comment.

And then what I will do is move to committee members to question, and I propose to give each group of committee members 15 minutes time and then move on to the next. So I will recognize the opposition for 15 minutes of question and answer and then the third party for 15 minutes of question and answer and then the government members for 15 minutes, and then continue the rotation.

So if that's acceptable to committee members, we will now begin the proceedings. Madam Minister, would you introduce your officials, please.

Hon. Mrs. Teichrob: — Okay. Thank you very much, Madam Chair. Good morning, everyone. I'll introduce the people from SaskTel who are with me today.

On my right is Don Ching, SaskTel's president and chief executive officer. Randy Stephanson is on my left, SaskTel's chief financial officer. Next to him, John Meldrum, vice-president of corporate counsel and regulatory affairs; Diana Milenkovic, vice-president of SaskTel Mobility. Sean Caragata, behind me, is the general manager of corporate affairs; and Basil Pogue, senior planner; and Scott Fedec, senior business planner; and Carolyn Rebeyka from my office.

The year 1996 was a particularly significant time in SaskTel's history as it marked the arrival of long-distance competition in Saskatchewan. Faced with new competitors, SaskTel confirmed

its role as Saskatchewan's communications company. Competition in the long-distance market has given Saskatchewan residents choices and options, and it has also provided SaskTel with an opportunity to show what distinguishes it from its competitors.

One such distinguishing feature is SaskTel's financial contribution to Saskatchewan. SaskTel's profits remain in the province of Saskatchewan. In 1996 the corporation paid a dividend of \$46.2 million to the Crown Investments Corporation of Saskatchewan. This dividend helps to pay down debt, and helps fund health and education as well as economic and social development in the province.

SaskTel's strong balance sheet is in part the foundation upon which SaskTel has built its relationships with its customers in the communities of Saskatchewan. And I'd like to touch just briefly on SaskTel's 1996 financial results.

1996 was a stronger year financially than had been predicted, and here are some of the reasons why this occurred. First, although there was a further drop in long-distance prices, revenues from long distance in Saskatchewan actually increased by 10 per cent. This was in part attributed to SaskTel's success with the Real Plus Extra savings plan which saw an increase in long-distance minutes.

Second, SaskTel's interprovincial long-distance revenues rose. This is the first increase SaskTel has had in this category for six years. Third, a stronger economy in Saskatchewan increased SaskTel's local revenues, particularly in enhanced local service and in the business sector.

Fourth, significant revenues from SaskTel's diversification operations, which includes SaskTel Mobility and SaskTel International. Although SaskTel experienced a loss with NST in 1996, it does not diminish SaskTel's overall positive financial success.

SaskTel's strong and solid financial performance in 1996 will help the company deal with the realities of competition. In the closing part of 1996, SaskTel witnessed aggressive competition from new entrants. Despite this, SaskTel had prepared by establishing a call centre and a customer contact strategy; by lowering long-distance rates by up to 50 per cent since 1990; by introducing competitive savings plans; and by the diversification initiatives I've already mentioned.

With these preparations and the loyalty and support demonstrated by the people of Saskatchewan, SaskTel has done very well in retaining its customer base. SaskTel's success in operating in a competitive environment, as I said earlier, can be attributed in part to its strong balance sheet.

In addition to this, through corporate sponsorships and strong employee volunteerism, SaskTel contributes to the social fabric of this province. SaskTel is committed to delivering outstanding customer service and value while maintaining its commitment to social responsibility and good citizenship.

A leader in technology, SaskTel will continue striving to anticipate and fulfil its customers' needs for cost-effective communications solutions.

So thank you very much, and we're in your hands in terms of the agenda, Madam Chair.

The Chair: — Thank you. I would ask now for a comment from the private firm.

Mr. Aitken: — Thank you, Madam Chair. I have once again, as last year, brought a very brief package to review. I assure you that I will be brief. But with my accent, it seems easier if I give you paper rather than you just listening to it and try and figure out what the heck I'm saying, so.

The Chair: — It's not only your accent, it's your attitude.

Mr. Aitken: — Okay. This is just like being at home. I like it. I'm very pleased to be here.

I have established an agenda of five items. I just thought I'd mention who is involved here from Deloitte & Touche, go over our auditor's reports, deal with some of the new accounting involved, the disclosures that we made to the audit committee at the end of the audit, and then turn it over to Judy from the Provincial Auditor's office. The two schematics showing the people involved reflect the fact that SaskTel is a large corporation. As an audit client of our firm we have a lot of resources involved in that account.

I have with me today, Jack Grossman, who is a Regina office managing partner, and myself as the lead client service partner, trying to deal with a number of people interacting with SaskTel. On the second page we show the people who are primarily focused on the accounting audit. And just to mention Kelley Smith by name, who is sitting behind me.

Also I'd indicate that on the right, to the right of Kelley Smith on this schematic, this is the second year that Deloitte & Touche have been rendering audit opinions in connection with the competition access from competitors for purposes of long-distance competition. We provide some assurance opposite a split between competitive and utility costs for purposes of the rate that the competitors pay for access to the system.

Very briefly, a report within the context of corporate governance — and this is a very hot topic not just for Crown corporations, but co-ops — everyone seems to be talking about corporate governance. So I've taken a schematic that was applied to a normal corporation and adjusted it slightly to show that there are obvious similarities between the normal corporation . . . private corporation sector governance model and a Crown corporation. And then I'll point out the one difference.

The board has its responsibilities; management has its responsibilities. The auditors, there are . . . the top two under auditor, assess the appropriateness of accounting policies and disclosures, report on the financial statements — that's

common.

The last two are unique to Saskatchewan Crown corporations, where we actually report on the adequacy of internal controls and we also report on compliance with legislation and other matters.

You have in front of you the report on the financial statements. The Provincial Auditor has in his hands, reports on the accuracy of internal controls and the compliance with legislation, rendered by our firm and then complied and brought forward to the Assembly in the Provincial Auditor's report.

I'm not going to read the whole report, but it's just to indicate what they say in basically . . . I've shown you examples here from the SaskTel Holding Corporation on the financial statements, what we call a clean opinion. We are of the opinion that they present fairly the financial affairs of the corporation.

And then the second page is the internal controls report, rendered to the Provincial Auditor, that the systems of internal control are adequate. Legislative compliance would refer to specific legislation and then indicate compliance with legislation.

Just for a couple of seconds, I'll point out what the new disclosures are in these financial statements — what's new in 1996. Just to say that the body of knowledge for accountants does not stand still; it keeps moving on as new situations arise, new rules are brought in. I've got the CA (chartered accountant) logo on the left-hand side there to indicate that we don't create the accounting rules, it is generally accepted; means that our profession as a whole invests, they would say heavily, an amount of money to create the body of law that becomes generally accepted accounting principles. And for that reason, over the last 12 months, I'm indicating the particular headings where new rules were applied and have underlined the ones that were applicable to SaskTel.

And then coming out of the fact that there are new rules, you have some new note disclosures that were in this year's financial statements that weren't in last year's financial statements. And the references to note numbers are with reference to the SaskTel holding company. I'm not going to go through the financial statements at this point. They're really just to point out that these changes exist.

Finally, we have over the last seven years provided to the audit committee, at the conclusion of the audit, what are our observations as auditors on eight items. And this is . . . it would otherwise seem like a boring year, because we report none under every box. But it is important, I think, that you realize that we are saying no and not just trying to slide . . . By saying no we're saying something. So I'm indicating to you there the eight items. We presented that last year as well.

At this point . . . I was trying to be brief, I was encouraged to be brief, and I think I'll maybe pass it on now to Judy.

The Chair: — Thank you very much, John.

Ms. Ferguson: — Madam Chair, members, Minister, government officials, I just want to reinforce to all of you that what we're talking about today is actually the results of four audits, and so it's three opinions on four audits. So it encompasses more than just SaskTel holding companies. So perhaps you can keep that in mind.

I'd like to acknowledge the cooperation that we received from Deloitte & Touche and also from the management and staff of SaskTel during the course of the audit. I think that's important to make the audit process efficient and also effective.

Our office concurs with the opinions rendered by Deloitte & Touche that John just presented, and the opinions on the rest of the package here — SaskTel International, SaskTel superannuation, and SaskTel itself, in addition to the holding company.

As you're aware, our office in the past has encouraged the Crown corporation to table the reports of their subsidiaries and related pension plans in the Assembly. I'm very pleased to note that SaskTel this year has tabled the subsidiaries, it's wholly owned subsidiaries being SaskTel International, and as in the past, it continues to table the financial statements of SaskTel.

I also am pleased to note that it's tabled the financial statements of its pension plan. We continue to encourage them to think about the rest of its subsidiaries that aren't wholly owned and encourage them to think of whether or not it would be useful to provide that information to the Assembly.

Again, our office continues to encourage Crowns such as SaskTel to provide the Assembly with the information that PAC (Public Accounts Committee) has requested on all the corporations, and that's information on people who receive public money, and think about how that fits into the Crown corporation sector.

Also, as our office reports in chapter 9 of our spring '97 report, the superannuation plan continues to calculate adjustment pension liability using a different percentage for the consumer price index than the rest of the government. It uses 60 per cent while the rest uses 50 per cent, and that's just a matter of information for this committee.

Lastly, as you know, our office supports good reporting, good public reporting by all Crown corporations. We have in the past and we continue to suggest that Crowns clearly report on the success of the Crown and the achievement of its goals and objectives, and in the end, in meeting its targets.

I actually want to take this moment to congratulate SaskTel in continuing to make improvements in its annual report. I'd like to draw to the attention of this committee the section on management discussion and analysis, specifically pages 24 to 32. It's a revised section from last year and it provides good analysis of the operations and provides readers with good information about the future plans and outlooks of the corporation, and the degree of the achievement of some of its key performance targets.

We look forward to continued improvements by SaskTel in this area, and I think it's an important area that obviously they are paying attention to. That concludes my presentation. Thank you.

The Chair: — Thank you very much, Judy. Knowing that we're likely going to get into a discussion of NST this morning, I must say that I feel really good that right off the top we're getting compliments for this particular Crown from both Deloitte Touche and from the Provincial Auditor in terms of how the accounts are managed and reported on.

I also want to thank both of you, and I'm sorry I made a joke at your expense, John . . . (inaudible interjection) . . . Sometimes it's hard to remember. You're not exactly a typical accountant.

Mr. Aitken: — I'll take that as a compliment.

The Chair: — But I do appreciate, and on behalf of the committee I would like to thank you very specifically for the additional information that you provide each year, walking us through the kinds of disclosures, the kinds of things that your firm looks at. They're very clear statements; they help to focus our attention. And I think it is evident that there is good cooperation between your firm and the Provincial Auditor. And I think that that does result, as we can see, in better annual reports from SaskTel. So I do thank both of you, and also SaskTel for your willingness to cooperate on this.

Now I probably used up more time than I should have, so we'll take that off the government's time there. I will now recognize the opposition and ask you to . . . Oh, I guess before I do that, a pro forma thing. Do any members of the committee have any questions of either the representatives from Deloitte Touche or from the Provincial Auditor? All right, then we will move into a discussion with SaskTel officials.

Mr. McLane: — Thank you, Madam Chairman. Good morning. Welcome to the auditors — both firms — Madam Minister, and your officials. The question I'd like to pursue first this morning, Madam Minister, is one that I of course raised in the House about a week ago and that's in regards to the pirating of cellular signals and the cost associated with this. Maybe you could, if you would like to, make a brief statement about the problems associated with that whole area and to the extent that it is a problem within SaskTel.

Hon. Mrs. Teichrob: — Well just generally, it is a serious problem for the telecommunications industry worldwide. As a percentage in SaskTel, we've had, I think it's fair to say, less . . . fewer problems than some jurisdictions have.

But I might give the opportunity for you to hear from the vice-president of SaskTel Mobility on that issue.

Ms. Milenkovic: — Fraud has been a significant issue, especially in the more populated areas, with respect to some of the activities that take place with cloning phones and using the phones and the ESN (electronic serial number) numbers associated with individual telephones, for fraudulent purposes. It's been so much so that some areas that would have natural

roaming agreements . . . For instance, New Brunswick had to stop roaming agreements with the New York area because many of their customers, when they frequently travelled to the eastern coasts, had their phones cloned and were stuck with unprecedented billings.

It is an industry-wide phenomena and it's being combated on an industry-wide basis. And just recently, what we have decided to do within Mobility, because we've had a couple of cases arise, we are going to put in fraud detection software and devices to make sure that in real time somehow we can alert our customers. It's no easy feat to do and at any given point, you know, once you put in a detection somebody comes up with a way of breaking through that, but we have been relatively unscathed or in a minor way compared to other jurisdictions.

Mr. McLane: — Could you give us some indication, Madam Minister, on the extent of the problem within Canada then, with Canadians, or in particular, Saskatchewan travellers into the United States and as that relates to the problems overseas as well?

Hon. Mrs. Teichrob: — Did you have figures on that?

Ms. Milenkovic: — No, I don't have figures on that, industry figures. But I could get that for you to . . . are you looking for . . . what, what are the billing, the actual numbers in terms of dollar losses?

Mr. McLane: — Yes, I'm looking for two things, I guess. Numbers of — I'm not sure whether pirating is the right term and you used the word cloning — within Canada, within Saskatchewan, with Saskatchewan travellers in the United States, and with Saskatchewan travellers abroad as well — numbers as well as costs associated with that. And then if you can provide us with those figures, maybe then if I ask, who pays the bill? Who's on the lurch for the costs of these pirated bills?

Ms. Milenkovic: — It's different for different jurisdictions and depends on whether or not they've got cloning equipment, but I think every carrier handles it differently. There's no . . .

Mr. McLane: — Can you tell us within Canada then, for example, if someone from Saskatchewan has pirated in, you mentioned New Brunswick or down East or in Quebec. Do you have sharing agreements with those provinces or how does that work?

Ms. Milenkovic: — Oh no. Generally what happens is it's the originating carrier's responsibility. It's the originating customer. Wherever their cellular phone is registered and where their bills are paid.

The roaming agreements only say that, you know, for instance we will give our customers the same roaming . . . we're responsible for the rate plans in collections. So it's up to us to work with other carriers in terms of combating fraud but in terms of the bill and working with our customers, that's something that we deal with personally.

Mr. McLane: — Okay, so for example in the . . . with the bill that I raised in the legislature last week, was to the tune of almost \$100,000 from a Saskatchewan resident that was travelling across the United States. SaskTel, in essence Saskatchewan taxpayers, are on the hook for that \$100,000.

Ms. Milenkovic: — Not necessarily. Not necessarily. And with that specific case, I'm not aware of the details on it. Did you get the details on that, Sean? No, I don't have the details on that customer's bill. But really, customers are responsible for the use of their own equipment, and some customers are saying because of the way that the calls are detected or cloned, that somebody else should bear the responsibility. And I think that because we haven't had a lot of precedents for this, we're trying to come out a way to work it out so that there's a benefit to both of us in solving the issues.

Mr. McLane: — Well for SaskTel customers then that have a problem with someone pirating their signal, do any SaskTel customers then have to pay for their own bill or does the government pick that tab up on them all?

Ms. Milenkovic: — Well we, I think what we have done is, with respect to the Crown, is if there's been a couple of incidents — and I'll have to get the details for you — it hasn't been a significant problem for us and we've worked it out with a couple of customers to both our satisfactions.

But with respect to the specifics of policy, I don't think that there is one that's tight right now. Because this has only been one . . . several incidents. It hasn't been a major trend in our . . . in Saskatchewan for our customers.

Mr. McLane: — I would think that even one \$100,000 bill is significant, and I guess because you can't provide us with the numbers of customers that actually have had a problem or indeed . . . (inaudible) . . . cases, it's a little hard for us to decide whether it's a bigger issue than that or not.

I'm a little unclear as to . . . You said not necessarily so with this particular customer in the United States. On a general rule, with Saskatchewan people travelling across the United States, if there's pirating being done, as a general rule, what would your policy be — to say yes, we will pick that up on behalf of the customer, or no we won't, or no we have to look at it?

Ms. Milenkovic: — Well I would say that sort of common sense and a common approach to difficulties with our customers has prevailed because these . . . this has not been a systematic problem.

What I would like to see in terms of how we evolve this policy is when we look at what the customer has done . . . A lot of times what we do is we alert our customers before they go roaming and we say, don't leave your phones on all the time. If there's specific cloning problems that we see in certain areas like in California, for instance, or the New York area, that's a warning of the customers for the customers not to just leave their phones on at all times.

And oftentimes, customers will come back and check with us

and say, could you do a run of my bill to see if there's any calls that have been allocated to me from . . . to different places. And so we go through those prevention checks with them.

If we have given a customer warning and, you know, we think that there's been a little bit of misuse of the phone, then we have to make a call at that time. I think what's more important is how we go forward, and how we go forward is, if we put detection devices in, we can avert all these problems at once.

Mr. McLane: — I would think there must be, in today's technology, there must be some way of . . . And I'll use this one individual case for an example — is that if this customer's normal monthly bill is \$100 and all of a sudden it's \$100,000, I would think that SaskTel might want to have some checks in their system that would show up or indicate that, when something like this is happening, and it could be stopped.

This one actually took place over about three months and I'm just wondering why it can't be stopped much sooner than that.

However, Madam Chairman, due to a previous time commitment, I have to leave and I will return later and would hope that I'd be able to pick up on the questioning on this line then. With that I'd let our colleague finish out our allotted time.

The Chair: — Thank you very much, Mr. McLane.

Mr. Bjornerud: — Welcome, Madam Minister, and your officials. I want to get into another area, but I don't have much time left in our first spot here so I'll get into the competition part of it.

Can you maybe give us SaskTel's latest position on seeking further exemption from the CRTC (Canadian Radio-television and Telecommunications Commission) regulation . . . may go beyond October '98? Are you . . . you are, I understand, seeking a further exemption.

Hon. Mrs. Teichrob: — We are and we have some sense that our request for an extension is receiving some favourable consideration. The situation is such that the immunity, if you like, from the CRTC regulation will expire on . . . or end on October of 1998.

But the terms are such that it won't automatically expire. The federal cabinet would have to pass an order in council ending the moratorium. And so until such time as they did that, even in the absence of a renewal, the exemption would continue until the federal government took that step.

Mr. Bjornerud: — Why do we need the extension at this point? Like why are you really insistent that we carry on as we are instead of going under the CRTC like the rest of the country?

Hon. Mrs. Teichrob: — Well as much as possible, we have tried to behave as though we are regulated and to harmonize our activities with those of other companies in Canada who fall under the regulation.

But you know, it's obvious why. There are a number of reasons. One is that the CRTC, for example, has made rulings that have caused the local rates to rise by \$2 per access in January of 1996, another \$2 in January of 1997, and I think \$3 in January of 1998.

So we've been able to shield our customers from those increases which in total now would be \$7 per access. We haven't had a local rate increase since 1993. Under CRTC our customers would all have that extra cost as required by the regulator.

Then there are considerable costs just associated with the administration of regulation — travelling to hearings, making applications, getting legal work done. I think the estimate is for a company the size of SaskTel, about \$6 million a year would be just added administrative costs just to comply with the new sets of rules.

That's not inconsiderable. That again represents approximately a \$2 per phone increase. So that's a cost that we don't have when we're not regulated.

Then because we're not regulated, we're able to introduce . . . and have some more flexibility to introduce products into the market-place, where companies that are under jurisdiction of the CRTC that want to introduce a new product of some kind have to go before the CRTC first, incur all those costs and all those delays before they can introduce it. We're exempt from that for our own purposes.

And it also gives us the opportunity in some cases to test products for other telephone companies, which they appreciate. They can develop something and they can, instead of going through the regulatory process, they might bring it to us and say, will you test this in your market? And we can do that.

And we can go back after say a three- or six-month test or whatever it is and say, here are the results that we got with your product. And they might decide, based on the results that we got, not to go ahead, which then has saved them a whole bunch of development time and approval costs and so on. So those are some of the reasons. I think they're all good and valid reasons.

Mr. Bjornerud: — Okay. Yes, thank you, Madam Minister. Why I think I'm somewhat questioning the CRTC having jurisdiction here, is SaskTel now or in the near future thinking of getting into the cable TV industry or not? Competing?

Hon. Mrs. Teichrob: — No, what happened there in the May 1 rulings of CRTC — the many, many, many rulings that were included in that package — was that a prohibition had previously existed for SaskTel as a Crown to engage in cable television activities, and in the course of all these other rulings the CRTC simply removed that prohibition. And we have no immediate plans or no plans at this time to enter into cable activities in Saskatchewan.

Mr. Bjornerud: — Okay, but if you did get into the cable industry, that would be regulated by the CRTC? Am I correct there?

Hon. Mrs. Teichrob: — The cable industry?

Mr. Bjornerud: — Or you would be exempted under that or not?

Hon. Mrs. Teichrob: — Well you might want to comment on that, John.

Mr. Meldrum: — SaskTel is subject to the broadcast Act so we would be fully regulated by the CRTC as any other phone company in Canada would be.

Mr. Bjornerud: — Okay, and I think then you should understand where the concerns come from the private cable companies and I'm sure you probably already do; that if SaskTel Communications is not regulated but the cable ends of it are all regulated, I think what the worry is out there that SaskTel could subsidize through to a cable company, should you get into the business; and make it a very unfair playing-field for the private companies, by a non-regulated entity into a regulated entity, and actually therefore force them out of business by cross-subsidization. And then, you know, it really wouldn't be a fair market. So would you care to comment on that?

Mr. Meldrum: — Certainly. We're fully subject to the Competition Act and what you described to me would be an anti-competitive act and I think we'd find ourselves in deep trouble in a big hurry if we took that course of action. Certainly the cable companies themselves are pretty well free to do cross-subsidizations within all of their different avenues of business because the CRTC really hasn't paid a lot of attention on the cable side of things to those sorts of subsidy issues.

The Chair: — Thank you, Mr. Bjornerud. I'll now move to the third party. Mr. D'Autremont, or Mr. Heppner?

Mr. Heppner: — Good morning, Madam Minister, and to your officials as well. I imagine you know that NST'll be on the agenda for this morning so we may as well get into that. What is your current state of that wind-down? Obviously you're getting out of that whole situation; so are we totally out of it or where are we at with the whole thing?

Hon. Mrs. Teichrob: — I think I'll ask our chief financial officer, Randy Stephanson, to comment on the details of where we are in our exit strategy.

Mr. Stephanson: — February 27 was the day that an assignment for the benefit of creditors or in fact a trustee went into the Chicago office. What they've done to date is inventory and catalogue all the equipment that existed, talked to all the creditors, collected all the receivables they could. And their intention right now is to have an auction sometime in May. Once the auction is done, the next step will be to distribute the funds in a *pro rata* basis to all creditors.

Mr. Heppner: — Okay. So what are the total losses of that enterprise?

Mr. Stephanson: — As recognized by SaskTel, \$16 million.

Mr. Heppner: — Okay. When you say as recognized, there are some other numbers out there by some other people?

Mr. Stephanson: — SaskTel's investment in NST was \$16 million. There was an investment from a partner in Vancouver which was \$600,000.

Mr. Heppner: — And that investment is lost then as well.

Mr. Stephanson: — Correct.

Mr. Heppner: — That's the only other investment alongside of SaskTel, is that \$600,000 one?

Mr. Stephanson: — Correct.

Mr. Heppner: — There's a spin-off landscaping company called Turf's Up. What's the status of that one?

Mr. Stephanson: — They went into the assignment at the same time. They're a wholly owned subsidiary of NST.

Mr. Heppner: — Okay. So that's part of the 16?

Mr. Stephanson: — Yes.

Mr. Heppner: — Okay. Could you list all the unfulfilled contracts? Because obviously at some particular point when these things happen, you sort of put a line in the sand and say, okay we quit. So there must be numbers of contracts from both Turf's Up and NST that weren't completed or weren't fulfilled. How many of those are there?

Mr. Stephanson: — There were two master contracts, one with Ameritech New Media and one with Lucent Technologies. Individual purchase orders were issued by each of those companies, and I couldn't tell you or I don't know at this time how many of those purchase orders were outstanding or in some percentage of completion.

But in the discussions and negotiations I mentioned earlier, the collection of revenues, that the trustee would have worked that through with those companies as to any liabilities associated with . . . Like in other words, Ameritech New Media would not pay on completed work until they were clear around the liability of uncompleted work. So that negotiation would have happened, and I haven't been privy to that.

Mr. Heppner: — So there are no other uncompleted contracts aside from those that are underneath those two companies?

Mr. Stephanson: — Correct.

Mr. Heppner: — Okay. I guess because this is a provincial arm or provincial body that's on the international scene now, what does this do for SaskTel's reputation internationally? Like you know, next time we're going to be wanting to get involved in something, this is obviously going to come to the surface and it's going to make SaskTel look less than rosy.

Hon. Mrs. Teichrob: — I think as measured against the other

diversified corporations, which have been highly successful, I think the kind of people or companies you're talking about that would be making that assessment would consider that in the context of all the activities.

Mr. Heppner: — The next question's a little scary but I think we need to ask it. Is the loss of reputation . . . or if you would have continued and honoured those contracts, do you have any idea what the losses would have been at that point?

Mr. Stephanson: — I'll say it's an estimate, but we looked at it and our estimate at the time we looked at it was in the neighbourhood of another 3 million U.S. (United States) to fully complete all outstanding purchase orders.

Mr. Heppner: — When that wind-down takes place, it happens suddenly and usually employees aren't told a month or three ahead of time what's happening. Can we have a comment on exactly what happened with the employees and how they were treated when this suddenly occurred?

Hon. Mrs. Teichrob: — Well to my knowledge they were — the severance or after February 26, the end day — is that they were treated appropriately. The employees were treated appropriately within the context of their labour laws and the requirements to deal with employees in those situations in the relevant state or jurisdiction that they were in.

Mr. Heppner: — Okay. Interesting answer, because you mentioned in your preamble at the beginning about social responsibility, I believe. So how much different is that settlement from what would have happened if this would have occurred in Saskatchewan?

Hon. Mrs. Teichrob: — Probably a lot different if you're talking about right-to-work states. I mean I don't know. The financial officer might want to comment on whether he's aware of the details.

But what we did was comply fully with the requirements of the labour laws in the relevant jurisdiction where the employees were. So they were treated the same way by NST that any other employee in that state would have been treated by any other employer.

Mr. Heppner: — So then the concept of social responsibility towards individuals and workers ends at the Saskatchewan . . . outside Saskatchewan borders.

Hon. Mrs. Teichrob: — No, I think exactly the opposite. I think when we comply as an employer with the requirements in the local jurisdiction, wherever in the world that might be, then that's responsible.

Mr. Heppner: — So it didn't matter. There's no value assigned to whether those regulations in those jurisdictions are what we would in Saskatchewan consider moderately fair and just as long as they happen to be legal in that area.

Hon. Mrs. Teichrob: — Well I think that given the context, everyone was fully paid for all the work they did. No

employees were taken advantage of in any sense, and they were treated exactly the way they would be by any other employer in the relevant area.

A Member: — May I add?

A Member: — Sure. Go ahead.

Mr. Stephanson: — There's a couple of things we did when the assignee went in. We said we wanted to treat the employees in a fair a way as possible under the laws of Chicago or the U.S.

The first thing they came back to us with was that health premiums were not paid up by the company. So we did pay that bill so that employees were covered for the entire month of February.

The second thing we did was get all their time sheets in and make sure that everyone was paid for any work that they had done right up to the last minute. I guess those are the two major things that we did.

Mr. Ching: — I think also you should appreciate that the law in the particular state in question did not require that there be severance pay or pay in lieu of notice, as we understand it. And for us to have voluntarily made any such payment, which might have been commensurate with our form of law, would probably have been a preference against other creditors, unlike the payments of salary-to-date and things of that nature. So it was partially a matter of complying with the local law and also making sure that we didn't get into a pickle of whether we were in violation of the laws concerning preferences as amongst creditors.

Because in so far as their salary to the date of completion of work, that's one thing. But any monies which would have been paid to them beyond that would have started to be an issue as between creditors, and we would have been showing a preference as amongst creditors had we ventured into that area.

Mr. Heppner: — That . . . (inaudible) . . . one of the better answers to the dilemma that comes about, about what happened to those employees.

How much information did you have available in the beginning when you only had 50 per cent? I would like some comment on the information that you had on a financial side of it in that situation, when you got involved in the situation.

Hon. Mrs. Teichrob: — Well there were several steps in it, and the chronology really goes back to 1994. And I think I'd ask Mr. Stephanson to give you an outline in response to your question.

Mr. Stephanson: — The NST itself was a start-up company, so every document that we had were pro forma projections. We have a rather extensive due diligence process that we use, and went through that due diligence in great detail at the beginning of the investment opportunity.

Mr. Heppner: — Is there any chance that we could . . . that

you could table those reports so that we could have a look at those?

Hon. Mrs. Teichrob: — I would think not because it would be . . . they would contain competitive information that could be damaging to other people in that . . . to other companies in that business.

Mr. Heppner: — Except that now that you're out of it there is no competition, and the thing is history now.

Hon. Mrs. Teichrob: — Well as far we're concerned on this particular project it's history, but there's certainly a great deal of construction activity still happening in that mode.

Mr. Heppner: — There was a limited amount of information that you did get. In other words you didn't get it all. I find that a little unusual, because basically I think if I want to be putting money into a business or a venture, I'd be almost as much concerned about the information that I . . . well more concerned about the information that I didn't get than what was available. Because it's usually what you don't see that's going to bite you the hardest

Hon. Mrs. Teichrob: — Well I think that it wasn't so much a lack of . . . there wasn't a lack of information in terms of the due diligence; it was on the operational side as it proceeded.

And up until . . . including the initial assessment in 1994, 1995, was a very limited construction season for a number of reasons. And there wasn't really a signal that projections were not going to be met until 1996, where then some examinations were made. And as things unfolded, you know, an exit strategy was eventually developed.

Mr. Heppner: — Okay. You mention that you didn't see a signal there, but then you saw a signal a little later on. What were the first signals you saw? And now in hindsight, were those signals there in the first place and you should have seen those?

Hon. Mrs. Teichrob: — Well those are the kind of examinations that we've been doing internally. And those examinations have been conducted by a chief financial officer, and I doubt that I can comment on that.

Mr. Stephanson: — I think the first thing to say is, we pretty well acted at the first opportunity to act. In 1994 there was no construction. We merely signed, as I'd mentioned, the master agreement with Ameritech New Media but no work was actually delivered to us on purchase orders.

1995 started very late in the year because basically what we were doing was building hybrid fibre coax systems for Ameritech New Media in Chicago, Detroit, and Columbus. They had to obtain franchise licences before we could begin work. So we didn't begin work in Chicago until September and Columbus in October.

So 1995 was a very limited year. It was a hurry up and wait kind of year. We had anticipated and hoped that those franchise

awards would have been much earlier; so there was some unexpected delay in '95.

But looking back to the business plan of NST, the one that we talked about that was a part of the due diligence, in any start-up company you expect start-up losses — marshalling equipment, training, learning curves, even delays to some degree. At the end of 1995 the losses for NST were 4.4 million Canadian, half of which was SaskTel's share.

There was no signal in January of '96 that said there was something wrong with the basic business premiss that we were down there for in the first place. We obviously wanted to see some turnaround in 1996 per the business plan. We watched it carefully.

Construction didn't start — at least the underground construction which was the major piece; there was some aerial construction, I'll add, in as early as January — but the major piece of construction didn't start until May of '96 because of a long winter. May was a bad month in that half of available working days were rained out. You can't directionally bore in the rain; or not in significant water, I'll say.

So basically we watched June, we watched July. And again another thing that happens in the construction industry, especially underground, you ramp up the operation in May, June, July so that the funds required to run the organization are heavy because your billings fall 30 to 45 days . . . or your receipt of billings fall 30 to 45 days after you started work. So here we were starting work in a limited way in May; in a much more major way in June and July. The billings started to catch up in late June, early July.

And by the time August hit it was clear that the billings were not sufficient to cover expenses. So we sent teams down. That basically, in around August time frame, was the first clear signal that we were not meeting the business plan.

The Chair: — Thank you very much, Mr. Stephanson. We'll now move to government members, and you will have an opportunity, Mr. Heppner, if you wish, to pursue this further. Do any members on the government side have questions of the SaskTel minister or her officials?

Hon. Mrs. Teichrob: — Madam Chair, I'm sure I neglected to say this at the beginning. Mr. Ching and Mr. Caragata will have to leave about a quarter after.

The Chair: — I was going to mention that, and I was going to say if anybody has any specific questions of Mr. Ching, you might want to put them to him now. He has a speaking engagement in Saskatoon so has to literally fly out.

Mr. Johnson, you had a question?

Mr. Johnson: — If someone is being billed monthly and . . . (inaudible) . . . have not notified that a problem with their billing and — their billing is on, say, three or four months — the same type of billing problem has occurred and they've not notified SaskTel with the first billing, what is the general policy

that SaskTel follows related to that if that billing is repeated in the second and third and fourth month?

Hon. Mrs. Teichrob: — I'm not sure exactly . . .

Mr. Johnson: — Well let's assume, let's assume that there is a hundred dollar charge extra on the bill, but the individual who is billing for equipment or something in . . . (inaudible) . . . and the individual did not want that equipment or whatever it is and has received the bill for, say, four months and now is complaining about it. What is the normal practice that SaskTel uses in a case where they have billed that bill of a hundred dollars, say, for one month and no complaint and it's three, four months down the road before the person starts to complain about it? What is their normal procedure that SaskTel uses to deal with that type of a bill?

Hon. Mrs. Teichrob: — I'll ask John Meldrum to respond.

Mr. Meldrum: — There is a provision in our terms and conditions that says that if objection, either verbally or in writing, is not received within 30 days after a billing statement is rendered, then the billing statement shall be deemed to be correct and binding on the customer.

Now having said that, we certainly on occasion have gone back and dealt with issues because if a customer has been wrongfully billed, we're not going to rely upon this. But in some situations, you might have to rely upon it depending upon what the issue was.

Mr. Johnson: — Okay. That's the — thank you for answering — that's the question that I was wanting, is that there is a standard policy in place, but by agreement the policy can be adjusted if agreement on both sides.

Mr. Meldrum: — Right.

Mr. Wall: — Well I know that we've been concentrating on one of the great failures perhaps that SaskTel International had with NST. However, I read in the book that SaskTel International is contributing quite a bit towards revenue of SaskTel. Could someone elaborate on some of these, and perhaps even the revenue that has been produced by SaskTel International?

Mr. Ching: — Maybe I'll start the answer and then the precise detail on revenue can be brought forward. Understand that the NST project was not done through SaskTel International. It was done directly by SaskTel. In other words, SaskTel actually held the shares in NST.

So it's a small matter but it was a part of the diversification strategy of the corporation. It was not actually encapsulated within SaskTel International. The precise dollars and cents, maybe Randy can help us with it.

Mr. Stephanson: — Just a couple of things that happened with SaskTel International in '96: some of their more successful projects have been, obviously, the Philippines project which had \$17 million in revenues specifically in 1996. But over the

three phases, it's been \$64 million.

We're highly successful in selling a software system that we developed in Saskatchewan called MARTENS. Sales of that in '96 were \$3.3 million. Again, we've also been down in Tanzania and sales there were \$3.2 million.

As well, we do some consulting — insulation of switches with predominantly NorTel — and that was another \$700,000. So it was a very good . . . it was, in fact, a record operating year for the subsidiary SaskTel International.

Mr. Wall: — Thank you very much.

The Chair: — Any further . . . Mr. Kasperski. I really opened up a can of worms here today, haven't I?

Mr. Kasperski: — No. Actually as we go onto a couple of other topics, over time in this committee, we tend to focus in on very small things and issues and problems, but I think many of our Crowns, as we all know, provide a wide range of services to the citizens of Saskatchewan. And I would just like to ask a couple of questions and give, Madam Minister, yourself and your officials a chance to comment on.

One area I think that SaskTel deserves a lot of credit on, and that is the provision of Internet services. I recall reading an article I think just within the last week or 10 days in *The Globe and Mail* on SaskTel, and I think it was New Brunswick Tel, you know, how advanced they are in the provision of services across their provinces for being the size of companies they are.

And I would just like to ask for a couple of comments on what we've done in the Internet area of service we provided into rural Saskatchewan, specifically, which is in effect providing a service to all citizens of Saskatchewan and not necessarily . . . It's something that contributes to the bottom line, the fact that we all realize it takes away from it. But it certainly . . . I would just like to invite a couple of comments in that regard.

Hon. Mrs. Teichrob: — Probably the most outstanding feature of our Internet service is our pricing policy for urban versus rural customers where we have the same accessibility in pricing policy regardless of location with respect to almost half of our subscriber base being considered rural or remote.

And also last fall, we introduced the high speed Internet which has been very well received and has a fair and positive take-up. And I think, not on Internet, but it's really important to realize that it was SaskTel subscribers who take it for granted; that we still are the only North American company that is fully, fully digital, including all our remote and rural customers. And there are so many services that are not available to you if you're still, you know, on a party line or not on a digital network.

So have the Sympatico, our original Sympatico package for Internet; the Sympatico Highspeed that was introduced last fall; and the QuantumLynx solutions which is the business customers' Internet access package.

Mr. Kasperski: — Thank you.

Mr. Ching: — We're actually getting some fairly substantial worldwide attention with the high speed Internet product that we have deployed — this ADSL (asymmetric digital subscriber line) product that we've deployed.

I think we had the Poland telephone company in to see us this week about it. Last week, I think the Korean telephone company was in. The week before that the NTT (Nippon Telephone & Telegraph), which is the Japanese telephone company, the biggest telephone company in the world, it was in. I think a week or two before that, it was the Chinese; part of the Chinese.

We're getting very interesting worldwide attention to this particular product that we've really been the first in, I guess, really in the world to roll that particular product out.

Hon. Mrs. Teichrob: — I could add to that. The program, the school program that we had, as of March this year has been taken up by over 300 schools. And in Saskatchewan this allows the students of Saskatchewan to link to the, you know, the international Internet network.

And just as an example, we also have this program where SaskTel pioneers, some retired but some active employees, donate their time to refurbish donated computers and then in turn donate them to schools.

And when the Minister of Education and I went to a school in Bethune, just outside of Regina, last fall to make one of these donations — and they had a computer lab — there was a grade six class at work and they were . . . it was sort of free time. And they were all . . . some of them were writing stories, some of them were doing different things, and there was this one that had this on the screen — a young boy — so I asked him, what is that? And he said, well I'm just hooking into the latest information on the volcano in Iceland.

Only in Bethune, Saskatchewan, you know, and 12 years of age, but it certainly has opened a lot of doors for a lot of people. Very positive.

The Chair: — Thank you, Madam Minister. Thank you, Mr. Kasperski. I would just once again ask: does any member from any party have a question directly of Mr. Ching? If not, Mr. Ching, I would encourage you to leave. I think your minister is more than capable . . .

Hon. Mrs. Teichrob: — We don't want you to be late where you're going.

Mr. Belanger: — I just want to make sure that some of the questions we have on the general mobile telephone service and the call centres and the cable will be answered by somebody.

The Chair: — Oh yes, they will be. I think that Mr. Ching has assembled a group of very capable officials and certainly has a very capable minister. So you will get answers to those questions and I would prefer that he not get a speeding ticket.

I will then now move back to the opposition members.

Mr. Bjornerud: — Just take a minute to thank Mr. Ching and Caragata for being here and we won't insist you leave — if you want to leave that would be fine.

I would like to go back in, Madam Minister, and run through maybe a touch of what Mr. Heppner has talked about with NST. And I'd like to . . . what I'm trying to do is understand how we got from point A to point B. And correct me if I'm wrong with some of these comments, but as I believe we started out as 50/50 partners with Norstar Communications, that's right?

Hon. Mrs. Teichrob: — Yes.

Mr. Bjornerud: — And then at some point we had to have an additional injection of money. How many . . . like, what was our initial investment and then what was the next?

Hon. Mrs. Teichrob: — Well Mr. Stephanson has started a chronology in response to Mr. Heppner's question when we ran out of time, so maybe I'll just ask you to pick up where you left off, Randy.

Mr. Stephanson: — We started with an initial investment, equity investment, of \$600,000, as did Norstar Communications. As I'd mentioned, it was in the business plan that ongoing funding would be required. In fact the business plan said over the next two years an additional 7.8 million U.S. would be required.

When the time came, in about May 1995, to start that funding process as it was envisioned, Norstar Communications told us they were having difficulty raising their end of the money.

We've funded through a loan at that time. I don't have the specific numbers here. I will say our loans at the end of '95 were \$3 million. Throughout 1995, basically from May forward, Norstar Communications continually tried to raise the money that was their piece of the partnership and could not do so.

As you're well aware I think, we went for a cabinet decision item sometime in early '96 which basically said — well it didn't say this — but it asked for \$3 million worth of loans to be turned into equity and additional funding equity-wise of \$6 million. Basically I guess I'm saying between May '95 and December '95, we tried . . . our partner tried to raise additional funds. By the end of '95, it was clear they were not in a position to do so.

We were still on the business plan. There was no reason for us to believe the business plan couldn't be achieved January '96. So again the original business plan said after the initial equity another 7.8 million U.S. would be required. That was very close to what we asked for when you look at the three and the six additional that we asked for to fund the ongoing operation.

Mr. Bjornerud: — Some of this what you're talking about would probably be the order in council from February 20, '96. Would that be part of the additional money going in?

Mr. Stephanson: — That's exactly it.

Mr. Bjornerud: — Okay. And Norstar put no more money in after that point, really. That was . . . their initial investment was what they ended up with having invested?

Mr. Stephanson: — That's correct.

Mr. Bjornerud: — Okay.

So by the end of the whole procedure what would be the percentage of ownership? If I'm terming that right. And I presume we are, because you said you started with a loan and then you turned that into equity, so I would presume you were the majority stockholder on this one.

Mr. Stephanson: — We ended up being 87 per cent owners.

Mr. Bjornerud: — Eighty-seven per cent. Okay.

You talked — just when Mr. Heppner was asking questions there — you talked about a . . . well would it be the same as a bankruptcy sale, or it would be distributed on a prorated basis? Will we recover anything out of that?

Mr. Stephanson: — If there's anything left to recover — yes. But we don't anticipate there will be.

Mr. Bjornerud: — You don't anticipate anything coming back. Okay.

Okay, I may want to touch on some of that later if we get time.

Mr. Belanger: — Thank you, Madam Chairman, and good morning, Madam Minister. I apologize for being late here.

Just some of the questions in reference to 1996 from a northern perspective. In terms of the general mobile telephone service, what plans have you got as result from of these decisions made by SaskTel?

There was a huge outcry from many northern Saskatchewan outfitters and ambulance operators and business people. Particularly in forestry, they were quite concerned of the possibility of losing their general mobile telephone service system. What's the update on that as of today?

Hon. Mrs. Teichrob: — In late 1995, the SaskTel board approved an exit strategy from the GMTS (general mobile telephone service), and the direction they gave was based upon assurance that the needs of those subscribers could be found by alternative means. In other words, we weren't going to cut anybody off.

There was a letter that went out. So our people were working with those subscribers. And in fact so many of the people who had GMTS migrated to cellular and FleetNet and the other forms that are available that we're left with a subscriber base of about 800. We lose about a million dollars on that. And as you can see, to raise the rates enough to recover the million dollars on an 800 subscriber base is not practicable, especially when those people don't have any other alternative.

So the letter went out telling people that the service would be discontinued in October. I think it was a bit of a mistake in communication, I guess if you like, but it was meant, I think, to have those subscribers come forward so that people . . . SaskTel could talk to them about their alternatives. And I think it's safe to say that most consumers . . . customers that have an alternative have already done so.

But it is the northern people who . . . the subscribers who have a problem. And satellite technology would be available to them, but it's still expensive and still not quite portable enough. It weighs 40 pounds and it costs in excess of \$6,000 for an individual receiver which puts it out of the reach for some of our GMTS users.

But it has to be recognized that the . . . that's '50s technology, the GMTS. It's not being manufactured any more. So I guess the fact that a lot of customers have migrated to cellular and FleetNet and other alternatives has released these used sets, that where, you know, parts can be used. But the lifetime of this equipment is definitely limited and we are trying to alert our customer base to that, encourage them to migrate where they could.

Hopefully the technology on satellite communication will become more portable and less costly in enough time that those people will be able to migrate to that before we do lose the GMTS.

Mr. Belanger: — Okay. In reference, I think the majority of people find themselves in a situation . . . Is it fair to say that they have a year or two years or three years before they are able to find out what the future of the GMTS is?

Hon. Mrs. Teichrob: — Well actually what I'm trying to say is that in rough terms, GMTS has no future. I mean it is a dying technology. What we're trying to do is keep them repaired and shore it up until the next wave of technology, you know, becomes more practical.

But at some point it will cease to be used. But we're trying to keep it together for the sake of those subscribers until there is an alternative technology that's practical for them.

Mr. Belanger: — Thank you. And the other question I have on the GMTS, and I would be remiss in my responsibility as MLA (Member of the Legislative Assembly) if I didn't present the current feelings of many people — on GMTS — in which they ask a couple of things.

Is there a definite date when GMTS will be discontinued? Is there any possibility of us making an extra effort as a Crown corporation to contact those people who live in remote areas and may not know the options, instead of having them be advised that a couple of months before it's going to happen like the last time?

And also the third option is, is there ways and means in which we could possibly incorporate an incentive program to roll over to new technology? Again, because many people have invested a great amount of money, and most recently a forestry company

out of Meadow Lake, they refitted all their vehicles with GMTS, I believe at a cost of anywhere between 4 or \$5,000.

So you know there's other businesses that have done the same thing. So they're also looking at more or less a plan of action and a plan to evolve GMTS services into more mobile services like satellite technology. Could you elaborate on that?

Hon. Mrs. Teichrob: — Yes, generally speaking we have made a commitment that none of those customers will be left without communications. But I'd like to ask Diana to be more specific on what we're doing.

Ms. Milenkovic : — When the whole issue of concerns about — and you may go back and just reflect on this for a moment — but when we were looking at the customer base, and we didn't do a very good job of this, we looked at where the phones were registered and it was difficult to see exactly which sites were being accessed by the customers.

So when we sent out the letter originally to exit GMTS, of course, especially in the North, we were saying that where the phones were registered wasn't in fact the place that they were being used.

In our exit strategy that we looked at and because, as the minister has indicated, there is a limited life on this technology, we're looking at a couple of things. First of all, we're saying for the year 1997 — and this has gone out to our customers — there will be no change in service. So people can plan. We will be getting a letter out to our customer base in the fall that will talk about the future for 1998.

And I think that we'll probably look at, and this isn't definitive yet, but look at a couple of things; is that in the South there is such extensive cellular and FleetNet coverage that many customers are using GMTS as a backup. And if we can take some of those towers or disengage some of those towers in the short term and maybe use some of that equipment to help out our northern service, we might look at that as an option. But that's still under evaluation.

But in the North there's definitely a little bit of a problem because the coverage for FleetNet and cellular isn't significant enough that you can migrate the entire customer base. So this maybe a longer term evolution.

In tandem with that, we have a very on-hands group right now looking at the whole service to the North and how we use the various technologies to come up with the most affordable communication solution. The difficulty that we have is while there is a very strong communication need for many people who reside in northern Saskatchewan, we are subsidizing GMTS two to one — for every dollar revenue, it's two dollars of cost.

And some people are using it for recreational purposes. And I guess there is an associated cost or safety issue with recreational purposes, but we really have to look at what the primary purpose of the communications is and what we have to do.

We've also looked at the aspect that you've talked about. There has been some investments in equipment that people have and that our incentive, when we evolve, will have to take that into regard.

So there might be a sunset clause, and say for somebody who has equipment that's over a certain age, well the whole value is depreciated or it's been expensed or capitalized. But if it's new, maybe we look at buy back or . . . But I guess what we're saying is that we're trying to be as fair as possible. We understand that some people have made the investment and that the North has a particular issue and we might do two stages. But we will come back and there will be ample time for customers, one to plan in their budgets, or to look at alternate solutions. And we will be part of that with them.

Mr. Belanger: — Thank you very much. I think just to add to that and I might be hung on main street here in Ile-a-la-Crosse for saying it, but I think there's even a general impression that a few of the GMTS customers that if they had a choice of either losing GMTS quickly or perhaps phasing it out over a period of time, that they would even look at paying a slightly higher rate to keep . . . to retain the service.

So that shouldn't be totally excluded, and there's a lot of people involved with the tourism and outfitting and forestry. And generally people living out, you know, in various locations of Saskatchewan. And GMTS is not only a convenience but it's also for safety and for business and communications.

Ms. Milenkovic: — We are looking at the rate structure in terms of if we have to keep supporting the system for an ongoing basis we might have to do something with the rates to balance this off.

Mr. Belanger: — And then I'll probably come along and complain about that after what I said here today. But, you know, we won't tell anybody if you guys don't.

Ms. Milenkovic: — But the good part is your comments are in *Hansard*, so we thank you for that.

Mr. Belanger: — I'll deny that. But anyway the second part of my question now, or the second question I have is in reference to your cable expansion plans. In Saskatchewan in general there's a number of cable operators in the North currently exist, and for the record, I'm one of them.

What plans has SaskTel got to enter into the cable market. Because many of these cable companies in the North are community owned and we've had questions about what SaskTel's expansion of the cable is going to be about. Is there going to be providing competition for these community-owned organizations or are you looking at expanding it perhaps? Looking at partnerships or buying out the existing operators? What's the strategy with the cable operations?

Hon. Mrs. Teichrob: — I think probably just before you came, Mr. Belanger, that question was raised. And maybe just briefly I'll just repeat the answers. In the rulings that the CRTC made on May 1, one of them was to remove a prohibition that had

previously existed that would have prevented SaskTel as a Crown corporation from being in the . . . competing in the cable business. And in those rulings they lifted that prohibition, but not even at our request.

We hadn't applied for a change in the prohibition. That was one of the rulings, and so we have no . . . we don't have any plans to get into the cable business in competition with any local operators. We didn't ask them to remove the prohibition. So now they've enabled us to enter that field but we have no plans to at this time.

Mr. Belanger: — The second part of the question I have is reference to the call centres, and I notice on page 19 of the annual report, quote:

Through a five-year agreement between SaskTel and SIIT (Saskatchewan Indian Institute of Technology), the . . . Call Centre will telemarket SaskTel's communication solutions to First Nations people living on and off . . . reserve.

The call centre is intended to of course expound the virtues of SaskTel. Has there been a definite plan since the inception of this agreement, as to the number of first nations and aboriginal people that have come on stream at SaskTel when it first was set up?

Like I realize in SaskEnergy's case they expanded a lot of the service to, you know, some of the Indian bands, and there was something like 187,000 potential customers on all these Indian reserves. Is it the same strategy with SaskTel?

Hon. Mrs. Teichrob: — Well it's . . . they're somewhat different. The call centre with the SIIT is interactive. They do outbound calling to market services to people in their own language, but they also will take incoming calls for people who want to ask questions about the service or, you know, ask questions about their bill or any problem that they might have. And they're able then to be able to speak to someone in their own language.

Then the other part is the announcement that was made just a couple of months ago about the plan that SaskTel has to increase service to reserves. Right now their penetration is only about 35 per cent and we plan to, over approximately a five-year period with construction starting this year, to increase the service levels on reserve to about 72 per cent.

And this is, as well as a communications, I think it's definitely a quality of life issue. I don't want to give away my age, but I know getting the telephone was a more important day than getting the power in our family's life. I mean, there's lots of alternatives to electricity in terms of lamps and motors and all kinds of things, but communications was I think one of the highest quality of life issues. And we've undertaken that capital project.

The Chair: — Thank you, Madam Minister. I will now recognize Mr. Heppner.

Mr. Heppner: — Okay, continuing with NST. There's a comment that we went through earlier on about the due diligence statement about NST. Who basically came up with that little . . . that due diligence statement? Like where would it originate? Who created it?

Mr. Stephanson: — Due diligence is done by a number . . . a team of professional specialists in SaskTel. We had engineers, we had accountants, we had lawyers. It's a normal practice for us when we're investigating or entertaining any kind of business opportunity that we put some of our better people looking specifically at all the issues around that opportunity.

Mr. Heppner: — What were the indicators there? Like were there time lines in there? In the statement that came earlier on that some of the difficulties were because of weather and all those sorts of things.

We live in Saskatchewan. I mean we know what weather can do. We always know weather is going to upset us. It never or seldom comes on exactly the way we've planned it.

Mr. Stephanson: — It is true in the construction, anything related to outdoors one has to factor in some kind of lost productivity associated with weather. And you do that based on weather patterns. You cannot, or you would never in fact win a contract if you assumed that weather was going to lose 50 per cent productivity, which is in fact what happened in May of '96. But you do factor in some percentage based on the weather patterns of the region.

The winter and spring in the Chicago, Illinois area were one of the worst, from a construction perspective, that they've had on record going back quite some time.

So I don't want to make light of the weather or suggest that the weather was the only problem that we had associated with NST, but it was certainly a contributing factor.

Mr. Heppner: — There was a statement made in the press that the chief financial officer of SaskTel didn't review the financial position of NST once you had that information. I'd like some comments on that, like is that correct? Or why didn't it happen? Or what's the situation with that?

Hon. Mrs. Teichrob: — Well I can't comment on that without seeing the article. I don't know what context it's in. Sorry, but . . . I wouldn't think that to be accurate, but I don't know the context so I don't want to respond.

Mr. Heppner: — You mentioned earlier on when you were given the opportunity to kind of talk about all the glorious things that were happening with out-of-Saskatchewan investments . . . What's the usual chain of command for approval of additional spending on an investment project?

Hon. Mrs. Teichrob: — Well it's very complex. It would start with the due diligence. That would, if it was positive, result in a recommendation to the board. Then depending on the amount and the nature of the investment, it would go from the board to the SaskTel board to the CIC (Crown Investments Corporation

of Saskatchewan) board, perhaps to Treasury Board, perhaps ultimately to cabinet, depending on the nature of the decision.

The Chair: — Perhaps, Mr. Heppner, you may wish to ask the representatives from Deloitte & Touche or the Provincial Auditor if the chain of command and the reporting is adequate from their point of view.

Mr. Heppner: — Yes, sounds like a very good question. It wasn't on my list but I love it. The question is asked.

Mr. Aitken: — As the external auditors of SaskTel, I actually have personally been to NST in February of this year, and at that time were completing our audit. In reviewing the process from an audit perspective where the approvals and the normal course of events unfolded with reference to getting approvals for investments being made of that magnitude, the answer is yes.

Obviously the internal review that Randy is speaking about goes beyond did everything seem to be done, to a more qualitative factor. But from an audit perspective, at this stage and point in time I'm satisfied that it went through the normal procedures.

Mr. Heppner: — Well if the procedures were normal and correct, then basically that responsibility runs up the chain of command. So, Madam Minister, looking at that whole thing, what responsibility do you take in NST?

Hon. Mrs. Teichrob: — Well obviously it's an area . . . and I'm not trying to pass the buck, but it's always a joint responsibility. And you take decisions based upon the advice that you are given and you've heard, about the evolution of the project and the advice at different stages.

And in hindsight, and as the auditors have confirmed, the processes were appropriate. That events don't always unfold as you would like them to, and when you find that that's happening, and if it's irreversible, then you devise an exit strategy. And that's what was done. And I certainly take my share of the responsibility as chairman of the board through the period from the end of November 1995 until this time, for any decisions that might have been made.

Mr. Heppner: — Most of us around this table have been involved in different businesses of one sort or another. We know that they don't always turn out the way we hope to. But when I look at the time line that was given earlier on with some losses starting to show up in '95 and then, you know, as that bit of history was developed, it seems to me that was really quite a slow response, I would think. Business usually responds a little faster and a little quicker and a little more effectively than that was. It seemed to be, in my mind, a fairly slow response.

Hon. Mrs. Teichrob: — I'd like to comment on that though. Based on the fact that this is a construction industry and . . . I mean, having been engaged in the construction industry myself, I mean in the past, you think of a construction industry in Saskatchewan can easily be limited in any one year from May to October. It can even be shorter than that, based upon the

weather and so on, and when the frost goes out of the ground and all those other things. And so over the period based on the amount of time that was actually spent in construction — I think it's been outlined for you that it couldn't have really been much different . . . (inaudible interjection) . . . I'm told that maybe you weren't present when that chronology was given.

Mr. Heppner: — Okay. I want to switch gears, or at least time frames quite drastically here. There is a group of people in my constituency that's looking at the size of the jurisdiction that telephones have, exchanges. Those have been around for ever. And I guess I have a question that I've tried to get the answer for in the last two days and nobody is quite sure. So we're going to start way back when.

The original telephone exchanges, when SaskTel took those over, what sort of financial arrangements were made there? Like did SaskTel take those over? Were they sold? Exactly how did that work?

Hon. Mrs. Teichrob: — Well that happened over a period of time on a case-by-case basis. You may have been part of one of those companies. I remember . . .

Mr. Heppner: — No, I'm not that old.

Hon. Mrs. Teichrob: — No? Well I am. I was the secretary-treasurer of the Moon Lake Telephone Company when we sold our assets to SaskTel, and I know that we made a different arrangement, for instance, than the company that was right next to ours. And we sold them the assets and in exchange got a private line for every subscriber for a very small fee. In other places, different arrangements were made. I don't know . . . Mr. Meldrum might want to comment on it.

But I think it's fair to say that it was on a case-by-case basis. It didn't all happen in one year. There were negotiations and meetings with the associations and cooperatives and so on.

And some of the exchanges were combined at that time. I remember the one that we were a part of was combined. And we were given a choice at that time to have what's now called the extended area service where we could have had — I don't remember the numbers exactly, but I think it was for about \$12 a month, which included the mileage charges because of our rural location — we could have had access to Delisle and points west toll free.

But for twice that much money, we could have access to the Saskatoon exchange. So we obviously elected to take the Saskatoon exchange which gave us a much wider band of calling, and have paid that extra amount ever since, which would now be since 1975 — 22 years have been paying that amount.

But there wasn't one size fits all. It was a series of negotiations over a period of time.

Mr. Heppner: — Looking through my local phone book, there is something here that just doesn't seem to make any sense. There is an exchange here just about nine miles east of where I

live by the name of Alvena. It has 90 phones on it. There's no butcher, no baker, and no candlestick maker on there. You can hardly phone anyone that you probably aren't a first cousin to. You know, anything they want to call is a long distance.

Laird is another example, and the big dark lines are all the long-distance exchange that happens to be there.

And then I look at a Saskatoon phone book where those people can phone almost one out of every four people in Saskatchewan. They can phone a quarter of a million people over a distance of dozens of miles, a lot larger than what the Alvena area is, and don't have to, you know, have those particular expenses.

And then there's something there that when these things joined, when these telephone exchanges joined SaskTel, there's something archaic that stayed there that should have been updated. Where are we at with that?

Hon. Mrs. Teichrob: — Well at the time, those exchanges would have been connected by a manual switch.

Mr. Heppner: — I remember those.

Hon. Mrs. Teichrob: — You remember those. And that was how the long distance was ... when it passed through the manual switch, then that's where the charge kicked in. Now that we have all digital network, we have the capability to expand the toll free area beyond what would have been the location of the switch.

The dilemma is to compensate for the long-distance revenue. I think the opposition brought forward a proposal — well actually in the form of a Bill — which would have used the REDAs (regional economic development authorities) to form new exchange boundaries.

Our analysis of it showed that in order to extend the toll free calling to that extent, there would be a loss of \$73 million in long-distance revenue, which if it was going to be then financially neutral to the company, you would have had to raise telephone rates by \$46 per subscriber per month for the local rate.

Now that's an extreme example. I don't think people would find that acceptable. It may be that they might find something else more moderate acceptable. And SaskTel is ... and the board has already had more than a preliminary look I think at two ... on two different occasions now, management has brought forth a proposal which would reduce the number of exchanges by about almost a hundred, which would bring it down from 345 to something over 200 exchanges. And obviously by definition or by consequence then, increasing the toll free area calling for all rural customers. So it's under active consideration. In fact we hope to be able to proceed with that in 1997.

Mr. Heppner: — What I would suggest is keeping in mind the amounts that these local exchanges receive from SaskTel when they were bought out. That at one time was probably a fairly

lucrative cash cow considering all the long distance that came out of that, considering what was paid for that — paid for very quickly and very soon.

Switch ...

The Chair: — Mr. Heppner, I'm sorry. Your time is up. But you will have an opportunity to get back on again before 11 o'clock.

Mr. Heppner: — Maybe.

The Chair: — And I would just point out that while there certainly is some ... while people in Saskatoon are able to phone across the city without going through long-distance exchanges, in the rural areas there is the cross-subsidization for the Internet hook-up ... (inaudible interjection) ... No, I don't. I really don't. I shouldn't have pointed it out. It's just the city mouse versus country mouse thing, and I think that in Saskatchewan we, all of us ... what goes around, comes around. We're all treated pretty fairly.

Mr. Bjornerud: — Thank you, Madam Chairman. I'd like to go back, Madam Minister, to some of the comments Mr. Belanger made, and I know I'm going to pay for one of them heavily somewhere down the road. But I do agree with him when we go to the GMTS and we talk to a lot of the people that have had problems, and we brought it to the, you know, to the floor once or twice.

I think he did make a statement that does not just cover the northern people but even some of the people in the oilfield. and that rather than lose their service, that they wouldn't mind paying more. And I know that's really an odd statement for us to make but I think it should be noted that — and I'm sure that you've been told this by them too — that rather than lose that service, they would like to, you know, the opportunity at least to discuss paying more for their service.

The one concern that has been brought to my attention just lately is that a customer has a 1 800 service, and that cannot be accessed by anything but another person on GMTS. Is that right or wrong? It seemed really odd to me that ...

Hon. Mrs. Teichrob: — I can't answer that question. Is there anyone here who can? ... (inaudible interjection) ... Some people might not have heard you.

Mr. Bjornerud: — He said he had a 1 800 number but the only people that could access that number was someone else on the GMTS service, and it just ... that seemed really odd to me.

Ms. Milenkovic: — Is it a GMTS customer that has the 1 800 number? On the GMTS?

Mr. Bjornerud: — That's what he said, yes.

Ms. Milenkovic: — If I could get the details, we could look at ...

Mr. Bjornerud: — Okay. I haven't got them here, but I'll get

them to you.

Ms. Milenkovic: — Yes, please.

Mr. Bjornerud: — It seemed like a really odd request.

Ms. Milenkovic: — Yes, this is . . .

Mr. Bjornerud: — Okay, I'll pass that on. Madam Minister, I'm sure you'd be disappointed and I'd be remiss if I didn't bring up the Sask porn issue. And I guess maybe the comment I would make here, I'm not naïve enough to think because SaskTel would get out of that market that porn will go away, and we know that isn't going to happen. I just think where I'm coming from is that I really find it odd that a Crown in the province would get into a business like that.

Could you maybe comment on, you know, why did we get into this and is it strictly dollars and . . . I have a hard time understanding why we would ever let ourselves get caught in something like this.

Hon. Mrs. Teichrob: — Well first of all I have to say this. I think, I mean — and I have not viewed any of these movies and I'm not qualified to make these classifications, but others are. You have to be very careful about the use of the word pornography because pornography is very clearly defined in the Criminal Code. And while some of the titles may be suggestive and all that sort of thing, SaskTel does not engage in illegal activities.

And so we developed the software . . . I mean these packages for hotel rooms and other entertainment venues of having movies on demand, cable television on demand, ordering pizza on demand through, you know, through your TV set and all the rest of it, is very popular. And it's part of the technology, the kind of software technology that some of SaskTel's technicians excel in.

So if we can invent a product, a software product that delivers those products that people want in those venues, then why shouldn't we partner with someone who already is in that market-place. We're the inventor. We form an alliance with somebody who's in that business who already has established the relationships with the hotels and the other venues that use this, and then why shouldn't we profit by it as part of our diversified portfolio?

In terms of the movies, the adult movies, I mean this is only part of that entertainment package, a very small part I might say. And it's a very small part of the capability of the software package.

So we don't get involved in these selections, but what happens in the case of movies is that the distributor orders a package from Montreal. They come to Saskatchewan with Ontario classifications based upon their classification system. We have in Saskatchewan a table that's been developed. And soon this is going to move to a national system, I think, and we'll get rid of all these equivalencies. But there is work being done to move to a national classification system. But we have an equivalency

then, of Saskatchewan. So a movie that's rated R in Ontario might be rated XXX or X here, you know. But we use the tables and we classify them here.

And if their material, that would be considered a violation of the Criminal Code, they wouldn't be approved by our classification system. I mean I have to put some faith in our film classification system as part of the national system which resides in the Department of Justice, and clearly wouldn't be involved in classifying something that is pornographic.

So that program, that package has been sold extensively and with a major sale to the Hong Kong market. And these are some of the revenue schemes that help us to be able to do things like freeze local rates for four years. I mean if we can bring in part of our income, a percentage of our income from other than telephone or non-traditional sources, then it helps the balance sheet of the phone company.

And I have to say one other thing about the movie package. It's been made very easy, through the software, to be able to block access, for instance by minors. For instance if you're staying in a hotel room with your children, you wouldn't want them to access it. It's a very simple procedure to block minors from that, from any material that you might not want them to see.

Mr. Bjornerud: — Thank you, Madam Minister, but as we had stated in our deliberations in the House that one day, I have done my research and I have a hard time comparing it to any other service that SaskTel supplies. Whether it's advertising pizza or whatever it is, I think it's mostly in the eye of the beholder. I was not for once insinuating that it was illegal. I never have said that anywhere through here. And as I said when I started, you'd have to be very naïve to not believe that it's going to be here. It's a fact of life.

Hon. Mrs. Teichrob: — Well it's the language. I mean this is what I'm taking exception to is that . . . Pornography is illegal, and it means suggestive titles and . . .

Mr. Bjornerud: — Well I think it's all in the eye of the beholder. I mean who's watching it . . .

Hon. Mrs. Teichrob: — Well the beholder is the film classification system. You've got to remember that.

Mr. Bjornerud: — Well it might be, but I would turn the question around then. Have you done your research and saw what is being provided?

Hon. Mrs. Teichrob: — No, actually I haven't. About 20 years ago when you had to put 4.50 in coins into a box on top of your TV or something . . .

Mr. Bjornerud: — They didn't have the same films 20 years ago.

Hon. Mrs. Teichrob: — . . . I thought I'd try one that had an interesting sounding title. And I think within about seven minutes I was sound asleep and I wasted my \$4.50 and never did see it.

Mr. Bjornerud: — You must be an easy sleeper, Madam Minister. It didn't have that . . .

Hon. Mrs. Teichrob: — I won't make any comments on that.

Mr. Bjornerud: — It didn't have that same effect on me.

I guess I'd get off of that. I think we will agree to disagree here. I just once again would find it really odd that SaskTel, that I regard as one of the best Crowns that we have here . . . and the people that work there, I compliment them. And I really . . . even for the dollar value, and I realize we have other ventures out there that we want to get into to make a dollar to help subsidize, actually me out on the farm. I agree with that. I have no problem with that.

Hon. Mrs. Teichrob: — But I have to ask you a question though. If you did this research, did you look at some of the other . . . the offerings? There's movies for children. There's games for children and adults. There's access to a wide range of other very high quality programing. So I just don't want us to get hung up on this small, very small and optional part of this package that you're taking exception to, because there is very positive aspects to this.

Mr. Bjornerud: — Madam Minister, if that's all you were supplying is the ones that you just listed we wouldn't be having this conversation, because I have no problem with that whatsoever. And as I've said before, it really is hard getting through my head. I guess maybe, and I'm not seeing the whole picture, but I think I am.

The one question I have then is what amount of money do we make from this, whether it's the XXX or the other videos that we're in? What dollars do we make a year off this?

Hon. Mrs. Teichrob: — Well these are the kind of detail that we wouldn't want to talk about in this venue because it certainly is competitive information. We're not the only supplier out there. This is a highly competitive business.

Mr. Bjornerud: — There's no plans in the future to get out of the XXX video market?

Hon. Mrs. Teichrob: — There are no plans to get out of the hospitality network product. It's been very popular.

Mr. Bjornerud: — Well I guess I would say yes, the rest of the videos, yes, but not going one step further to the . . .

I only have a few more questions and I can pass over to my counterparts. But I'd like to go back just for a minute to hooking up of a second line to . . . especially in the farmyards in Saskatchewan. And still the calls keep coming in where it's \$500, \$600, \$700, and the wire is sitting right there as was in my case, in my farm.

That line when it's sitting there makes SaskTel absolutely zero, unhooked and sitting there. My thinking would be the minute we can get more of those hooked up, SaskTel would have access to more, well actually increased customer service so

therefore more dollars. And I think that the money we're charging, or SaskTel is charging these people to hook them up is a deterrent and many of those people are not hooking up because of that.

Have you looked at that at all in trying to find a way that it would be cheaper for these people to hook up this second line, third line, whatever it may be? And the ones I'm talking about are the ones that are there, not the ones where we have to dig in, you know, and go back and add an additional line.

Hon. Mrs. Teichrob: — Well I'm not sure. I could ask somebody to comment on whether we already have full cost recovery on this or not. I know I recently paid myself, I think it was close to \$400, I think, for a line; to hook up a line for a fax machine. And actually when you think about it, that what you get for that money is your own dedicated switch in the SaskTel network which is your access to the world for whatever medium you want to hook up, it is really very low.

I know this was examined a few years ago and some changes were made. And maybe I'll ask Mr. Meldrum to comment on whether we're at full cost recovery now.

Mr. Meldrum: — We would not be at full cost recovery in terms of providing service in rural Saskatchewan. The cost of a second line is \$500; plus if you go over sort of a limit I think of \$10,000, then the customer will be paying additional charges. The whole basis of charging for service in rural areas has been set up on the basis of charging sort of an average rate that is not fully cost compensatory.

And the problem with taking any unused capacity and letting it go out at a minimal charge is that then that unused capacity is gone and where we're left with is cranking up the ploughs and installing rural cable the next time somebody else asks for a line. So instead of sort of having it that we're charging actual construction costs, we charge a low sort of average cost that is not fully compensatory.

And in some respects I guess it operates as a deterrent. But at least you're sure that when somebody is looking for a line, that they actually want it, that they make an economic decision to take it; because the next time somebody comes along and asks for a line, we might be spending 30 or \$40,000 installing copper all the way back to the switch.

The second point I'd like to make is that we have cranked up a project team within the company to rethink the entire area of service provision and charges because we know that there are issues out there. We know that there are concerns and complaints that are coming in, so both in the city and in rural areas. And they're doing an entire rethink of the area to see if there is a more rational means of charging for second lines and for first lines.

Mr. Bjornerud: — Okay, thank you. Because I think we've all saw what's happened with long distance. By lowering the rates we actually in the long run have generated more money, and I guess maybe, you know, what you're saying is . . . I wasn't going into the part where we'd be loading the equipment more

by doing this and I guess that's a good point. But I still think by making it more accessible, we would generate more revenue.

Mr. Meldrum: — One of the basic problems is that local service in rural Saskatchewan, residential local service in rural Saskatchewan, is subsidized to the tune of about \$40 per month per line. In many cases the long distance is already being carried on the line; so you're putting in a line that isn't going to be attracting any additional revenues to subsidize it. So we'll essentially be losing \$40 a month per line on average for residential service in rural Saskatchewan for each of those additional lines.

Mr. Bjornerud: — Madam Chairman, I'll pass it over to my. . .

The Chair: — Thank you, Mr. Bjornerud. I do appreciate your courtesy and willingness to make sure that everybody has an opportunity to ask their questions. The minister has to leave very shortly after 11, but if it's agreed, what we'll do is go just a little past 11 so that members do have an opportunity to get their questions . . . to put their questions to the minister.

Mr. Heppner: — I still have my bit in the teeth about this NST so we're going to keep chugging through that one a little further.

The Chair: — Mr. Heppner, I would just like to say for the record, I think that your questions are extremely astute and very well put. And I do appreciate the questions that you are putting.

Mr. Heppner: — Oh, okay, thank you.

The Chair: — I'm complimenting you.

Mr. Heppner: — I was waiting for that last line.

The Chair: — No, I'm complimenting you. I just wanted to say for the record, I think that the questions you are putting are good ones and are questions that the people of Saskatchewan would legitimately want to hear.

Mr. Heppner: — Back to the comments that we were making about the due diligence and the research that was done, which was done internally by your SaskTel people, I believe you said by and large. What exactly did they indicate the possibilities of where this whole thing was going to go; like what percentage of profits were supposed to be out there? You know, what exactly did you think you were going to get out of this?

Hon. Mrs. Teichrob: — Fortunately the chairman has observed that your questions are very astute; unfortunately they've been asked before while you were out. But we'll just ask Mr. Stephanson to just run over the sequence again. I think his response was well understood the first time and if you had the chance to be exposed to it, I think you'd feel better.

Mr. Stephanson: — Which goes back to the earlier point you made about perhaps we acted too slow in moving in to correct the situation.

Basically what happened, 1994 — very quickly — was a year of marketing. And NST actually obtained an overall umbrella contract with Ameritech New Media, but did not receive any work in that year. 1995, work started very late in the year, because we had anticipated Ameritech New Media landing some franchise awards, through the regulatory system, earlier than they actually did.

We didn't start in Chicago, I think I said until October — or is Chicago in September and Columbus in October — so there was very little of the 1995 season that was actually done in construction. So when we got to January of '96 we were still well within the business plan, the original business plan which said the thing would be cash flow positive by year 3.

In 1996, basically there was a minimal amount of aerial construction in January. There was no underground construction because of the lateness of the winter and the rainy May. Construction really started in earnest in June. And what basically happens in the construction industry all over the world, is that you put the money up front, you do the work, and then the revenues are billed and come later and there was a 30- to 45-day lag in that.

Generally speaking, it would be July or August in any construction season when you would start to see revenues — in fact receipts being higher than the expenses. It was in August that we saw this wasn't happening, and it was in August that we took action and sent teams down — actually beginning of September where we sent teams down — to try and rectify the situation.

So basically, I think we acted as prudently and as quickly as we could have.

Mr. Heppner: — Part of the question — I'm still waiting for the answer — the profit potential; I'd like to know what you saw as being the profit potential. And then, whatever that answer is, I would suggest it must have been moderately low; that it wasn't worthwhile hanging in and say, okay, so we've had some things we hadn't planned on — and that can always happen — but we had those things that we didn't plan for, but because the profit potential is so low, we have to get out, which makes the whole thing look risky right from the start.

Mr. Stephanson: — The profit potential I do not have in my head right now. I will say that it was greater than a 16 per cent return on equity, on investment, because that would have been our hurdle rate for us to have ever gone into the thing in the first place. So it'd be over 16 per cent return on investment was anticipated.

Mr. Heppner: — So you have 16 per cent — is what you hope to get and more. You knew where there was a problem and where it was a little poorer than what you'd hoped for. I suggest there must have been some serious wrong estimations going through on that 16 per cent plus. Or else the weather being somewhat worse than what you had planned on shouldn't be that bad that you couldn't say, okay, we're going to hang in here and pull this one off and come out at the end of the day breaking even or still making a profit.

Mr. Stephanson: — That's exactly what we did in September. You look backwards . . . if we're sitting in September '96, you look backwards.

The weather thing had something to do with accumulated losses to that point but should have nothing to do with your decision whether you do or don't go forward with the investment. Because that's basically sunk; that's basically lost.

You look at where you are in September '96 and you look forward. Can we earn revenues; can we . . . Basically, a new due diligence in September '96 was conducted.

We looked at it. The old estimations, the old pro formas that were created in this investment in the first place, assumed competitive margin in price versus costs. In other words, the gross margin assumed a certain productivity factor.

We looked at it in September '96 and said that everything we'd done to try and improve the productivity we think had, for the most part, been done and that we could not achieve the productivity that was originally envisioned. So that the margin, in fact where we thought there would be significant margin, it was not there.

Mr. Heppner: — So you're looking forward in September '96 and so what was wrong with the original estimate, or what had changed in the environment, the business environment, that suddenly made this unable . . . something you couldn't achieve?

Mr. Stephanson: — In any investment, I think, that you enter into you have to make some estimates which over time — or take some risk I guess — which over time may or may not be greater than or less than you had anticipated.

What we were doing in Chicago and Columbus and Detroit, was directionally boring on a large-scale operation in U.S. suburbia. Never before done. So we had to do . . . we have always used — not always . . . directional boring had been in place in Saskatchewan, had been in place throughout the world on a very limited basis. That is you set up your machines; you bore cable underneath a highway, underneath a river bed; you pack it up and you go home; and you use trenching and ploughing for the rest of the construction.

What we did in Chicago and the rest of the cities, was a much larger scale of directional boring from one residential lot to the next to the next to the next, because of completed landscaping in those cities. The anticipated savings, the anticipated productivity that one could achieve by doing 100 per cent directional boring was not obtained, could not be obtained. That was the difference.

Mr. Heppner: — So you couldn't make that profit margin in the directional boring, that was then the problem with your inability to make profit on it more than the weather.

Mr. Stephanson: — Absolutely right.

Mr. Heppner: — So there was a problem with the estimates

that were made right at the start, and so the weather is just something that is brought in to sort of cover the situation?

Mr. Stephanson: — I don't think it made it . . . if you think about it, it made it difficult to realize where the line was between how much we were achieving in productivity and how much was weather related. But I'm only saying that to about May of '95. I'm not looking at the weather in June or July or August. I'm saying that was the true test of the ability to get productivity to where it had anticipated to be — should have been — and could not do that.

Mr. Heppner: — Okay, our time is up and so, Madam Minister, and to your officials, I'd like to thank you for this time, and I think we'll be looking at a situation where we'll be able to get back again and continue discussion on this and on some local competition, and possibly also some more work on CRTC.

The Chair: — We will, and a lot of those questions I think are ongoing questions that probably will be as easily directed towards the '97 annual report as the '96 annual report.

Hon. Mrs. Teichrob: — Very dynamically and that's true.

The Chair: — We've dealt with a broad range of issues.

Mr. Koenker: — Yes, just before we conclude, I'd like to say for myself but also I think for government members, that I too really appreciated the questioning of Mr. Heppner on NST. I think it was very appropriate and very good questions and the answers were very good, and I think the public interests have been served in this regard today.

The Chair: — And I want to thank you, Mr. Koenker, for saying that. I want to expand that and I want to include all members of the committee, and I particularly want to note the members from the opposition. I think that the questioning today and the broad range of issues that were raised does raise the tone and the focus of the Crown Corporations Committee. And I think as we move into our 51st year, that we are establishing some very good precedents. So I do thank all members for that.

Mr. D'Autremont: — Thank you, Madam Chairman. I would like to concur with those statements. I think the questioning has improved greatly since the 1980s and we will endeavour to carry on with that high quality.

The Chair: — I just love political ping-pong.

Having said that, I think it would be . . . that while we've covered off a broad range of issues today with respect to SaskTel, I would suggest that rather than having our customary motion that we've concluded our review of the '96 SaskTel annual reports, I'll just leave it open and perhaps we can have an official motion when we deal with CIC later this year.

And in the meantime, if there are any major issues that do come up of a substantive nature that wouldn't be covered off next year, we could call the SaskTel officials back. But I think I will give them notice now, with the concurrence of all three parties,

that we will likely not be calling you back this fall. Is that a safe assumption to make? Thank you.

Thank you, Madam Minister, for your clear and concise answers. I would also thank your officials.

And could I then have a . . . Oh before I do that, I would suggest that we will not have a meeting within the next couple of weeks so that we can attend to House business. I am trying to arrange a meeting for May 29, and subject to availability of ministers or officials, I am trying to call either SaskEnergy, Sask Water, or STC (Saskatchewan Transportation Company).

So I would ask if any members of the committee have any other Crown corporation that they would prefer that I call at that time. Or if you have any comments about perhaps having a meeting on May 29, if you would let me know in the House.

Otherwise we will . . . I would entertain a motion for adjournment and the next meeting would be at the call of the Chair, but likely May 29.

Mr. Langford: — I move that we now adjourn.

The Chair: — Thank you, Mr. Langford. The committee now stands adjourned.

The committee adjourned at 11:07 a.m.