

**SaskTel Holding Corporation and
Saturn Communications Ltd.**

The Chair: — Greetings. Now I apologize for the slight delay. I did though want to make sure that we had all the technical equipment so that we can get a proper briefing on this significant transaction. As committee members will know, we adopted certain guidelines and criteria for deciding what we would view as a significant transaction. And I spent some time with John Wright, the CEO (chief executive officer) of Crown Investments Corporations, reviewing the activities of the various Crowns over the last little while. And the investment by SaskTel in Saturn in New Zealand does fit the criteria that the committee has adopted. So I have asked for SaskTel to appear before this committee and I'm assuming that they will be able to walk us through a technical briefing, the how's and why's, and either satisfy us that due diligence was done or provide an appropriate explanation why it wasn't.

So I would start out at this time by asking the minister if he would introduce his officials and then we can perhaps turn it over to the officials so that they can give us the technical briefing on this. Before I do, I guess I would be remiss in not welcoming the members of the new party to the committee. It's old members — old wine in new bottles — but I do welcome you here: two representatives now from the Saskatchewan Party and one representative from the Liberal Party.

Mr. Lingenfelter, would you please introduce your officials.

Hon. Mr. Lingenfelter: — I will for sure, Madam Chairperson. With us today we have Don Ching, who you will know. Don is the CEO and president of SaskTel; Dale Bassen, who is seated to my left, is president of SaskTel International. As well, with us today is Barry Ziegler, the vice-president, investment, SaskTel International; Doug Burnett, general manager, human resources; and Sean Caragata, general manager of corporate affairs for SaskTel. And they'll take you through the technical presentation. And also I think they'll very ably answer hopefully any questions that members of the committee have as it relates to the investment.

Mr. Ching: — Just one thing to add and that is that the reason that Mr. Burnett is here, this is not normally a human resources and industrial relations-type issue, but in his previous life he was in our legal and regulatory affairs group and he handled the legal documentation of this particular transaction. And so if there are questions that bear upon those issues that's why Mr. Burnett is here with us today.

The Chair: — Mr. Ching, if I could just add one other thing. We do have as well here today two representatives from the Provincial Auditor's office, Judy Ferguson and Brian Atkinson. And we also have a representative from the auditing firm of Deloitte & Touche, John Aitken. They are the auditors of record for SaskTel.

Committee members will be aware that since this is a transaction that occurred just a little over 90 days ago, obviously it hasn't been audited as yet. But the auditors are here to watch, to oversee what our deliberations are, and obviously if members have any questions that they want to direct to either

the Provincial Auditor or the representative from Deloitte Touche, they will be prepared to answer in their usual cautious and prudent manner.

Mr. Ching: — We have two short presentations which are available to the committee if the committee so desires. If the committee simply wants to go into the transaction and start the questioning why, that's . . . we're comfortable with that. But we have a short presentation on the investment which consists of overheads. Then we have — and that will be probably about 10 minutes — and then we have about a four- or five-minute video on what's happening down in New Zealand. If the committee wishes to receive those prior to the questioning, why we're certainly ready to make those presentations.

The Chair: — I think that would be . . . That is the committee's wish. Am I correct? Thank you.

Mr. Bassen: — This is a sales material that we use in New Zealand. Cable TV is relatively a new prospect to New Zealanders. There is an over-the-air service with five channels that they can have for a pay-per-view.

So the market challenge is to educate the market-place of what is cable TV, and more specifically the types of content. We all know what Discovery Channel is and Arts and Entertainment, and intuitively know sort of what that content is. New Zealanders have not had access to that type of product before so we need a sales vehicle to really educate them and have them understand what is available on cable TV, and the types of product.

So this is a sales video that we use. In a lot of cases our sales staff go door-to-door in the residential community and knock on doors and explain what the product is. We also set up in shopping malls and such, in an effort to try and educate and stimulate some interest in the product.

So this is about a 10-minute video. It was produced in our own Saturn studio. We have our own community channel and we have production facilities, so this is all done by Saturn staff and I think it's a nice overview in terms of what is Saturn about.

The Chair: — And just for the *Hansard* record I would ask that you would provide a copy of the video tape to the Clerk so that we can keep it as part of the permanent record. And I will dim the lights. I feel like a director here.

(Video Presentation)

Mr. Ching: — This is Barry Ziegler, vice president of the . . . (inaudible) . . . investments within SaskTel International and formerly was our controller within the main company.

Mr. Ziegler: — Good morning. I have about a 10-minute presentation this morning on the investment opportunity of Saturn. This was a presentation that was used in conjunction with a press release in July. This will help give you some insights in terms of what the situation was at the time, what our thought processes were, and to the greatest extent this is still a very relevant presentation.

Saturn itself is a start-up cable television company, as you heard on the video. It has roughly 2,000 customers in Wellington, New Zealand, and I'll tell you a little bit about that area in a moment. The ownership of Saturn was United International Holdings. They are working out of Denver, Colorado, and they own 100 per cent of Saturn Communications, and I've got another slide that will talk a little bit more about the partner as well.

They are a start-up CATV company with a desire to be in the telephone business certainly, and they recognized early on that they needed a strong telephony partner to help them build the combined CATV and telephony business, and that is the role that SaskTel will fulfil. SaskTel Holding Corporation has in fact acquired a 35 per cent interest in Saturn Communications. That happened July 23 of this year.

This will give you a sense of the New Zealand geographic area. There are essentially two main islands that make up New Zealand. There are a number of smaller islands as well, but for the most part two islands — one called the North, one called the South for obvious reasons. The operation that we have right now is located in Wellington, and Wellington only. It's on the southern tip of the northern island; it's actually a port city located in a fairly hilly, well-treed area.

There are a number of things that attracted us to New Zealand. In fact I have been there twice myself. I found it to be very similar to Canada in the sense that . . . in terms of culture, people generally, very compatible. Similar language, laws, and legal system — we felt comfortable from that perspective as well. The fact that there was no existing traditional CATV service in the country attracted us, as well as the fact that there was a single incumbent supplier of telecommunication services, on the local access side of it at least, called Telecom Corporation of New Zealand.

The regulatory system in New Zealand is what they call a light-handed regime. They do not have what we experience in Canada, that being the CRTC (Canadian Radio-television and Telecommunications Commission). The government gets involved only on an as-required basis. There are no barriers to entry or operations at this point in time. You can come in, provide any product, any service, at the price you think is attractive to customers. And the people in government, we found, did not seem to be opposed to foreign investment at all. I think they felt very comfortable with Canadians in general.

In terms of Wellington itself, the demographics are that it's the capital city of New Zealand, as I mentioned, in the southern tip of the northern island. Fairly strong government-based business as well. Regional population of 400,000 people. There are actually three main cities in that area called Upper Hutt, Lower Hutt, and Wellington proper — roughly 400,000 people in that area; 130,000 or so residences. Roughly 20,000 businesses; disposable income, weekly household income at least, roughly CDN (Canadian) \$825, and relatively low inflation and unemployment over the last six or eight years.

In terms of what we saw in our partner, we obviously had a number of sessions with our partner, wanting to make sure that their goals, objectives, were very similar and compatible to SaskTel's and we found that they were.

They're a very strong operator. United International Holdings is in over 25 countries in the world and have in excess of 3.4 million cable TV subscribers. They don't operate in the United States but they're very active in other parts of the world. They had a significant financial investment in Saturn. At the end of the year, it was roughly NZD (New Zealand dollars) \$40 million. And again they had . . . they recognize the need for a strong telephony partner to help grow that business.

In terms of the business assessment itself, Saturn Communications has been in existence since 1989. It started out in a cooperative in a relatively small community about 40 miles north of Wellington that grew to become Saturn Communications when UIH (United International Holdings) took over or bought into it in 1994; essentially took it over in 1996.

The people in the organization, we were very impressed with them; very solid work ethic; very good management team, we think. Employees are very highly motivated, ready to go, ready to get on with the business and they appear to have a strong customer focus. And I think we're well positioned to become the first provider of competitive local access services in Wellington and possibly the remainder of New Zealand as time moves on.

In terms of the competitive environment in New Zealand, a little bit more about that. On the pay television side right now there is one major competitor, being Sky Television. It's a UHF (ultra-high frequency); it's over-the-air service; you require an antenna to pick up the signal. They offer five channels right now at a cost of roughly NZD \$55. So it's a relatively pricey offering, relatively small content compared to North American standards when you can get 30 to 50 channels in terms of the base package.

On the telephony side of it, the Telecom Corporation of New Zealand, fairly strong competitor. They're owned primarily by Bell Atlantic and Ameritech. Right now they have a monopoly, essentially, on local access service. There is competition on the business telephony side that's provided by CLEAR Communications on the toll side of it, and Telstra, which is the dominant carrier in Australia, on the toll and local access side as well in terms of downtown Wellington.

Financial projections — and these numbers are still relevant — in July of this year we funded roughly NZD \$30 million into the operation. We expect that we will require another 8 by the end of the first quarter in 1998.

That's under the assumption that there will be debt financing available to us, and vendor financing in terms of the switch and transmission equipment. We're in the final throws of negotiating purchase agreements with NorTel, who is SaskTel's primary supplier on the switching side, and a company called DSC (Digital Switching Corporation Limited) that SaskTel does business with as well, on the transmission side. Both of those purchase agreements provide for vendor financing. So we're well on the way with that.

Vendor financing will be in place by the end of this year, and we fully expect to have some sort of debt facility in place by the end of the first quarter, 1998. In the event that we can't get debt

financing, our projections show that we'll require an additional NZD \$31 million to fully fund it.

In terms of the investment criteria that we used when we went into this, CIC (Crown Investments Corporation of Saskatchewan) has a fairly extensive list in terms of investment criteria that must be met, or good reasons why they have not been met. We, we feel, have complied with all aspects of this investment criteria. The business is very complementary to our core business. It's a business that's very similar to what we did in the U.K. (United Kingdom).

The environment is quite different in New Zealand but the business itself is cable-telephony, something that we feel comfortable with, and certainly we feel very comfortable on the telephony side of it. With a strong partner on the cable side of it, we feel there is a good marriage there.

In terms of the alignment with the local partner, as we said, this business has been around since 1989. While it is U.S. (United States) owned, there is no company in New Zealand, no telecommunications company, that is owned by New Zealanders at this point in time.

As I mentioned, again we have the same intent, goals, desires, from a partnership perspective; we feel there's a solid match there. And at this point we have only one other partner.

In terms of long-term asset appreciation, we feel strongly it is there. We will not see dividend streams likely for the next several years, but we feel strongly that there is a very high terminal value by way of building this business.

And we've certainly had the ability to exercise control and influence at the board level. We feel we have a very strong shareholders' agreement, and we have two of five seats on the board.

As well, we have a number of people on the ground right now helping build that company. We have three people down there on a seconded basis for three years. We have had five so far down on shorter term assignments and we expect to have a number more in the near future as well.

Portfolio. Generally this is the first major investment in our portfolio so it's . . . that particular criteria does not apply at this point in time. The size of the investment is manageable. As I said, it's our expectation that 50 per cent of this enterprise will be funded by way of debt, requiring us to fund roughly NZD \$38 million. The investment, again given that size, does not put SaskTel's overall financial viability at risk. And we felt we've minimized the demographic risk factors by choosing a country like New Zealand, which again is very similar to the Canadian environment. Internal rate of return, our projections show that it will exceed 15 per cent.

And finally as I mentioned, we do feel we will be able to lever the opportunity with 50 per cent debt. Positive cash flow within three years is our expectation — that is, the year 2000 from current projections. And we feel there is a strong market growth potential certainly by expanding this business throughout the rest of New Zealand, if that opportunity does present itself. The \$50 million revenue criteria will again be met in the year 2000.

And that was all I had for the presentation.

The Chair: — Thank you very much. We will now begin the questioning. And since we have an adjournment time of 10:30, I think what we will do is rotate the question period in 10-minute blocks amongst the parties. I would first of all recognize the Saskatchewan Party.

Mr. Bjornerud: — Thank you, Madam Chairman, and good morning to SaskTel employees this morning. I am somewhat disappointed that the minister is not here because most of our questions were designed for the minister, and I honestly don't think it's exactly fair for us to be going after you people for what some of the things that we wanted to do this morning.

I would like to touch on though, Madam Chair, is that . . .

The Chair: — I think you'll find that the minister will be back at some point, so you'll have an opportunity to go at everything. But this is a . . . specifically this meeting was called to review the significant transaction investment in Saturn. So I think that we should first of all deal with all the technical questions before we get into the political rhetoric and before we start practising for next week.

Mr. Bjornerud: — We don't need no practice. I guess probably just in starting, that I think the feedback that we get, and I'm sure you people are getting, from the public, is that we go to the Guyana deal with SaskPower, and we have 31 million or more that we're going invest there. Now we hear we're into Chile and going to put more money into there.

We have saw what has happened with the NST (Network Services of Chicago) deal and deals like that. And I think the public is somewhat very, very leery about taxpayers' dollars being put over there. And I think the motion that we had put before this committee earlier on — Mr. Ching, maybe you could even comment on this; I believe you were here that day — is that I think that our feeling is that we would like to see more information before these deals are consummated up front, and then also the public would get to see that.

Because it seems right now that what we're having happen is after the deals are made we come before this committee and we're, you know, allowed to question and that, but it's after the fact. And you know, I wonder what your comment would be on that?

Mr. Ching: — I appreciate I think, the point that you're making, which is that information in a timely manner prior to the actual deal being structured would be the optimistic way of doing things. You'll appreciate that it's extremely difficult to do that, because in negotiating a transaction of this size, obviously both we and our partner are extremely cautious about any divulging of information in advance of the actual deal being made. And this is acutely an issue where, as in this particular case, our partner happens to be a publicly traded company.

You'll be mindful of the fact that a publicly traded company has an obligation to its shareholders and to the market-place, through most regulatory structures, to disclose uniformly information that might pertain to the value of their shares. And in this particular case, this is a fairly significant transaction for

UIH to be entering into and so they have to be very cautious about releasing of information. And we have to, as a potential partner of theirs, have to be extremely sensitive to that because we can't be going out, for instance, and disclosing information that might get out into the public arena that would bear upon the value of UIH in advance of that being uniformly put in front of all potential shareholders or actual shareholders.

The other thing is that with a transaction of this nature, as you can imagine, in negotiating the deal itself there are some issues which are rather easy to deal with and then there's obviously some issues which are really a source of a lot of tension as you get closer and closer to a deal and usually they revolve around the dollars and cents, the issues of control, and the issues of what you're buying for the money that you put up. And to have the ingredients of the transaction out and around and subject to public comment really makes it difficult to bridge those last gaps because . . . and this is a good example. This particular transaction was a good example because I can remember when we got down to the last part of the transaction, I mean both parties have taken very strong positions trying to win the last number of points which revolved around dollars and cents. And to be able to actually forge a deal, each party had to be prepared to bend and twist and give in a little bit on some issues which they'd held pretty near and dear during the negotiations.

And so I guess the point that I'm trying to get at here is that I appreciate the point of public disclosure because I believe in that as well, but public disclosure and being able to negotiate a deal of this nature, to some extent come into conflict one with the other. And I think that if we were to, for instance, disclose our due diligence at an early stage and to talk to the news media and the public of Saskatchewan in the steps leading up to a final arrangement, I suspect that it would be extremely difficult for us to actually arrive at a negotiation with a partner, especially one that's traded in the public domain.

Mr. Bjornerud: — In your presentation this morning, the statement was made that you have a strong partner in this venture, and yet from what we're led to believe, that United Holdings have lost 230 million in the last two years and 80 million already in the first quarter of this year. To me, that kind of puts into question just how strong of a partner we have. How do you justify, when you join up with a partner that's lost this much money . . . If it was a business here that was joining up with another business here that had lost that much money, I think we'd all be very questionable about it.

Mr. Bassen: — I'll answer that one. Yes, it's true. UIH lost \$138 million last year and it has a recorded loss this year, the first quarter, some 7, \$8 million.

I think you've got to understand, first off, what UIH is about. They're a cable TV company. They have invest . . . significant investments in many countries around the world. If you look at the profile of that cable TV industry, they tend to be highly levered businesses. Far more than you'll find in a telecom type of a venture, which means that UIH is in start-up companies. Just as similar, if you look at Saturn in a small model, it takes several years for those businesses to start to become cash-flow positive.

So the fact that they had recorded losses — not a surprise to

UIH. It's not a surprise to their shareholders. They fit the profile. They're a younger company. They tend to be highly entrepreneurial. And by industry standards, you know, of companies that are in that cable TV industry, you'll tend to find that they're highly levered with debt, far more than a telecom will; and because of the nature of your business, which is start-up companies, offshore investments, the typical profile of any of those ventures is, there's several years is required until they start to become cash-flow positive.

I think the important thing, that if you want to look at UIH beyond the recorded losses, is that if you notice, that their revenues increased from 2.5 million in 1996 to \$21 million in 1997. And in fact their share price on NASDAQ (National Association of Securities Dealers Automated Quotations) has in fact increased in the last while. I'm not sure, Barry, if you have the actual figures, but they have gone up, what, a dollar a share?

Mr. Ziegler: — Since the transaction roughly, yes.

Mr. Bassen: — Since the transaction. So if you look at the market-place, shareholder confidence, and the value of the stock traded, it has in fact increased.

So yes, true, there's recorded losses, but if you look at the investment community, showing that they have confidence that these ventures will continue to grow and build in value once they become cash-flow positive.

Meanwhile we have to focus on here is that UIH is not Saturn. There's a separate venture. UIH is many companies tiered down from out of Denver, but there's a UIH New Zealand, so even if UIH ran into difficulties in other ventures that does not necessarily materially impact our investment in Saturn. As Saturn was going according to business plan, both of us are building a significant asset that will generate profits for SaskTel and UIH in the future.

So I appreciate the point, but I think if you look at the overall industry it's not atypical for companies that are in start-up ventures to have losses early on in the years and then generate significant value as those entities become cash-flow positive and then start building terminal value. And I think that's reinforced by looking at the stock price, which has in fact increased since the Saturn acquisition.

Mr. Ziegler: — And if I could just add to that briefly. When I mentioned strong, I meant as well strong technically; they're very strong on the CATV side of it. And from what we've seen so far, we're very comfortable and confident in their management skills at the partner level.

Mr. Bjornerud: — I think what makes us somewhat uneasy is to go back to the NST deal and the company that we were in partnership with in B.C. (British Columbia) got to a point — and correct me if I'm wrong — either could not carry their load or were not willing at that time to put any more money in and SaskTel had to . . . well we all know what happened in the end there.

I guess my question would be then: should that happen? And you know, you were saying this morning that shouldn't happen, but what if that happens here? How far is SaskTel willing to go

here to keep this venture rolling? What if UIH decides at some point they're . . . or they get in trouble. They've lost all this money on other parts of their company. Is SaskTel going to take over the whole program and carry it here or how much money are we going to put at risk?

Mr. Ching: — One of the useful things — and you know you look at NST with a little bit of a jaundiced eye — but certainly there was a number of lessons that we learned from that particular experience. And I think that if you look at the way in which this particular deal in Saturn is structured, we were particularly sensitive to exactly the point that you're raising. We tried to build into the transaction a number of things which strengthened our position vis-a-vis that particular danger or risk.

The first thing that we did was that, at the time that we actually made the deal, for all intents and purposes UIH had put in virtually all of the capital that they were required to put in for their share of the bill. The only reservation that I would make on that was that they had additional capital to put in and it was essentially the money that we were paying them to buy our portion of the transaction. And we structured the deal in such a way that as we paid our capital to UIH it didn't go particularly to UIH, it went into the Saturn deal to complete the capital injection which was required on their side of the transaction.

So we guarded ourselves, I think carefully in the sense that I think that once we put in our purchase price money, which was the remainder of their capital injection, that they only had a capital commitment of something like 4, 5 million additional dollars. So that was the first thing that we built into the transaction to guard against the risk that you raise.

The second thing is that we built into the transaction an arrangement — and this is a knife that cuts both ways, so that it bears upon us as well as upon UIH — if either of the two parties fails to come up with their portion of the capital that's required either for the initial build or for any subsequent activity that may be undertaken, the party that's prepared to in fact put up the capital is allowed to acquire a larger share. And it's also allowed to acquire that at a premium of 10 per cent; so that there's a penalty of 10 per cent of the value if you fail to come up with your share of the capital.

And as I say, that's a requirement that cuts both ways, so it touches us as well as them. If we stumble in mid-stream and fail to complete our share of the capital injection, UIH would be able to put up our money for us and would acquire, not simply the share that they would be entitled to by putting up that, but an additional 10 per cent over and above that as a penalty. So we have that pressure upon them and they have it of course upon us.

And there's one other additional protection on there is there not? Do you want to . . .

Mr. Ziegler: — Sure. We've also included a provision that they — UIH — guarantee a \$5 million in additional capital should that be required. So they're fully prepared and had in fact have guaranteed the next 5 million should it be required.

Mr. Bjornerud: — You can correct me here if I'm wrong, because I'm certainly not up to speed on this, but we're talking

a fibre optic or a cable company that we're investing in here. Is . . .

Mr. Ching: — Actually, let me just . . . because the . . . especially the tape, emphasized the CATV side of it. The truth of the matter is that this is a combined telephony and cable TV operation, and indeed when the build is complete, I think it can be said that the bigger part of the operation will actually be the telephony side of it. And so while the public relations thing emphasized the cable TV side, in fact when we're at the end of this particular project, the telephony side of it will probably be the more robust side of it in so far as gross revenues and net profits are concerned.

The Chair: — Thank you, Mr. Ching. Thanks. Mr. McPherson from the Liberal Party.

Mr. McPherson: — Oh, I'll wait for awhile.

The Chair: — Okay. Anyone from the New Democratic Party? Ms. Hamilton.

Ms. Hamilton: — You mentioned that this investment was similar to what happened in the U.K. and that you have people there. And I'm wondering what kind of expertise the company there didn't have or that we provide that people are now noting internationally, and if there's an opportunity in the future to have this used as part of a portfolio for other opportunities elsewhere.

Mr. Ching: — Well yes, I mean obviously we're involved in cable TV in a number of ways. First of all, we own a portion of Regional cable TV and so, as such, we sit on the board of directors of that — it's an investment of ours, and so we're mindful of what's happening in that industry.

As convergence between the industries of cable TV and telephony continue, we see the cable TV industry as potentially competitors. And as a matter of fact, even now we tend to compete in areas like Internet and things of that nature. So knowing about that industry is important to us.

We've got actual on-the-ground experience through the Leicester project with actually building and beginning to operate a cable TV operation. And as a matter of fact, some of the people which are presently in New Zealand on assignment there are people who have come back to us from the Leicester project once we sold our share of it.

So number one, we do have a fair amount of knowledge and information about cable TV within SaskTel at the present time. It's something which we feel we should know more about as we go into the future because of the nature of the way in which the cable TV industry and the telephone industry is changing and converging.

And lastly, we think that given that we've got that information housed within SaskTel, it's an asset that the corporation can use to advantage by deploying our people and exploiting that knowledge and experience to assist in the operation which is down in New Zealand. But clearly our partner has the greater strength in so far as technical knowledge and business expertise in the area of cable TV, and we're deferring to them in large

measure. We bring something to the party in that particular area, but it's essentially UIH's area of expertise.

But the complementary side of this particular investment is of course the building of the telephony side and the operation of that in the future. That's the area of where I think SaskTel feels that it has the most expertise, and it's on that side of the investment where UIH wanted us in the same way that we wanted them on the cable TV side. And so they tend to defer to us in that area.

But we shouldn't underestimate the fact that UIH in telephony is not without knowledge and expertise in their own right. In the same way as we've got expertise in cable TV, they also have some knowledge and expertise in the area of telephony. Because a number of their investments around the world I believe — and I'm not absolutely positive — but I believe for instance their investment in Hungary is a combined cable TV and telephony operation. And while again they're supplying the cable TV side of that, they garner from those sorts of investments and experiences, knowledge of the telephony side.

On your ... on the last part of your question, yes it's our intention, provided that we continue to receive the support on this particular point from our board of directors and from our shareholders, to build a portfolio of projects and investments. What's happening within our particular industry I think is well known, and that is the most lucrative part historically of the telephone industry has been long distance; with competition, prices dropping dramatically. And as price drops dramatically the net revenues in that particular part of our business are being squeezed.

Local telephone service always has been and still continues to be a subsidized part of our business. We've always subsidized it from long distance. Given the fact that that will continue for some time into the future, and given the fact that long distance is no longer the cash cow that it has been in the past, we have to ... we simply have to develop other sources of revenue and net revenue from other areas where we've got strength and expertise.

And that's what our offshore portfolio is about, and so we will continue to build our offshore portfolio. We'd like to be in a position, frankly, where we have somewhere between three and five of these types of investments, because as they start to mature and develop, we see them coming on-stream from a cash flow and from a profit point of view just at the time when we're perhaps reaching the end of our ability to cross-subsidize local from long distance.

We see that happening sometime within the next two to seven years, depending on how rapidly things change. And it's within that time frame that we'd like to be in a position where other sources of cash flow, other sources of net revenue, start coming into the corporation so that we can continue to maintain our financial strength.

Ms. Hamilton: — In follow-up to the last point that you gave us, how long would we have the capability to cross-subsidize? Would the CRTC be moving in and looking at, at any point, saying we're not allowed to do that from any part of the operation? Or do you think that ability will continue?

Mr. Ching: — There's no question that the CRTC — which is a direct guiding force in every jurisdiction except Saskatchewan and is a very strong indirect guiding force even within, within Saskatchewan — there's no question that the CRTC is aiming in the direction of making local service self-sustaining and self-supporting. They're aiming in the direction of discontinuing the cross-subsidization from long distance to local service.

Some people project that that could happen as quickly as the next two years. And this varies a little bit because don't forget that the cross-subsidy is larger in the less densely populated parts of Canada. And so if you look for instance in Bell's territory, the level of cross-subsidization might be zero within Toronto, but when you get out into the smaller centres farther away from the large urban areas, where the cost of building to provide the services is larger per individual connection, there the level of cross-subsidization is and always has been much larger.

That's true within Saskatchewan as well. As you can imagine, it costs us an awful lot less to build a telephone service to somebody living in downtown Regina than it costs us to build out to Frontier, Saskatchewan, or to Spiritwood, or to Oxbow, Saskatchewan, which is my home town.

And so as a result, within our system, there are larger subsidies within our system for some residential customers than there are for others. So some of those subsidies aren't going to go away for a long, long time. No matter how you cut it or slice it, we're probably never going to get to the point where the people in Frontier, Saskatchewan pay the actual and real cost all by themselves of paying for their local service. There's always going to be a pooling to some extent of the costs of providing local service. But parts of our system are starting to move even now into the area of being profitable in the area of local service.

So to answer your question, I mean in some areas, local service is already profitable in Canada. There's some areas where it probably will never be profitable. And the move is on to make more and more parts of it self-sustaining at least, if not profitable.

The Chair: — Thank you, Mr. Ching. I'll now move back to a representative from the Saskatchewan Party. Mr. Heppner.

Mr. Heppner: — Okay. Good morning. As was said already, welcome to you and to your officials.

Mr. McPherson: — Excuse me, Pat. I understood that we're on a rotation?

The Chair: — Yes, I'm sorry, Mr. McPherson. What we customarily do is we just go through and keep rotating amongst the parties. I would have asked for you to speak next, but if you have questions right now, if you don't mind, Mr. Heppner, I'll ...

Mr. Heppner: — If he's got something of burning issue, we'll listen.

The Chair: — Okay, Mr. McPherson from the Liberal Party.

Mr. McPherson: — Thanks. Don, I read in here somewhere there was a previous exposure that SaskTel had with Saturn.

Mr. Ching: — I think it's correct to say that we were contracted with Saturn to do some consulting services, I recall, some years ago and that's how we first got to know them, so to speak, and that, I think that was a successful business relationship but we were simply consultants to them. And I think it was that relationship which caused them to come back to us when they needed an equity partner and approach us to go into this venture with them.

Mr. McPherson: — Was that with UIH or was that with Saturn?

Mr. Bassen: — We were contracted . . . SaskTel International was contracted by UIH out of Denver to provide an engineer to review their overall design, and that was done in 1996. In fact we sent one of our engineers that had done the design work in Leicester.

So it was a fee-for-service consulting contract. SaskTel provided a resource; I believe it was about two months worth of work. We got paid for it. A year later, UIH came and identified that there was an opportunity to partner in Saturn, yes.

Mr. Ching: — And I think the consulting work, if I'm correct — correct me if I'm wrong here — but I think the consulting work actually related to their investment in New Zealand.

Mr. Bassen: — Yes, it was down at . . .

Mr. Ziegler: — They thought they could do telephony themselves. They were trying to do telephony themselves with some consulting help, but at the end of the day found that it was just a little bit more than they could handle and decided to go with the equity partner as opposed to building . . . (inaudible) . . . themselves.

The Chair: — Could I remind all of you please to speak as much as you can directly into the microphone to make it a little simpler for *Hansard* to pick up your dulcet tones and words of wisdom.

Mr. Trew: — And, Madam Chair, loud enough so this hard-of-hearing scribe can hear it.

The Chair: — Hearing as well as vision goes at a certain age.

Mr. McPherson: — Don, so why then did not this UIH hire more consulting or our expertise in this area instead of asking for equity? Do they have trouble coming up with cash?

Mr. Ching: — Well I think it boils down to this. They're essentially a cable TV company and that's where their real strength lies. And while, again, they have some expertise in the area of telephony from the other investments that they've got, the fact of the matter is they have telephony partners in those other projects. That's not their area of responsibility within those other projects.

So I think they dabbled with the idea of handling both the telephony and the cable TV side and they looked to us to give

them some depth in that regard and some upfront advice.

I think when they started to get into the project itself and started building it as a cable TV operation with a telephony component to it, it was simply a more prudent operating format for them I think, when they considered it — to actually come and try and get somebody who had a commitment to the project in the form of equity to carry that side of the project rather than to try and do it themselves with some outside consulting advice. I think that's their decision, and certainly as they related to us that appears to be their decision. So they came to us and said, rather than you simply giving us advice, would you be prepared to come in and make an equity investment?

I think had we elected not to make the equity investment, they would have shopped around for another equity investor; and had they been unable to come up with somebody that would have been satisfactory to them, they might very well have tried to go forward carrying the telephony side themselves, and they might very well have looked to us to continue to give them some consulting advice in that regard.

But of course in the end, we looked at this and came to the conclusion it was an excellent opportunity for us and decided to get into the project as an owner.

Mr. McPherson: — So UIH, from your point of view, didn't have any trouble raising the cash if they were to fund this themselves. I mean you feel that SaskTel or the Saskatchewan people have got to put . . . (inaudible) . . . to the 62 or 63 million bucks to, to sell our expertise.

Mr. Ching: — I think that cable companies are significantly different in how they function and operate. And this is true not simply of UIH but of virtually every other cable TV operator in North America and around the world. They're significantly different than telephone companies. Telephone companies tend to have a lot of equity, a lot of capital within them and try to keep their debt load relatively small, as a percentage of their total capitalization.

Cable TV operators throughout the world have tended to have a lot of debt and a relatively small amount of equity investment. And for better or for worse, the financial community and the market-place has not only allowed them this particular luxury but has continued to support them strongly as an industry based upon that particular operating format.

Having said that, it was certainly our belief that had we not decided to get into this particular project, that UIH would certainly have been able to raise the capital to be able to continue to build to completion. No problem, I think, in that regard.

Their real . . . There's no question that getting a partner to put up an additional part of the capital took some of the financial pressure off them. But I think it's correct to say that as nearly as we can make out, their real motivation for wanting a telephony partner was more based upon the idea of having expertise in building, designing, and operating the telephony side of that operation rather than it was built on the idea of sharing the capital base of it.

I think that UIH, when they looked at this, thought of it as being a very good long-term investment for their corporation; and I think they would have liked to have had 100 per cent of the profits. And if that meant putting up 100 per cent of the capital, they're prepared to that. But I think they felt that it was a much stronger investment if they had a good, strong telephony partner along with them.

Mr. McPherson: — It was made mention, I guess maybe on the video, that this is going to take several years; several years are required to have this positive cash flow. Is there a fair amount of risk in a new technology coming on the scene down there by another player and putting these dollars of ours further at risk?

Mr. Ching: — There's no question that there is a risk in this regard. And you remember in the presentation by Mr. Ziegler, he indicated that this is a very open market-place. There is no reason in the world why, if eight people here wanted to build a cable TV system right parallel to ours, in direct competition with us, you could go down there and you could probably get all your licences in place and start building a system right alongside of ours in direct competition. And so could anybody else.

You can imagine, however, that when a company like UIH and SaskTel get down to business and start building something like this — we're injecting, between the two of us, something like 65 or NZD \$70 million into this particular project — for somebody else to come in and do the same thing on the heels of us is a very risky bit of business. But nevertheless that risk is there, that competition could challenge us.

The main competition probably is not that somebody would come in and build another cable TV operation; the main competition could conceivably come from satellite technology. And one of the nice things about New Zealand is that it stands off by itself and there's not much footprint from satellite that comes down to New Zealand by way of capacity at the present time.

Secondly, to the extent that there is satellite coverage down towards New Zealand, it tends to be much more expensive than what we will be charging.

And thirdly, and this is why the Wellington area was of such interest to us, is that the Wellington area is quite hilly and quite well wooded, and as a result there's a lot of shadows even within the satellite footprint that would be ill served by that particular type of a competitor.

And one of the things that attracted us to the investment was that we, when we looked at it, we came to the conclusion that unless somebody came in and built a system like we were building, it was going to be very difficult for a competitor to actually put in place a satisfactory service that could provide what we could by way of programing at a price that was competitive to the price that we were able to charge.

Mr. McPherson: — There's . . . I'm looking at a letter here, and you're probably familiar with it, from Mr. Lingenfelter to Lorje, and it makes mention of this being an initial stage for a continuing partnership with UIH worldwide. Is that . . . Now I

take it you had mentioned earlier there would be three to five other investments. Is that . . . are those all with UIH?

Mr. Ching: — Well there's a number of tugs and pulls here. Clearly from our vantage point, we would like to have a portfolio of operating investments out there which were building capital value or terminal value and at the same time were also building cash flow and profitability.

If we located all of those investments in one geographical area, we heighten the risk by the danger that there might be something geographical by way of a risk, and since all of our investments would be subject to that particular risk . . . So there's a bit of a tendency on our part to want to diversify geographically to minimize that particular type of risk.

Secondly, if we had all of our investments in conjunction with one partner, there's always a risk with a partner. We would be taking on a large risk in our portfolio if all of our five investments were with UIH.

Having said that, we think highly of UIH and our experience in actually functioning with them over the last number of months has really just served to cement our view that they're a good operator, they're a knowledgeable operator, and that they think similarly to the way in which we think in operational terms. And so we like them as a partner.

And one of the advantages that we see in doing the deal with them in the Saturn project is that they're very aggressively out in the market-place looking for other investments, and it may very well be that if they locate one that is of interest to us, that we might get an opportunity to join them in another play in another particular region of the world. I think we want to be cautious about that because we don't want to take on too much risk, of a partner-type risk, by concentrating on only one partner. But having said that, if they continue to perform the way in which they have up until now we'd be very interested in talking to them about another investment similar to this in another region of the world. And they certainly have a lot of contacts out there in the world, as have we. So now we've got two sets of eyes I guess, looking for this type of opportunity.

The Chair: — Thank you, Mr. McPherson. I'll now move to a representative from the Saskatchewan Party.

Mr. Heppner: — Thank you. I'd like to just sort of keep on the discussion of some of the things that were mentioned. The one thing that I guess intrigues me a fair bit on where SaskTel is at, and I'd like a fairly extensive commentary I guess, is with this . . . (inaudible) . . . satellite technology. And I guess from a layman's point of view I have some concern that we'll of a sudden find ourselves buggy with technology trying to compete with something else. How are we getting into this? To what extent is SaskTel moving into the satellite technology area? At what time do you feel we're going to get caught short if we don't? Exactly where are we at and where are we going in that whole area. Because it's that sort of thing that affects the security of the investment that we're talking about here today I think, as well as things happening in Saskatchewan.

Mr. Ching: — Well first of all SaskTel already has an interest in a satellite operation. You'll be aware that all of the telcos

across Canada are part owners of a company called Alouette, which in turn is the owner of Telesat Canada. And Telesat Canada presently now has the Anik E1 and the Anik E2 and a couple of other rotating satellites.

Part of our desire to be involved in that particular project is born out of a desire to understand as best we can where satellite technology is at and where it might be going in the future. And there's no question that there is a continuing and perhaps a building role for satellites in international communications. By and large . . . and I don't pretend to be an expert in satellite technology, so I'll make some observations and defer to my colleagues if they have some things they want to add and then step away from this particular topic because I don't pretend to be an expert.

But what I do know about satellite technology is this, is that it tends to be best used in one-way transmissions. In other words, cable TV or TV operations coming off of satellite tend to work very well because there is a delay in satellite transmission that the technology so far has not been able to get rid of, and so what you get is that you get this pause within a conversation if it's a two-way conversation. And it works best where it's a one-way flow of information.

So in the whole area of telecommunications and two-way communications, my sense of the thing is that satellite technology has got a long way to go to displace technology like fibre optics; but there's no question that in one-way transmissions it is a way of covering a large amount of territory very, very quickly. And while the capital cost is high — of flying a satellite and maintaining it up there — your overall costs per person that you are accessing may be relatively small, because of the way in which it can cover so much territory.

We're actively examining our investment within Telesat Canada, because there may be an opportunity to either exit that investment in the future, or alternatively to increase our investment in that in the future.

And these are questions . . . the questions that you raise are exactly ones that we're looking at. Where is that technology going? What parts of the land-based communication system are going to be replaced by satellite technology? And where can SaskTel participate in that particular industry to the advantage of us as a company and our customer base?

I'm not sure that I can give you much more of an answer than that, and maybe my colleagues have got some comments to add to that.

Mr. Bassen: — Certainly. I guess if you look in the context of Saturn first off, there's really two businesses there. There's a telephony business; there'll be a data business; and then there's a home entertainment business, what you'd call cable TV. A significant part of our business case, revenue stream, net income, is telephony-based.

So first off in terms of Saturn, in terms of the business mix it's diversified. It's not entirely vulnerable, and in fact over time cable TV revenues are not . . . probably roughly about a third, right? So we have diversification there.

In terms of specifically satellite — and I assume you're referring to what we'd call direct-to-home service, which is the small satellite dishes — in New Zealand there is direct-to-home service that can be bought. The current price is about NZD \$55, and you get five channels with that. If you look what we're offering in Wellington, \$25, has over 20 channels.

So in terms of the content and the value proposition, where you'll probably see that technology perhaps gain its hold is in rural New Zealand where consumers out there do not have an option and you're paying a premium.

Also on the buying proposition, in New Zealand the offering is \$55 for five channels but you have to spend some 6 or \$700 to actually buy the dish.

So within a city urban environment when you have a terrestrial-based cable TV offering, it's hard to imagine how you can have a value proposition where I would end up paying \$700 to buy my dish and pay almost double of what we're having.

The other part, and Don alluded to it, is that the direct-to-home or satellite is a one-way technology. The things that we can offer through our integrated, hybrid fibre coax network, which uses fibre optics — and then we have a common infrastructure that we use to carry telephony cable — is that you have a two-way network.

What that allows us to offer that you're not going to get from the satellite is things like the pay-per-view service where you can push the buy button and buy the movies that we're offering like they showed in the video. That is something that you're not going to get on with direct-to-home. Secondly we have technology then where we can bring high-speed and Internet access service into the home also.

So the fact that we have a network that can support telephony and cable TV, we have a network into the home that in fact is two-way, allows us to differentiate our home entertainment offering. And we can add Internet, we can offer pay-per-view services and we can offer far more content for less dollars than what you get with the direct-to-home.

The other challenge in terms of potential technologies that might come is wireless technologies. And there's a suite of technologies emerging, a notable one called LMCS (local multiple-point communication system) which will allow a wireless access, and you could maybe potentially offer voice or data or video products.

The advantage that we have there is really the terrain of Wellington itself. It's very much, as a close city, set within valleys, so the difficulty for a wireless operator is to get line of sight to that serving community. In fact Sky TV, which offers a wireless TV product over the air, can only reach about probably 35 per cent of the homes in Wellington. Why? The reason is it would cost too much to put up so many antennas to get the coverage. So those types of technologies probably would not be appropriate for Wellington; so that actual geography of the place itself has a natural barrier to those types of technologies.

We believe by building the network that we built, is very much

future-proof. We have a fibre backbone base. We have copper, we have coaxial cable coming into the homes.

We have a lot of flexibility in terms of offering services, and if you look at the marketing premiss, we have the ability, since there is no regulation, to do significant bundling. For example, I can offer TV and telephony bundled. Get your monthly rental and get five cable channels free — those types of buying propositions that Telecom New Zealand, which is strictly telephony, cannot offer. And a would-be satellite provider cannot offer the telephony.

So we believe in terms of our marketing approach we can have a very strong market. So I understand the, you know, the concern of technologies, but we've given this very careful consideration and we feel very comfortable that direct-to-home is not a threat to our market.

Mr. Heppner: — A question on part of the financial arrangement that was mentioned — the concept that if more money is needed to be put in and one partner can't do it, there's that 10 per cent in there. I'd like maybe further explanation of that and I guess I rather question that because when you . . . That shows up when one company either chooses, because they see something gloomy in the horizon, not to put the money in or they're unable to do so.

Then a 10 per cent penalty seems very light in view of the fact that SaskTel has relatively unlimited pockets, at least about a million of them out in the province here, to dip into to cover their part. It is most likely to be the other one that's going to want to drop out, and for SaskTel to only get 10 per cent seems a little thin to me.

Mr. Ching: — Well don't forget that even at this point in time, UIH . . . we will have something like 30-some-odd millions of dollars, NZD \$38 million invested in this particular project. But that's our 35 per cent. They've got almost double that amount of capital tied up in this particular project by virtue of owning the 65 per cent. Boy, if I were in their boots, I would be awfully careful about seeing that sort of an investment eroded.

We think they've got a major, major capital commitment to this particular project. This isn't as if they were a minority player that had 5 or \$600,000 tied up in the project. They've got a very major capital commitment to this particular project. And to now discontinue to support that initial capital would require a pretty fundamental decision on their part. Even in our particular case we've got a major capital commitment. For us to back up and say, well we're not going to support this particular capital investment, we certainly wouldn't make that sort of a decision on a whim.

If one or other of the partners starts to believe that they don't want to support the high level of capital that they've got committed to this project, boy, one has to stop and consider whether or not the project has got the life to it that we thought at the time that we went into it. And certainly if we saw a sign that UIH was backing away from their capital commitment, as a conscious decision rather than the lack of capital ability in the future, it would drive us to take a very, very, very strong look at whether or not we wanted to continue supporting our share of the capital in this particular project.

I think both parties however, have looked at this long and hard. I mean they did their original due diligence when they went into the project. I think that when we did our due diligence it caused them in effect to redo all of theirs, because much of our process involved consultation and discussion with them. So they've had a double look at this particular investment and continue to really, strongly believe in it.

And so from my vantage point I think that both the partners are very comfortable that this is as good a project, if not better, than what we originally saw when we made our commitment to it last summer, and I don't see any wavering on that on their part and there certainly isn't on our part.

The Chair: — Thank you, Mr. Heppner. I will now move to representatives from the New Democratic Party. Mr. Koenker and Mr. Trew have both indicated they wish to speak, so I hope you will display the cooperation that I anticipate and share the 10 minutes.

Mr. Koenker: — Yes, thank you. On the hand-out that you gave, you have a partner assessment for UIH that indicates a recognition for telephony experience. I think we spent too much time on the cable side of things. I find it interesting that they're interested in a telephony experience that SaskTel has, but then when we go two pages further on to the major competitors in New Zealand with telephony, I don't . . . I haven't heard I think, any explanation of the kind of scrutiny that you gave to the competitive environment in New Zealand relative to telephony.

And I think the public needs an assurance or a comfort level or some scrutiny of what you did there and where you're positioned relative to the competitive forces with telephony in New Zealand. Can you elaborate on that page?

Mr. Ching: — Telecom New Zealand was at one time the equivalent of a SaskTel. That is to say, it was a government-owned operation that had a monopoly within New Zealand. It was privatized a number of years ago and the primary owners of it now are two of the RBOCs (Regional Bell Operating Company) in the United States. These are the regional Bell companies in the United States that were created when AT&T was broken up. And they are now . . . all of our market analysis within New Zealand indicates that they're really perceived as a foreign-owned telephone company. They don't have about them the aura of a local telephone company anymore.

More importantly from our vantage point, they have dramatically increased their charges to the New Zealand public over the last number of years. As a matter of fact I would say that the owners of Telecom New Zealand have taken out of that particular company some very large profits over the last number of years. And our market research suggests that there is a fairly strong negative reaction on the part of the customer base within New Zealand aimed at Telecom New Zealand.

And it was one of the . . . again, one of the key factors in interesting us about this particular project, because within our market-place here we're subject to competition and so we see the competition coming at a traditional operator. We're in the reverse position in New Zealand in the sense that we will be the new competitor, the new entrant. And we think that, frankly,

Telecom New Zealand has some vulnerability.

And that was looked at very much in detail by us. We did a fair amount of looking at this particular market-place, and it's our belief that Telecom New Zealand does have some public relations problems and this will work to our advantage as a new competitor.

Mr. Koenker: — What about the other telephony competition — CLEAR Communications, Telestra — that's on the business side of things?

Mr. Ching: — Yes.

Mr. Koenker: — But where are you positioned, is what I want know, in the New Zealand market?

Mr. Ziegler: — Our focus is in, as I mentioned, Wellington only at this point. And our current business plan does not include the central business district of Wellington as a serving area, i.e., the downtown area, which is where most of the government and large business operations are. That is where Telestra and CLEAR have focused in terms of any kind of local service competition in the future. Our focus has been in the residential areas of Wellington and small-business markets outside of the downtown core. And we. . .

Mr. Koenker: — Therefore the cable connection.

Mr. Ziegler: — Yes. And we strongly believe that there will not be a third wired entrant into that market-place.

Mr. Koenker: — And what about the present? Just briefly, so that my colleague . . .

Mr. Ching: — So we will not run into . . . We don't think at the present time we're going to run into Telestra and CLEAR in our . . . it's strictly going to be Telecom New Zealand and ourselves in so far as the telephony market in the area that we're focusing on. It's possible that these other people will enter that particular market-place, but we're rather doubtful of that.

Mr. Koenker: — And in terms of building infrastructure, what do you bring? The physical infrastructure, given that SaskTel's . . . What are you doing in that regard?

Mr. Ching: — We will have a state of the art telephony system in the area which we're serving, and somebody's going to have to be very, very good to have as good a system as we're going to have there.

Mr. Koenker: — I'll let my colleague . . .

Mr. Trew: — Thanks, Mr. Koenker. Due diligence comes to mind, and I'm wondering what — if you can describe — what was done by way of due diligence. I assume you did some internal, that is inside SaskTel, due diligence. Was there external . . . some company or firm involved with an external due diligence report for you?

Mr. Ching: — Barry Ziegler led our due diligence team, so maybe he could answer that.

Mr. Trew: — Can you describe it a bit, please?

Mr. Ziegler: — Certainly. We were very sensitive on the whole issue of the partnership, so we had an external chartered accountancy firm help us with a partner assessment just to assess their general reputation. Specifically we looked at key management members within the Saturn organization as well within the Saturn organization as well to get a sense of their backgrounds and how we would be impacted in terms of future dealings. That was essentially the external support we had.

On the internal support we had . . . as mentioned, Doug Burnett handled the legal side of things. I led the team. We had a number of different technical experts both on the network design side of it: facilities, operations, finance, certainly. There was a seven-member team that spent . . . five of those members spent two weeks in Wellington on the site assessment and diligence carried on right up until signing July 23 of this year . . . (inaudible interjection) . . . Okay. Oh, if I might add, we did contract legal counsel in New Zealand as well, just to ensure that we were totally comfortable with the local legal environment.

Mr. Trew: — Okay, thanks. And you headed that team then and sort of pulled it all together so you could make a recommendation?

Mr. Ziegler: — That's correct.

Mr. Trew: — Okay. In the presentation that you started . . . kicked off with, you mentioned there's three SaskTel people in New Zealand right now on a three-year assignment I think it was. And there's been — what? Did I hear five others down on shorter term? And I'm wondering . . . where I'm leading to is, I'm wondering about international opportunities for SaskTel employees — you know, people who work for SaskTel, be they in or out of scope. It's immaterial.

Mr. Bassen: — Sir, if I can address that. In terms of . . . like you're correct, the people that we have seconded down there on a permanent basis, we have three people. One of them is the chief technology officer, and in fact serves as an executive with that company so that they have access to all the issues running the business.

The other two people that we sent down had prior experience working in the U.K., working for Leicester. And both have had other, related SaskTel International assignments.

In the shorter term, we have had a number of people go out to help as knowledge experts during various phases of the build. For example, we sent the person that had worked in Leicester to help work with Saturn to define the Centrex business plan and the launch. We sent another person down there to work on the data offerings who also had experience working in Leicester.

So right now, we have three other people, if you say right now, today, down in New Zealand in addition to the three permanent. And in fact I have one Saturn employee here in Saskatchewan learning installation techniques for the next few weeks.

In terms of what that means to our business long haul, by having these types of opportunities, clearly it establishes

additional creditability in the market-place. SaskTel International has had a number of successes, most notably the Leicester. We had tremendous success there. But in terms of project management and engineering, we've done major products in the Chunnel. We have and continue to do major projects in the Philippines, Tanzania.

Making a commitment to the Saturn venture clearly adds more creditability. We've already had solicitations from a company in Australia as a direct result of our investment in New Zealand and they became aware of us. We've gotten a lot of press in the New Zealand press really promoting SaskTel.

We have an excellent reputation internationally, and Saturn clearly will help give us that exposure in that part of the world. But more importantly, it gives our people the opportunity to learn and acquire skills. We really have to put ourselves in the mind-set of being in a local exchange competitor. This is in SaskTel. Our market is opening up to local competition. We're in the reverse role. We're going and taking on the big incumbents. So it's a tremendous amount of skill and knowledge that we're going to learn. And how will the competitors even come back at SaskTel in our home markets? So we're able to try out strategies. To try and be effective in that market-place clearly is going to help our people that go on these short-term assignments come back and have a frame of reference that helps us in our own market-place.

I believe strongly with the things that we're doing in Saturn. Certainly it's leading to other investment opportunities for us, and we've already had solicitations, as a result of what we've done there, that will lead us to some project work, some consulting work, and other opportunities in Australia and south-east Asia.

The Chair: — Thank you very much. Thank you, Mr. Trew. I will now turn the questioning over to a representative from the Liberal Party.

Mr. McPherson: — Thank you. Some of it's going to be directed at you; maybe all of it. Don, first, you had mentioned three to five other investments, and I don't know if you said where those investments were throughout the world.

Mr. Ching: — No. As a matter of fact we're doing due diligence on a number of other opportunities at the present time. But none of any additional investments are at the stage where we could make any public disclosure related to them.

Mr. McPherson: — Can you tell us what countries you're looking at?

Mr. Ching: — Maybe the best I could do would be to say one of the potential investments is in Europe, one is in the Caribbean, and one is in Australia.

Mr. McPherson: — And when did . . . Australia, is it? When did those start? A couple of years ago?

Mr. Ching: — Oh, no, no, no. This is within the last three to four months.

Mr. McPherson: — All right. But this deal with UIH . . .

Mr. Ching: — One of the three opportunities that we're looking at had come to our attention maybe a year to a year and a half ago. And we have been sort of watching it as an opportunity, but we've only in the last little while started due diligence on it, for reasons that perhaps I can't go into at this particular point in time. But there was certain aspects about it. We were watching the opportunity, waiting for certain things to occur. Those things have now started to occur and so we're gearing up our due diligence on that particular investment.

Mr. McPherson: — And so any investment with UIH, the first contact you've had with them, or SaskTel has had with them, is February '97? But there was nothing before that, was there, I guess?

Mr. Ching: — No. The consultancy arrangement was a year prior to that.

Mr. McPherson: — But no investments or no . . .

Mr. Ching: — No.

Mr. McPherson: — All right. And could you give us a list of the future possibilities that are mentioned here with UIH? Because I take it that they are different investments than the Europe, Australian, Caribbean.

Mr. Ching: — Yes. None of the ones that I've referred to as ones that we're looking at at the present time have a UIH component to them. There's nothing by way of an equity investment that has come up on our radar screen as a result of our association with UIH. But there has been a couple of consulting opportunities that have arisen as a result of our connection with UIH.

Mr. McPherson: — But I guess you mentioned you've been watching some of these ventures or opportunities for the last year, year and a half.

Mr. Ching: — One of the three that we're now working on is one that dates back a year to a year and a half ago.

Mr. McPherson: — So I guess this is more to the minister. Is there an upper limit on the amount of investment that you're prepared to ask SaskTel or any of the subsidiaries to get into? Have you set limits?

Hon. Mr. Lingenfelter: — Well what I'll do is I would ask our president to comment on the limits that they have, because as it would relate to the international division, obviously they will have guidelines and pro formas that they follow on their investments. But, Don, maybe you want to comment on amounts and where you're headed.

Mr. Ching: — I think the way to look at this is not so much that we've sort of in the abstract said to ourselves we're going to do a certain amount of these type of projects and here is the guidelines that we've set for ourselves. It's more a question of understanding the reason that we're doing them in the first place and then it gives you an idea of what problem we're trying to solve, and hence gives you an idea as to the extent to which we use this particular device as part of the solution to the problem.

As I indicated earlier, our problem, very simply, is that the main financial engine of the telephone industry in North America, and indeed around the world, is starting to lose its strength, namely the long-distance business. That's been very lucrative for telephone companies all across the world and it's becoming less lucrative as a result of stiff competition in that particular area.

That's what drives us in the direction of needing to develop other streams of revenue. And one of the devices that we're using to answer that particular problem is offshore consulting, offshore operating contracts, and offshore investments — the whole area that's under the umbrella of SaskTel International. It's not the only device that we're attempting to use to address that particular problem. There are other things going on within the corporation which we're pursuing to try and develop additional revenue streams to support our economic structure other than simply offshore investments and offshore contracts.

For instance, we have . . . we're looking at investments within Saskatchewan that might not be our traditional lines of business but relate back to the telephone industry. We're not at a stage where we're doing anything in that regard as yet, but we're certainly looking at that. In addition there are other lines of business which are developing within SaskTel. For instance, it's something which has almost become commonplace now, but if you stop and think of it, the cellular business is really a business that's only about eight years old. It's not our traditional line of business to be in the cellular business up until eight or nine years ago. So that's a part of our business that has grown like Topsy and is a new revenue stream compared to the traditional lines of business of long distance and local service that has helped us to maintain our strength.

Advanced interactive services, this whole area of the Internet, business communication, individual communication on the Internet — that's an area which is a new line of business, which we're working hard at developing, because we see it as a natural offshoot of the traditional lines of business that we've been involved in and we see a lot of opportunities in that area. It's growing and growing like crazy.

And there's certain other areas, like the Hospitality Network, which we developed within SaskTel, which is again an effort at diversifying our revenue streams to supplant the losses that we suffer from long-distance reductions in revenue.

So there's a whole package of things which are going on within SaskTel to try and maintain its financial strength in light of the problems that we are addressing with regard to competition and long distance. And the offshore investments are simply part of that.

So to understand the offshore investment package and where we're going on that, you have to put it together with the rest of these particular devices. And when you see the extent to which we have to replace revenue streams that we're losing in long distance, and all of those are our efforts at trying to do that, you'll see where International fits into that.

As a sort of a target, and nothing more than that, we're hoping that sometime within the next three to five years, we will have deployed somewhere in the neighbourhood of 150 to \$200

million worth of investments around the world and that we will have grown SaskTel International to be roughly comparable to what the mobility part of our business is today, which is a very significant component of our business. Those are roughly the targets that we've set for ourselves. They're not encased in concrete. They're not sort of solid to the point where we wouldn't deviate if opportunities arise or if the opportunities simply aren't there; but that's essentially the targets that we've set for ourselves.

Mr. McPherson: — Mr. Minister, really the bigger question . . . I mean we've looked at the videos and some of the information on Saturn. There's, I don't think, any doubt in the minds of the people of this province that SaskTel has the expertise and the technology to do this kind of business, that it's some of the best in the world. But the bigger question from the people of the province is, how far is this going to go?

You know, with the task report . . . And I know that a lot of the investments now are sort of being blamed or credited to the task report, that we can now make these kinds of investments, but the people themselves have got to know where this limit is. And it seems like every few weeks we're hearing of a new country we're investing in or a new deal that we're being . . . following up on.

And I think initially — and correct me if I'm wrong — the people understood that what we were about to do was to go out there and promote our technology, our expertise in these fields, but to start taking equity investments without really having any public scrutiny is quite a different animal. And this is why I ask, you know, what other countries and what other projects are you investing in, because it is a real concern to the people of this province. And really, you know, how many hundreds of millions of dollars can just SaskTel invest around the world without having, really, the voice of the people I guess, until a general election, to say this is right or wrong. It's fine to come here after 90 days and give us some indication of what we invest in, but I don't think that's the question of the people. It's not Saturn; it's should we be there at all in equity.

And so really I guess it's . . . the minister has got to give the people of this province some comfort of where all Crowns are going, let alone SaskTel.

Hon. Mr. Lingenfelter: — Well I think it's a fascinating debate and one that isn't new for corporations or for cooperatives, or now for our Crown corporations in Saskatchewan. And when we look at the privatized Potash Corporation of Saskatchewan, that same debate went on within their board of directors when they decided to become very aggressive in the international field. And you can see the change that occurred. They took it into the international markets; they made investments.

Some would argue, while they were doing, that they shouldn't have done that, that they should have stayed narrow to the Saskatchewan potash industry. But I think there would be few who would say that they didn't make proper business decisions by going out and, not only doing consulting on business and management contracts, but actually investing in other countries and other companies.

The one that's, I suppose, closer to you and I as members of the Saskatchewan Wheat Pool, is the huge debate that took place around the changes within the Sask Wheat Pool over the last 15 years, where they were very much a limited company that elevated grain. And I can remember the consternation in my household when elevators were being closed down at the same time as investments were being made in Robin's Donuts and processed foods and international investment.

And it was a great debate within the Pool organization. How was it that rather than lowering elevator . . . elevating rates for the farmer and certainly not closing down elevators, that they had money to diversify and put into their organization.

Well if anyone were to go and look at the streams of capital from the Sask Wheat Pool today, what you would know is if the Pool hadn't made those strategic decisions to diversify into other cash flow streams and to invest outside of the province — building now elevators in Manitoba and Alberta, and building a terminal in Mexico — that if they had stayed very narrow to the elevation of grain — which is making them next to no profit today because of the extreme competition at that end — there's a good chance that Sask Wheat Pool wouldn't exist today.

So this is a great debate and one that I find challenging and fascinating, because it's not that those who say we shouldn't be investing outside the province don't have a legitimate opinion or that it isn't a very solid argument to put forward, but the fact of what is happening with corporations — whether it's NOVA Corporation or Westcoast Transmission or TCPL (TransCanada Pipelines Ltd.) or the Sask Wheat Pool or, I might argue, a Crown corporation that you would know a great deal about, AECL (Atomic Energy of Canada Ltd) that does investments and consulting around the world in the nuclear industry — the question is whether or not an entity, if it had been protected with a monopoly up till the Free Trade Agreement and NAFTA (North American Free Trade Agreement) and the inter-provincial barriers were taken down, can survive unless it does go out and compete and have other revenue streams.

And it's our view that it is not only a good idea but probably essential that we look at other, diversified ways of getting revenue streams. And whether that's in Saskatchewan or outside of Saskatchewan, my view is, the key is whether they're fundamentally sound arrangements when they're made.

And I'm not arguing that we should be making investments just for the sake of investments, in fact quite the opposite. I think we have to be absolutely diligent in making sure that investments we do are properly scrutinized, looked at, reviewed, and anyone who believes that there's less scrutiny on these deals than a deal made by NOVA Corporation, when we have a committee like this, there is no process for this kind of screening of investments made at the international level that we are putting our Crowns through. And I'm not arguing that we shouldn't. I think we should be even more open as time goes forward.

So I think it is a fundamentally solid debate. I don't say that your opinions aren't valid. They are. But I tend to believe that unless we're going out looking for other ways to create revenue streams, whether in-province, in other parts of Canada, or internationally, then what you're saying to the Crowns is we're really defining your role and your future to be one of shrinking,

contracting, and probably non-existent in the very near future.

Mr. McPherson: — The concern from the public . . . and take a look at the examples you used, whether it's potash or the Wheat Pool or AECL. Really at the end of the day what they're doing is promoting themselves because we have a product here that we want to move somewhere in the world. And I think the people view this quite different, in many of these ventures as being just a financial investment.

You know, if we're doing that to get our expertise out there, well I guess that's one argument. You know, that's a debate. But through the eyes of the public, the value to Saskatchewan as far as moving a product or enhancing trade, it's not clear, it's not clear. It's definitely not clear when you start talking about other Australian, Caribbean, and Europe, and you know, where will it end. I think you've got to give the public some clear indication of where that will end.

And perhaps you would even suggest . . . perhaps you could suggest here today a means by which the Crowns — because you're the minister of all of them — could perhaps approach the public before each of these deals are entered into. Any suggestions in doing that?

The Chair: — Thank you, Mr. McPherson. I'll move now to Mr. Bjornerud.

Mr. McPherson: — Well I would appreciate the answer.

The Chair: — I'm sure that the minister is quite capable of incorporating his answer into answers that . . . questions that Mr. Bjornerud might direct as well.

Mr. Bjornerud: — I'd like to follow that same line of questioning though, because I think that's very important to the people, the taxpayers of this province. We're comparing here a public company to a private company with investments, and I know the secrecy part when you're making business deals has to be there, but once again we have to remember who is the final backer of these deals.

There must be some figure out there. When you go to get into a venture such as the one you've just got in, we could have what, \$69 million at risk here very shortly, and more if the deal has the need of it. You aren't going to see it stop at that point for lack of another 10, 15, \$20 million, I'm sure.

When you sit down to decide, are you going into New Zealand, are you going into Australia, there must be some number there that you say well, this is just a little too rich for SaskTel to get into. There has to be some kind of guideline. If there isn't out there, the taxpayer of this province should be even more worried than they are right now. Is there not a certain number?

Mr. Ching: — Oh yes. And I can't give you a number, but like for instance there has been some indication that we could have bid on some of the B-band cellular licences in South America. To enter into that particular arena would really be putting the entire corporation at risk, because these licences are going for literally hundreds of millions of dollars and billions of dollars.

So from our vantage point there has to be constraint on the size

of the venture that we would become involved in. And I don't know precisely what that figure is, but as you can imagine, SaskTel is probably worth somewhere between a billion and 1.4, \$1.5 billion. There are certain sizes of projects that we simply wouldn't become involved in.

I must say that by and large the main constraint on us is not dollars and cents. The main constraint on us is the asset that we're seeking to develop and exploit, which is the talents and abilities of the people that we've got and the knowledge that is encased within those people. That is the main constraint.

I think that the guys in SaskTel International would tell you that the toughest part of getting involved in a consulting or an operating or an investment-type arrangement is being able to extract from the mother ship back home the personnel that's necessary to devote to adequately looking after the investment.

Coming up with the dollars and cents is something which we're acutely sensitive to, because the due diligence has to show us that it's a prudent investment and a sound investment going forward into the future. But probably the toughest constraint on us is the issue of personnel, because we're a relatively small company in the great scheme of things out there. We don't have unlimited personnel that we can devote to these particular projects, and yet that's really the asset that we're exploiting.

It's not the dollars and cents that we're putting into these projects that really drives value. It's the people and the knowledge and the expertise that is encapsulated within SaskTel that we're seeking to use to drive value up in the asset and to increase revenue and net revenue. And so from our vantage point, that worries us more than the dollars and cents issue. Although you know you can never lose sight of the dollars and cents issue.

But I would say that if we, on an individual investment, if we were going over a \$50 million commitment, that would be unusual. It's not impossible; it depends upon the circumstances. But we really look for opportunities that fall into the category of 25 to \$50 million. That's the optimum from our vantage point.

Again we look for opportunities that have got some geographical dispersion because that reduces geographical risk. We look for opportunities to partner with people who bring a lot of expertise in their own right and capital strength in their own right because it decreases our risk again. But those are essentially guidelines for us. Any given project might deviate from those guidelines.

Mr. Bjornerud: — I have to disagree with you a little bit. I guess I know where you're coming from. You talk about constraints and not as much on the amount of dollars as the people involved, but for the taxpayer of Saskatchewan, I think after we've had the NST deal and deals like that, I think it is the almighty dollar that they're worried about.

What would happen if this deal went under? We're talking \$69 million I believe, at this point. That would fall and turn into higher rates for SaskTel subscribers, would it not, if this deal happened to . . . God forbid; hope it doesn't, but say it did. I mean who picks up the tab then? Does it go directly to the taxpayer or does it go back to the subscriber out there who right

now is being asked to pay more for their local rates? Where does it end up?

Mr. Ching: — First of all if this project were to stumble at this moment in time, our exposure is 38 million. The additional potential exposure that drives it up into the area of 60 million is if we are unable to raise debt financing, which at this point in time I think we're very comfortable it's going to be there and available to us.

So if something were to happen at this point in time — and I can't fancy what that event would be — but if something happened at this point in time, our exposure, our loss, would be somewhere in the neighbourhood of \$38 million. That is a capital expenditure. It's a capital expenditure like a capital expenditure within the province of Saskatchewan. If it didn't have the revenue stream to support it, it would mean that we would have a capital reduction within SaskTel. The worth of the corporation would be reduced by that amount. And there's no question that the capital structure interacts with the issue of our profitability, our revenues, and our expenditures, and would in effect at some point come back into the corporation and be an obligation that would have to be addressed by our subscribers.

In the same way as when we sell a project like Leicester and we reap a reward of something in excess of \$100 million, that too flows back into the company. It strengthens our capital. It has an impact upon our revenue and our expenditure because of course we paid down a bunch of debt over that and that eased the requirements for revenue and made it easier for us to constrain our needs for rate increases and to further reduce long distance.

So there's no question that capital expenditures on investments are a direct financial commitment by the corporation, and whether the results are positive or negative, it flows back into the corporation, affects the strength of the corporation, and impacts on the issue of how much we charge our customer base back home. And hopefully if we continue to have by and large successes in the international arena, it allows us to have a favourable reaction upon the way in which we charge our customer base back home. If they all went negative it would have a negative impact on the customer base back home. No question about that.

Mr. Bjornerud: — In working with UIH right now as a cable company, is this just another step too or are you planning on coming into the province of Saskatchewan and is this kind of an assist to SaskTel to get into Saskatchewan into the cable business?

Mr. Ching: — At this point we have nothing in our plans to become involved in the cable industry in Saskatchewan any more than we are already. I indicated earlier that we own slightly less than 30 per cent of Regional cable which operates in Manitoba, Saskatchewan, Alberta and BC (British Columbia). And so we are part owner of a company that already operates in the cable TV industry in Saskatchewan; so in that respect we are in the industry here, but we have no plans at the present time to increase that particular activity.

Incidentally, just so you get a sense of it too, here is a capital commitment, a capital investment which is \$38 million in New

Zealand. On an annual basis, we put about a hundred to a hundred and fifty million dollars per year capital investment into maintaining our present system here in Saskatchewan, enhancing it, putting new services in, expanding the system to include new parts of the province.

So you can see where if we made an offshore investment of this nature once every year or once every eighteen months, it would represent probably about a quarter of our capital investment for a year; three quarters of it being here in Saskatchewan, one quarter of it being offshore.

Mr. Bjornerud: — That was all I had. I guess we are out of time. So I would like to just take an opportunity to thank you people and thank the minister this morning.

Mr. McPherson: — ... question before when the Madam Chair really cut us off.

Mr. Bjornerud: — Madam Chair, I would move that the committee ... that we move that the committee has reviewed SaskTel International-Saturn investment as a significant ...

The Chair: — Thank you, Mr. Bjornerud. All those in favour please indicate. Opposed. Seeing none, the motion passes.

Thank you, Mr. Minister, and Mr. Ching and your officials. I do appreciate that. I hope you all have a Merry Christmas, but if you are lacking for entertainment next week, may I encourage you to come back to the legislature. We will be reconvening on Monday and it will be a wonderful time of unanimity and unity.

I hope everyone drives safely, and the committee is now adjourned.

The committee adjourned at 10:35 a.m.