



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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Saskatchewan Telecommunications

The Chair: — If everyone would take their places we will reconvene the hearings of the Crown Corporations Committee.

I apologize for the delayed start. I wanted to make sure that everyone had the proper technical equipment and all their ducks in order and everything. I think though that this morning and this afternoon will go fairly smoothly so we can probably catch up the lost 20 minutes of time by receiving a brief report from SaskTel.

I would like to welcome Mr. Ching and his officials to the committee. Committee members will note that the minister is not present. I am assuming that that means that he has given full confidence and approval to Mr. Ching and his officials to answer the questions that are put to him.

As is the practice, of course if it strays into something that the officials feel is too political or too uncomfortable for them to answer, they'll take notice of it and we'll make sure that the minister is here. But that . . . I can't prejudge the committee but that may not happen.

What we will do is receive a brief overview statement from SaskTel. I understand that they have a slide show presentation that they wish to give us. And then we will hear from the two auditors, the private auditing company and then the Provincial Auditor with respect to their examination of the 1997 records for SaskTel.

Committee members will note that we are dealing concurrently with '96 and '97 as I said yesterday. We actually have reviewed the '96 annual reports, the three reports before you, but because of a technicality we did not vote them off. So we will have to when we conclude our review for '97 also vote off '96 at the same time so that we can report it to the House.

Having said that, I would welcome everyone to the committee. And, Mr. Ching, if you could introduce your officials and begin your presentation I'd appreciate it.

Mr. Ching: — Good morning, Madam Chair, and members of the committee. I have with me today John Meldrum who is the corporate counsel and VP (vice-president) of regulatory affairs; Diana Milenkovic back to my right who is the vice-president of mobility and our cellular service; Sean Caragata who is two over from me who is the general manager of corporate affairs; Josephine Brcic who is further over, public affairs director; and Gary Zeiler who is to the right operating the machine; and Dennis Terry who is from our finance group who I see was not put on the list.

We do indeed have a short presentation, and we'll try and run through it for you as quickly as we can. Please feel free that if there's some part in the presentation which I skip over or don't deal with sufficiently, to interrupt me.

We do a number of things which we believe makes us open and accountable to the people of Saskatchewan and especially to the Legislative Assembly representing the people of Saskatchewan. Like most Crown corporations, we file an annual report. We do

semi-annual financial reports as well through CIC (Crown Investments Corporation of Saskatchewan). We appear here in front of the Crown Corporations Committee. We have both an external and an internal . . . sorry, an internal auditor, an external auditor, and of course we're overseen by the Provincial Auditor.

We're subject to the freedom of information Act and we do a number of things in the area of public education, such as public speaking.

Also where we have changes to our monopoly-based business, we're subject to the 45-day rate review process. And of course in the last year we've conducted two shareholder meetings, one in Saskatoon and one in Swift Current.

Before you is the list of our present board of directors. And unless there's any questions about it I won't dwell on it. The board also, in addition to meeting on a bi-monthly basis, has a number of conference call meetings where there are special issues that need to be dealt with.

And in addition it functions through five separate committees. The audit committee, which generally looks into the financial affairs of the corporation between board meetings. There is a CEO (chief executive officer) evaluation committee; a corporate diversification committee.

You'll be aware and you'll hear more about it during our presentation here this morning, that as we have experienced pressure on the margins in our main business, traditional main business, namely long distance, we have sought to meet the issue of reduced margins by opening up other revenue streams through a diversification program. And the board has a committee which is responsible for monitoring and vetting our diversification program on a regular basis.

There's a committee called the environment, health, safety, human resources committee, which its long name perhaps best explains its duties.

And then of course there's a nominating, governance, and corporate contributions committee which looks at the issue of suggesting names for addition to our board. It looks at the whole area of corporate governance, which in the private sector has obtained a lot of significance in the last number of years. And of course as a major corporate entity within the province, we made corporate contributions to many organizations throughout the province, and that committee is also responsible for overseeing that function.

The next slide in some respects sums up SaskTel and more broadly the telecommunications industry better than any other part of our presentation.

In the centre block you'll see what we describe as being the traditional paradigm. This is not only true of SaskTel and the telecommunications industry here in Saskatchewan, but I think that the characteristics which are set out in this particular slide are characteristics of the telecommunications industry throughout Canada, indeed all of North America.

Traditionally we've been highly regulated, protected monopolies. We were a distinct industry. You could tell just exactly where the telephone company started and where it ended. And as part of our monopoly, we were expected to deliver universal service. By that, I mean traditionally, regardless of where you located your premises, we would get you hard-wire service.

And the level of service, and the benefits that were associated with that service would be uniform throughout our area which meant that the good folks in Frontier, Saskatchewan would receive the same level of service as those people in the more concentrated parts of our market, namely Regina and Saskatoon and the other smaller cities.

On the left you'll see the new forces which have come to bear over the last number of years on the traditional paradigm. First and foremost has been the move away from protected monopoly to the new world of competition, and of course, related to that, changing regulations. The regulatory framework for all of the telecommunications industry in North America has changed fundamentally and dramatically in the last five to six years.

We have always been an industry that has been subject to technological change. But I think it's correct to say that that technical change has accelerated over the last five to ten years. The most clear example of that is the move towards digitalization, away from the old analog system to digitalization, which has allowed all sorts of new enhanced services to follow the traditional telephone into the homes of our customers.

And of course, perhaps driving the whole process or stimulated by the whole process has been the change in the way in which our customers have viewed their telecommunications needs and what they expect from their telecommunications provider.

And with these new forces acting on the traditional paradigm, what has developed are what we call the new industry trends of today. Every telecommunications company that wants to survive and thrive in this new milieu has got to become market-driven and develop its corporate strategies based upon what the customer and the marketplace demands from us.

We have to be prepared to meet and cope with not only competition but accelerating competition. We have to be prepared to try and maintain a healthy market share, and at the same time cope with the fact that margins are shrinking in some of our traditional lines of business, especially long distance. And that traditionally has been the main source of excess revenues within the telecommunications industry.

As a matter of fact, if you go back about 10 years, virtually every telephone company in North America, and this was certainly true of SaskTel, had two lines of business. One was long distance which was very lucrative and the other was local service which tended to be heavily subsidized.

With the advent of competition in the area of long distance and the reduction in margins in long distance, it's put increased pressure upon traditional telephone companies to make the local service pay its own way. And to the extent that we would have remained simply a company dealing with those two lines of

business, there would have been a direct and immediate trade-off — as long-distance prices fell, local rates would have gone up.

I think in some respects, fortunately for the people of Saskatchewan and fortunately for SaskTel, about 10 or 12 years ago SaskTel embarked upon a process of diversification which has allowed it to develop other revenue streams and other profit centres, which have eased the burden on local rates so that every reduction in long-distance rates hasn't automatically produced an increase in local rates.

Obviously every company that wants to succeed in this new milieu has also got to be prepared to cope with new technology, not get out so far in front of that new technology that's called the bleeding edge, but certainly you've got to be out and perceived to be out on what is called the leading edge.

There is a trade-off between the issue of price and the issue of growth. And it relates back to the issue of market share and margin loss. Every company has got to decide the extent to which they're going to reduce price and maintain their market share, thus allowing them to grow with other services which they can sell to their customer base; or to trade off market share and retain price, thereby maintaining margin in their traditional lines of business. There's no easy and no correct answer to this particular series of trade-offs. And certainly some of the other telephone companies in Canada have chosen a different balance point in making that particular set of decisions.

SaskTel has chosen to maintain as much market share as we can maintain which has caused us to be very aggressive on price. And we've done that because we believe that as long as people remain our customers, we've got more chance of selling new and enhanced services to them. And it is within those new and enhanced services that we can find new profit margins and new opportunities for growth within the corporation.

I should tell you that a reduction in price is much more detrimental to our bottom line than a loss in market share. Certainly on the short-term it is seductive to think in terms of keeping your prices high, even if you happen to lose some of your market share. And as I said, some other companies in Canada have chosen that route. Indeed some other companies within Canada have lost as much as 40 or 41 per cent of their traditional share of the long-distance market within their jurisdiction.

We have lost about 9 to 10 per cent of our long-distance market share. So you can see that we've taken a different approach than they in trying to maintain market share even at the expense of price.

We think we have made large steps in the direction of trying to be customer sensitive. I'm not so silly as to believe that we have completely succeeded in this regard. Leaving behind a mentality of a monopoly is no easy task. But nevertheless I think it's correct to say that we've focused on customer service, on trying to understand our customer base as well as any company can, and to try our level best to meet the wishes and the needs of our customer base to the extent that it's within our capacity to do so.

The fact that we have been able to retain a large percentage of our traditional marketplace without necessarily being the lowest cost provider, I think is a tribute to the fact that our emphasis on customer care has been reasonably successful. We can never be . . . We can never fail to focus on this particular issue because no matter how good you are at customer service you can always get better.

In addition, our industry is marked by what is called convergence, and I'm sure you've heard this terminology used from time to time. And it's generally portrayed as being the merger of the cable industry, the telephone industry, and the computer industry. To some extent that process is occurring. And what it is resulting is that you find it a little more difficult to find the outer edges of what is now the telephone company. We have alliances, we have partnerships, we have arrangements with other parties operating in the broad field of communications in a way that perhaps 10 or 12 years ago one would've been shocked to see as part of the business plan of SaskTel.

This next slide sums up the three broad areas that pertain to our business. And at the base of this particular triangle is our customer base, and we focus on this as being absolutely critical to our business. Retaining and expanding our customer base, increasing customer satisfaction and loyalty are absolutely fundamental. And the reason that we've got it structured the way in which we have with that at the base is because in our mind that is the very fundamental foundation of everything else related to our business.

On the left side you see the focus on increasing our revenues through new services, new markets, penetration of new services, and diversification in Saskatchewan and outside of Saskatchewan. And that has been the second focus of our attention.

And on the right-hand side you see the drive to try and increase operating efficiencies, to try and keep our workforce as streamlined and as tight as we possibly can, without resorting to layoffs. SaskTel is 90 years old this year, and it has, in all of its years of existence, never experienced a layoff. And that frankly is something that we're rightly proud of, and frankly we hope will become a tradition that we keep well into the future. This at a time when you'll be aware that most of the major telephone companies across Canada have experienced very large layoffs.

This is not to say that our workforce hasn't been reduced substantially from time to time. I think our workforce maximized out sometime in the mid-'80s and dropped by about 15 to 20 per cent between the mid-'80s and the mid-'90s and has grown a little bit in the recent past. But at all times we have been able to control the size of our workforce to meet what we consider to be targets of workforce efficiency through normal attrition and through accelerated reduction in our workforce due to early retirement programs.

Competition is the new world that surrounds us, and our competitive strategy is summed up on this particular slide. First and foremost is to deliver outstanding customer service and value to our customer base. We found that our customers are sensitive to price but price alone will not get and keep them as customers. They must experience excellence of customer

service. We have probably the most enviable record in this regard.

That's not to say that we can't continually be improving in this area, but the time between when you call in with an indication of trouble to a time when you have someone come to your place to deal with that problem is shorter in Saskatchewan than perhaps any other jurisdiction in Canada. Your ability to be connected when you move is shorter than any other place in Canada.

That is the level of service I think that most people in Saskatchewan have come to expect, and we drive to try and continue to provide that at all times. We also drive to be very competitive on price. We don't try to be the lowest cost provider. We are not the cheapest provider of telecommunication services available, but given the value which we provide, we consider that our prices are the best in the marketplace.

We make an effort through a lot of public contacts to our people on the ground and through marketing studies we do to try and anticipate and to deliver our customers' needs as they are evolving rather than after they've already been met by a competitor.

We remain committed to our social responsibility. We're a very big employer in small town Saskatchewan, and that's important to us because it has been one of the reasons why we have experienced the level of loyalty that we have from the customer base that we have in Saskatchewan. And so it's vitally important that as a corporation we be sensitive to the communities in which we function and to try and give back to those communities in the same way as they have given to us.

We continue to diversify and at all times to have an eye on our bottom line and we try to develop and deliver a fair economic return to our owners, the people of Saskatchewan as represented by the Government of Saskatchewan.

Diversification. First and foremost our diversification focuses on Saskatchewan. You hear an awful lot about SaskTel International and what we're doing offshore. And sometimes that appears to be the only area in which we are diversifying and trying to grow the business. And that's simply because that really catches people's eyes and in some respects it is some of the sexiest things we do.

But in fact our focus is to always make sure that we look after our home market. If we don't look after our home market here in Saskatchewan and competitors are able to erode that from us, our base of abilities to do work throughout the world will be undermined. And so at all times we try and keep an eye on our home base first. And what we do abroad can never ever undermine our ability to do a quality job at home. And you see in front of you some of the efforts that we've had to grow and diversify within this province.

SaskTel International has developed a very enviable reputation throughout the world and in some respects there is from time to time an undue focus upon our equity investments abroad. And they are important and have been critical to the ongoing economic health of this particular corporation, but one should

not overemphasize the equity investments which we do abroad.

In fact we do consulting, project management, project design, software sales, software installation, and those lines of business have been the core of SaskTel International. And you'll see some of the countries in which we're operating at the present time on the screen in front of you.

Other diversification initiatives are the Hospitality Network Canada Inc., which as you know is a product that we have developed which allows for movies on demand and computer games on demand, and in due course the Internet, which can be available in hotels, in hospitals.

We have been quite successful in penetrating the Saskatchewan market with this particular product in the hotel business. And we're now concentrating on the hospital market and it's proving to be quite successful.

We've also sold the intellectual property in this particular commodity to our sister province, TELUS in Alberta. We've sold it to the telephone company in Hong Kong and we're in the process of bidding on projects in Ontario at the present time.

That's a product which we see as having relatively short shelf life. Probably within three or four or five years technology will have bypassed it, but in the meantime we're rolling it out and running it as hard as we can.

We are slightly under 30 per cent owner of a company called Regional Cable (Western) Ltd., which operates a cable TV business in Manitoba, Saskatchewan, Alberta, and British Columbia. That is in the process of some expansion because there's some rationalization occurring in that industry.

We are now the sole owner of a company called DirectWest which publishes the telephone book and the Yellow Pages in Saskatchewan. You will recall this was one part of SaskTel which was privatized some years ago and our interest I think dropped down to 10 per cent in it. Subsequently the company invited us to buy up to 50 per cent and for a period of time, we were 50/50 owners. And then our partners experienced some personal problems and came to us some time ago and asked to be bought out. And at the present time we are 100 per cent owners of DirectWest Publishers.

Incidentally I think you will find in the auditor's report a reference to the fact that DirectWest, now that it's 100 per cent owned, should file an annual report as an independent business like SaskTel International, and not be wrapped up into the annual report of the telephone company itself. I have some sympathy for that recommendation.

The reason that we have been holding DirectWest somewhat separate from SaskTel at the present time is because we are shopping around to see whether or not we can get an outside partner for that particular business. And as I've indicated prior, in front of the Public Accounts Committee, if we are unable to get a partner to go into that business with us before the end of 1999, we will indeed be treating DirectWest the same as SaskTel International from the point of view of preparing an annual report.

The sum total is that something in excess of \$300 million worth of revenue has flowed into the corporation from activities conducted by the company outside the province of Saskatchewan, and that has been part of the financial strength of the corporation.

If I can, I'll go through the opportunities as we see them going forward. First of all, regulation. You will know that we are not subject to the CRTC (Canadian Radio-television and Telecommunications Commission) regulation until the end of June of the year 2000.

We have the other review processes. One should note that even though we are not subject to the CRTC regulation, we have made an effort to parallel our activities with the activities which would be expected of a regulated company in Canada. And that's because we're not an independent island separate from the rest of the industry, but we interlock and interlink with all the rest of the industry and it's important that we be in step with that industry.

We've not been lockstep with the other parts of the industry in the sense that competition has come into Saskatchewan in a slightly different fashion and a slightly different timing than elsewhere in Canada. But the differences between how we go about our business in this province and how it is conducted in other provinces where there is CRTC regulation are quite minute.

Also I'd draw your attention to the fact that even though we're not regulated by the CRTC, we are very closely scrutinized by the federal Competition Bureau which makes sure that our activities are not in violation of the Competition Act.

Long-distance competition in this province actually started in early 1996, when re-billers were permitted to come in and resell long-distance services provided by SaskTel. And then in the fall of 1996, facilities-based carriers were entitled to come in and actually go into direct competition with SaskTel either selling our products or selling their own version of our products.

Stentor which is the body which represents the alliance of the telephone companies across Canada, monitors competitive activity. And I could tell you that the indication from them is that from somewhere around November of 1996 through to the end of '97 and into '98, Saskatchewan was one of the most competitive marketplaces in Canada. And I'm sure that those of you who have received many, many telephone calls and solicitations from other telephone companies and calls from SaskTel will be only too aware of how competitive our telecommunications marketplace has been here in Saskatchewan.

Over 30 per cent of our customer base has rolled off our system at least once. Despite that and because of an aggressive approach of win backs that we've got within the corporation, our market share continues to be in excess of 90 per cent. And that, I should tell you, is substantially larger than any other of the traditional telephone companies in Canada. As a matter of fact I would venture, and these figures are very rough and rudimentary, I would say that our next closest telephone company is probably at least 8 to 10 percentage points worse off than we are. And as I indicated earlier, some of the

companies have lost in and around 40 per cent of their long-distance market share as compared to the 8, 9, or 10 per cent that SaskTel has experienced.

More importantly from our vantage point, and as a result of the bundles which we announced a couple, three weeks ago, our market share is actually increasing at the present time rather than decreasing.

The exchange area boundary program. I'm sure every member of the committee has heard something about this because it created a fairly substantial stir out in the world. You'll know that the exchange areas in Saskatchewan — there was about 342 of them — had been created in the 1920s, '30s, and '40s when the small rural telephone system was set up and the exchange areas were in the areas in which those small rural telephone companies conducted their business. And when those were absorbed into SaskTel they became the basis of the exchange areas. And it was within those exchange areas that people could get free calling for their local rate; and it was outside those areas that they had to start paying long distance.

And some of those exchange areas were still rational and made sense and the value which was provided to our customers for their local rates was still sensible and acceptable. But due to demographic changes and changed trading patterns within the province, many of the exchange areas didn't make any sense any longer. And quite frankly, many of our customers were not receiving good value or sensible value for their local rates.

A number of times in the history of SaskTel as a corporation we've gotten close to looking at trying to do something about the exchange area problem within the province. Most recently was in the area of 1981, '82, '83. But in each case the corporation pulled back from actually doing anything substantial. And I think that one of the most significant things that we realized when we went out and started talking to our customers about the exchange areas in the province, was that there was a lot of pent-up anger not only at the fact that people were not getting good value for their local rates, but the fact that they had been sort of tempted to believe that there was going to be some changes to the exchange area program in the past and these had never come about in any substantial way.

And that was a problem that we had to overcome when we first went out and started talking to our customers, that something was actually going to happen. And in fact we have reduced the local exchanges by approximately 30 per cent. There's almost a hundred exchanges that have gone missing and have been folded into other exchange areas.

These affect something in the neighbourhood of a hundred thousand rural families and businesses. And on top of that the short-haul plan and the bundles which we rolled out in early November, will continue to deal with what one could call the exchange area problem.

If you as public officials are still hearing concerns from folks out there in the province about the size and the shape of their particular exchange area, I ask you to slow-walk that concern just a little bit. Because I think the full impact of the bundles which were rolled out in early November will not be felt for perhaps another month or so, as it addresses the issue of friction

over exchange area boundaries.

But I can tell you that in our mind we have dramatically changed the exchange area structure and we think we've gone a long way to solving many of the problems in this area. We have not, nor will we ever completely solve everybody's problems with exchange areas.

As I've said before, if we changed all of Saskatchewan into one local exchange area and removed all long-distance charges within the province, made everything within the province a local call, you'd still have the problem of the fellow who lived 5 miles from the Manitoba border who felt that he was being disadvantaged. Why? Because his kids were going to school in Winnipeg and he still had to pay a long-distance charge. Whereas the other fellow down the street whose children are going to school in Saskatoon wouldn't have to pay any long-distance charges.

So there's just no complete and absolute answer to the problem of exchange areas. All I can say is that I think we've gone a long way in correcting the worst of the problems related to the exchange area problems.

You'll also hear a lot of discussion about subsidization within the telephone system. And traditionally there's been three general areas of subsidy. First of all long distance has subsidized local, business has subsidized residential, and urban has subsidized rural.

Those subsidies have come under pressure because of the new competitive marketplace and because of changes in technology. I can tell you that at the present time even after the rate increase which kicks in on January 1 of 1999, that there is still approximately \$57 million per year which moves from long distance and the other parts of our business into the residential part of our business.

And one of the reasons why even though the doors to competition have been opened in the area of local service, why you haven't seen a stampede of activity in that area, and it's simply because with some very small exceptions, there's no profit margin to be made yet in the local part of our business. And unlike long distance, there's simply no large margins to be squeezed out of that part of our business.

One of the things which I think all the members of this committee should be very sensitive to and mindful of are proceedings which are presently underway in front of the CRTC. These are the proceedings dealing with high cost serving areas.

I should tell you that if there is no high cost serving area program instituted by the CRTC, it will be extremely difficult for any company including SaskTel to try and maintain high levels of service to areas which are thinly populated and are remote from the main industrial centres of the province.

The tradition which I think all of us have grown up with that the good folks in Frontier, Saskatchewan should get the same level of service as the people living in the central part of Regina or Saskatoon, is under extreme pressure from the competitive environment.

And if there isn't a process by which a national scheme collects a small amount from all telephone activities and uses that amount to subsidize or continue to subsidize rural and remote areas of Canada, I believe that over a relatively short period of time service to those rural and remote areas will degrade substantially. Not necessarily by an erosion of the present facilities that are out there and available to them, but rather on the basis that new services which are replacing the ones that are in existence today will not be rolled out and be available to people living in rural and remote parts of this particular province.

So I invite the members of the committee to keep a close eye on the proceedings which are going on in front of the CRTC at the present time because I think they are vitally important to this particular province. More than any other province in Canada, we have more of our population imbedded in the rural parts of this province.

The figures which we use are that 28 per cent of our population live on individual land holdings or towns of less than 1,000 people. This compares to about 9 per cent in Alberta, about 7 per cent in Manitoba, and about 3 per cent in British Columbia. So 28 per cent of our population live on individual land holdings and towns of less than 1,000, and so more than any other part of Canada with possible exception of Northwest Territories. This issue concerning rural and remote areas is important to the province of Saskatchewan.

You'll see just a quick list of things that we contribute in the general area of our social responsibility. And now I'll turn this matter over for financial information to Dennis Terry.

Mr. Terry: — Okay, thanks Don. This slide that we've put before you outlines the earnings of SaskTel over the last few years. And you'll note on the side in the legend, we made a note that we've tried to normalize these earnings to exclude any one time or non-recurring items, such as the sale of Leicester cable back in 1995. If you'd look at the annual report in 1995, our actual earnings were 192 million.

So what we've tried to do with this chart is tell you — here's the pure operating results of SaskTel before those non-recurring items.

The reason I bring that up, 1997 the year under review, the 96.3 earnings are before a long-time writedown that was taken in 1997. So the numbers that you see in the annual report do include that one time, non-recurring item to bring it back to consolidated earnings for 1997 of some 40 million.

We've also given you a look at June 1998 results which were tabled as part of CIC's semi-annual reporting. So again just another step forward in terms of the Crowns reporting back to the Legislative Assembly.

Return on net assets is a measurement that SaskTel has historically used to measure profitability and to be able to compare ourselves to other telephone companies in Canada. The reason that we use this particular statistic is that it excludes interest and taxes in measuring profits. So to be able to do an apples to apples comparison with other companies, which may have different capital structures and tax structures, what we've

done is measure earnings before interest and taxes.

And historically, and in our strategic plan that was struck in 1993, what we've tried to do and we've set our goals to exceed the average within the industry. So you can see on this chart we've been able to attain that most years — four out of the five years up until 1997. And then in June 1998 we see a 14.7 return in net assets, which is not quite up to industry standard.

But there's a phenomena going on within the industry which I've already mentioned. In 1997 other Stentor companies took a fairly phenomenal writedown of assets in 1997, of which we took some \$56 million write-down. Other members wrote off up to a third of their assets during 1997. And part of that is all wrapped up in the issues Don spoke of in terms of the intense competition, in terms of long distance, the competition at every front of their business as well as the realization that local access side of the business was not ever going to be profitable under the regulatory regime that they're in.

I guess the other phenomena driving that writedown, and we'll all find out as I get into it further, was other members accounting was driven by regulatory requirements. So, for example, what they were required to do in 1997 was follow the regulatory rulings that basically said they were going to forebear on long distance, and not get involved in pricing, where they were going to open up the markets to local access competition. Basically the rules for regulatory accounting went out the windows and Stentor companies, other than ourselves, had to move to generally accepted accounting principles which John Aitken and the crew attest to as auditors each year. And ultimately, as I say, they ended up writing in some cases up to a third of their assets off with that particular move.

SaskTel did not incur as big a writedown in that we had always been following generally accepted accounting principles and did not have the sort of baggage built up on our balance sheet that other members had.

So, now for the next five years.

Debt ratio. In our strategic plan again in 1993, if you look back in 1993, we had roughly 60 per cent of this company financed by a debt and we made the target in 1993 to get that back down to a level of 45 per cent. So you can see by 1997 we've actually exceeded that target and gotten down under 37 per cent for 1997. Implicit in doing that were the benefits of diversification, which Don spoke of earlier. And a big part of our ability to strengthen the balance sheet of SaskTel has been the diversification efforts and in particular the sale of Leicester cable in 1995.

Today we're running at some 39 per cent with a longer term target of trying to keep our balance sheet at roughly financed 40 per cent of debt.

The final slide that we're going to show you just to give you a feel for how capital intensive a business SaskTel is and some of the issues that Don spoke of in terms of the accelerated rate of technology causing SaskTel to invest heavily in our network here in Saskatchewan. You'll see some capital expenditures in 1997 of \$175 million and implicit in that were some of the technology drivers such as the move to digital cellular which

Don spoke of. So 175 for 1997 which is pretty consistent with what we've done since 1995, 1996 levels, and some 68.5 million for the first half of 1998.

With that we'll conclude and turn it back to the Chair.

The Chair: — Thank you very much. Mr. Ching do you have hard copies of those slides available for committee members?

Mr. Ching: — We can certainly make them available.

The Chair: — And particularly to the Clerk for our records. Sometimes members wish to go back and review the *Hansard* and it's helpful to have the hard copy as well.

Before we move into direct questions of you and your officials, and this is one of the times when I wish I weren't in the Chair, because I have loads of questions being probably the only MLA who has an account with BC TEL, TELUS in Alberta, and SaskTel, so I'm in an unenviable position to be able to compare the three companies.

But before we move into questions from other members, I would first ask Mr. John Aitken from Deloitte Touche to provide us with some material — the Clerk will distribute it — and to make a comment on the annual reports under review.

Mr. Aitken: — Thank you very much, Madam Chair, and members of the committee. I decided to bring a very brief presentation. It in many ways covers much of the same ground that was already covered by Mr. Ching, but in a more abbreviated form, I assure, Madam Chair.

The first slide picks up on Mr. Ching's presentation talking about accountability. And as auditors and external auditors of SaskTel, we play our own role. So the first line deals with financial and recording responsibilities and, if you like, the common objective of three parties that we work with over at SaskTel.

The audit committee, which is a group of directors of the corporation, and listed under the . . . under the heading, Audit Committee, we've listed the various responsibilities that that audit committee fulfils. And maybe the responsibilities are similar in scope and in nature to what public companies in Canada . . . these are probably best practices, and we see that being demonstrated as that audit committee fulfils its responsibilities.

Management has its own responsibilities around financial disclosure. And then auditors, being Deloitte & Touche as well as the Provincial Auditor, have requirements that are somewhat unique to Saskatchewan in the sense that the legislation, primarily under The Provincial Auditor Act, requires auditors, Deloitte & Touche and the Provincial Auditor, to go beyond the reporting that is embodied in the auditor's report in this document which deals with the financial statements; that it goes on to report on the key financial and internal control systems and their adequacy as well as compliance with legislation.

Now these are not requirements of public companies in Canada; these are Saskatchewan provisions. But it is interesting that best practices in our profession require both the audit committee and

the auditors to attempt to focus on the areas of risk in the corporation. And that's embodied in Toronto Stock Exchange guidance as well.

I think the main point, as is made at the bottom there, that there is a common purpose to the role of the management, audit committee, and auditor in terms of accountability to shareholders and stakeholders.

Second slide reflects the fact that we have rendered opinion on the 1997 financial statements. A similar report was made with reference to the 1996 because we're dealing with that year concurrently.

The second report on internal controls is what we have supplied and is embodied in the Provincial Auditor . . . We supplied that opinion to the Provincial Auditor who then renders it to the Legislative Assembly.

The third area is an auditor's report on legislative compliance which the wording is essentially correct there, but there was one exception with reference to the 1997 year which the Provincial Auditor reminded me of and that was that there was a particular fund called the SaskTel New Media fund incorporated under The Non-Profit Corporations Act, 1995 during 1997, and the incorporation was not subject to an order in council from the Lieutenant Governor. So that matter is reflected in the Provincial Auditor's full report.

The next two slides cover basically the ground that Mr. Terry, as controller, reflected in a somewhat summarized format. And this is a slide which we presented to the audit committee when we were completing the audit. It really takes the 1995 reported profit of SaskTel in the amount of \$192 million, and by order of magnitude identifies the changes that happened between 1995 and 1996 culminating in a net income for 1996 of \$84 million. And the large item and the difference was 1995 was the year of that large gain in England and Leicester was recorded. So that was the significant difference and a non-recurring item.

And then the next line, since we are dealing with 1996 and 1997, again dealing with the sum of the differences between revenues and expenses from one year to the next, the net income in 1996 of \$84 million increased to \$97 million in 1997 prior to that writedown of local service assets of \$56 million. Again, Mr. Terry dealt with that. So this is really just covering the same ground.

What is new is on the very last page where I've indicated — here again, this is a matter of which we deal with each year end — at the completion of our audit is a kind of formal reporting mechanism. And whilst there are eight, if you like, audit criteria or audit issues . . . It sounds as though we're having a really boring time over SaskTel when you say well we've got nothing to report, nothing to report, I think it is important for purposes of accountability that you are aware that as we as auditors do encounter these kind of issues we are obligated to report. And we plan to report.

So in many ways it's indicative of an audit process which has successfully completed without difficulties, and with that I'll maybe pass it on to my colleagues at the Provincial Auditor's office.

The Chair: — Before I ask Mr. Black to make a comment, do any committee members have any questions of Mr. Aitken?

Mr. Black: — Thank you, Madam Chair, members and officials. I guess, first of all, before I get into the details of my presentation I would like to acknowledge the co-operation that we receive from Deloitte Touche when they conduct our work, and also from the management staff of SaskTel. You can appreciate there are an awful lot of entities involved and an awful lot of tight deadlines, and it really makes our job an awful lot easier based on the co-operation that we receive from both Deloitte Touche and SaskTel management.

You are reviewing the annual report for Saskatchewan Telecommunications Holding Corporation and the financial statements for two of its wholly owned subsidiaries, Saskatchewan Telecommunications and SaskTel International. As John mentioned Deloitte Touche and our office formed three opinions on each of these three corporations: the opinion on their financial statements; on their internal control systems; and on their compliance with laws, regulations, and related authorities.

We agree with Deloitte Touche's opinions on each of the . . . that each of the three sets of financial statements that you're considering are reliable. And we also agree with their opinions that each of these systems in internal control are adequate.

And lastly we agree with their opinions that SaskTel and SaskTel International complied with the law with respect to revenue borrowing, lending, spending, and investing activities. And that Holdco complied except for one matter which we report in our *1998 Spring Report*. And that one matter deals with Holdco not obtaining the approval of the Lieutenant Governor in Council to set up and buy shares.

As a bit of a background I'll ask the Clerk to distribute just a handout. To give you a sense of what Saskatchewan Telecommunications Holding Corporation or Holdco, as it's referred to, really is and show it is in fact just that — a holding corporation or a parent corporation that owns a number of subsidiaries. Holdco categorizes its subsidiaries as active or inactive.

The key active subsidiaries are Saskatchewan Telecommunications or SaskTel, which delivers the core telecommunication activities everybody's familiar with. It is wholly owned by Holdco. SaskTel International Incorporated, and that's the organization that, as Don has referred to, Holdco uses to carry out its international activities. Again, it's wholly owned by Holdco. SaskTel International itself has a subsidiary, Saskatchewan Telecommunications Consulting Incorporated, which provides project management services in the Philippines. Holdco also owns 100 per cent of SaskTel Holding (New Zealand) Incorporated. You may not be as familiar with that but in 1997 it acquired 35 per cent of the shares of Saturn Communications, a cable television company in New Zealand. And there's two numbered companies, again which you may not be as familiar with, 3339807 Canada Limited and 3363381 Canada Limited, which are both 100 per cent owned by Holdco. And through these two companies in 1997 they increased their investment in DirectWest Publishing from 50 to 100 per cent, as Don mentioned. The last one again is 100 per cent owned by

Holdco is SaskTel New Media Fund Incorporated. And you may have heard of it due to the funding it will be providing to support the development of all the media in Saskatchewan.

Now we discussed the above subsidiaries and three other inactive subsidiaries in chapter six of our *1998 Spring Report*. The other three are 620064 Saskatchewan Limited, 604408 Saskatchewan Limited, and SaskTel U.K. Holdings Incorporated. And what I've tried to do with the schematic is just give you an idea of what Saskatchewan Telecommunications Holding Corporation is, being more than what we I guess sometimes refer to as just SaskTel.

Now in 1997 Holdco set up SaskTel New Media Fund Incorporated. SaskTel International also set up SaskTel Telecommunications Consulting Incorporated. And SaskTel Holding (New Zealand) Incorporated purchased the 35 per cent of Saturn Communications. And *The Crown Corporations Act, 1993* requires that CIC Crowns obtain the approval of the Lieutenant Governor in Council before they purchase shares of a company or create a new company, and Holdco did not obtain an order in council.

The Assembly has set out the powers that Crown corporations can exercise. However, subsidiaries of Crown corporations are usually created under business corporations Acts, and these Acts do not limit the powers of subsidiaries normally. Our office doesn't see any reason why the Assembly would want subsidiaries of Crown corporations to have more powers than their parent corporation. Therefore, we recommend that Holdco obtain an OC, an order in council, before it or its subsidiaries set up, buy shares, or invest in a company.

We understand that the Crown Investments Corporation now has a new policy where it's asking CIC Crowns to do just that, to get an order in council before they do any of these investing activities.

There are three other matters that our office reported in chapter 6 of our *1998 Spring Report*, and I bring these to your attention. They relate to Holdco improving its public accountability in three areas: reporting on its performance, reporting on the financial activities of its subsidiaries, and publishing lists of those who receive public money.

In February 1998 the Public Accounts Committee passed a motion to ask the Assembly to refer the CIC Crowns to the Crown Corporations Committee and for your committee to consider these public accountability matters.

And again this past October, the Public Accounts Committee considered each of the recommendations in chapter 6 of our *1998 Spring Report* on Holdco and has passed motions to recommend the Assembly ask the Crown Corporations Committee to examine our recommendations.

The Public Accounts Committee has not reported to the Assembly on these matters yet. I provide them to you for your information as they relate to Holdco.

The first relates to performance reporting and we're pleased to note that Holdco has improved its annual report over the last number of years and we certainly encourage continued

improvements. We note that the report sets out Holdco's goals and objectives and reports on those goals and objectives, the activities of the corporation. The reporting continues to improve.

I draw the committee's attention to the section on management discussion and analysis on pages 22 to 31. It provides a good analysis of the operations of Holdco and provides readers with good information about the future plans and outlooks of the corporation and the degree of the achievement of some of its key performance targets.

For example the section indicates that Holdco received 28 per cent of its revenues from non-traditional sources and hopes to derive 40 per cent from these sources by 1998. It also provides five-year comparisons on a number of key areas both financial and operational. They include return on assets, debt ratio, long-distance minutes, and numbers of employees. Dennis touched on some of them but there are a large number of them in that section.

We think these are all very good initiatives that Holdco has undertaken and provides legislators and the public with good information on Holdco's performance. The section also provides an outlook on factors that will be affecting Holdco in the near future.

We encourage the corporation to continue to experiment with ways to publicly report on their key plans, performance targets, and results for their activities and the activities of their subsidiaries. We look forward to continued improvements by Holdco in this area and it's an important area that they obviously are paying attention to.

The second area we report on deals with financial reporting of the subsidiaries of Holdco and we make two recommendations. We recommend that for its active subsidiaries Holdco publish and table audited financial statements. For its other subsidiaries we recommend Holdco provide either audited financial statements or some other form of adequate financial information on their financial condition for the results of their operations.

We recognize that CIC has asked the Crowns to table financial statements of their subsidiaries with one proviso — that they don't have to table a situation where there's agreement with outside parties that permit the disclosure of such information.

In Holdco's situation we note that two of its active subsidiaries do currently table their financial statements which you have before you, SaskTel and SaskTel International. However as Don has already spoken to, we noted that DirectWest Publishing does not at this time. He has given the corporation's stand on that particular issue.

For its other subsidiaries we encourage Holdco to look at the type of information that they can possibly provide. It may be done by providing segmented information within the consolidated statements of Holdco, or by providing other forms of information within the annual report itself.

We think it's important for this information to be provided to the legislators for it closes the accountability loop. It provides

the legislators and the Assembly with a better appreciation of the diversity and the complexity of Holdco, and ability for them to assess the overall performance of the organization.

And the third and final matter we reported related to disclosure of who receives public money. We report this matter not only in the context of the parent company Holdco but in the context of its subsidiaries also. We encourage Crowns such as Holdco to provide the Assembly with information on who received public money that the Public Accounts Committee has requested for all government entities.

We ask the Crown Corporations Committee to consider how this requirement would fit into the Crown corporations sector. We ask the committee to consider what your requirements are for good public disclosure.

We think good public disclosure reminds all government officials that they're spending money entrusted to them by the public. And it adds rigour to decision making as to those who spend money so they know that their use of money will be made public. And it also makes the activities of the organization more transparent and open.

And, Madam Chair, that concludes my presentation.

The Chair: — Thank you, Mr. Black. I'm sure there are bound to be questions now from the three presentations we've had.

I would like to point out . . . I appreciate, Mr. Black, that you have drawn the committee's attention to the Provincial Auditor's spring report. We have had, for at least four years that I'm aware of, a continued inability by both the Public Accounts and the Crown Corporations Committee to come to grips with this duplication and overlap that there is between the committees.

And I appreciate that the Public Accounts Committee did report to the legislature and will be reporting again to the legislature with respect to this. And it is my hope that we can come up with some sort of a definitive solution. So that when the Crown Corporations Committee meets, it can deal with your report and avoid the spectacle of having the Crown corporations, in this instance SaskTel, going to one committee and answering once and then going to another committee and answering the second time all over again.

It would be nice if we could come to some conclusion on this and avoid the duplication and overlap. And I expect that probably by this legislative session we will find some enabling mechanism to avoid this duplication and overlap.

It is of course my position that the matters referred to dealing with Crown corporations in the Provincial Auditor's report ought properly to come to the Crown Corporations Committee for review and subsequent report to the legislature.

With respect to the subsidiaries and your comments on subsidiary companies, I want to draw committee members' attention to recommendation .19 in the Channel Lake report that was tabled yesterday.

And certainly this committee, in dealing with the issue of

subsidiaries as brought to us by the problems occasioned by the Channel Lake inquiry, did resolve that subsidiaries had to be reported. Both that they could not simply be quiet little entities but that they had to be reviewed and reported through the appropriate Crown board, through CIC and also through order in council. And that was the recommendation of the Channel Lake inquiry.

It does sound to me as though everyone — the Provincial Auditor, the private auditor, and SaskTel — is probably all on the same page on this one with varying degrees of concurrence. And it would be my hope that by this time next year we won't have this discussion of subsidiaries because we will have got it straight and got it right.

Before we . . .

Mr. Ching: — If I could comment on that. I think that what you're seeing here is because of the complexity of our business, our corporate structures are becoming more complex. And I'm not sure that we've yet got our reporting system completely up to date with the complexity of our business.

I think the Provincial Auditor makes a good point that we could do a better job within our annual report in explaining our subsidiary activity, or in some cases lack of activity, because a number of our subsidiaries are inactive at the present time. And I think a simple process of maybe listing all of our subsidiaries, indicating which ones are active, which ones are inactive, bringing them together in some part in our annual report would go a long way in clarifying this area.

And I think the Provincial Auditor makes a good point -- that if we're going to evolve new structures within the company to deal with what we perceive to be the complexities of our industry -- then we've got to also keep up with the public accountability process of making sure we report creatively and completely to the Assembly on those new structures.

The Chair: — Agreed, Mr. Ching, and I'm simply making the point that as a result of the Channel Lake circumstances, this committee has also indicated that they place a high priority on complete, accurate, timely reporting of subsidiaries.

Before I open it up to questions of either the auditors or the SaskTel officials, I would like to table with committee members three significant transactions that have occurred within SaskTel. And again, one question you may wish to ask Mr. Aitken, since I am tabling significant transactions is what the difference is between the committee's definition of significant transactions and the auditor's significant transactions.

What I am tabling with you is the repurchase of DirectWest in 1997, the purchase of Hospitality Network Canada Inc. in 1998, and the investment in IQ&A, Information Query and Analysis in 1998. I don't expect the committee members will be able to instantly read them. Perhaps after, if there is a break or something, you may wish to direct questions at that point.

I would now though ask the committee members, did you wish to take a short break or do you want to launch immediately into questions of the auditors and the SaskTel officials? I'm hearing an indication that one committee member wants a break. Okay.

We will break then for 15 minutes to 10:45.

Mr. Ching: — Before we break, I've got two of our toys that we have that I'll pass around for the committee to have a look at. The first one is the small StarTak cellular phone from Motorola. Some of you will have seen the precursor of this. This is the new digital version — small, tidy, and powerful. And I'll pass that around.

And then on the heels of it, this rather lumbering ox of a thing which interestingly enough is the hand-held piece of the Iridium system. Some of you will have heard that the series of satellites have been put up, they're called LEOS, low earth orbiting satellites, and this is the handset that accesses that particular system. I'll pass that around for everyone.

The Chair: — The committee will now take a break until 10:45.

The committee recessed for a period of time.

The Chair: — Could I ask committee members to take their places please.

We will now begin our review of the 1997 annual reports that you have before you and bearing in mind as well that we need to have a motion with respect to the disposition of the '96 reports which we did review a year ago.

I would ask committee members if they have any questions and I would first of all call upon representatives from the Saskatchewan Party.

Mr. Trew: — Madam Chair, a point of order.

The Chair: — Yes, sure.

Mr. Trew: — You mentioned we need a '96 disposition. Is it our wish to deal with '96 and '97 concurrently? Can we deal with them with . . .

Mr. Toth: — I thought we had discussed that earlier in the opening comments about doing it concurrently and then voting on it after. That was my impression. Did I misunderstand you?

The Chair: — That is . . . yes. Although we have already reviewed the '96 reports, we did not vote them off so if committee members have any additional questions of '96 as well as the '97 reports, I will entertain those questions.

Mr. Trew: — Right. But one vote.

The Chair: — But one vote. But we will separate them so that it's clearly indicated so that our records are straight and we know exactly which ones we've done and not done.

Mr. Trew: — Now I'm confused, Madam Chair. I thought one vote, now I'm hearing separated.

The Chair: — As a politician I hate to say this but trust me and trust our Clerk. The motion will be clear and straightforward.

Mr. Trew: — Great.

Mr. Toth: — Thank you, Madam Chair. And Mr. Ching and the rest of the officials, welcome and we're pleased to have you here this morning. It's getting close to afternoon. I think my stomach's starting to growl, that's what the . . .

Regards to SaskTel and SaskTel's operations, and I was listening very carefully to the presentation you gave this morning as an overview of SaskTel and in many cases there are a number of areas that I certainly would commend you for your efforts and work as a corporation.

Some areas we do have some questions. I'd like to raise some questions. I have a number of questions personally in regards to SaskTel and how it provides service. And just for your information, I get a kick out of the SaskTel's ad where the person is driving along the road with his competitor's cellphone in his hand and stops his vehicle and runs out and puts the aerial up against the fence trying to get . . . And then at the end of the ad, turns around and stomps on the phone. To be honest with you, I've thought of stomping on my SaskTel cellphone at times in the area that I travel. And the reason is the frustration of having my phone cutting in and out.

We talk about access and delivery of services throughout the province. And I guess because of the frustration I face and I'm not sure how many other people find that frustration and we're talking, you just I think earlier on, just passed around some new concepts in phone delivery that will have certainly satellite access and what have you.

A question I have right off the bat is what is SaskTel doing, or are there some possibilities where SaskTel can increase its access to cellular coverage without really going into major expenditures? Is it possible to increase let's say — I'm not sure what the radius is within towers, is it 25 or 50 kilometres — but I think there's a concern out there that we're leaving the impression that you've got coverage almost anywhere you go and I personally do not find that so.

Mr. Ching: — Well let me make a couple of comments and then I'll turn it over to Diana Milenkovic.

We have I think become expectant of a very high level of quality in our service on the hard-wire side because I think that we've always had an excellent system there. And to some extent we expect the same of the cellular system as we do of the hard-wire system. And it's not really I think fair to that technology to expect it to perform identical to the hard-wire technology.

Cellular service is affected by weather conditions; it's affected by the terrain; it's affected by the strength of the signal. And I guess to some extent when we find ourselves less than happy with our cellular service, if we're marking it against other cellular services — which is hard to do in a lot of respects — you'll find that it's an excellent system. When you mark it as against what we have come to expect in our homes and our hard-wire side, it does have problems because it operates in a different milieu.

The other thing is that I think it's correct to say that the cellular system, the mobile system, has gone through incredible technological change. And I sometimes wonder whether or not

the developers of that part of our industry pause long enough at any given plateau to really iron out all the kinks and the bubbles in the technology because it is moving so rapidly into new areas.

The cellular system has always been a competitive system. SaskTel has never had a monopoly in this area. There's always been competition. And so unlike the hard-wire side, which has been a monopoly oh these many years, we have not approached our cellular system in the same way as the hard-wire system.

With regard to our hard-wire system, if you built a house out in your north quarter, we'd get a line out to you. And in many respects we considered it almost an absolute challenge to the corporation to make sure that everybody had access to the hard-wire side of our system.

That's not true with regard to the cellular system. The cellular system because it is not a monopoly, there is no obligation of universal service; it is expected to be a profitable system. It operates in a competitive environment and every cell site that we put up, every repeater station that we put up is expected to have a business case underpinning that that justifies the commerciality of making that investment. And the result of it is that you don't have the same ubiquitous total system that you do with the hardwire side of our business.

The other thing is that when you see a map of Saskatchewan and you see that portion of Saskatchewan which is covered by our cellular service, that map is meant to portray those parts of the province that are available to a cellular system, essentially the kind that you'd find as a hands-off system in a car which has much more capacity than a hand-held system also operating within a car. It simply doesn't have the same amount of power. It doesn't have the same antenna system.

And so you may look at a map of Saskatchewan that portrays where we have cellular coverage, and find that the precise piece of equipment that you're using doesn't seem to operate well in parts of what seem to be identified by SaskTel as having good cellular service. On the other hand if you had a different piece of equipment, namely one which had an antenna on the outside of your car and a hands-free system with the amperage that is in those sorts of systems, you'd probably find that your coverage was perfectly acceptable.

Now Diana do you want to add anything to those comments?

Ms. Milenkovic: — I think one of the issues that we're facing in the industry . . . I think that one of the issues that we're facing in the industry has to do with the speed and change of technology. We're in a situation right now where SaskTel Mobility has basically one of the largest analog networks in the country covering a large geographical area. And we've provided the service and the customers have responded readily.

What we have to look at now is the payback time for each of the towers that we install additionally, because as you may be aware we just launched digital service. And to provide digital service we have to do a complete overlay on our existing network to make it digital, so it's actually doing another round of network upgrades. So that's a huge cost to the corporation and what we are trying to do is balance . . . strike a balance

between market demand and what we believe is a service obligation for our customers as well.

So those are the issues that we look at in terms of where we need to expand, and the economic analysis that we do every year to expand service.

Mr. Toth: — I guess the reason I raise the question and in regards to the type of equipment, I've got the equipment that's hooked right into the vehicle. And it just seems to me that the ad itself is somewhat misleading in the fact it portrays the competitor is really not having access, and I experience the very same things.

So what I'm saying to the company is the ad leaves the impression that cellular service in Saskatchewan — SaskTel has full coverage and it doesn't matter whether if you pick up the competitors and go with them, you may find yourself being on the fringe or out of luck.

And I actually find that . . . so to be honest with you, I find it a little frustrating with the type of system I have to not have that service and watch that ad. I find it annoying. And I think maybe it's in some ways not totally . . . being not totally correct with the public in regards to the service as you've already indicated. Certainly there are areas that are difficult to cover.

Ms. Milenkovic: — If I might, the ad is not intended to say there's universal coverage, and you know we apologize if it's misleading. The ad is to position ourselves against our competitors where our coverage in this province is significantly larger than their coverage — and that's what the ad was intended to do — that our coverage is more advantageous to users than would be our competitors.

Mr. Ching: — But your point is well noted because I've heard other people make a similar comment that the ad seems to suggest that we've got an absolutely total coverage across Saskatchewan, and that's not the case.

Mr. Toth: — When it comes to cellular services, now we're talking digital services, and in the near future I wouldn't be a bit surprised we're into actually satellite services. I think we've got a piece of equipment you brought today certainly is . . . gives access to that. The question I would have of the company is where are we heading as far as delivery of services? I think the company has to position itself so you're thinking down the road rather than today because we're all . . . it's been intimated already, we know how technology changes.

We've seen . . . we've had the large cellular phone down to a little cellular phone now you can put in your pocket and just carry with you anywhere, and it isn't bulky. No one even knows you've got a phone except for the fact you leave it on and it keeps ringing in the middle of a meeting. But that's beside the point.

As far as a shareholder and a taxpayer in the province of Saskatchewan, what I think we need to be mindful of is where we will be in the future. Now it would be wasting dollars by developing other technologies which may be obsolete in the near future. Should we be looking at moving into futuristic phone and telephone delivery service or cellular, whatever?

Mr. Ching: — Well I think your question identifies a very real and dangerous risk to SaskTel. Technology in our industry is moving so rapidly that if you don't want to be perceived as being out of touch and inefficient you've got to be up-to-date with that technology.

On the other hand you can easily make a technology mistake and suddenly discover that you've got a whole bunch of stranded capital out there for which you expect earnings to sustain that capital off into the future and suddenly technology has passed you by and that revenue stream is not available to look after the cost of your capital.

And indeed there is — one of our sister telcos in eastern Canada — is experiencing a very major problem in this regard. They started to deploy fibre to the curb. Now you'll know that within our particular system here in Saskatchewan — and I'm talking about the hard-wire side of our business — the backbone of our system and most of the main arteries of our system are fibre optics. But there comes a point at which when we are actually going from one of our remote switches down to a customer, that part of our system is still based upon copper.

The company that I'm referring to in eastern Canada — because of much of the hype surrounding the desire for broadband capacity, two-way communications and the ability to get Internet services, especially video, down to the home — decided that they would take the risk of actually overbuilding their system; removing the copper from their system, from the remote switch down to the customer and actually building fibre right out to the curb, right up next to the house. This involved a huge capital expenditure on their part. And in some respects in making that decision, they almost got the company going down the right technology road.

And then along comes ADSL (asymmetric digital subscriber line) technology which allows companies like SaskTel to drive broad-band capacity down fibre and down copper in a way that never had been seen before. And essentially what it allows us to do is to put high speed Internet down a copper system for approximately four kilometres from one of our switches.

And what this means is that we've been able to deploy high speed Internet in all of the cities of Saskatchewan at a cost that is incredibly small compared to the program of the company in eastern Canada which was building fibre to the curb to do essentially the same thing. And there is a company which has got themselves a really major problem because they've spent a lot of money, a lot of time, a lot of capacity within the company building a solution which has essentially been bypassed by technology which allows the old structure of copper to the curb to do what they were building fibre to the curb to do.

And that's a danger which is just endemic to our organization; and frankly it's one of the things that causes our planners to fret and worry every time we adopt a new piece of technology. Are we keeping up? Are we getting frankly too far out ahead? When we deployed that ADSL technology in Saskatchewan here, starting in November of 1996, we literally were the first company on the face of the earth to do that.

As a matter of fact, I can remember in the executive meeting trying to establish what price we were going to charge for that

particular commodity. It was a strange sort of experience because normally when you produce a product you look around for how much anybody else charges for that. Well there was nobody on the face of the earth that was charging for that particular commodity. The second thing that you do is you try and build up your cost to determine what your costs are and then add a little profit margin and that becomes your price. We couldn't do that either.

So literally, we picked the price of high speed Internet out of the air. That's one of the problems that you have with being out at the leading edge of technology. Not only do you risk stranding your capital because all the rest of the industry takes a turn in a different direction but in addition to that, you actually get out into an area where nobody else has probed before and you're really on your own in establishing certain fundamental issues like the price for which you're going to charge for your product.

So you put your finger on a very difficult problem for us. Making sure that we're out there close to the front of the pack with our technology, and yet not overextending ourselves and getting involved in types of technology which turn out to be either the wrong direction that everybody else is taking or out-priced by another piece of technology which is much cheaper.

One of the reasons why we look at about a four or five year payback period on erecting a new cellular tower is because of exactly that phenomena. We don't think that if we've got our money back within that period of time, we may find that that whole technology has been bypassed by another technology. Some people say come and build a tower in this particular area, and when we look at it and analyze it, we come to the conclusion that our payback period's going to be 10 years. And we decline to build that particular cellular tower there and give that coverage because from our vantage point we will be putting at risk the capital which we put into that type of an investment because we don't think a payback period of 10 years is reasonable given what's happening within that type of technology.

Mr. Toth: — Well I guess that's . . . the reason for the question is, and coming to the fact that there are so many changes taking place in telecommunications, we have numerous companies now offering services, having more direct access and some ways access SaskTel really doesn't have a lot of control over. Once satellite technology is fully in place, that gives access to any company really to access any part of Saskatchewan, if you will.

I see other areas where we have telephone companies merging or forming mergers — and I'm not exactly sure why all the reasons, I don't have all the answers there — such as TELUS and BC TEL. And when you look at that, and whether it's in the telecommunications industry or we certainly see, we hear a lot of it in the banking industry, we've seen it in a lot of other major organizations. It would seem to me that part of that restructuring or merging is companies positioning themselves to deal with the future and dealing with larger companies.

I'm wondering, has there been any discussions with groups like the TELUS and BC TEL and SaskTel becoming part of some

such an amalgamation or looking at ways of providing that service and protecting itself in the future.

Mr. Ching: — Before I move on to deal with that issue, let me just close off on the one that we're talking about with regard to your previous question. Actually, SaskTel has been I think astute and fortunate. It's been a function of some good planning and also I think probably a little bit of luck wrapped in with it too.

Well we've actually had quite an enviable track record of being able to judge our technology, if I can put it that way. We've taken a very aggressive attitude in writing off our assets. We've had historically . . . historically we've had one of the most aggressive depreciation policies. And you'd wonder, immediately, how that links back to the issue of technology.

But let me try and explain it to you because this goes right to the core of the problem that you identified over possibly getting into a problem of isolated capital or capital which has been thrown away by investing in the wrong technology or in technology that's been bypassed.

If one has an aggressive depreciation policy, the result of that is that on your books you move very quickly to write off the value of your asset. And so when you have to make a decision to replace that asset with a new type of technology, you're not inhibited from making that sort of decision by the fact that you still carry value on your books for the old asset.

Now don't get me wrong. We can't willy-nilly write off our assets in one year or six months, when those assets have a real useful life for 10 years. We have to, by accounting rules, write off those assets over the true life of the assets. But I think that it's correct to say that the corporation and our auditors have watched those depreciation schedules like hawks and have moved to try and shorten them to the extent that we possibly can and still properly report on our books.

I can tell you that other companies have had much less aggressive depreciation schedules and the result of it has been that they have been much more reluctant to change their old technology for new as a result of that dampening factor that arises from having those assets sitting on their books.

And so that's only one of the characteristics of the corporation. They go back tens of years and that has allowed this corporation to keep its technology fresh and new at all times. And I think also we've spent a lot of time and have some incredibly capable people in our planning system within SaskTel, and they have so far, and I touch wood when I say this, been able to keep us from going down any technology roads that have proven to be dead ends.

So fortunately for us as a corporation, for the province as our owner, SaskTel's actually got a very good track record of balancing these two factors of trying to be right up near the lead and at the same time not getting involved in capital expenditures that prove to be imprudent. That's not to say we haven't made some mistakes in this area. It's simply to say that over the long haul the corporation has done a fairly good job of being able to keep in touch with that particular problem, which if you make a major mistake in this area can hurt big time to the

corporation and cause the cost of it to drift back into the pockets of John Q. Citizen in the province as a result.

Now with regard to the issue of some of the restructuring which is going on within our industry, let me try and explain that, and I apologize if my answer here tends to be long and a little bit involved, but it's one of those things which you can't look at only segment by segment. You have to look at in a larger picture.

We are part of an alliance called Stentor. It's made up of the nine traditional telephone companies across Canada that have traditionally bolted themselves together to create the national long distance telephone backbone that the people of Canada I think have enjoyed for the last 20 or 30 years.

And Stentor evolved out of a previous creature called Telecom Canada which in turn evolved out of a previous creature before that called the TransCanada telephone system. That alliance is going through a period of change at the present time. Stentor was actually created or evolved out of Telecom Canada in 1993 and it marked a period of time when the nine telephone companies lumped together much of their activities and sought to do things for themselves on a collective basis through Stentor rather than through their individual companies.

We are now going through a period of time where those functions are being downloaded from the central body called Stentor back down into the individual telcos. That's not to say that we won't continue to do things on a collective basis through this creature called Stentor going into the future, but the number of things we do on a collective basis as an alliance — there are going to be substantially less going forward than there has been for the last eight or nine years.

The Chair: — Mr. Ching, I'm sorry, I'm sorry I'm going to have to ask you to make your answers a little more pithy. I'm aware that several committee members have questions.

Mr. Ching: — Okay, let me . . . I'm sorry to go on at some length on this.

The Chair: — I realize it's . . . And I know you have a song in your heart about the telephone company but committee members have a lot of questions they want to ask you too.

Mr. Ching: — Okay. Well then let me focus in on the issue which you raised, which is the merger between TELUS and BC TEL — what does that represent? First of all, coincidental with the rearranging of the affairs of Stentor is another phenomenon and that is that there is developing two blocks within the traditional telephone companies: one which circulates around Bell; and the other of which will circulate around this new entity which evolves out of the merger between TELUS and BC TEL.

Now the four Maritime companies are really in some respects surrogates of Bell because Bell owns a control block within their share structure. So you have to look at our telephone industry and say Bell, which represents the telephone system in Ontario and Quebec plus all the Maritimes, forms one block. The other block is represented by TELUS and BC TEL.

Manitoba and Saskatchewan sit in the centre and have to make a choice sometime within the next number of months as to whether or not we're going to have our main alliances with the block represented by Bell, or whether or our main alliances are with the block represented by the new creature evolving out of the merger of BC TEL and TELUS.

We haven't yet arrived at the decisions related to that, but that's clearly one of the most important strategic issues facing the corporation going forward.

The Chair: — Thank you. Mr. Toth, do you mind if I move on to Mr. Aldridge?

Mr. Toth: — Can I make one comment about this please?

The Chair: — Sure.

Mr. Toth: — Well just a comment and then someone will get to some other questions as well. I think that's certainly important and strategic, as you've just explained, because of the fact that at the end of the day if we become an island to ourselves . . . now we may argue all we want about how we want to observe the social structure that we've had in this province for so many years, but that may not be to the benefit of the consumer out there at the end of the day.

And certainly they're . . . these players and these games are being played out right now. And I think it's important that SaskTel is mindful of this because we certainly need to . . . we're quite well aware, as you communicated earlier, about even the competitive nature of the telecommunications field.

So I think it's very important that we keep these things in mind and don't try to isolate ourselves because we've been this so-called corporation for a number of years and we're going to try and keep it that way. We will not be able to isolate ourselves forever.

Mr. Aldridge: — Thank you, Madam Chair. Good morning to all of the SaskTel officials. If I could, Madam Chair, refer the officials to an overhead that was put up earlier in the morning. Mr. Terry, I believe, put up one that showed, I think it was countries where there were ongoing consulting projects at this time.

Mr. Ching: — Yes.

Mr. Aldridge: — And if I might refer . . . and I didn't, I'm sorry, I wasn't able to make a note of all of them.

Mr. Ching: — Would you like that slide up?

Mr. Aldridge: — Well and if we could expand upon that . . . which of those projects involve SaskTel or some subsidiary of SaskTel contracting directly with a senior government of those countries. And which ones involve you contracting the work with, let's say Canadian International Development Agency or a development bank, projects of these sorts of nature. If you could differentiate for us. And I just . . .

The Chair: — Is that information?

Mr. Aldridge: — Yes, if we could please. And then I'd refer . . . because I guess what really twiggged my curiosity about it, and I'm not suggesting that this is some level of exposure that's not acceptable in any of these, we're going to find out what's involved in it as we go on. But on page 13 of your report I found an interesting choice of words. Third paragraph, where we're saying: "From time to time SI's mission to export network management and integration services . . ."

And then we get into an interesting choice of words: "... exposes us to investment opportunities overseas . . ."

Now exposure to me seems to relate to risk. Maybe it just was — I don't know — a poor choice of words or the proper choice of words. I'm not sure but maybe you could make just a brief comment on that and then if we could get into just the . . .

Mr. Ching: — It's actually a proper use of the word I think in this sense: that the fact that we have teams of people out doing consulting work around in various parts of the globe exposes us to issues that arise where a company will say, we're doing such-and-such a project and if you want to participate we'd be prepared to allow you the opportunity to do that.

So the fact that we're out there doing consulting work puts us in touch with — would maybe be a better choice of words — puts us in touch with projects that are going forward where we might get additional work or we might get an investment opportunity.

A good example of that is in fact the investment which we're doing in New Zealand. We first met UIH (United International Holdings) because they asked us to do some consulting work for them. That's how we got to know them and how they got to know us.

And as a matter of fact, their overture to us to enter into the Saturn investment in New Zealand arose out of their satisfaction with the consulting work that we did with them. So the terminology is meant to say that when you do consulting work, you are in touch with or you are exposed to or you see the opportunities that may be available for additional work.

Mr. Terry: — With respect to your previous question about slide 10 where we talked about the various consulting projects in the various countries in which SaskTel International operates, I guess there's a rule of thumb: SaskTel International is . . . their preference is to operate through the Canadian financing arm — CIDA (Canadian International Development Agency) I believe it's called — which does tend to bankroll Third World development. And in the case of 1997, over half of SaskTel International's revenues did come out of the Philippines and a project there which is a CIDA sponsored venture. So obviously where their preference is in Third World countries or marginal countries where we're not assured of being paid, we will get involved with the Canadian export development agency.

Mr. Caragata: — If I can add one point about the list. A number of the countries on that list would be examples of countries where SaskTel International was called upon to do some pure consulting work. In other words dealing with the incumbent phone company in that country to assist them in analyzing certain opportunities or to provide them with some strategic or technology advice. And in some cases those

companies actually came here for that advice.

Other countries on that list like the U.S. (United States), like some of the Caribbean countries and Mexico and the United Kingdom, would include countries where SaskTel International has been a subcontractor for companies like NorTel in the commissioning of switches and other telecommunications equipment, and so those would be private sector projects that SaskTel was brought in on because of its expertise in switch commissioning and activities like that.

Mr. Ching: — But the Philippines probably is the best example of the variety of projects that we get involved in. We've done a lot of work directly for the Filipino government. There's a part of the Filipino government that's involved in building the rural telephone infrastructure where we actually get paid directly by that unit of the government. Then we've done some work as well for what you would call the traditional telephone company in the Philippines, PLDT (Philippine Long Distance Telephone) are the letters of its name. And it is I think 40 or 50 per cent owned by the Filipino government, but it runs as an independent creature and much of its ownership is in private hands, and I believe it's even traded on the New York Stock Exchange.

In addition to that we have done work for absolutely private companies there who are telephone companies that compete with the traditional telephone company.

And lastly, we've done work for . . . For instance we're just finishing up a project right now for Bechtel which is the major construction company out of the United States. They're building a power plant right on the coast of one of the islands in the Philippines. They're building it there because it's coal-fired and they're getting the coal in by ship from Indonesia. They then have to run their high wire lines for 31 kilometres until they get to the switch which allows them to take their power into the national grid.

That 31 kilometres of high wire is their responsibility to build, and also it's their responsibility to have the necessary communications system between the actual power plant on the coast and the switch. And so they commissioned SaskTel International to design and build the communications system which links their power plant to the national grid switch. And that of course is an absolutely private company as I understand it. We're doing our work for Bechtel who is the construction company building for the power company.

So I guess what I can say is that the projects done by SaskTel International range from absolutely private companies right through to absolutely government and every permutation in between.

Mr. Aldridge: — Madam Chair, and thank you, Mr. Ching. But if . . . Maybe I wasn't clear, but like that specific list of countries and the consulting projects, perhaps they aren't ongoing right now. Was that a listing of countries where you had done consulting work perhaps in the past?

Mr. Ching: — Some of them are ongoing.

Mr. Aldridge: — But if we could have the breakdown. I

understand, as you say, Philippines is an example where perhaps some federally funded CIDA projects have led to some private projects thereafter. But if I could, for these other countries that are listed there, what is the situation with those?

Mr. Ching: — If I can just run through the list of the ones that I know off the top of my head, and maybe some of the other officials can add to that. In the case of Brazil, I think we're involved in a project there right now. There we're acting as a subcontractor for NorTel to run in one of their switches.

In Canada we've done, and are doing work with regard to the telephone company in Thunder Bay. And there what we're doing is they have bought our software package that runs their system and we're installing that for them.

In China that's a project that we did some years ago and I'm sorry I don't know the precise details on it. We're working on a project related to Columbia right now which has to do with a call centre. Mexico, again we did some work for NorTel in Mexico. The Philippines, we've talked about. The United Kingdom, we have done some consulting work for various companies there, more than one. In the Ukraine, we've been assisting the government there with some consulting advice with regard to their cellular system.

And in the United States, I don't think we've got . . . Oh sorry, there we've sold some software as well and I think we're in the process of installing that as well. And oh, as well, I think probably part of the U.S.A. (United States of America) is that we've sold our software package called the MARTENS (Mechanized Assignment Records Telephone Equipment Numbering System) system to the telephone company in Alaska. And again I think we're doing the install as well as the design for that.

Mr. Aldridge: — With respect to the projects in Ukraine and Columbia, could you just expand somewhat on it? I know you mentioned . . . and I'm assuming it's the government of Ukraine that you're assisting in establishing a cellular system. And what sort of means of contracting that work was undertaken? Like are you paid in U.S. dollars, let's say for example? And what sort of climate exists there right now in terms of economy? And is this, you know, an investment that we should consider is a stable one?

And perhaps you know we're getting into more consulting work. Well we're not talking maybe about the large capital investments that you would on construction sorts of projects and it would seem to me the wise choice to undertake in terms of that sort of work.

And then Columbia you mentioned a project related to a call centre. Is that with the Colombian government? Or is that again through some other agency?

You can just expand on those two please.

Mr. Ching: — I can't give you very much precise information about these projects because we simply don't have the information with us.

But with regard to Columbia, it's my understanding that that is

not for the government; that is for a private sector company and it is . . . we're advising them or we've done some work with them on the possibility of building a call centre. It would be a call centre owned and operated by the customer. They simply look to us for advice as to how to design it and how to build it and how to operate it. And my understanding is we made a proposal there, but I don't think that there is a binding contract.

In so far as the Ukraine is concerned, again it's not an equity investment. I think we had two people in the Ukraine. I believe that project may be still going on at the present time or it may have just concluded. And there what we were doing is advising the incumbent company there vis-à-vis their cellular network. Whether or not that incumbent company is government owned, I simply don't know. But in neither case of Columbia or the Ukraine, were those equity investments; they were both consulting contracts.

Mr. Aldridge: — In terms of the expenditures and revenues related to those projects, would you be able to just outline that briefly for us? I'd like to develop some feeling for the . . . what we can expect in terms of a return on those sorts of consulting projects. I would hope that they would help substantially in terms of bottom line.

So one may have just been completed, if I understood correctly, in the Ukraine. Perhaps that one is one that you might have figures more easily at hand, and the other is ongoing. But what sort of expenses or revenues may have come on stream as a result of them to date?

Mr. Ching: — Partly my inability to answer your question in detail is borne out of the fact that I simply don't have it at my fingertips, the details of the deal.

But there's another issue rattling around here at well. These are very competitive types of transactions and I think we'd be reticent to disclose precise business dealings that operate there. I should tell you however that we annually expect SI (SaskTel International) through all its operations to be profitable and to, as an accumulation of all of their projects, make sure that they are making a buck at each one of their projects.

In some of these, we're acutely sensitive to the fact that there are local turbulence in the political and economic systems which put at jeopardy any future payments. And so we have a tendency to try to, in countries like that, to either get payment up front or to get letters of credit which are binding on financial institutions that we can rely upon, or alternatively have the cost of those particular enterprises underwritten by some government agency like CIDA.

And I believe — gosh, I should be careful here — but I believe that the project in the Ukraine, I think, was underwritten by CIDA. I know that the project that we're doing in Tanzania right now is underwritten by CIDA.

And we've actually been very fortunate, I think, that in the 11 or so years of the existence of SaskTel International and given all of the work that we have done, I think we have only been stung once with failure to extract complete payment of our bill. I think we lost \$100,000 in Malaysia on a contract, a fairly substantial size there. We've actually been very fortunate in

being able to collect the money on all of our projects throughout the world.

Now in some projects frankly — and this is true of the consulting business — on some projects, you make a very tidy margin and on some projects, your margin could be pretty skinny and on some projects, frankly, you can wind up losing money. My recollection was that the project we did in China, and this was some years ago, this is sort like seven and eight years ago, my recollection is that on that particular project I think we were lucky, fortunate, to break even on that particular project. On the other hand in some of the other projects, we make a very, very good margin.

By and large, SaskTel International has been sensitive to some of the problems of payment and currency fluctuations and all of the matters that go along with turbulence in some of these countries and have been very, very fortunate in being able to duck most of the problems.

Mr. Caragata: — If I can just make one point . . . (inaudible) . . . I've handed out a package of information to all of you. If you look at the SaskTel International brochure that you all have, on the back page of that brochure, there is a summary of some of the projects in some of the countries that we've referred to in this slide, for members to refer to.

The Chair: — Final question, Mr. Aldridge.

Mr. Aldridge: — Just one final question and with respect to . . . Again I'll go back to those projects, Columbia and the Ukraine. And I know you framed such projects for the purpose of maintaining a certain amount of ambiguity in the competitive world that some projects have skinny margins, some have fat margins, some of them you know sort of mediocre. Could you even describe those two projects in that frame?

Mr. Ching: — Well first of all I don't think we've actually signed a contract in so far as Columbia is concerned.

Mr. Aldridge: — Oh, with Columbia, I'm sorry. But with . . .

Mr. Ching: — But in so far as the Ukraine, yes we've done the job there. My suspicion is that the margins there were consistent with our normal consulting practice there. I would assume that the margins on that project were fairly reasonable.

Mr. Terry: — My memory of the Ukraine project was it was two to three consultants for the period of just under a month. So it's not a huge contract but certainly an endeavour into another market.

The Chair: — Thank you, Mr. Aldridge.

Mr. Johnson: — The last couple of weeks I was in Edmonton talking to an individual who explained that he'd moved from one house to another house to another house all within a period of about a year. It was to do with the fact that he wanted to live on an acreage, liked the concept of living out in the fresh air and not in the city, only to find out when he got there that he wasn't able to live on an acreage. It wasn't a viable choice for him to do because he didn't have the sufficient wealth to just hire somebody to drive out there and fix anything that went wrong,

and he didn't have the skills to be able to trade excess time for the lack of wealth. So he bought into an acreage and sold out of an acreage in a very quick time.

In looking at that, it's sort of something that I think one of the reasons why SaskTel and other corporations in the province of Saskatchewan are able to look at other places in the world and start to do things is the simple fact that you don't have somebody that you can just say, well do this for me and move on to what the next thing is. You sit down . . . the people in the organization end up having to sit down and figure out how to do it because the closest person that could do it for them was probably in Toronto or New York, or wherever it happened to be was not an easy person to access.

So I see the knowledge base that the corporation has is based upon the environment in which we live; and from my perspective, I think that to use that knowledge base in order to generate more work, more income, more economic activity in the province of Saskatchewan is a very good thing. And with doing that, generating economic wealth for the province, there will always be the variables of loss and gain. Like playing in any game, you can't win every time and if you do win every time then you're not succeeding . . . you're not getting the maximum return that you could.

One of the questions that I would like to have you answer is that it seems to me that the new technology has allowed phones in residences and places like that to have a whole number of variables on them, some being the fact that you can cut off long-distance calls from individual phones and things like that.

And I was just wondering if you feel that the corporation has moved as far as it can go or if there is any further that it can go in its social responsibility as a Crown to being able to provide service to people who are unable to make long-distance payments and yet need a phone service for securing jobs or things of that particular nature.

And I was just wondering if you could comment on that; you see any new things coming along that would be beneficial in that direction of services available?

Mr. Ching: — Well there's no question that we have a lot of technology which allows us a lot of flexibility to do various things.

And you pointed to one of the easiest examples of that, namely that in certain circumstances we can allow people local calling but prohibit them from using their phone for long distance. And that allows people to have one level of service which they can afford and which perhaps offers less problems for them or for their family than a complete bevy of services.

I must say that we venture into these areas with some high level of trepidation. SaskTel fancies itself as being the provider of an excellent communication system. We don't like to be put into the position of judging whether people should be able to use the system in this way or use it in that way. We have to do that from time to time, but that's not something which as an obligation sits very comfortably on our shoulders. So when we're asked to restrict usage of the communication system in this way or that, we face up to that problem with a lot of

hesitation.

The second part of your question relates to this whole question of allowing people to have access to the communication system when perhaps they are struggling financially. You will be aware that about a year, year and a half ago, a group in Saskatoon, a group of agencies in Saskatoon which were concerned with the rights and the well-being of the socially disadvantaged in that community approached both SaskTel and the Department of Social Services to try and work out a system whereby people could be reconnected to the communication system when they'd been cut off for failure to pay, or where they had felt that their inability to pay for the communications needs had blocked them from having access to the communication system.

In concert with that group of agencies in Saskatoon and in concert with the Department of Social Services, we worked out a project which we call the bill management project. And basically what it allowed people to do was a whole group of people within our society who didn't have access to the telecommunication system were allowed to reconnect to it under certain circumstances.

Some cases of this were people who had run up maybe a \$2,000 telephone bill and were making no effort to pay it. Some people had problems abusing, or members of their family were abusing, long distance. Some of these people were on social services and the amount of money that they had available for telecommunications needs was extremely limited.

And so there was a series of solutions brought together which was that we allowed people who had substantial amounts of money owing to SaskTel to reconnect to the telecommunications system — because we had prohibited them up until then because they hadn't paid their bill basically — on the assumption that they would make small regular payments to try and reduce the amount of indebtedness that they had to SaskTel, and on the assumption that there would be direct payments from Social Services to SaskTel on behalf of the individual to pay their regular monthly bill.

And in some cases Social Services and the individual, or perhaps only Social Services, requested us to prohibit those people from having long distance. It's not to say that they can't do long distance, it simply meant that on that telephone they couldn't do long distance. If they wanted to do long distance, then they had to go to a pay phone and pay for their long distance calls upfront. And that was done because some people had run up rather horrendous long-distance bills.

That whole project caught us very much by surprise. In the planning and the run-up for that particular project, we thought that maybe there was going to be 3 or 400 people throughout the province, maybe even 500 throughout the province, that might come forward and indicate that they needed telecommunications services and they didn't have them. And as a matter of fact, the projection I think that we got from Social Services was that over three months we'd probably see 500 people reconnect to the system or come on to the system.

In fact, within the first week we had 500 new people connected. And I think that something like 15,000 people came out of the woodwork to reconnect to the telecommunications system

under that bill management project.

It caught us really quite by surprise and frankly, for a period of time, our employees were under a lot of pressure to try and cope with this new influx of people coming onto the system that we didn't even realize were out there and not having access to our communications system. And some of those folks are some of the most unfortunate people within our society and they struggle with a whole number of things — not simply their financial affairs, but also in some cases an awful lot of personality issues and related matters. And so they were a type of customer that required some additional and super-sensitive attention just at a time when they were coming at us in very large numbers.

So it was really a tough time for us. As a matter of fact, it put a lot of strain on the corporation to be able to run that system. But I think it was the right thing to do, and certainly we've got a lot of good positive feedback on it.

Mr. Johnson: — One of the things that seems to be coming through with the changes in how the boards are set up and that is that there is a movement to put into place more of what I would term, instead of individual decision making, a policy structure set up for making decisions and thereby allow for large operations to function, and for even the MLAs (Member of the Legislative Assembly) to be able to review and still give overall directions and to assure the public at large that the operations are following the policies that are being set out in that. One of those is the . . . during your statement you made a remark that some of the board meetings during 1997, as I understand, were made by telephone. A board meeting was held in that way. And since you're a telephone company I can understand that the connection . . . it's good hype to do that.

But just as a sort of a breakdown — what percentage of the board meetings would fall into that category as telephone meetings? And would the agenda of that be more of a single issue rather than a multi-issue agenda? Or is it sort of fitted in as part of the regular board meetings or what?

Mr. Ching: — This is probably a good general example. In the year 1997 the board had six regular board meetings, face-to-face gatherings, regularly planned for at the beginning of the year. In addition they had one special board meeting and they had five conference call meetings. The conference call meetings and the special meetings don't have any particular pattern to them and are a function of what we're working on at any given moment in time that requires board attention.

And so I suspect that any project, any major project that was before the board, would have been the subject matter of the special meeting and the conference callings. Now that does not include any board meetings . . . or sorry committee meetings. That's strictly board meetings.

Mr. Johnson: — Strictly board meetings. Well would committee meetings break down into about 50/50 as well then in regular scheduled ones and those that are set aside, or special or conference calls?

Mr. Ching: — I would think that probably a somewhat larger proportion would be face to face, because being committee

meetings they tend to be a little easier to organize on a short notice basis. But you're right, I think that there's still a significant number of conference call meetings that occur probably a little less in the committee work.

Mr. Johnson: — With the conference calls, what is the system of recording what goes on at them? What system is being . . . is there any . . . is the meeting recorded? Or how is it done?

Mr. Ching: — All of our board meetings and all of our committee meetings are attended by a secretary supplied by CIC. And that person is responsible for taking notes and minutes of all the meetings and committee meetings and transcribing those into minutes. And they are submitted to a subsequent meeting for ratification.

Mr. Johnson: — Okay. With the . . . Well conference calls, of course, the location would be everywhere; but the special meeting and the regular meeting, what location would these occur at?

Mr. Ching: — I can't tell you precisely but let me give you the location of the meetings in '97. One meeting was in North Battleford, three in Regina, two in Saskatoon, and one in Waskesiu. The one in Waskesiu I know what that was about because that was our two, two-and-a-half day planning session that we do once a year where the senior management team and the board of directors get together and in effect go through the business plan in preparation for the budget build up.

Mr. Johnson: — Since it's noon and I'm assuming the growl that I hear is some . . .

The Chair: — It wasn't a growl. Actually it was more a note of curiosity with respect to the conference calls because again one of the issues that came up with the Channel Lake inquiry, Mr. Ching, was the large number of conference calls that that board had. And the question that committee members repeatedly asked SaskPower members was whether or not people who participated in the conference calls had written material distributed to them in advance of those conference calls.

So as Chair I probably can't put that question.

Mr. Ching: — Well here's what we try to do and I'd be the first one to admit that we can have some problems in this regard as well. As soon as a person goes onto our board, we immediately make arrangements for them to have a fax installed in the place that is most convenient to them, generally their home. And we try to have all written material faxed out to them, even where it's an emergency, in advance of the meeting actually being held.

And our board has been quite diligent in chastising us every time we seek to go ahead with any item where they haven't had the material in writing in advance with sufficient time for them to look at it, and study it, and to be prepared for the function which they perform as a board; and frankly they're right in that regard.

We try to do that and I think we've been fairly diligent in succeeding on it, but from time to time we will wind up in a situation where a board member will say they don't have this

page or they don't have this particular document and we scramble around to try and get it to them immediately. But there are little glitches from time to time in that regard. But we've actually been fairly successful I think, in making sure that our board has their written material in advance of the board meetings.

The Chair: — Thank you, Mr. Ching, for answering the question that I didn't really put. Again I hate to sound a bit one note on this but I think it is imperative that we act on the lessons that we should have learned from the Channel Lake inquiry.

Mr. Johnson, thank you for your questions, Mr. Aldridge, and Mr. Toth.

We will now stand adjourned until 1 o'clock.

The committee recessed for a period of time.

The Chair: — We will reconvene the Crown Corporations Committee hearings on '96 and '97 SaskTel reports.

Mr. Toth: — Thank you, Madam Chair. I was going to say to the minister, Minister, your . . . (inaudible) . . . the officials. I won't go through the names of everyone. Just a few more comments. I have a few questions here as well to follow up on.

I noticed we talk a lot about subsidizing local telephone service with long-distance calling. On page 23, if I've got it correct, I noticed your long-distance revenues were down. You're saying about 25 per cent roughly, 28 — about 33 million. However local service I note went up about the equivalent amount. At least from the numbers it's gone up about 11 per cent.

And so it would almost appear to me that we're not necessarily subsidizing local rates. Or when you talk about subsidizing local rates, are you talking more on the basis of the rural community versus the larger urban? Is that what your base . . . when you talk about subsidizing the local rates through long-distance service? Because it certainly as we see in the annual report here it appears that the local rates in some cases have picked up for the shortfall as the result of the competitive factor in the long-distance rates.

Mr. Terry: — Okay. There's a couple of components. Perhaps I'll start off and others can fill in as I miss. But when you look at the — you're absolutely right — the trend on long-distance is down some thirty-some million dollars. Included in local service however in the increase year over year from 1996 — you'll note in the narrative below that describes local service — there's some 29 per cent growth in accesses in the cellular business which is included in the local service revenues.

So a big part of the growth under local revenues is a function of Mobility. And in fact I believe the chart right beside it, local service revenue, you can see the part that is isolated for Mobility growth — considerably year over year.

So when we talk about subsidy on the local access side it is strictly on the land-line side. And you're right it is geared to rural Saskatchewan.

Mr. Toth: — When I look at that and I think of rural Saskatchewan, I think we all agree that rural communities and individuals who chose to live in rural . . . This is a rural-based province, let's continue to recognize that fact. Because if we were to basically say, well we can't afford it anymore, it's like we're putting pressure and saying to the rural community you can't live in a rural community. You'll have to commute back and forth. And in many cases people still like the rural community and they will commute from the rural into the urban centre. So I think it's important to maintain that rural base.

And I guess if you will . . . certainly a cellular phone is an area that is really expanded. I noticed even up top when you talk about long-distance you talk about Mobility's long-distance revenues have increased over 30 per cent. Now when you're talking about these revenues and Mobility's long-distance, is that just SaskTel Mobility calling even within province? You're, as I would take it on Mobility, you're on long-distance call rates all the time aren't you? Or are you on a local . . . you've got a local base to work around and when you're call out of that base . . .

I guess the other question I will ask while I'm at it is how large would that . . . What would your local area be in consideration to the revised local coverage we have under SaskTel? Would there be some comparisons and boundaries?

Ms. Milenkovic: — Wherever possible we have tried to mirror the land line in terms of the exchange area boundaries. The difficulty is we're not dealing with a finite set; you're dealing with airwaves. So in some circumstances that works; in some circumstances, because of terrain and other coverage issues, it's not quite the same.

But when you bring your phone from Saskatoon to Regina it becomes a local if you're calling within Regina. So not all the air time . . . Also it has an LD (long distance) component too. There's lots of people whose primary calling patterns is in the urban community in which they live, and that would be predominantly local.

Mr. Toth: — Well those are a couple of questions I had in that area. For the sake of recognizing a Liberal colleague here, Mr. Aldridge, I'd be more than prepared to allow Mr. Aldridge's questions.

The Chair: — Thank you, Mr. Toth. Mr. Aldridge, would you like to pursue a line of questioning until you've completed your questions?

Mr. Aldridge: — Thank you, Madam Chair, and Mr. Toth.

I wanted to just I guess at the outset make a quick comment and one of . . . it must be an interesting challenge for you as a group of officers of a company that's trying to be competitive with the marketplace out there, to try and balance that with your role in terms of a public policy. Trying, as I have always understood and will always think Crowns should be the aspect of you being a tool for public policy, for social development, in whatever way you're able to within the confines of your Crown.

But when you look at . . . in terms of where you're providing that need, like that as you're saying, areas where you're

providing phone service at what would be a more reasonable cost than could be provided otherwise. And then I was looking in your '97 report on page 13 under "Diversification closer to home," and it says with respect to Regional Cable TV:

. . . Regional Cable TV (Western) Inc. continues to perform above industry averages in its delivery of cable TV services to small towns and villages throughout Western Canada . . .

And that includes 133 Saskatchewan communities.

Well the way that's worded it would seem to me that you're providing a service there that perhaps wouldn't be available to those communities otherwise. Is it being provided at some subsidized cost? I think for this year there was a net profit for Western regional or Regional Cable TV, but has that been consistent all along or has there been a period of losses? Maybe if you could just comment a little bit about that.

And then on the aspect of whether cable television now to communities across the province . . . if that's in some way helping in terms of social policy development and this sort of thing.

Mr. Ching: — Well first of all a couple of general words about the cable TV industry. First of all, they operate on a franchise area. And so, they would have from the CRTC a franchise area in which they had something of a monopoly. I say something of a monopoly because there is competition for them from non-cable TV sources. So that if you have a dish and you can access satellite transmissions, then you can get television coverage from that particular source even though you might be in one of regional areas or in a Shaw area or something of that nature and not get it from the actual distributor in that particular area.

So to that extent they have some degree of a monopoly, but I think it's also correct to say that this is a company which operates on the expectation that each one of its franchise areas will be profitable. There is, to the best of my knowledge, no concept of subsidization within the structure of that particular company from community to community. There will, however, be certain communities that are more profitable than other ones but I wouldn't categorize that in the nature of a subsidy as such.

The cable TV industry is significantly different in the way in which it operates financially than the telecommunications industry. We have always been companies with: a) a long history to them; b) a major capital investment. We've had a history of operating on the basis of always having a net profit. And it's out of that net profit that dividends come and a certain amount of money is retained for capital.

The cable TV industry being a somewhat more recent phenomenon, has operated historically in a different manner. They've operated in the manner that they don't, many of them don't have a net profit. Some of them do, some of them don't. What they do is that they take their excess cash flow and they pay down their debt, and then from time to time they go back in and refinance the whole company. When they do that, the owners of the company take out a lot of money out of the company. They take on a huge debt burden, and then for a

period of time after that, they take their cash flow and they pay down their debt burden again and then they refinance. It's called living on your cash flow rather than on your profit stream.

And that has been a characteristic of virtually the entire cable industry in North America. That's why you see some of these cable companies that go on for years and years and years and never report actually having paid a dividend or profit as such. What they do is that they simply refinance from time to time, and the shareholders get a big chunk of money out of the refinance.

And frankly, that's also how our regional operates to a large extent. It tends to be profitable on a year-by-year basis, but the profits are rather skimpy. Instead, they take their cash flow, pay down their debt load, and from time to time refinance.

I believe it was in the year under review that there was a major refinancing down within that company, and as a result there was money come out to us as one of the two shareholders.

What you will see with regional table, is that we get big gobs of money every once in awhile and then we get nothing for four or five years, and then we get another big gob of money and then nothing for four or five years. And that is the result of that particular operating format.

Mr. Aldridge: — Thank you, and Madam Chair, if I could turn to, and my understanding is we've covered this '96 report, but we can refer back to it I believe.

There was something that caught my eye on page 25 of your '96 annual report, and it's the very bottom paragraph with respect to LCL (Leicester Communications Limited) cable.

Mr. Ching: — Page 20?

Mr. Aldridge: — Page 25 of your '96 annual report. And it refers to, in the final paragraph of that page, that the transaction of the sale of LCL "also resulted in the loss of LCL revenues for 1996" and then it says "and beyond." And then it shows some diversified revenue stream that's declined from '95 to '96 as a result of that.

I'm curious. The "beyond" aspect of that particular transaction, what sort of numbers do we attach for the '97 year and could you explain a little bit more about that item to us?

Mr. Ching: — Yes. And it has a parallel in the present situation because in many respects the general approach was SaskTel was taking to the Leicester project, they now are taking with regard to the Saturn investment in New Zealand. And that project, the Saturn project, is going through many of the same manifestations that Leicester went through.

Leicester was an investment which was . . . it was intended that it would operate ad infinitum, that the corporation would own that as an ongoing operating entity over a long extended period of time. We put in somewhere in the neighbourhood of \$30 million approximately into that particular project.

The project was just starting to go cash flow positive at the time

that it was sold. It would have been perhaps a number of years — I don't know how many and I can't recall from any of the projections — before it would have actually started to pay a profit, from which potential dividends could have been paid to the shareholders including SaskTel. So we were a long way yet from actually receiving a financial benefit back from that investment at the time when it was sold.

The same thing is true with regard to the Saturn project in New Zealand. We're still in the process of building it, still putting in capital dollars, and we will incur a fairly significant operating loss within that company last year, this year, and for the next couple or three years. And it gets targeted to go cash flow positive sometime in and around the year 2000. Then a few years after that it will actually become profitable, and sometime thereafter it will become dividend paying with a revenue stream back to its shareholders including SaskTel.

In the case of LCL, we had built into the financial projections run out five, six years in advance, the puts and takes vis-a-vis LCL. And there would have been in the projections of SaskTel an anticipated revenue stream from the investment in Leicester. That would have been forgone the moment that we elected to sell that particular asset.

So that's what that particular paragraph is saying. That on one hand we got a major financial benefit from selling the company, but we had to give something up in return for that, namely the anticipated future profit stream which we thought would flow back to SaskTel from that company as it operated into the future. Should we turn around for instance and sell Saturn at sometime in the next few years, we would experience exactly the same phenomena. And as a matter of fact when you value these assets, essentially that's what you value. You try and look at the anticipated revenue streams going out into the future, you will aggregate them, bring them back into today's dollars, and that gives you the approximate value of that particular investment.

Mr. Aldridge: — So I guess I'd need a further explanation of how that aspect of it works because it looks to me like, at some point in time then, revenues or net-realized value had to have been in some way overstated, that now some projected future revenue stream that no longer will occur is basically being deducted off of what was made from the company when it was sold.

Mr. Ching: — Yes.

Mr. Aldridge: — So there's some sort of future obligation, is there? Or am I incorrect in saying that?

Mr. Ching: — No future obligation but a future earning stream that was given up in return for the dollars that we got for the sale. I don't know how better to explain it other than to say that had we kept LCL and operated it, we would have anticipated that in due course revenues would have flowed back from that source to SaskTel. Those were built into the forward-looking budgets of SaskTel, and as soon as we sold it those had to be stripped out as we stripped out also future capital allocations to the project and anticipated manpower allocations to the project. All of those things would have been stripped out of the project and, in effect, what you look at is you look at it and say to

yourself now, would your future earning stream in today's dollars be worth more or less than the \$114 million that we got back.

Our guesstimation was that that future revenue stream in today's dollars or in those days' dollars, 1996 — yes, 1996 dollars — we anticipated that the revenue stream would not have equated to the \$114 million. And as a result we considered it to be a good sale from our vantage point. The buyer obviously looked out and looked at value going forward and said we think that the future revenue stream in today's dollars is more than \$114 million, and therefore we're prepared to buy it at that price. And I'm not surprised because the buyer owned the adjacent concession and had a program to amalgamate the two concessions and hopefully to create something more than simply the aggregation of the two.

Mr. Aldridge: — If I could, Madam Chair, could we defer to the auditors, whether it be the independent auditor or whoever. Like is this something that is . . .

Mr. Terry: — Maybe I can take a shot at this.

The Chair: — They're waiting here. They've looked at . . .

Mr. Aldridge: — Or Mr. Terry. Yes, I'm sorry. I'm just not quite . . . It seems like it's something that at some point you must've booked in more profit than you should've, and now you're taking out future income streams as a result.

Mr. Terry: — No. But what happens here is it's not unlike the owner of a rental property — if I could use that example — to say somebody owned a property, had an asset on their books, was recording income or in this case losses during the start-up phase, and then somebody comes up to you and says I'll buy that property from you, looking forward I think I can generate better rental profits from this thing than you were doing. And so you come to an agreement where the price that you pay for the property is basically that point where the seller is willing to divest of that asset and the purchaser is ready to take it on.

In that view, all we're saying in that paragraph is that future revenues and expenses and capital expenditures that would have gone with Leicester are basically taken off our future plans, given the divestiture of Leicester.

The Chair: — Mr. Aitken or Mr. Black, do you have anything to add to this from generally accepted accounting principles?

Mr. Aitken: — Yes, I'll have a go like everybody else. Mr. Aldridge, the two references that you were picking up on out of the reports had a starting point of talking about SaskTel wants to diversify and has even articulated a projection that it would get up to 40 per cent of its revenues coming from non-traditional sources. So the company is in diversification mode starting several, a number of years ago.

And in the case of LCL, of the Leicester investment, the particular reference was by deciding to sell, plus you got a financial return from selling and there is no strings attached. There is no continuing. They sold out, cashed in, the last dollar was sold. Having done that, you're now behind the eight ball in your other strategies which is we want to diversify because

you're back to square one. And then, as Mr. Ching was explaining, they then went out to New Zealand and then got involved in there. But there are another series of investments being made. But all the kind of negative aspect to these — certainly in the Leicester one — was that the only negative was it's counter to a longer-term goal of trying to diversify.

On the accounting rules, clearly it was resold, the entire investment . . . SaskTel sold its entire investment, took the \$120 million and patriated it back to Saskatchewan. And there's no strings attached.

The Chair: — Mr. Black, do you want to . . .

Mr. Black: — Madam Chair, I must . . . (inaudible) . . . on the supplemental question. I don't think I can add anything to the information that's been provided.

Mr. Aldridge: — No, I'm satisfied. If I could move on then, Madam Chair.

The Chair: — Sure.

Mr. Aldridge: — Now, Mr. Ching, you've mentioned a lot of analogies between the LCL investment versus our current investments in New Zealand, the Saturn investment. So I would envision then that cable works the same there in New Zealand as it does here or as it did in the U.K. (United Kingdom) where there is the acquisition of franchises. Or if you could explain a little bit more about how you go about investing and how you go about the cable construction work that's ongoing there?

My understanding of it in the U.K. is with Leicester, it did involve significant commitments in terms of you purchase franchises and along with those franchises is attached a requirement that you do a certain number of millions of dollars of cable construction work within a certain period of time. I don't know what penalties have accrued if you didn't, but that was my understanding. There were significant dollar investments that would have been required to complete the work as per when you got a franchise.

But is there some analogy here with the Saturn and the New Zealand investment to that aspect of it? Are there some commitments that have to be met in those same regards?

Mr. Ching: — There's a number of similarities between what we were in the process of doing in Leicester, and what we're in the process of doing now in New Zealand. But there's also some very striking differences right in the area that you've referred to.

You're absolutely correct. In the case of Leicester we bid for and were awarded a series of franchises, and those franchises were not only franchises for cable TV but were also franchises for telephony. And you're absolutely correct. There was certain requirements put upon the investor to do certain things to get the licence. You had to pay a certain amount of money upfront, and you had to do some things to exploit your franchise.

They obviously — that is the U.K. government — obviously didn't want people simply coming in there and buying up these franchises, tying them up, and not doing anything with them,

and I think that's perfectly understandable. Those obligations in the franchise area constitute a risk that one has to be wary of when you take on that sort of a project.

In these respects Saturn is strikingly different. There, there is no program by the government to allocate areas either for telephony or for cable TV.

As a matter of fact New Zealand is a very interesting study in the sense that they have really thrown open their borders. And when we applied for instance for a telephony licence down there, I think the process was: you send in your request, they stamp it, you pay your fee, and, bingo, two weeks later you get your licence to start up a telephony business. And if you decide you want to put it in Auckland or in Christchurch or in Wellington that's your choice. And it's a very open marketplace.

And the danger associated with our investment down there . . . One of the dangers associated with our investment down there is not that we have taken on any commitments to build to a certain time frame or to a certain specification dictated by a regulator or by a government, it's quite the reverse of that. The danger is that when we get our system built that somebody else will come in, pay their \$20, in two weeks have their licence, and they could build in the same place that we are and thereby constitute an immediate competitive threat to us.

It's a very, very open marketplace down there, unfettered by very many rules. As a matter of fact I think that the participants in the cable TV and telephony industry down there have, all of us, been guilty of going to the government and actually asking for a few more rules and regulations than exist at the present time.

So if there's a risk in this area associated with our investment it's not from the taking on of obligations to do certain things by a certain time. It's rather the reverse, namely that we have no obligations but we have no protection in the form of a monopoly area or a franchise area from anybody else coming in and competing with us, and thereby constituting a threat to our investment.

Mr. Aldridge: — So, Madam Chair and Mr. Ching, in terms of what your current projections are then, given that environment that you're operating in, which is one of you've got to try and grab your market share, what do you project as your market share still to turn things into a positive cash flow by . . . Was it the year 2000 or 2002? I'm sorry I didn't . . .

Mr. Ching: — I ventured a statement there and I'm quick to note that I'm not precisely sure what the date is whether it's 2000 or 2002 off the top of my head.

Mr. Aldridge: — And if you could further comment how you think those projections continue to be valid; how you continue to monitor or reassess them in light of the current financial economic environment in New Zealand. My understanding is they're in the midst of a recession or a downturn in economy in some ways. How does that affect a consumer marketplace for the services that you're hoping they will be buying into? You, alongside of whatever competition may end up showing up as you're alluding to, being it's a little bit different system of

operating there.

And then the lack of a regulatory environment it would seem to me that you and some other would-be competitor could come in, duke it out over trying to get a market share only to find out someone comes in with the direct-to-home satellite system or some other means of getting to these people, so to speak, and steal all of your market.

If you could make some comments in that regard.

Mr. Ching: — Well first of all I think it's correct to say that all the world has been touched by the so-called Asian flu, including Canada. I think it's correct also to say that Australia and New Zealand have been touched a little bit more by the Asian flu than we have here in Canada, but it's nowhere near as extreme as it has been in places like Malaysia and Japan and Indonesia and to some extent also the Philippines. They've been very deeply touched by that.

My opinion is that the New Zealand economy continues to be strong and there's no signs that I've seen and no information that's been drawn to my attention that there is some sort of an over-arching financial problem in that country that would put our investment at jeopardy. And bear in mind that as with all investments of this nature you judge them over a long period of time, and the ripples and wrinkles that occur whether they're in your favour or to your detriment in the national economy are not noted very much in that sort of a long-term analysis.

In so far as the investment itself, you're absolutely correct. Somebody else could come in there and overbuild our area and thereby become a competitor in addition to the competitors that we've already got because as you can imagine the national telephone system there is our immediate competitor in the area of telephony.

In addition to that there is off-air services and certain satellite facilities that compete with the cable TV side of the Saturn operation.

One of the things that attracted us to the cable TV part of the investment in Wellington, New Zealand, is that it is an area which is not susceptible to the footprint of the available satellites.

Number one, the country tends to be a long ways south on the globe and the available satellite footprints don't cover it terribly well.

And that interlocks with another phenomenon, namely that the area that we're building in, which is the region right around the city of Wellington, is very hilly and very contoured. And as a result there's an awful lot of areas in there which are shadowed, given the footprint of the available satellites. So when we looked at it, it was our belief that satellite cable TV technology would not be a major threat to the cable TV system which we were building.

Insofar as penetration levels are concerned, these were two . . . these were one of the key factors when we looked at and did our due diligence on the investment itself. We identified a number of issues that were critical from our vantage point, and the

penetration level with regard to telephony and the penetration level with regard to cable TV were two of the most important factors in our assessment of the investment.

The build is going slower than we would have liked. But given the speed of the build, we're finding that the telephony penetration meets our expectations. The cable TV penetration . . . And bear in mind they've been at that a little longer than the telephony side. We were a late entrant; they'd already built part of their system by the time we became part of the investment. The cable TV side of the investment — that penetration level has not achieved as high a level as we would have liked or anticipated.

We think that we've got the answers to that sort of a problem, but as yet I think the jury is still out on just exactly what our penetration levels are going to be. All I can say is that at this particular point in time the part of the investment which SaskTel is responsible for or primarily is interested in, namely the telephony side of it, has been doing quite well. The cable TV side of it has been lagging just a little bit. I don't think that's a problem over the long haul in the investment. I think it will still prove to be sound on both sides of the investment.

Cable TV, as I recall, accounted for something like 30 per cent or 35 per cent of the value of the total investment. The telephony part represented a much more substantial portion of the value imbedded in that investment. And so, as you can imagine, meeting your telephony penetration targets is a much more significant issue than meeting your cable TV penetration levels. But clearly you should try and do both, and we think that within a sensible operating time period we shouldn't have any trouble doing that.

The issue on penetration levels of cable TV are more related to content and what you can put through your system and onto the screen of the TV in the home than it is related to the issue of whether or not there is satellite or other facilities in competition with you. Your content is very important.

And one of the things that we've wrestled with is getting the local rugby on our cable TV network as it is happening. We've been able to get it on with a time delay of, I think it is an hour or something of that nature, but obviously having it immediate is a bigger benefit. But all those things are interrelated with the issue of penetration.

How we control the investment is this: first of all in making the investment, as you know, we go through a fairly stringent process of evaluating it within SI, SaskTel International, evaluating it at our executive level. Then it is evaluated, now and this is a recent phenomenon since we did the Saturn investment, by the diversification committee of the board. That committee came into existence subsequent to the Saturn investment being dealt with. At the time Saturn was done it was dealt with by our board, then it's dealt with by CIC. And ultimately it comes up to cabinet for final decision because we needed their approval on the amount and size of the investment and we needed an order in council to get to do the investment.

To operate it we have a number of people, actually employees of SaskTel, working within Saturn. We have a number of people working within key positions within Saturn itself that are

employees of SaskTel. We also have a board of directors of Saturn, on which we have . . . I think we have two members of the board of directors. And so two of our executive members from the management team of SaskTel actually sit on the board of directors.

In addition to that we have regular reports from our people on the board to the executive of SaskTel who regularly reports to the committee of our board and regularly reports to our board itself. And so that's how we basically look after the investment on an operating basis.

Mr. Aldridge: — Thank you, Madam Chair, and thank you to the SaskTel officials.

The Chair: — Okay, do you have any further questions then, Mr. Aldridge?

Mr. Aldridge: — That will be it, thanks.

The Chair: — Oh, okay. I would like to suggest to the committee members that since Mr. Toth very graciously yielded his time to Mr. Aldridge, that we revert back to questions from the opposition party at this point.

Mr. Toth: — Thank you, Madam Chair, and thank you committee members. Just a follow-up question and I'm not sure if this question was asked or if there was a question asked in that regard. In regards to the Saturn Communications in New Zealand, for the year '97 — basically I will ask two years, '96 and '97 — was there a loss incurred at the time in those operations? I understand there's a loss of about a million dollars. Am I correct in that or . . .

Mr. Terry: — Yes, for the year of 1997, we made our investment mid-year and in 1997 there are losses of just over a million dollars. You're correct.

Mr. Toth: — And what has been done to correct that or try to make sure that losses don't occur in the future? And certainly as we're getting into . . . we're well into '98 now, have any corrective measures been taken to address the loss of a million dollars? And I would assume then that that million dollar loss was picked up by other subsidiaries. That loss there, was it covered by net profits and other subsidiary holdings?

Mr. Ching: — Actually quite to the contrary on your first question. We anticipate, since this is a brand new investment, that not only did we have a loss in 1997, the last half of '97, but we'll have a much larger loss in 1998 and in 1999 and in 2000. This won't go cash flow positive until somewhere around 2000 or 2002.

So up until that time there will continue to be losses. It is in the nature of this type of an investment that for the first number of years, you can expect that your inputs dollar wise into the company are going to exceed anything you could anticipate getting back out of it.

As a matter of fact, I think that the earliest stage on which we will see this company get to the stage of being profitable, that is Saturn get to the stage of being profitable, will be sometime in and around the period of 2005, 2007, in around there. And it

won't be until then that we will actually see payments back from the company Saturn to the company SaskTel.

In the meantime, you're absolutely correct. The capital needs of this particular project and the operating losses that will occur will be taken up by the other financial structures of SaskTel. And of course in due course we anticipate that the project will go cash flow positive, and then profitable. And those funds flowing back into SaskTel will repay in effect, the money that has been invested by the corporation in this particular investment and return a handsome return to the corporation.

The only thing that could short-circuit that, we think, is that if the same thing happened vis-à-vis the Saturn investment that has happened vis-à-vis the Leicester investment, which is that we decided to sell it at some stage prior to it actually becoming profitable. In which case then you gather in your profits and you cut your anticipated capital inputs into the company at that particular point à la what we did in Leicester.

Mr. Toth: — This almost sounds like the current state of the hog industry, only I think they're hoping it turns around quicker than 2005.

Mr. Ching: — Well there's no question. This was a long-term investment that we . . . when we went into it, we anticipated that there was going to have to be a commitment to it over a significant period of time and that the rewards over the life of the investment would be well worth it.

Mr. Toth: — So what you're basing — this investment here — you're basically basing it on what is perceived a long-term objective as being a very profitable venture for the people of Saskatchewan.

Mr. Ching: — Absolutely.

Mr. Toth: — And if it isn't, if it turns out to be another Guyana, then I guess we just eat it and hopefully there's enough investment . . . we can get enough back on the investment to at least cover the losses if nothing else.

Mr. Ching: — Yes. And frankly, as you know — set aside Guyana for a moment — SaskTel has made investments that have not been successful; NST is a good example. So you're absolutely correct.

I mean whenever you make an investment, whether you're making that investment in another country or whether you're making it right here in Saskatchewan, you have exactly the same types of problems. Namely that if you're correct, if your assumptions are proper, if everybody seems to work hard, and if your technology does what you want it to do, and you are able to capture the market share that you plan on capturing, it becomes a good investment and you do well on it. If, on the other hand, you've made a miscalculation at some point or something changes to alter the scheme of things that caused you to make the investment in the first place, you suffer a setback and a loss. And it's the nature of our industry and what we're doing with SaskTel that we take on some of that sort of risk.

Mr. Toth: — I believe last year, Mr. Ching, as well, you'd indicated that SaskTel would be looking at future investment or

foreign ventures over the next three to five years and I think you'd quoted something like \$200 million.

And I'm wondering where SaskTel is to date. Was this your view or is this SaskTel in general, its vision for the future of taking taxpayers' money and expanding the company to make it more viable and profitable? And is this — I shouldn't use the word achievable — but is this a realistic figure or are we looking at investing millions of dollars that may not be profitable?

Like you've indicated, just in the Saturn adventure, just by entering it, the realization that it may be five to seven years before you see a real profit line; you may hit the break-even a little earlier. But as far as profitability and \$200 million over a period of years, if we're looking at seven to eight years or whatever before profitability, that's a significant carry of that type of investment.

Mr. Ching: — Yes. Well first of all let me tell you that we get, first of all, budgetary approval for our capital expenditures from our board of directors on an annual basis and from our shareholder on an annual basis. And so then what we're expected to do is to run a five-year projection out and sometimes even longer than five years as to where the corporation is planning to go, because some of these strategies obviously are only realized over a longer period of time than one year.

So when I made the comment, I think to the news media some months ago, that I would like to see us deploy something in the neighbourhood of \$200 million in capital investments in a number of projects in various parts of the world, that was really a . . . I guess you can put it this way, a wish list on the part of myself as CEO. That does not have the endorsement of our board of directors or our shareholder at this time nor has that endorsement been requested from them.

They approve our budgets on an annual basis. But they've seen some of our forward looking projections that spell out why we think that sort of an investment program is necessary and they're aware of some of our thinking in this particular area. But I don't think I can tell you at this particular point that the proper approvals that would allow for that sort of activity to actually take place have been received. They have not.

Mr. Toth: — In light of . . . just a comment, just made a moment ago, Mr. Ching, in the auditor's comment in the spring '98 report regarding Holdco obtaining orders in council before it or its subsidiaries set up or buy shares or invest in other companies, you mentioned the board of directors would give approval.

I believe the board of directors as well is responsible to CIC and the province. And what the auditor is indicating here — order in council, basically that's cabinet or government — when we look at further investments, what avenues are then followed to certainly meet the suggestions brought forward by the auditor?

I believe that's a way of just being more upfront and forward and receiving approval from the public in general versus just SaskTel as a Crown subsidiary entering into agreements or selling or buying shares or investing in other capital ventures on

its own.

Mr. Ching: — You know that there has been for a number of years now a problem circulating around this whole question of receiving an order in council for investments, especially investments done by subsidiaries. And as you'll also be aware, that subsidiaries to the Crown corporations are a relatively recent phenomenon.

To some extent The Crown Corporations Act, 1993 I think has, I would argue, a lack of complete clarity on this particular issue. And as a matter of fact we've actually run into the situation of where we have requested an order in council and the Department of Justice, in looking at the Act, says you're not entitled to one; that the cabinet, or the Lieutenant Governor in Council, doesn't have the power to issue an order in council along the lines of what you've asked for.

To some extent this problem has been relieved for the time being by an operating format whereby the parent Crown corporation requests an order in council that in effect allows them to direct their subsidiary to do this or that. And the Department of Justice has been satisfied that that allows for the issuance of an order in council.

But this area is an area which I think the Provincial Auditor has had their finger on for some period of time. And I would say to you that I believe that in the last number of years the main issue here has not been reticence on the part of the Crowns to obtain orders in council. It's really been a lack of clarity as to whether or not that power is vested in the Lieutenant Governor in Council by virtue of The Crown Corporations Act, 1993.

Let me also say that the concept behind getting an order in council, I think goes to two issues. The first issue is to make sure that you get the proper approvals, the last one of which is approval from the cabinet. And if you've got an order in council, you have then for sure obtained the approval up through the system as high as the cabinet.

The second reason for having an order in council is that, as you know, orders in council are made public within I think it is 10 days after they are signed by the Lieutenant Governor. And as a result, through the order in council process the substance of the order in council is made public.

So I would argue that the necessity of an order in council has had two purposes. One, make sure you get your proper approvals. Number two, make sure that the public knows what you are doing.

In all of the transactions that might have been the subject matter of an order in council or might not, depending upon this debate over whether or not the Act says you have to and you've got the power to issue an order in council. Or whether the Act is unclear and you don't have the power to issue an order in council.

In all of the circumstances where that might have touched, I think it's correct to say that SaskTel always made sure that it got all of the proper approvals and it always made sure that what it was doing was made public.

We may have failed to get an order in council at some point for one of our projects because of this problem circulating around the interpretation of The Crown Corporations Act, 1993. But I think that the true *raison d'être* behind the concept of getting an order in council have not been offended by SaskTel in any project where there might have been a debate over whether we should or should not have got an order in council.

Having said all of that -- I can tell you that I'm a strong believer in the proposition which the Provincial Auditor makes -- which is that if the statute suggests that the parent can only do (a), (b), and (c) and can't do (d) and (e), regardless of what the legal niceties say, that a subsidiary can do (d) and (e). I don't think that a prudent company should be doing (d) and (e) through a subsidiary if the parent can't do it. And I think that's the fundamental concept that the Provincial Auditor brings forward and I share that point of view with them.

And so from my vantage point the nicest, neatest, tidiest way to solve this problem, in my humble opinion, is if that part of The Crown Corporations Act, 1993 were just tidied up a little bit to make it absolutely clear when and where those orders in council were required and when and where those orders in council actually could issue. But again I emphasize that on any project that we've had that I've been associated with, we've made absolute certainty that we get our proper approvals and that we make them public. Which in my mind discharges the main reasons for even seeking an order in council in the first place.

The Chair: — Thank you, Mr. Ching. That may not have been pithy, but it certainly was compelling. And with your leave, Mr. Toth, I think that perhaps we should ask now for a comment from the provincial auditors.

And perhaps committee members may wish to flag this particular issue. You will be aware we'll be having Mr. Wright come back before the committee next Thursday. And it may be something that committee members would want to address to Mr. Wright as well with a view to perhaps including some recommendations in our report to the House.

Mr. Atkinson: — Thank you, Madam Chair. I agree with Mr. Ching's observations when he stated that there's really two issues at hand here. That is, one is proper approval; the second is public disclosure.

I don't think that Mr. Ching or our office have ever disagreed on this issue. I think we supported each other over the years. I think we continue to do that. The issue in our minds is that it should happen.

As you said, if a public corporation or a Crown corporation itself doesn't have the power to do certain things, then to create or have a subsidiary do those things, in my mind as well, is not proper. So I don't think there's any disagreement.

The Chair: — Well I think we have an issue that's now been raised before the committee. It's incumbent upon us to give some thought to it. Mr. Toth, thank you very much for raising this particular matter. Perhaps you can carry on with your questioning now.

Mr. Toth: — Well just one comment before I move to another

area. And it would seem to me just from listening to the debate that was presented, and the arguments by Mr. Ching, and certainly listening to the auditor and having had a chance to discuss some of these issues with the auditor. I guess the observation I'm making here is well we have all these subsidiaries in a company called SaskTel Holdco, basically a holding company. If they were directly . . . rather than a holding company but directly involved in SaskTel directly rather than its subsidiary, you would then under the current Crown corporations Act, have to seek order in council for any investment. Is that not true?

Mr. Ching: — Yes. If we were doing a project, say like a Leicester, through SaskTel, the parent, we would have to get an order in council. And as a matter of fact I think the Department of Justice would readily agree that the power lies in the Lieutenant Governor in Council to issue such an order in council.

The debate has never been over — I think in the last few years anyway — has never been over the issue of whether or not it is correct and proper to get your approvals and to make your disclosures. It's always been a question of whether or not the power lies within The Crown Corporations Act for the Lieutenant Governor to actually issue such an order in council. It's quite clear in the case of the parent. Where the problem arises is with this new area that has been evolving over the last 5, 10 years of subsidiaries.

Mr. Toth: — And I guess that's true, and that's what raises this point and this question — and not necessarily question but a comment — the fact that any Crown corporation to save the fact of having to have that immediate public disclosure can set up these holding companies and then put all these . . . have the holding company hold these subsidiaries and supersede their Crown corporations Act.

And that I think is the real question out there is the public disclosure and access to it. And I'm not sure the area that we struggle with, and certainly our caucus has a problem with, is the freedom of information Act and how subsidiaries apply and how the freedom of information Act applies with these subsidiaries in trying to get information or access to information, especially where public funds are involved.

I think that's a major concern. It's certainly an area that needs some debate and some discussion and we'll have to enter into as a committee and discuss that, possibly even through legislation as well just to discuss this whole area.

Mr. Ching: — This is not just a problem as between the legislature or the legislative arm of government or the Lieutenant Governor in Council and the Crowns too. Our board . . . And I can remember when I was part of the holding company for all the Crowns — CIC — I was very concerned about the suggestion that in any way, shape, or form a subsidiary would be used to circumvent the rigours of The Crown Corporations Act. In my mind that might be legally right and there was all sorts of legal opinions that said it was legally right but in my mind it is simply wrong to do that even if it is legally permitted.

But I can tell you that within the operational entity, we have

made it clear to our board and to the committees of our board — and I think we've also made this clear to our shareholder and owner — that we do not take the existence of a subsidiary as any licence to do something or to fail to report something or to properly obtain the approval for something. We treat it as if that something was being done by the parent company itself. So any issue that would normally rise up to the perusal of our board of directors, if it was done by SaskTel, would also be raised up to the perusal of our board of directors if it's done by a subsidiary. Any issue which would normally go to our shareholder — either CIC or cabinet — if it was done by SaskTel, is brought to the attention of our shareholder if it is done by a subsidiary.

So we have applied the rule of absolute transparency between our subsidiaries and our parent insofar as the internal operations of the company and our relationship with our shareholder.

The Chair: — Mr. Toth, I have an indication of some other people wanting to speak on this specific matter. Is it all right if I recognize them now or did you have comments first?

Mr. Toth: — No, that's fine.

The Chair: — Okay. I'm going to recognize Mr. Johnson and then Mr. Aitken.

Before I do, again I want to draw committee members' attention to the Channel Lake report which was tabled yesterday. And there are three recommendations specifically dealing with subsidiaries which may in whole or in part deal with this issue. But committee members, again, I would emphasize you may wish, after questioning Mr. Wright next week about this issue as well, may wish to add additional commentary in the report that we'll be sending to the House regarding this round of Crown corporations hearings.

But recommendation 9 says:

It is recommended that legislation should be amended immediately to ensure that subsidiaries of crown corporations are subject to the same financial reporting requirements and are open to the same Freedom of Information access as the parent crown corporations.

Recommendation 14:

It is recommended that subsidiaries should only be created and divested after clear, complete, and timely prior approval by the Crown Board, the CIC Board, and by order-in-council.

And finally recommendation 15:

It is recommended that subsidiaries should be required to report significant transactions in a clear, unambiguous, and timely fashion to their parent Crown Boards. Fundamental transactions involving substantial sums of public money should be reported to CIC Board and to Cabinet in a clear, unambiguous, and timely manner — and are subject to the significant transactions rules of the Legislature's Crown Corporations Committee.

Mr. Johnson: — In the letter dated November 14 to the Chair

of the Standing Committee on Crown Corporations, Pat Lorje — that I believe everybody received a copy of today — it says that in December, about the fourth, third paragraph, it says in December of '94 SaskTel purchased 40 per cent of DirectWest increasing the ownership from 10 to 50 per cent. Would there have been a request for an order in council to make that purchase?

Mr. Meldrum: — My recollection would be that there was one. I haven't gone back and checked but I believe so. Just the same as when we went up to 100 per cent we got an order in council.

Mr. Johnson: — Prior to the purchase?

Mr. Meldrum: — Yes.

Mr. Johnson: — Then where did . . . Then the other question is where does it come from then that the auditors are reporting that it isn't there? That's the . . .

Mr. Black: — This is in relation to DirectWest itself?

Mr. Johnson: — Yes.

Mr. Black: — Yes. We acknowledge that within our chapter, Mr. Johnson, that for the purchase of the second 50 per cent of DirectWest, Holdco did in fact obtain order in council approval.

Mr. Ching: — I think the concern was with regard to different companies other . . .

Mr. Black: — Yes.

Mr. Ching: — . . . other than DirectWest.

Mr. Johnson: — Okay. That was not where I was at. Thank you, Madam Chair.

Mr. Aitken: — Yes. It was just following on Mr. Toth's questioning that I have a perspective on, that I thought I should add. In connection with your question, Mr. Toth, it seemed that you were saying why . . . why are these transactions happening through the Holdco side of things as opposed to the SaskTel side of things and with the connotation that somehow the Holdco is a vehicle for moving things through more expeditiously without public disclosure?

My perspective goes back several years when — and actually it was advice that came from a firm in connection with . . . the CRTC was going to regulate or there was the offer and the potential for regulating SaskTel. And so there was a reorganization of SaskTel at that time to be organized for the eventuality of CRTC regulation.

In common with all other telephone companies in Canada, you did a similar reorganization within SaskTel and that that's why it exists today. Now the regulatory field has changed since but certainly that was — I just wanted to point out — that was the motivation in the initial phase for why the Holdco scenario. . .

Mr. Toth: — Well, thank you. I appreciate that. But it still doesn't address the concern that's out there about the fact of

making sure there is that public disclosure available and that's the question I think that's at the bottom end that needs to be addressed.

A few questions here that probably should allow for shorter responses . . .

The Chair: — This is a hint, Mr. Ching.

Mr. Toth: — Number one, regarding the 911 system — now maybe that's a bad one for shortness — regarding the 911 system, where are we in that program and to date how much money has been raised with the dollar fee and what's happening to those funds? That's three questions. Sorry.

Ms. Milenkovic: — With respect to 911, I am presently co-chairing the provincial advisory committee along with the deputy minister from Municipal Government. And it has membership from SUMA (Saskatchewan Urban Municipalities Association), SARM (Saskatchewan Association of Rural Municipalities), SAHO (Saskatchewan Association of Health Organizations) and the four areas that have been chosen as the public safety answering points. Those four areas are the city of Regina; the city of Saskatoon; city of Prince Albert; and the south-west, which is located in Swift Current.

Two of those jurisdictions — the south-west and Prince Albert — have now been connected to the provincial system. And what that means is prior to that, everybody that had enhanced 911 used to have their own stand-alone equipment which basically served their base of people and no others. And it was very difficult to expand both the database and the call answering abilities without upgrading and revising equipment.

The other mitigating factor in all of this has been the fact that the stand-alone systems have not been Year 2000 compliant and so there was a need to upgrade and evolve equipment.

So presently we have Prince Albert and south-west. They have been billed only a portion of the costs on the telephone bill, as was requested by users and municipalities and a whole host of individuals, and that being roughly 50 cents per access per residential line. There are other billings for business lines as well.

And so only that portion that refers to SaskTel's infrastructure fees have been collected. We are at the stage now where just this morning at 7:30, Saskatoon has been cut over to the provincial system, and so far, so good. I got a phone call by noon saying that they think that it's up and running. Testing will occur now in the next little while and then there will be a request also to do the second portion of the fee which is the call answering and the operations of the public safety answering points.

Now that has not happened and we anticipate that that will occur or there should be some announcement of that portion before year-end with billing to commence in the new year. So that's where we're at in terms of . . . I can't say how much money has been collected because the billings have been staggered and it depends on the accesses, but the whole idea was that SaskTel's infrastructure investment was \$5.6 million over 10 years.

The portion of the fee that refers to the call answering is based on a user-pay and it is to fund the operations of the public safety answering points and the intent of which is to evolve the 911 system over three to five years to cover the whole province. And so it will be a fixed portion to be collected on the telephone bill. It's not SaskTel's fee; it's the 911's operational fees.

Mr. Toth: — So as I understand it then the operational fees, those are basically just being collected so far in the areas where you've already been involved in . . .

Ms. Milenkovic: — Just the infrastructure fee.

Mr. Toth: — Developing 911.

Ms. Milenkovic: — The operational fees have not been added yet to the phone bills.

Mr. Toth: — So that's 50 per cent in the south-west and P.A. (Prince Albert)?

Ms. Milenkovic: — Yes, and I think roughly it should shake out to be somewhere around a dollar per access once the full billing happens.

Mr. Toth: — Okay. Another question, and I'm looking at figures here without really getting into the annual report. I had a question down here as to how many employees . . . and what I'm looking at, I noticed in your annual report you have number of employees excluding part-time I think for '97, a total of 4,085. What I'd like to know is how many employees in total including part-time? If that number is available?

Mr. Ching: — Nothing seems to be easy with us as you can imagine. We have a complement of full-time regular employees; we then have some part-time employees; we then have summer students; and then we also sometimes work our overtime out to be to individual equivalent or employee equivalent. So you've got to be very wary of figures that you get from us on a number of employees because they may capture anyone or any combination of those items.

Mr. Toth: — And I guess that's the question I was asking, of the actual employees out there, not the fact that there's so many jobs out there that are equivalent employee positions.

Mr. Ching: — Let me see if I can . . . let me give you this information, see if it meets your needs.

Mr. Terry: — I think I've got a summation of it all. As at December 31, 1997, the breakdown is some 3,218 in-scope full-time staff, 111 temporary staff . . .

Mr. Toth: — Pardon me, how many?

Mr. Terry: — One hundred and eleven, 317 part-time and 27 casual, which is some 3,673 total for in scope; management composition are 677, for a grand total of 4,350.

Mr. Toth: — Thank you. I also noticed by your annual report, salaries earned have jumped almost 20 million, going from 170 to 189 million in 1997. What would explain that significant increase? Do we have a number of employees hired in that

year? Or was that the year where we had all the reclassification of jobs and the large salary increases?

Mr. Terry: — No, it's twofold. It's twofold. When you look at the . . .

Mr. Ching: — Whatever it was, it wasn't that.

Mr. Terry: — Right. We wouldn't be that . . . (inaudible) . . . It's twofold. When you look at the number of employees, and in particular the diversified operations have grown, so that area was up some 150 employees; in particular areas such as in that time frame we started counting all the employees of DirectWest, for example, are in that 405 because of the 100 per cent acquisition. So that adds to the tally.

The other thing is there was a collective agreement in the spring of 1996 which was settled with the CEP (Communications, Energy and Paperworkers Union of Canada), so there would have been raises in March 1996, and further raises in March of 1997, which would account for the bulk of the increase.

Mr. Toth: — In the time period '97 and also '96, how many employees would have been offered or have taken early retirement? You'd indicated earlier there have been no layoffs, which was quite possibility true. But I notice — and I'm going by the auditor's report — there's a couple of numbers on here I need a bit of an explanation of: the early retirement plan for '96 is, in brackets it shows, 20. Is that in thousands?

A Member: — Twenty million.

Mr. Toth: — Twenty million dollars.

And then for the year '97, early retirement plan and NST at 34 million. So I'm wondering what those numbers . . . why we have the brackets around the one. Is it because it's on . . . Would that be an expense side versus the . . .

Mr. Ching: — Yes, that was the expense.

Mr. Toth: — Versus the . . . Well how can early retirement plan not be an income . . . not be an expense and be up on top of 34 million without being in brackets on the next . . . I should ask the auditor on that one.

The Chair: — Which auditor would you like to ask?

Mr. Aitken: — The danger of interpreting these two sheets is these are not absolute numbers of revenues and expenses; these are the change — the increase or the decrease in revenues and expenses from one year to the other.

So in the case of the retirement plan in 1996, what that's suggesting is that was an additional \$20 million cost. Okay, 20 million. And therefore it's built into the 34 in the next year, because it's in a continuum of the same exercise. The \$20 million reverses is to . . . and is included in that 34.

Mr. Toth: — So then that means that there are a number of employees who took early retirement packages?

Mr. Ching: — Yes, the \$20 million was the amount that I think

we wrote against our books for the three-year program. That wasn't a one-year amount of money; that would have been over a total of three years.

Mr. Aitken: — Yes, just to jump in on that one and say that's one thing that is very clear in accounting rules is when you have an early retirement plan or incentives of that nature, accounting-wise our rules require you take all upfront. It's not a question of recording a piece as each person signs on and accepts the program. You make your best judgment as to what that downsizing or enhanced package involves and you put that expense through.

Mr. Toth: — Okay, I think I got that. What's the numbers? Do we have a number for those?

Mr. Terry: — There were 480 employees eligible over the three-year period and our acceptance rate has been running historically around the high 70 mark. The first year there was 78 per cent of the eligible employees that take it and the following year, 1997, 71 per cent of the employees eligible took it. And now we're into the third year.

Mr. Toth: — There was one other point here — I'm not sure, I thought I had underlined it someplace — regarding the defined pension benefit. Can't find it right now, unfortunately.

Mr. Terry: — Would it be in the end of the notes to the financial statements . . . ?

Mr. Toth: — Oh, here it is, on page 42. This defined benefit plan — that's the old plan that's basically not carrying itself, correct? SaskTel's portion is 2.8 million? Is that what that figure represents — 2.863?

Mr. Terry: — Sorry, define not carrying itself.

Mr. Toth: — Right. Well there's two pension plans out there.

Mr. Terry: — Yes.

Mr. Toth: — And that first one, wasn't that called the defined benefit . . . basically said your pension is based on your years of employment and best five years.

Mr. Terry: — Yes, indeed and that is the old plan.

Mr. Toth: — So that's not that figure here that I'm looking at then. I guess what I'm getting at is the fact that we have in this province a pension plan right now that is almost . . . unfunded pension liability is what it is.

The Chair: — There's no unfunded liability with the defined benefit plan, Mr. Toth. It's the old plan.

Mr. Toth: — No, right. Not with this one. Yes.

Mr. Terry: — Okay. There in note 16, if I just direct you to the two types of plans. The first plan that's outlined is the defined benefit plan. That is the plan where it's based on your years of service. In that particular plan, the old plan, at that point there is a \$105 million surplus in the old plan.

The new plan which is administered by Public Employees Benefit Agency or I believe it has a new name, PEPP (Public Employees Pension Plan) since that point in time. It is the money purchase plan so where employees . . . there's 5 per cent withheld from their paycheque, the company matches that money and puts it over to Public Employees Pension Plan.

That is the plan which has historically been a point with the Provincial Auditor as to the level of funding for that particular plan, of which . . . After SaskTel matches that money, it has no further financial obligations with that particular plan.

Mr. Toth: — Okay. So that's outside of . . . you have your match to it and then that's right, it's moved from . . . Okay, fair enough.

And you mentioned earlier, Mr. Ching, about digital access services and I guess the question arises when and where are we right now in regards to availability. And when I say where is . . . as far as the digital services coming on-line, will they be restricted to the large urban centres or will this be a province-wide program as well?

Mr. Ching: — Now I assume that you mean digital service in regard to our cellular mobility area.

Mr. Toth: — Yes, that's correct.

Mr. Ching: — Diana, do you . . .

Ms. Milenkovic: — Right now, we have deployed digital services as of October 16 in Regina and Saskatoon and depending on market take, we will see . . . look at how we expand the network. If there seems to be a big migration in new customers coming on to digital, then we will certainly look at expanding the opportunity. We are also providing roaming capabilities with our alliance partners throughout Canada and we also have signed roaming agreements with Sprint PCS (personal communication service) in the States. So we're really at a very early stage but we've got good coverage in the two major centres right now.

Mr. Toth: — In regards to local calling areas — I think we addressed this before — SaskTel is still looking at other options in regards to local calling expanding. I think you mentioned earlier, Mr. Ching, about the fact that there are areas of question, just raising it with the company. I would add this comment: that I was certainly pleased with the response in the way the company dealt with some of the areas we had. Certainly I had constituents come to me and quite concerned about a little area. There seemed to be a little area but was missing the trade area and as a result of consultation we were able to find a common denominator and add them in and include them with what would be their major trade area.

And I guess just one further question in regards to . . . is this an ongoing process and is there kind of a figure in mind as to what you would like to see as an achievable boundary area — the number of boundaries — in the not-too-distant future that you're shooting towards.

Mr. Ching: — Actually the way in which we planned to deal with this is that we have made the changes to the exchange

areas that we feel were necessitated. Now what we have rolled out is a series of bundled packages which allow people to bundle certain services together and to fix their costs by a flat rate within those bundles. We think that that particular phenomenon is going to address most of the last few irritations that presently exist with regard to the exchange areas in Saskatchewan. We're hoping therefore that as the impact of the bundles manifests itself, that the issue of aggravation or irritation over exchange area problems will largely settle down and stay settled down for a number of years.

But this isn't an issue that will go away. This is a dynamic issue. When trading patterns change and when a new facility is built in a certain area that draws people from another area or when certain technologies vest themselves upon the rural part of Saskatchewan, there's going to be further changes in where people live and how they use their telecommunications and that's going to drive us to re-address the issue of exchange areas again sometime in the future. We're kind of holding our breath and hoping that for the next five years the issue of exchange areas is going to settle down and not be a big irritant with our customer base.

Frankly, if there are still irritants out there after the full impact of the bundles that we've put out, we're going to have to pause and reflect on that. Because keeping our customers reasonably happy with us is the first order of business in trying to keep them as our customers. But frankly, we're kind of hoping that the issue of exchange areas is an issue which we've gotten largely off the table for the next number of years.

Mr. Toth: — Thank you, Mr. Ching. Your comment this morning about hoping that we would kind of hold off about really coming forward with further requests regarding boundaries. I take it, and I realize, Madam Chair, that this is into '98, but it's something that certainly people are going to hit us with immediately, so I'd just like to just bring it forward.

I take it then that this new program that you're offering will be coming out in the November bills. There'll be information . . . will that be the first access that people have a chance to really look at it so that we can deal with it. Because, like if someone comes to me — like every once in awhile as MLAs we get a call — I'm still don't have and my phone bill is up over here because I'm missing out on my major trading area. This may address that, but if it's not there, how's the information being presented so that the public is aware of this and . . .

Mr. Ching: — Yes, my request this morning was that if you still sense that there are irritants out there related to exchange area problems, my only request was that you give the bundle aspect of what we're doing a chance to work to see whether it resolves those problems and whether or not they go away as the bundles start to be accepted and used by the people of Saskatchewan.

One of our problems right now is that once we announced that particular program, the response was really quite amazing and our whole capacity to deal with inquiries has been really taken right up by the amount of requests we've had to date. We haven't actually gotten to the point of starting to do outbound calling to our customers to try and sell them, if I can put it that way, because we've had so many inquiries coming in, they've

simply deluged our system at the present time.

So yes, you will be hearing something further from us, whether it's in bill inserts, or whether it's in advertisements, or whether it's in outbound calling from our call centre. Certainly, I think any customer that we have any sense would make good use of the bundles we'll be in touch with them in due course. And as, I think, the pressure eases off from the inbound calls that we're receiving right now, we'll get busy and make the outbound calls.

But certainly if anybody has an interest or an inquiry about whether the bundles would help them, either with the exchange area issue or with any other issue, they should call us. Our system is pretty busy right now, and I hope they bear with us, but they should call us and see how the bundles apply to them.

Mr. Toth: — One further question and that's . . . What's the rate of — or I shouldn't say rate — what would be the total per diem and mileage that the board would have expended in the last year or in the '97 year of its operation? For all meetings, not just board meetings. I understand they meet biannually but I notice too by looking at the annual report that there's different members on different . . . have other responsibilities and functions on the board.

The Chair: — Thank you, Mr. Toth, for asking that question. You've confirmed my faith in human nature — just wondering over lunch whether or not someone would be asking that one.

Mr. Ching: — Do you want us to give that verbally to you now or do you want us to put it on paper because it involves a fair number of figures.

Mr. Toth: — You can send it to us in writing probably.

The Chair: — Submit it to the Clerk with 15 copies please, and we'll distribute it.

Mr. Ching: — All board members' per diems and payments plus their expenses for the calendar year 1997.

Mr. Toth: — Right, for all board and committee meetings. I think there's committee . . . because I notice . . . like on the last page that I see, there's different committees function and the board members.

Mr. Ching: — Yes and we'll include in that basically all payments that we make to our board because we may ask the board to go to a training session in which case we pick up the costs of that as well.

Mr. Toth: — Madam Chair, that covers the questions I had.

The Chair: — And just out of fairness to you, Mr. Toth, I would point out in the past it was customary that committee members used to ask as well for . . . as well as asking for remuneration for board members, they used to ask for senior executive salaries. Did you also wish that?

Mr. Ching: — It's too embarrassing.

Mr. Toth: — Actually if you really want me to get down to

what I want to ask for, I would ask for the list just like Health departments and everything does. That should be the same requirement I would think.

Mr. Ching: — Well, and again I'll give my usual answer which is that we don't mind supplying the salaries of senior officers. We're very sensitive about supplying the information on our staff people. Without a doubt our people are one of our major assets if not our key critical asset as a corporation, and we treat the data on them with great care and caution. Because if a competitor were in a position where they possessed that information it would put us at great disadvantage.

Mr. Toth: — Actually, Madam Chair, just one further comment. The reason I didn't really ask you for senior executive, we just figured Mr. Ching, at half a million dollars was doing very well for himself. That's just being a little facetious.

Mr. Ching: — I'm still looking for the 600,000 that I was quoted to get.

Mr. Toth: — That reclassification we talked of earlier.

The Chair: — I do believe the . . .

Mr. Ching: — Is there a request for senior salaries?

The Chair: — No the request is for the board remuneration and expenses for committee members and board meetings. Thank you, Mr. Toth. I gather Mr. Kowalsky has a question?

Mr. Kowalsky: — Thank you. I've have a question but before I do that if you can, Madam Chair, and Mr. Ching, and officials, I'd just like to take a minute to pass on a couple of compliments, sitting here and listening to some of the accomplishments of SaskTel and listening to some of the things that the opposition members have raised.

And the first comment I want to make is to congratulate SaskTel on their reaction to what's been coming from rural Saskatchewan, in particular the demand for a look at the exchange rates. And I know that I've had those calls and requests for a long time, and I know it's quite a complicated thing to do. And I'm glad that you're looking at it, and you're looking at some things two or three times after you've gotten feedback from the rural communities.

And to follow-up I notice in this bundle that you've just announced here it looks to me like this is . . . might answer, might've answered a lot of questions even about these exchange rate . . . or boundaries before; if we could've come out with the bundle idea before. Fifty-four bucks any time, unlimited, for direct dial residential personal phone calls in Saskatchewan — that sounds like a pretty good deal to me, or \$64.95 unlimited any time in Canada. I think the uptake on that will be quite good, and I'm interested to see if the requests for changes to boundaries continue coming into our office or not or whether this will sort of fade them out. So that's the first little compliment.

The second one is this. Just if you wouldn't pass on through you, Mr. Ching, to the SaskTel Pioneers — I notice that it's

recorded and you have a little piece in here about SaskTel Pioneers — you know, 3,600 retirees all on pension, that's no small, small cadre of people in Saskatchewan. It's good for the communities in which they reside, and the volunteer work that they do. And I congratulate them on 50 years, celebrating 50 years in existence as SaskTel Pioneers and I wish them the best for the next 50 years.

Mr. Ching, one other thing I wanted to mention, there were some comments and questions asked with respect to SaskTel reaching out. I, for one, and I know many people in Saskatchewan take quite a lot of pride in the fact that our people are reaching out, going out to other parts of the world. This tells us that they actually . . . It tell us that we are in the forefront. It lends credence, I think, to SaskTel's claim that you've got state-of-the-art equipment, and that you've got people that are up to date and leading. So it's a benefit to all of us. It's a benefit certainly to those people that go out.

And there's even a sort of a . . . There's help that they may be given that they might not be conscious of, and that is we're always looking for markets outside of Saskatchewan for a lot of our products. And by establishing a good contact or a good reputation in another country, through SaskTel, may even spring other things open over the long haul.

Now I want to ask a couple of questions with respect to access to rural and remote Saskatchewan for telephones into the future. Basically the way I see it is we don't want to lose what we already have. I'm talking about rural or remote. I'm talking about farms, about small communities, about resort villages, where we've got the telephones at a very reasonable rate, and you've mentioned that it's a subsidized rate.

I think the first thing we need to do is get an understanding, and I don't quite clearly understand how it is that you say that these rural or farm lines, let's say, or small areas are subsidized.

The arguments go something like this: the lines have been there for a long time — surely when they were put in they were paid for; the other people from the cities use the lines as well. So how come . . . how do you rationalize or how do you explain it is that the rural telephones in particular are subsidized? What does the line reasoning or what are the calculations to lead you to this conclusion?

Mr. Ching: — Well, first of all, if I can go back to one of your comments about offshore activity. I agree with you — I think that what we do in this area is really important to the longevity of the corporation.

It's also important in a number of other areas. But one of the things that we have noted is that any of our people who go offshore on one of our offshore projects come back a different creature in some respects than what they were when they left. They come back with a much more rounded view. They have an obligation when they're out on one of our projects to be very, very self-sufficient.

They really come back with . . . The best way to describe it is they're like a cat. You throw them up in the air, they always come down on their feet. And it really is a very, very good training ground for our people to do these offshore projects. The

people that come back from them are in some respects some of our most prized employees. Mind you, we send some of our best employees out on these projects as well, too.

There's another aspect that I think bears watching because from time to time we wind up looking seriously at, and in some cases doing projects in, parts of the world that are at best unstable from our vantage point, whether that instability relates to social instability or political instability.

And I know that when, for instance, SaskPower was considering an investment in Guyana, there was an awful lot of talk about, was it too risky? Was there danger to their people?

There is real danger to our people in some of the parts of the world where we do business. That comes with the territory to some extent. You see, in some of these countries if they're ever going to achieve any degree of social and political stability, they must have access to certain fundamental things — like an education system, like a transportation system and a communications system. Those are the web on which a stable society is created.

And so in addition to being good business for us to go out and assist those parts of the world to develop their communication system, we also believe that it is part of the process of allowing those areas to stabilize and to become much more, I guess, similar to the level of stability that we've enjoyed in Canada.

And if nobody ever ventures into some of these hot spots to do work, to do business, they will simply never have the infrastructures that allow for their society to stabilize.

Probably a classic example of that is the work we're doing now in part of Tanzania. We're doing work on that little neck between — it's called the Kegera region — and it's between Lake Victoria on one side and on the other side is Rwanda and Burundi, which as we know in the last number of years is a very, very turbulent part of the world. And we've designed and are building, under the auspices of CIDA, a communications system for that part of the world.

And some people say, gosh, why are you even going to a place like that. Well number one, it's a good business opportunity. But number two, it's critical that places like that in the world get good communication systems. Because if they're ever going to settle down, if they're ever going to achieve some degree of political stability, economic advancement, social stability, it requires that those things be done.

On the issue of subsidy to rural. This is a delicate area because some people infer that somehow or other we're chastising rural Saskatchewan because they receive a subsidy in the way in which the telecommunication system is constructed. That's not what we intend to say. This is not . . . when we say that there's a subsidy to the rural parts of Saskatchewan, we don't mean that to sound like it's some sort of an indictment, that somehow or other the rural part of Saskatchewan doesn't pay its way or something of that nature.

The fact of the matter is that the way in which our telecommunication system was constructed had built into it the concept of equalization of cost to people, but it certainly didn't

have built into it, nor could it have built into it, equalization of cost to serve each customer.

And so our ability to drive a line from one of our switches to a farm two miles out of Regina and the cost inherent in that is altogether different than driving a line from our switch in Shaunavon down to Frontier, Saskatchewan. I mean anybody with a twister of common sense would know that the cost of doing the latter is much more extensive than it is to do the former.

In addition to that as a matter of operating costs, it just costs us more to service the good folks in Frontier than it does to service the good folks in Regina. And that's not because I'm trying to dump on the good folks in Frontier, Saskatchewan because I think poorly of them or because I think that they don't pay their way in our society — that's not the point at all. It's simply that there is a factor of how much capital you invest and the concentration of people which allows you to develop revenue streams to sustain that capital.

And the problem that you've got is very, very simple. The further you go from the centre of the cities, the more your capital cost goes up to build and to operate, and the more your revenue stream goes down because of thinness of population of people to contribute revenue back to sustain that capital.

And so for better or for worse, when we do our normal exercise of costing out how much it costs us to build and to provision and to operate our system, we're led to the conclusion that it costs us more to build a rural system than it does to build our system in the cities. And so hence you've got more revenue where it costs us least to build and less revenue where it costs us most to build.

And there is . . . Inevitably, when you try to standardize the cost to the customer, you're going to get a cross-subsidy develop. It was endemic to the telephone system that was created in Saskatchewan. And believe me, there is a similar type of system within Alberta and Manitoba and Ontario and Wisconsin and Mexico, and practically every other place where there has been a telecommunication system built in the world.

So please don't take any comments that we make as some sort of a slur on the rural people in Saskatchewan because it's not intended in that fashion.

Mr. Kowalsky: — I think what's needed is just a good understanding of how it actually occurs.

Now as we get into the . . . Say you take us 20 months hence, once we fall under CRTC regs, my understanding would be, unless CRTC provides regulations which will allow some cross-subsidy from some place to some place, that what would happen is there would be a pressure — a downward pressure — on how much you could charge residential users in urban centres. Would that be accurate?

Mr. Ching: — In our larger urban centres? There'd be a downward pressure? Oh I see. Okay.

Mr. Kowalsky: — By competition coming from outside.

Mr. Ching: — Yes, sure. When we see competition in local, we're going to see it come into the very core area of Regina and the core area of Saskatoon, because that's really the only area where you can build at a relatively small cost and access a relatively large number of potential customers. And frankly, at the present time that's the only part of our system where we sense any degree of danger to SaskTel's virtual 100 per cent ownership of the local business.

Now if we were to raise rates to \$100 per customer per connection at Frontier, Saskatchewan, you can bet your bottom dollar that we'd have competition, local competition in Frontier.

There's a point at which local competition will come in to any particular market if the amount of capital and the operating costs are such that you can still make a profit on the amount of revenue that you can get from the number of employees . . . or the number of customers that you can potentially attach to.

But competition is going to depress prices or have a downward pressure on prices in the concentrations of employees, and it's going to have an upward pressure on price to customers in thinly populated areas. Just that simple.

Mr. Kowalsky: — Is it your understanding that the 20-month moratorium for the extension from going to . . . for SaskTel to fall under CRTC regs is for the feds to actually develop a system where we can develop a bit of a cross-subsidy so that we can keep our rates from fluctuating wildly in rural and remote Saskatchewan; and if it is and they don't accomplish it, do we have an option? Do we have some kind of an option of maybe getting an additional extension?

Mr. Ching: — You know that the issue of whether or not we have a moratorium or not, while it's vitally important to SaskTel and maybe to other folks in Saskatchewan as well, but it's really not ours to control. That issue has been dealt with by Intergovernmental Affairs and in particular the communications unit, both of which are on the treasury side.

I can only tell you that it's my understanding that at the time that the correspondence was exchanged over the extension to our moratorium, that the provincial government emphasized the importance of a creative approach by the federal government or by the CRTC on the issue of high-cost serving areas, and, I believe, left the door open that if something constructive wasn't done in that area by the CRTC or the federal government, that the provincial government would want to review that issue.

Whether or not that is a condition is something which one would have to decide on reading the correspondence. And since it isn't our correspondence, I can't offer you anything other than the comments that I've already made.

Mr. Kowalsky: — Thank you, Mr. Ching. Thank you, Madam Chair.

The Chair: — Thank you. I have an indication that Mr. Toth had one more question and Mr. Trew has a question.

Mr. Toth: — Thank you, Madam Chair. Just one more question. I kind of thought maybe we'd wait till CIC since we have the minister responsible now as Chair of all corporations.

But I think maybe it's appropriate we ask the question here. And I'd like to also have the travel, cost of travel, ministerial travel outside of the province, outside of the country, and the purpose of the trips as well as senior personnel out of the province, cost and purpose of any trips, province and out of the country. Please.

Mr. Ching: — You want ministerial travel and who else?

Mr. Toth: — Senior SaskTel personnel, executives, if any have travelled outside of the province on . . . like we've talked about all these different projects outside of the province and the country, and just senior executives who would have gone out, travelled to any of the projects. Raise those and the costs, please.

Mr. Caragata: — You're looking for the travel both inside Canada and outside of Canada?

Mr. Toth: — Both.

The Chair: — Thank you. Started the chain reaction here now. I'll recognize Mr. Trew and then Mr. Boyd.

Mr. Trew: — Thank you, Madam Chair. Mr. Ching and officials, thanks for the interesting presentation. My question is one of Y2K, Year 2000. How specifically is SaskTel prepared? Are phones going to work January 1 at 1 in the morning or are we going to have thousands of people stranded trying to call a cab on a phone line that won't work?

Mr. Ching: — Well I'm sure you've perhaps heard this before, but bear in mind that January 1, year 2000, is not the only problem that circulates around this whole Y2K problem.

There's some computers that have been programmed to react negatively to 99 or 999 or 9999. And as you know, 99 first starts January 1 next coming up, and 999 is September 1, 1999, and of course the four nines arise with September 9, 1999. So those dates, at least, and a couple of other ones, are troublesome dates in addition to January 1 of the year 2000.

Year 2000 is a major, major issue for SaskTel. Almost everything that we do within the corporation has got a computer dimension to it. And so of all of the major corporations in Saskatchewan, we probably have more of an issue circulating around Y2K than anybody has.

We've had a team working on this for quite some time. Part of that has been independent work within the corporation. Part of it has been work done with our Stentor partners, because as you can imagine we're part of a national system as well as an independent company ourselves. And of course, part of this work has been done with outside entities, namely our suppliers and some of our customers.

We believe that we have identified all of the Y2K issues related to the, what we call, mission critical aspects of the corporation. We believe that all of those are going to be dealt with properly, and that as those critical dates arise your telephone system will continue to operate and you'll be able to phone your mom or your taxi or wherever else you want to, if and when you want to.

That's not to say that there isn't some element of risk here, because as you know Y2K problems pop up in the darndest places. A lot of people don't realize it but the entry to buildings with a swipe card may very well have a computer chip in it which may be sensitive to those dates. Your car engine may have a computer chip that is sensitive to those dates. Y2K and all of the dates surrounding that particular phenomenon pop up and bite you from a whole number of directions.

We're holding our breath a little bit, but we think we've identified all the critical Y2K issues associated with the essential running of a telephone system. We think we're going to have all of those dealt with and running well so that the system will operate well.

There may be some subsidiary systems which are left to the very last moment and these, as you can imagine . . . Our billing system, while it's critically important to the corporation, it's subsidiary to actually running the telephone. And that's not to say that the billing system won't be fully functional — it will. But there are systems like that which are not mission critical in the sense of actually operating your telephone.

All the mission critical ones will be functioning. We believe all the other ones will be functioning, but obviously they take less emphasis than do the mission critical ones.

Mr. Trew: — Thank you, Mr. Ching. I very much believe that SaskTel is doing everything it can. And I agree with you that it's the surprises that everyone wants to avoid.

I'm confident that you will meet the mission critical target that you have, and even exceed it, that is the telephones will work. The good news is if the telephones don't work people can't call me . . .

Mr. Ching: — Can't call to complain?

Mr. Trew: — Can't call me anyway to complain. But good luck with this.

The Chair: — Should point out that Mr. Ching lost his telephone service during the Thanksgiving blizzard — he couldn't call beyond his 931 exchange. But he's now found a solution for that, have you not, Mr. Ching?

Mr. Ching: — I hope.

Mr. Boyd: — Thank you, Madam Chair.

Mr. Ching, what are the concerns that SaskTel have surrounding the whole area of future deregulation?

Mr. Ching: — Boy, I don't know that I could sum that up very shortly. Let me just tell you that one of the interesting aspects about us going into New Zealand was the fact that that jurisdiction had lifted virtually all of its regulatory framework from the telecommunications industry. There is virtually no regulatory framework in existence in New Zealand.

One of the interesting aspects about becoming embroiled in that particular investment down there was that we would get experience with a highly unregulated marketplace as it affects

our industry in the same way as we learned an awful lot from being involved with the Leicester experience. And being the new competitor challenging the incumbent company allowed us to basically look down the barrel of the gun that was going to be pointed at our heads right here in Saskatchewan when competition was allowed to come in here and suddenly we were the incumbent that was being challenged by the new entrance.

From our vantage point, I look upon the regulatory framework as simply a business challenge. Whatever shape and form that regulatory framework takes, it's incumbent upon us to understand that, to understand where it pinches, and to understand the opportunities that are made available by the regulatory framework. I am a believer that whatever the regulatory structure is, we as a company have got to find a way to operate successfully within the framework.

There's any one of a number of regulatory or non-regulatory frameworks that companies have got to operate in. The successful companies find out what the rules of the game are, understand the chances of those rules being changed from time to time and structure their business in such a way as to be able to succeed within the milieu that they are faced with.

From my vantage point, we recognize that regulation is going to change in Canada. We're constantly looking at that, constantly monitoring it, trying to understand what our competitors see by way of advantages, what our alliance partners see by way of advantages, and what we can determine by way of advantages or dangers to the corporation with any change to the regulatory environment.

One of the things we're doing, for instance, is we're not going to wait until June 30, 2000. We're already in a situation where we believe that we are virtually identical to the regulatory framework that is imposed upon the other companies across Canada with the way in which we operate here in Saskatchewan. There are still some differences.

But we intend to open discussions with CRTC to determine how they view the structure, shape and form of the way in which SaskTel does their business; to determine whether or not they see any problems with the way in which we go about our affairs and their regulatory framework. We want to identify those issues well in advance and we want to understand what it means to us to change so that, frankly, by the time the end of the moratorium comes around we want that to be the most unpainful process we can possibly make it to be.

Mr. Boyd: — How many provinces are currently deregulated?

Mr. Ching: — I'm not entirely sure that I understand what you mean by deregulated. Do you mean . . .

Mr. Boyd: — To have full competition.

Mr. Ching: — All of the provinces in Canada have full competition in long distance . . .

Mr. Boyd: — Local.

Mr. Ching: — And in the area of local, I think all provinces have got the right to local competition, but actual competition is

slow at taking place for the very same reasons that it'll be slow here.

Mr. Boyd: — What would be the reason that you approached the CRTC for an exemption from future competition?

Mr. Ching: — Well if you understand the role of a regulator, the role of the regulator is to protect the general society from an organization that has a very pervasive influence over that society, especially where it enjoys a monopoly, and where that entity is owned by a relatively small group of people. So if you have five or ten people who own a power company or a telephone company, they have the right where they enjoy a monopoly or a semi monopoly to exploit the people who constitute their customer base.

As a general rule, the regulator positions themselves between the customer which doesn't enjoy any power within that relationship and the company which enjoys a lot of power within that relationship. It's been always my belief that partly through this process, partly through a whole number of other processes, the fact that we are owned by the people of Saskatchewan makes us fundamentally different than that particular paradigm in which a regulator usually operates.

If we're correct that we're owned by our customers, if we're correct in saying that those customers have a lot of control over us — whether it's through you people, or whether its through the Provincial Auditor, or whether its through the 45-day rate meetings, or whether its through our regular annual shareholders meetings, or whether it's through meetings on exchange area boundaries, or whether it's through their ability to march into the office of Don Ching and tell him what they think about things — if we're correct that the shareholders and owners of this company, who are also the customers, have a high degree of control, then we have a different paradigm in Saskatchewan than the paradigm which is usually susceptible to the need of a regulator.

Now one can debate that issue until you're blue in the face, but that has always been my view, that if we are truly sensitive to our shareholders as well as our customers, as a Crown corporation should be and as certain processes such as the Crown Corporations Committee and the Provincial Auditor and other entities like that force upon us, then that performs the role of regulating us.

And to have a third party, based in Ottawa, protecting our customers and our owners from the company that they own, is a strange paradigm. We're going to have to try and make that paradigm work. But you can understand my thinking at least, and I don't purport to speak on behalf of anybody else including the government or anybody else within SaskTel. You can see where I view the role of a regulator as being a strange phenomenon in this peculiar animal called SaskTel and the way in which it relates to the people of Saskatchewan through its Assembly and through other public institutions.

Mr. Boyd: — Do you then subscribe to the view that if we see competition at the local level, that we are apt to in rural Saskatchewan see increases to the magnitude of a hundred dollars per month for local service?

Mr. Ching: — Well don't confuse the regulatory environment with competition too much. I say that because the change from the old monopoly environment to the competitive paradigm has been forced by the regulator. They've been the entity that has caused competition to occur.

But then competition operates. And in my mind, even if we weren't regulated by the CRTC, there is going to be pressures within Saskatchewan to either reduce the level of service that rural Saskatchewan gets as it compares to the service obtained by people in the urban areas of the province, or alternatively, the cost of making sure that that is relatively equal is going to have to be embedded back into SaskTel.

And if we in turn try and share that with our customer base it will disadvantage us in the built-up urban areas with our competitors, in which case we'll wind up being a company that only has customers in rural Saskatchewan. When that happens our ability to offset or to cross-subsidize will cease to exist.

Mr. Boyd: — So you do subscribe to that?

Mr. Ching: — No. Let me just go one step further.

Whether we are regulated or not doesn't deal with the issue of whether or not there's going to be an increased . . . increasing inability on the part of SaskTel to keep service between urban and rural equal. That is driven by competition. Where the CRTC can solve that problem is through the high cost serving project that they've been looking at. So the CRTC may in fact be the solution to the problem rather than the cause of the problem.

Mr. Boyd: — Right. So the statements that we hear from time to time from the administration and the minister and many of the backbenchers that the people of Saskatchewan should be greatly alarmed at the future and possible deregulation in the local markets is unfounded.

Mr. Ching: — No I wouldn't say that at all. As long as you . . .

Mr. Boyd: — Well where can you point to examples in Canada where it has happened?

Mr. Ching: — Well let me just address it this way. Where there has been a deregulation of a monopoly and a move to a competitive environment, it's quite clear that all the pressures work to disadvantage the rural customer as compared to the urban customer.

Mr. Boyd: — And you have examples of that?

Mr. Ching: — Well that, in my mind I think, is a statement that is based upon facts that are hard to refute. And it's driven not by the fact that in Manitoba it's happening or any place that's happening. When it's driven . . .

Mr. Boyd: — I'm not aware, Mr. Ching, of anywhere in Canada where there are hundred dollar per month charges in Canada.

Mr. Ching: — No.

Mr. Boyd: — None that I'm aware of.

Mr. Ching: — You're absolutely correct. But I can name you a lot of places in Canada where the grade of service in the rural areas is a lot less than it is in the urban areas.

Mr. Boyd: — Well you've already making me . . . you're already in your most recent announcements surrounding the whole cost of service, you're already offering it at considerably less than that including long-distance services.

Mr. Ching: — I'm sorry . . .

Mr. Boyd: — 64.95 — is that not the figure that we're talking about for long-distance costs. We've seen long-distance costs erode considerably from the levels prior to deregulation. Should not the people be expecting to see the same thing in local service?

Mr. Ching: — Expecting to see it drop?

Mr. Boyd: — Yes.

Mr. Ching: — Well I mean your problem very simply is this: unless somebody can come into a place like Saskatchewan and offer local at a lower rate than we do, they are going to have a hard time attracting customers. There may be a form of technology that allows somebody to do that, but I'm not aware of it at this point in time, and to the best of my knowledge it doesn't exist.

I think that anybody who wants to offer local service to the people in the province of Saskatchewan are going to have to make a capital investment somewhat similar to ours. And if they do that they're going to have the same cost base as we do. And I don't think a private sector company operating in a competitive marketplace is going to make an investment in that sort of a business and simply lose money at it.

Mr. Boyd: — I guess the point of my argument is, is that there isn't all that much evidence, compelling evidence, to point to anywhere in Canada that indicates that we would see the kinds of things happen that the administration is using as a view here in Saskatchewan, that rural subscribers would see \$100 per month cost for local service.

Mr. Ching: — I think though it would be correct to say that if you go to rural parts of Ontario which have traditionally had a situation of where there hasn't been the sense of equality, that there has been perhaps within the province of Saskatchewan, expected of their telephone company, you'll find that if the good folks in Northern Ontario wanted the same type of products and the same level of service as the good folks are getting in Toronto, they'd be paying somewhere in the neighbourhood of a hundred bucks a pop.

Mr. Boyd: — For local service?

Mr. Ching: — Yes.

Mr. Meldrum: — I think it's important to note too that local competition is just starting in Canada, so I think that what you're hearing in terms of higher rates is looking out into the

future. That unless the CRTC does deal with something in the high-cost service area preceeding and come up with a real meaningful . . .

Mr. Boyd: — And that's exactly their intention as I understand it.

Mr. Meldrum: — Yes.

Mr. Boyd: — And the intention of the federal government. The federal government has made it I think relatively clear that they are going to address that area but remote areas of Canada as a whole — not just Saskatchewan. Canada as a whole will not be served in a fashion that is any different than they're being served currently. So I . . .

Ms. Milenkovic: — But I think one of the issues comes in is who subsidizes? Whether or not it's . . .

Mr. Boyd: — Well, we're not talking about the railways. We're talking about the telephones at the moment. We can talk about that another time if . . .

The Chair: — Excuse me, I'd like to have a little bit of order and decorum here. Mr. Renaud, you were not recognized. Mr. Boyd, put your questions and try to avoid arguments, please.

Mr. Boyd: — The point is let's be honest with the people of Saskatchewan. This argument that we are going to . . . that deregulation automatically results in sharp or higher costs in every area that we see, in many cases does not exist. In many cases we've seen it go down, go the other direction. Long distance calling is a good example of that. I'm not convinced that local service will be all that much different.

Just recently I attended a dinner where the president and CEO of Hewlett-Packard (Canada) spoke indicating that, yes, there is indeed work being done on digital technology, cellular technology — his company was highly active in those areas — looking at local service calls as a attractive alternative, attractive profit alternative for companies like his and many, many others. Technology may address those concerns. And he was, the premise of his thesis that day was exactly that, that we will likely see technology address these types of concerns.

And I think that we do the people of Saskatchewan a huge disservice by somehow or another suggesting that any time we want to look at deregulation that it is automatically going to result in higher costs and it is automatically going to result in poorer service. The experiences have not been that; that has not been the case in every area.

Ms. Milenkovic: — I don't think we equate deregulation of CRTC necessarily with anti-competition. If you look at the cellular service itself with respect to what happens in rural Saskatchewan, there are two new competitors in the marketplace in other places in Canada. They don't look at this market as particularly lucrative for them because of the high cost of serving it so they're not going to be . . .

Mr. Boyd: — With the present technology, I'm sure you're correct.

Ms. Milenkovic: — But I'm talking about digital technology as well on the cellular side.

Mr. Boyd: — Yes.

Ms. Milenkovic: — So the infrastructure and the way the population is dispersed makes it difficult for them to build in a manner that will get quick returns so they go to the concentrated urban areas. This is a difficulty that we have with the new technology that you're referring to with Hewlett Packard. I think they're talking about LMCS (Local Multipoint Communication System) which is a fixed kind of wireless option. And there's also, you know, work to be done on that but lots of companies are looking at optional wireless local loop alternatives to provide cheaper service. And so there is an exploration of those kinds of things. It isn't here today and we have to deal with the infrastructure . . .

Mr. Boyd: — Down in the United States there are . . . I think it is Sprint if memory serves me — I saw a recent advertising on American television. Basically their whole advertising scheme was "Every Call is a Local Call" essentially making the United States a local calling area. Those are the kinds of things that are happening in other places within the world and I don't think . . . Again, I think we do Saskatchewan residents a disservice in suggesting that those kinds of options will not be available to Saskatchewan people if we allow future deregulation to take place.

Mr. Ching: — But bear in mind, that you aren't hearing any assertion from the management team that we're opposed to competition or deregulation.

Mr. Boyd: — Oh, I know. I never said that.

Mr. Ching: — There has been a debate as to whether we should be subject to the regulatory authority of the CRTC which is a substantially different issue.

Mr. Boyd: — You've done a very good job, yes, of staying out of that type of argument and you're to be congratulated on it because I think the argument is a losing one. And I think it will ultimately be proven to be a losing argument. Your political masters are up to their neck in it, though.

The Chair: — Thank you, Mr. Boyd. Do you have any further questions?

Mr. Boyd: — No, I think that covers it.

The Chair: — Thank you. Is there any further questions from committee members?

Mr. Trew: — I move:

That the Committee on Crown Corporations conclude its review of the annual report and financial statements of Saskatchewan Telecommunications Holding Corporation and the subsidiary financial statements of Saskatchewan Telecommunications and Saskatchewan Telecommunications International Inc., all for the years ended December 31, 1996; and financial statements of Saskatchewan Telecommunications Holding Corporation

and the subsidiary financial statements of Saskatchewan Telecommunications and Saskatchewan Telecommunications International Inc., all for the years ended December 31, 1997.

I so move.

The Chair: — Thank you. It has been moved by Mr. Trew. All those in favour please indicate? Thank you. Hands down. Opposed? There being none, that motion passes.

Since the hour is well before the hour of 5 o'clock, I require a motion of adjournment. Mr. Renaud moves that we adjourn. All those in favour?

Thank you. The committee stands adjourned until 9 a.m. tomorrow morning at which point we will consider SGI (Saskatchewan Government Insurance).

The committee adjourned at 3:20 p.m.