



## **Legislative Assembly of Manitoba**

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**STANDING COMMITTEE**

**ON**

**PUBLIC UTILITIES AND NATURAL RESOURCES**

**Chairman**

**Mr. Warren Steen**

**Constituency of Crescentwood**



**TUESDAY, JUNE 6, 1978 10:00 A.M.**

**Hearing Of The Standing Committee  
On  
Public Utilities and Natural Resources**

Tuesday, June 6, 1978

me: 10:00 a.m.

**CHAIRMAN:** Mr. Warren Steen (Crescentwood).

**MANITOBA TELEPHONE SYSTEM**

**R. CHAIRMAN:** Thursday when we broke at 12:30 or thereabouts, members were discussing the data processing aspect of Manitoba Telephone System. I do not have anyone on my list who wishes speak.

The Member for Transcona.

**R. PARASIUK:** I just want to go on the list. I don't have anything further to say on the estimates.

**R. CHAIRMAN:** You shall be first then. Mr. Parasiuk.

**R. PARASIUK:** I had indicated to the Minister previously that I would like to get the position of the government of the day regarding the question of cable television in Manitoba, especially the position of the government regarding the question of ownership of the cable. There are arguments that are constantly put out in favour of private ownership of the cable and I've seen a number of press conferences recently and I was never really that closely associated with this policy, I just wasn't involved with it, and I'm not very knowledgeable of the policy issues involved. I was wondering if the Minister or the chairman of the Manitoba Telephone System could give us the government's position and discuss some of the issues that have been raised with respect to this question of whether MTS should own the cable or whether in fact private companies should own the cable.

**R. CHAIRMAN:** Mr. McGill.

**R. MCGILL:** Well, Mr. Chairman, the Manitoba Telephone System has, in our view, a role to play as a common carrier. The differences which have arisen in respect to ownership of hardware relate particularly to the ownership of house-drops in the newly developing areas of the province and in terms of the license authority of the four companies who have been granted licenses by the RTC.

The government has taken the position that in the interests of maintaining access to cable capacity, and in the interests of making access available in the future for services which maybe now are contemplated but are not in a state of development that enables them to be provided over a coaxial cable system, and to maintain the greatest possible access in the future for the kinds of services that are perhaps not yet even contemplated, that it would be in the public interest not to fragment the ownership of the delivery system; and to maintain the ownership along with other segments of the delivery system with the common carrier seems to us to offer the greatest advantage to the private sector, in general, in the future where not just private corporations now involved in the provision of services over this cable, but others who may perceive an opportunity in the future to provide new services, that their ability to enter the market and to compete with those established in the market will not be impeded by any fragmentation of the ownership of the means of delivery.

So, in general terms, Mr. Chairman, I can say that the position of the government is that we could, by adopting in respect to the newly licensed companies in areas outside of Winnipeg, be in favour of licensing by CRTC that would permit MTS to own the house-drops.

**R. PARASIUK:** Is the Minister in a position to tell us whether in fact the ownership of the delivery system by a common carrier is more efficient and less costly than having a fragmented delivery

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system. There is some argument that what is being done right now is somehow more costly than it would be if it were done in a sense by the private sector acting separately and individually.

**MR. MCGILL:** Well, Mr. Chairman, I think this question relates to the technology which has been selected by the common carrier to deliver a signal to areas outside of Winnipeg and I think that it might more properly be responded to by the chairman of the Manitoba Telephone System those of his staff who are involved more directly with these highly technical areas.

**MR. CHAIRMAN:** Mr. Holland.

**MR. HOLLAND:** Well, Mr. Chairman, it's our view that at the present state of technology and meeting the service requirement dates of the licensed operators, that the plan that has been developed is the most effective of the options that are available. Mr. Backhouse may want to join us and discuss that in more depth.

Mr. Chairman, MTS has prepared a fairly brief discussion paper on this general area. It was prepared to answer questions that come from our own employees primarily with the periodic public that the subject receives. If it would be useful to members of the committee, we could make copies of that available.

**MR. CHAIRMAN:** Is that the wish of the committee?

**MR. PARASIUk:** Yes.

**MR. CHAIRMAN:** Perhaps we can have the distribution of these copies referred to by Mr. Holland before we carry on with the discussion. Are there any questions by members of the committee or other members of the Legislature regarding the four-page document? Mr. Schreyer.

**MR. SCHREYER:** Mr. Chairman, while this document's being distributed and read, in pursuing the question still of the contention about the ownership of the drop or drop-in hardware. In trying to keep it in layman's terms, is it basically a question of trying to avoid a situation in the future where there is a much wider use for that hardware than only video or television signal, and therefore is really in looking to the future possibility and potential in trying to guard against fragmentation that causes the telephone system to want to retain ownership and technical operation of those drop-wires?

**MR. CHAIRMAN:** Mr. Holland.

**MR. HOLLAND:** Yes, Mr. Chairman. It is a network that we think will be useful for a variety of services in the future. This was foreseen in the 1967 agreement with the Winnipeg operators. That agreement provides that MTS may replace amplifiers at its option and may purchase the house-drop at depreciated value. That agreement, of course, was enacted before the formation of the CRT and has persisted through to the present time. It has very recently been renewed for a further five-year term.

**MR. SCHREYER:** I'd like to pose a question in the form of trying to visualize some alternative scenario.

Let us suppose that cablevision operators did have ownership and control of the drop-wire into homes. Now at some future point in time alternative signal uses arise that really have nothing to do with commercial cablevision. What would be the alternatives open then, that the cablevision operators would in effect be broadening their operation into non-television applications, or alternatively that those companies involved in whatever other signals are involved, would have to buy or lease service from the cablevision operator, or is there some third alternative yet beside that?

**MR. HOLLAND:** The situation, Mr. Chairman, would be that MTS would control the electronic highway with no exits.

**MR. SCHREYER:** With no exits.

**MR. CHAIRMAN:** Mr. Orchard, would you get a microphone in front of you please?

**MR. ORCHARD:** Thank you, Mr. Chairman. I'm not totally familiar with the current dispute over cablevision, or the current situation cablevision delivery in rural Manitoba is at, but as I understand

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t, CRTC in Ottawa has granted licences to certain operators in rural Manitoba with the proviso that these operators own the drop hardware as a condition of their operating licence. Where the apparent deadlock is, is that Manitoba Telephone System would prefer to own the total system including drop hardware to the individual user's home, or whatever. That would put Manitoba into a position where we have two systems in operation. As I understand, the situation in Winnipeg is the individual cable companies own the drop hardware and MTS would prefer the rural cable companies just to rent the entire system. How is this going to affect future negotiations with say, the Winnipeg companies, when they own the drop hardware? Is there going to be an attempt to make either the rural system similar to the city system, in other words, is the city hardware going to be owned at some point in time by the Manitoba Telephone System?

**MR. HOLLAND:** Mr. Chairman, there was a decision in August, 1977, licensing three operators outside Winnipeg to serve some 28 or 29 centres. That decision is somewhat unclear, but it does suggest that those licensees should own the drops, the house-drops. MTS has not offered contract services under those terms, so there has been an effort by the new licensees to gain a modification to their licence under which they would rent house-drop service from MTS. The Winnipeg contracts were renewed for a further 5 years; the two licensees own the house-drops, but the contract provides that MTS may acquire ownership at any time at the depreciated value of those house-drops.

**MR. FOX:** Thank you, Mr. Chairman. My question is in respect to a cable service between hospitals and who operates it and how is it operated?

**MR. HOLLAND:** Mr. Chairman, MTS provides the transmission service under contract with the two hospitals involved. They provide the equipment in-putting the signals and all content that is transmitted over that line.

**MR. FOX:** You mean they do their own videotaping and you just service it in between the two hospitals? Can you name the two hospitals?

**MR. HOLLAND:** Yes, Mr. Chairman, it's the Health Sciences Centre and the St. Boniface General Hospital. It is largely used for their professional teaching programs.

**MR. FOX:** Is there any expansion contemplated to other hospitals?

**MR. HOLLAND:** Mr. Chairman, yes, that has been studied by several institutions and there is considerable enthusiasm for it, and I presume that will proceed when funds are available to introduce the service.

**MR. FOX:** Can we have an outline of what kind of revenue they are receiving from that?

**MR. HOLLAND:** Mr. Chairman, I don't have that information here. We could obtain it and provide it to the Committee.

**MR. FOX:** That's it. Thanks.

**MR. CHAIRMAN:** Mr. Walding.

**MR. WALDING:** Mr. Chairman, I wonder if Mr. Holland could explain to the Committee what other possibilities there are for future use of cable television into homes?

**MR. HOLLAND:** Mr. Chairman, the coaxial cable has a large capacity. Some of the services are dependent on two-way amplifiers. For instance, the Winnipeg system is one-way at this point. The rural system will be two-way amplifiers. But some of the services that have been discussed are pay television, data communications, alarming systems, automatic alarming for fire and illegal entry, and additional voice services.

**MR. WALDING:** So, many of these services that you mentioned would be signals going from the home to some other location, as opposed to only signals going in one direction at the moment, to the home. Do I follow you correctly?

**MR. HOLLAND:** At the present time the coaxial network goes into the home and to the television receiving set. It is capable of going into the home and being activated from the home and to other terminal equipment than the television set.

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**MR. WALDING:** Is this the root of part of this dispute presently going on over the ownership of the coaxial cable? Or to put it another way, who will run these future services to homeowners?

**MR. HOLLAND:** Mr. Chairman, I can only cite MTS's view. Its ambition is to continue to provide the transmission aspects of those services. The Canada-Manitoba Agreement precludes involvement in the content or the message portion, but MTS is anxious to continue to be the provider of the transmission service.

**MR. WALDING:** If some time in the future one of these other services were to be set up, such as a fire alarm system, do you see MTS as owning this alarm system, or would it be sold or made available to some private operator to rent the use of the cables, or would it be owned or controlled by the present cable companies?

**MR. HOLLAND:** Mr. Chairman, I don't think that MTS would have any position as to who should provide the service. It could be any legally qualified client of MTS, including the existing cable television licensees.

**MR. WALDING:** Would they have any priority position, or would they be treated as any other company wishing to provide the service?

**MR. HOLLAND:** Mr. Chairman, there are long-standing and very prominent clients of MTS, and we would certainly intend to respond to any initiatives that they made in this area.

**MR. WALDING:** On a slightly different point, you mention that the coaxial cable that's going out to the rural areas is presently configured so that signals can go both ways. Would this indicate that services in the future could be offered earlier to rural subscribers than to Winnipeg subscribers?

**MR. HOLLAND:** Mr. Chairman, the plant is relatively new and it uses the latest technology, and I would suspect that that would be the case with certain services.

**MR. WALDING:** In your report that you gave to us last week, there is on the page labelled "CATV" mention of determination of cost-sharing arrangements by the Association of Cable Operators of Manitoba and the CRTC. Can you explain to the Committee what cost-sharing arrangement are?

**MR. HOLLAND:** Mr. Chairman, while I have the opportunity, did I mention pay television as another probable service on coaxial cable? It's one that has had a good deal of interest.

The CRTC, in its decision of August 1977, licensing the three operators outside Winnipeg, required that they join with the two licensees in Winnipeg and develop and submit for CRTC approval, suitable cost-sharing arrangements on the inter-city or inter-centre transmission costs.

They have formed a group known as the Associated Cable Operators of Manitoba and they are charged by the Federal Regulatory Authority with developing those proposals.

**MR. WALDING:** Could you expand a little more on just what that means?

**MR. HOLLAND:** Mr. Chairman, the situation in Manitoba is that the great concentration of population and potential cable users is in Winnipeg and environs, which is also close to the U.S. border. Economically, the extension of the service beyond Winnipeg, Brandon, Portage la Prairie and Selkirk would require some form of subsidy from the Winnipeg cable subscriber. This has been well recognized in at least two major CRTC hearings in Winnipeg. MTS submitted an extensive brief on this subject as did one of the Winnipeg licensees, or Winnipeg operators, pointing out that this would be a necessary part of the extension so that principle has been accepted by CRTC.

**MR. WALDING:** Would this subsidy be involved only in the initial cost or in the ongoing rental of the equipment?

**MR. HOLLAND:** The system that's contemplated would be an ongoing part of the monthly subscription rate used to offset, as I say, the inter-City portion of costs, not the local distribution system by the way.

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**IR. WALDING:** Could you tell the committee whether any figures have yet been developed or agreed to, what sort of monthly charges would be likely to be paid by some of the towns and cities listed in your list? Is there a recognized amount of subsidy or is this still in the negotiation stage too?

**IR. HOLLAND:** Mr. Chairman, may I ask Mr. Backhouse to comment on this?

**IR. CHAIRMAN:** Mr. Backhouse.

**IR. BACKHOUSE:** Mr. Chairman, the amount of the subsidy really has not been resolved by those parties who have the responsibility for resolving it. MTS, at the last public hearing, did identify some suggested rental figures which embraced subsidies, and the present rural licensees are licensed to a rate whereby the inter-City delivery portion of the cable system would embrace a monthly rental of \$1.60 for each subscriber in the 29 additional communities. Now in order for that rate to be able, it's dependent on a subsidy from each Winnipeg subscriber of 50 cents per subscriber, and that rate was offered by MTS as but one suggested way by which the costs of the inter-City delivery system could be met.

**IR. WALDING:** Could you give the committee any indication of what subscribers in Portage and Brandon can expect to pay when this system comes into operation?

**IR. BACKHOUSE:** In general terms, the CRTC licences have been issued at a monthly-subscriber rate in the vicinity of \$10.00. Now there is some variation from community to community but in general terms they are of that order.

**IR. WALDING:** Can you tell the committee whether there is any cross-subsidization between the bigger population centres like Brandon and some of the smaller ones that you have listed here, or is it only between Winnipeg and all the rural areas?

**IR. BACKHOUSE:** Mr. Chairman, the general principle that we've endeavoured to follow is that the distribution system within the towns and communities should stand on its own feet insofar as the monthly subscriber rate is concerned, and that the cost sharing should be limited to some cost sharing of the inter-City delivery system only. Now that's generally the principle that we have suggested.

**IR. WALDING:** May I ask the question in another way? Will the subscribers in Brandon be paying a lesser rate than the subscribers in Carberry because of the population difference?

**IR. BACKHOUSE:** Mr. Chairman, yes there are some variations between those rates in those communities. The smaller communities, the general nature of cabling, the local distribution system is such that a higher rate is required in the smaller communities.

**IR. WALDING:** The figure of 50 cents a month per Winnipeg subscriber, is that now settled or is that still before the CRTC, and are they the people who make the final decision on that amount?

**IR. BACKHOUSE:** Mr. Chairman, the figure of 50 cents is not settled, the responsibility for settling in accordance with the CRTC's decision rests with the Association of Cable Operators of Manitoba. The policy of the commission is to allow that group which comprises all of the licensed cable operators of Manitoba to see if they can work out an agreeable cost sharing solution amongst themselves, and to the best of my knowledge no resolution of that matter has been arrived at yet.

**IR. WALDING:** This is a hypothetical question, and I don't know whether you can answer it from our calculations that I know that you've done. You gave the committee a figure of approximately \$10.00 a month in round figures for many of these towns and communities — can you give me an estimate of how much higher that would have to be if there were no 50 cents a month subsidy by Winnipeg cable subscribers?

**IR. BACKHOUSE:** Mr. Chairman, that figure, if there is no subsidy, varies rather dramatically depending on what community you're talking about. The more northern communities that are licensed at the present time, where the costs to extend into those communities are fairly substantial and where the subscriber base is small, have generated rates closer to \$20.00 a month, if there is no cost sharing by Winnipeg subscribers.

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**MR. WALDING:** Can you give me an example of a northern area with a small population base one that you're referring to?

**MR. BACKHOUSE:** Mr. Chairman, the one that comes to mind is Roblin as being one of the more remote locations that is presently licensed.

**MR. WALDING:** Can you give me a comparable figure, say, for a larger area such as Portage la Prairie or Brandon?

**MR. BACKHOUSE:** Mr. Chairman, I'm sorry, I'm going from memory on some of these rates, but the Portage and Brandon rates would be around \$9.00 predicated on . . . Well, they would go up as well if there was no subsidy from Winnipeg. They would be in the range of \$10.00 or \$11.00.

**MR. WALDING:** You're telling us that that subsidy really wouldn't have that much effect on the larger centres like Portage and Brandon, but it's the more remote, smaller settlements that would benefit most from a Winnipeg subsidy.

**MR. BACKHOUSE:** Mr. Chairman, that is correct.

**MR. WALDING:** No more questions.

**MR. CHAIRMAN:** I have three persons who have indicated they wish to ask questions: Messrs Parasiuk, Orchard and Schreyer.

Mr. Parasiuk.

**MR. PARASIUK:** Thank you. From this paper that you've just distributed, it would appear that there are four reasons for the MTS owning the delivery system.

One is the greater efficiency and you point out that MTS is a natural monopoly and this carries forward into the whole area of delivery system of coaxial cable.

Secondly, to reduce barriers to entry for a smaller companies that would want to get involved and I think that that is a very valid point. It would strike me that smaller cablevision companies can get started in these local communities that couldn't, if they had to set up the hardware themselves.

Thirdly, I think you're trying to provide for greater geographical equitable distribution of the service to all Manitobans. I don't know if that necessarily would happen if you had it being done by a fragmented private sector.

I guess fourthly, you are trying to protect your natural monopoly position. I think you are saying this on Page 3 when you say — I think it's the fourth paragraph — "If this occurred, it would also be possible for the cable operators to use these publicly-owned rights of way to go into competition with MTS for present telecommunication services." Has there been any possibility of cable companies going into competition with MTS with respect to present telecommunication services or are you just trying to preclude that possibility happening because you could end up having, I think, some forms of creaming taking place. Is that correct when you make that statement on Page 3?

**MR. HOLLAND:** Mr. Chairman, I think those observations are valid. The pace of extension of service throughout Manitoba centres for cable television is, of course, determined by the CRTC, the federal licensing authority. Again, I would say that MTS is anxious to preserve its telecommunications role without commenting on which clients should contract for services or for what services.

**MR. PARASIUK:** What is the position of Alberta in this respect? The reason why I raise Alberta is that Alberta had put the position to the Federal Government that railroads should be publicly owned and treated, in a sense, as highways, with reduced barriers to entry for various carriers on railroads as a result of that. That proposal, I think, was treated with the due respect that all western proposals seem to be treated with from the Federal Government and was put away and rarely commented on. Yet this was one that emerged at the WEOC Conferences in 1974. Has Alberta taken that type of position with respect to coaxial cable as well because often the comparisons are thrown up in our faces about what other provinces are doing?

**MR. HOLLAND:** Mr. Chairman, of the three publicly-owned corporations, I would say the policies in Saskatchewan and Manitoba have been similar. Alberta, it's my understanding that they do permit a so-called pole attachment contract and insist on preserving the inter-city facility as exclusively

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Alberta Government Telephone. Mr. Backhouse may want to correct that or . . .

**MR. BACKHOUSE:** Mr. Chairman, no, I think that's reasonably accurate, quite accurate.

**MR. PARASIUUK:** When you say pull attachment, what do you mean by that? Oh, pole attachment, I'm sorry, I didn't get that. Okay.

On Page 2 of your report, or the one you distributed this morning, the information piece, you say that although there was provision in the 1967 agreements that MTS may adjust the monthly rental rate bi-annually, the May 1977 increase has been, I guess, disputed by the two cable operators in Winnipeg and they have taken this before the Public Utilities Board. I haven't followed that issue but I was wondering if there was any particular reason for the companies taking this before the Public Utilities Board other than the feeling that their rate increase was too high. Was there any other issue involved?

**MR. HOLLAND:** Mr. Chairman, that is one of the provisions of the Canada-Manitoba Agreement, that if the Minister deems that a dispute exists, then he undertakes to seek a referral of the dispute to the Public Utilities Board for adjudication and our customer has chosen to follow that route.

**MR. PARASIUUK:** The dispute is basically one then of price, is that correct with respect to this matter, he 20 cents per hundred feet of cable in the monthly charge?

**MR. HOLLAND:** That's my understanding, that the company has indicated that's their basis for seeking a PUB referral.

**MR. PARASIUUK:** Following up on Page 3, you indicate that the CRTC evolved a policy of imposing certain hardware ownership conditions as a method of regulating the cable TV industry. It strikes me then that the CRTC seems to have a different position on this matter than the Manitoba Government has had and has at present and a different position than the Federal Government has. Is that matter of an agency creature of the Federal Government deciding to strike off on its own and establish its own policy with respect to the telecommunications industry in Canada been resolved or is it still a continuing difficulty?

**MR. HOLLAND:** Mr. Chairman, the CRTC has some extremely complex decisions to make; they have to consider matters of Canadian content and advertising practices and broadcasting practices plus different circumstances in different areas of Canada so that I wouldn't want to comment generally. In our own situation, this has been the subject of policy discussion between Manitoba and Canada and I think the agreement signed indicates that there has been a policy accord. Now, every effort is being made at the moment to see that practice reflected in the Manitoba decisions.

**MR. PARASIUUK:** Although I see that on the bottom of Page 3, the CRTC has recommended that cable operators retain house-drop ownership. That is contrary to the intent of the Manitoba-Canada Agreement, isn't that correct?

**MR. HOLLAND:** Yes, Mr. Chairman.

**MR. PARASIUUK:** How is that conflict between what the CRTC wants and what the Federal government and the Manitoba Government want by way of their Manitoba-Canada Agreement going to be resolved?

**MR. HOLLAND:** Mr. Chairman, from the point of view of the licensees, it's being pursued very vigorously through their efforts to have a modification to their license accepted by CRTC. The Minister, I think, would have to comment on the governmental policy aspects.

**MR. CHAIRMAN:** Mr. McGill.

**MR. MCGILL:** Mr. Chairman, as to how this matter will be resolved, we are hopeful that some progress will be made. I'm advised that there is a meeting of the rural licensees with the CRTC this week in Ottawa and there has been some indication that this will be a major item of discussion and there is some reason to believe that possibly a beginning may well be made to resolving this apparent difference between the interpretation of the CRTC and the Federal Department of Communications with respect to the terms of the Canada-Manitoba Agreement which, from memory on this particular subject, provides that the carrier may own the drop hardware and it is that area

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that has been, up to this time, a problem of resolution and, as I say, I am rather optimistic that perhaps as a result of the meeting coming up this week, that some progress may be made to overcoming this difficulty.

**MR. PARASIUK:** I understand that a couple of weeks ago there were some meetings of the CRTC dealing with the Manitoba situation which were held in Calgary. Is that correct? Were these meetings held in Calgary and were they dealing with the Manitoba situation or were they dealing with some other situation?

**MR. HOLLAND:** Mr. Chairman, I understand that there was a hearing in Calgary at which an application from a Winnipeg operator was heard having to do with his subscriber rate provision.

**MR. PARASIUK:** So it didn't have to deal with this particular issue then?

**MR. HOLLAND:** My understanding is that it did not relate to this particular issue.

**MR. PARASIUK:** Oh. So there are meetings taking place in Ottawa between the operators in smaller communities. Are these the two Winnipeg operators as well and the CRTC to try and resolve this issue? Will Manitoba, will the MTS be represented at these meetings as well or is it just some type of meeting where the Manitoba interest in a sense, won't be represented?

**MR. McGILL:** Mr. Chairman, the meeting to which I referred, my advice is that this will involve the rural licensees and the CRTC and the CRTC will be discussing with the rural licensees the terms of their present licenses and the possibility of modifying those licences to conform with the interpretation we are placing on the Canada-Manitoba agreement in respect to the option which is available to Manitoba to have the drop hardware owned by the carrier.

**MR. PARASIUK:** Mr. Chairman, I am wondering if either the Minister or the Chairman of MTS could indicate why the CRTC is so concerned about the MTS owning the house-drops. Why are they so concerned?

**MR. McGILL:** I would not like to attempt to describe or speak for the CRTC. In explaining their position, I can only interpret it as being somehow involved with their control of the activities and programming provided by those people to whom they have issued licences, and that they feel that for this segment of the delivery system to be owned by the group or corporation that is licenced by them to provide the programming service. **MR. PARASIUK:** Do they somehow feel that freedom of choice will be infringed if the MTS owns the house-drops, or did they feel that their particular control will be infringed? It strikes me that MTS owning the telephone hardware has not created any difficulties for anyone in Manitoba or Canada and I can't understand why the MTS is being so particular about this aspect. The point is that if the CRTC rules against the MTS's position, people will ask a number of questions and I still don't have a clear idea in my mind as to why the CRTC would be so concerned about the MTS owning the house-drops. Does it have anything to do with some type of infringement of freedom of choice in broadcasting? Is that what they are concerned about, or is it a power struggle?

**MR. CHAIRMAN:** Is that question to Mr. Holland or Mr. McGill?

**MR. PARASIUK:** Well, whoever can provide the answer, and whoever would like to try to deal with it, that's the point. Maybe you're stepping on toes. I know that you wouldn't want to sort of step on the toes of the CRTC before they make their decision, but at the same time, I think this issue has been going on for some time now and at some stage, one wonders who is sovereign in this country, the CRTC or the Federal Government?

**MR. McGILL:** Mr. Chairman, I mentioned at the outset that I didn't wish to speculate on the reasons for the particular positions taken by CRTC in this connection and I think that I would not wish to comment further on what their underlying reasons are for preferring the situation of the ownership of drop hardware by the licensee.

**MR. HOLLAND:** Mr. Chairman, the Minister may want to note that there has been a bill placed twice, I believe, on the House of Commons Order Paper, which would permit the national Minister to provide policy directives to the regulatory agency. It stands on the Order Paper at present.

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**MR. PARASIUJ:** So that means then that if they can process the bill through Parliament, Parliament still is sovereign.

I really can't understand why the Minister doesn't want to give the CRTC's position in that there is, I think, a dispute between the Government of Manitoba and the CRTC. If he doesn't want to provide it for fear that it will hurt the negotiations with the CRTC, could I then get their position privately? Have they written their position out so that I could get it and take a look at it, because I think that if Manitoba is in dispute with the federal regulatory agency, I'd like to know the other side of the argument so to speak. Is that possible, have they written out an opinion in this respect that could be given to us?

**MR. CHAIRMAN:** Mr. McGill.

**MR. MCGILL:** Mr. Chairman, any opinions that have been given are public information as a result of any hearings that may be held. I don't know of any document other than that which has been publicly given as a result of hearings that may have been held in the past in this connection. So, I'm not able to provide the member with any additional written explanations on this subject.

**MR. PARASIUJ:** Could I ask the Chairman of the MTS whether the CRTC has written anything formally to them regarding their position on this matter. Surely if you've appeared before them and surely if there has been some discussions, you must have in a sense written out both positions, our position and their position to determine where there are differences and whether there might be ground for agreement. Do you have any such documentation?

**MR. CHAIRMAN:** Mr. Holland.

**MR. HOLLAND:** Well, Mr. Chairman, the communications are between the provincial Minister and the national Minister and their respective staffs and between our clients, the licensees and their regulatory body the CRTC. I think the only thing we could suggest, Mr. Chairman, is to provide Mr. Parasiuk with copies of the published decisions of CRTC of August 1977. They are given in some depth and we could provide those.

**MR. PARASIUJ:** Thank you. At any of these hearings have the Winnipeg operators put forward their position because on page 3, again in paragraph 2, you say that Winnipeg operators support the CRTC's policy which seems in variance with the policy of the Government of Manitoba, and they feel that total ownership, MTS ownership of the coaxial system and the control of broadband capacity thereby is not in the public interest. Now, that's a pretty strong statement. Have they supported their position and is there any documentation in that respect that one could get and look at somewhat systematically to see what their position is?

**MR. HOLLAND:** Mr. Chairman, there have been two public hearings in Winnipeg dealing largely with these issues. MTS has appeared before the CRTC on those two occasions and I presume transcripts or resumes would be available from those two hearings.

**MR. PARASIUJ:** Okay, I'll check with the CRTC to see if I can get them. I think that one of the questions that the Member for St. Vital was asking Mr. Backhouse was, will the Brandon residents who are living in a larger urban centre in Manitoba, have to pay any cross-subsidization costs? And, I don't know whether Mr. Backhouse answered that. I know Winnipeggers will be paying supposedly 50 cents a month more, or in the vicinity of 50 cents a month more. Would Brandon residents, or more correct subscribers have to pay anything more than they would normally pay to provide for cross-subsidization for Stonewall or Boisvain, or places like that.

**MR. CHAIRMAN:** Mr. Backhouse.

**MR. BACKHOUSE:** Mr. Chairman, the successful applicant in the case of Brandon is Westman Media Co-operative Ltd. who are licensed to serve a fairly large number of communities in the western portion of the province and under their application they proposed averaging their rate between all of the communities which they were licensed to serve, and the approved monthly tariff by the commission covering those communities is \$10.00 a month rental with an installation fee for the service of \$25.00.

**MR. PARASIUJ:** Okay. On page 4 of your note you say that Birtle has been singled out. . . CRTC has requested a license application, is there any particular reason why that is in there?

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**MR. BACKHOUSE:** Mr. Chairman, I didn't hear the name of the community.

**MR. PARASIUK:** Birtle, on your own . . .

**MR. BACKHOUSE:** Birtle.

**MR. PARASIUK:** Yes, Birtle is singled out and put in parenthesis that CRTC has requested a license application for Birtle. This is page 4 of your own release.

**MR. BACKHOUSE:** Mr. Chairman, the communities which were applied for by Westman Media Co-operative are the ones that are identified there and that's in particular those in the western portion of the province, and because interest was expressed by the town of Birtle to the CRTC and since Birtle was not one of the communities initially requested for licensing by Westman Media, the commission, that is the CRTC when it made its order, requested Westman Media to extend its service package if you like, to include the town of Birtle.

**MR. PARASIUK:** Thank you. Then I take it from your comments that all of these communities listed on page 4 are in fact, going to be served by Westman Media Co-operative Limited, is that correct?

**MR. BACKHOUSE:** Mr. Chairman, that is not entirely correct. The communities which Westman Media is licensed for are Brandon, Dauphin, Gladstone, Melita, Rivers, Souris, Virden, Boissevain, Deloraine, Grandview, Minnedosa, Roblin, Ste. Rose du Lac, Carberry, Gilbert Plains, Killarney, Neepawa, Russell, and Swan River. The remaining communities and in particular that would refer to Selkirk, Stonewall and Teulon are licensed to a different operator and will be served by that operator. There are four new licensees, Westman Media is one, Portage Cable Television is the second one which is licensed for the single community of Portage la Prairie only and the third licensee serves Selkirk and area, and the fourth licensee serves the Altona-Carmen area. So there are four licensees covering 29 communities, the bulk of which will be served by Westman Media.

**MR. PARASIUK:** Did the two Winnipeg operators apply to serve these other communities as well?

**MR. BACKHOUSE:** Mr. Chairman, one of the two Winnipeg operators at the most recent hearing made application to serve and I believe it was the Selkirk area, Selkirk itself.

**MR. PARASIUK:** But they didn't apply to serve any of these other communities like Brandon or Rivers or places like that, Swan River?

**MR. BACKHOUSE:** Mr. Chairman, not in the most recent CRTC hearing which resulted in the awarding of these licenses to the best of my recollection.

**MR. PARASIUK:** One final comment on this particular area. The Chairman of MTS raised the issue, not the issue, raised the possibility of pay-TV utilizing coaxial cables. I don't know very much about pay-TV, would this be a company packaging together programs which they could buy from any of the networks and what, you telephone up, I don't even know how the operation is. MTS wouldn't be involved in it at all, it would just be providing the highway and pay-TV would operate out of Winnipeg, or what, I'm not sure how this would operate.

**MR. HOLLAND:** Well, Mr. Chairman, this has been the subject of considerable policy analysis by the CRTC and the national Minister and the decision has been not to proceed immediately with pay television, so the conditions under which it would be provided and the manner by which licensees, or licenses would be granted are not yet known. But it is a service that is becoming increasingly popular in the United States. It gives a selection of movies, sporting events and local events and that type of thing.

**MR. PARASIUK:** I'll stop on this particular matter of ownership of cable, but at some stage later I'd like to ask questions about cable versus Telesat because again that's another contemporary issue. It's just surfaced lately.

**MR. CHAIRMAN:** Mr. Orchard.

**MR. ORCHARD:** Thank you, Mr. Chairman. Mr. Holland earlier you mentioned primarily three rural

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licensees and Mr. Backhouse has made reference to the fourth. In your earlier comments Mr. Holland, what is the status of the fourth rural licensee that's serving at least a portion of my constituency? What's the status of their negotiations?

**MR. HOLLAND:** Mr. Chairman, at this point we have contract for service with three of the four licensees.

**MR. ORCHARD:** I take it then you don't have a contract with the fourth licensee.

**MR. HOLLAND:** That is correct.

**MR. ORCHARD:** What seems to be the difficulty with that group?

**MR. HOLLAND:** Mr. Chairman, it would be presumption only, I assume that he's waiting until he sees the policy issues here clarified one way or the other, so he can properly plan his service.

**MR. ORCHARD:** Specifically, is the license granted by CRTC substantially different in the case of the fourth operator as compared to the other three?

**MR. HOLLAND:** Mr. Chairman, no, it's essentially the same type of license.

**MR. ORCHARD:** And then the question of the fourth licensee is primarily rotating around the drop ownership then I take it, and the position that CRTC says that your license is granted conditional to you owning the drop and MTS wants to provide service including drop ownership, and that seems to be the stalemate?

**MR. HOLLAND:** Yes, Mr. Chairman.

**MR. ORCHARD:** Mr. Chairman, another question. In provision of cable television service to the rural areas, do you have an estimated capital expenditure for installation of the coaxial cable to deliver television service?

**MR. HOLLAND:** Mr. Chairman, I'll ask Mr. Backhouse if he has that . . . This is referring to the inter-city costs, the inter-centre delivery systems?

**MR. ORCHARD:** Okay, I'm not . . . My understanding of delivery of cable service to say Brandon, involves installation of a coaxial cable which is not presently in service anywhere in the telephone system and I just would like to know if you have projected costs as to the investment involved in the coaxial cable that's going to be used for cablevision service.

**MR. HOLLAND:** Yes, I take it, Mr. Chairman, that the member is looking for a coined figure for both the inter-centre delivery system and the local distribution system in the lanes and byways to the households.

**MR. ORCHARD:** Well, let's just talk the inter-city then if that would make it simpler.

**MR. HOLLAND:** Mr. Backhouse.

**MR. CHAIRMAN:** Mr. Backhouse.

**MR. BACKHOUSE:** Mr. Chairman, the question specifically relates to the capital cost for the development of the inter-city delivery system to inter-connect, to get to Brandon, am I correct?

**MR. ORCHARD:** That's as an example. If my understanding of a provision of cable television service to rural Manitoba via the four licensees presently granted a license, does not MTS have to plow-down or whatever means a coaxial cable, to service these areas? I'd like to find out the capital cost of that, of the new cable installation required to provide cablevision service to the licensees, or to provide the common highway.

**MR. CHAIRMAN:** Mr. Backhouse.

**MR. BACKHOUSE:** Mr. Chairman, I don't have exact figures but I can give an order of magnitude

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figure for the intercity delivery system to serve all of the 29 communities involved, which is a mixture of some buried cable and some microwave-type radio system delivery system and the ballpark figure that I have in mind is of the order of \$6.4 million.

**MR. ORCHARD:** Thank you, Mr. Backhouse. In the course of discussion in provision of cable service, and I'm no engineer, I'll make that abundantly clear to the committee, but there has been criticism or comment shall we say that possibly in the field of communications, that technological changes are occurring at such a rapid pace that some people have questioned the rationale behind MTS providing coaxial cable for provision of cable television service today which is currently probably the highest technological capability available, but within a few short years, something like fibreoptics may come along and make the system that you're putting down today completely obsolete, and saddle the rate payers of MTS with a less than optimum system. Could you comment on that kind of criticism, is it valid?

**MR. BACKHOUSE:** Mr. Chairman, it is difficult to comment on that but I would say that MTS has given very careful consideration to the type of technology used. We believe that the cable technology that we've chosen to proceed with, in view of the large number of channels that it provides and the flexibility that goes with it, and given the fact that the people of rural communities of Manitoba are expecting television, let us say by the end of this year, that the cable system is the most expedient and the most economic, that's our view.

The critics which you refer to tend to suggest that a microwave system might be a better plan. Our analysis of the costs of a microwave system which would provide three channels of transmission in one direction only is very very close to the cost of the cable system which we're proposing to provide which has the capacity of providing for eight channels in one direction and four channels in the opposite direction. So, we believe that the system we're using is the most cost effective, has more flexibility and more capacity, and can be made available at least as quickly as any other system.

**MR. ORCHARD:** Thank you. I guess I would be interested — the Member for Transcona indicated that he would be investigating the Telestat proposal, because there has been some indication, or at least some information come to my attention that a Telesat-type of system may be able to provide the service to communities at an equivalent per monthly charge with no investment by MTS. In other words, I suppose the private licensees could provide the service via Telesat at an equivalent cost to what they are looking at today via the cable. I'd be interested later — I'll forgo any comments for the discussion later. Thank you.

**MR. CHAIRMAN:** Mr. Schreyer.

**MR. SCHREYER:** Well, Mr. Chairman, I just have three brief questions. With respect to the first, from what's been said this morning, I gather there is not much that Manitoba can do just at this stage with respect to the rather internal difference of view as between the CRTC and the Federal Governor-General-in-Council. So, I'm not asking for an opinion as to how this will be resolved, but I would like to ask, Mr. Chairman, an opinion as to an approximation as to when this is expected to be resolved, whichever way, with respect to the drop-in facility? I pose that to the general manager.

**MR. HOLLAND:** Mr. Chairman, of course that again is speculative. Certainly the federal department and the federal authorities have been apprised of the fact that this service can be commenced in the fall of this year if all matters are cleared, and further that the licensees have to make a number of preparations and investments and so on if that is to be the case, so that seasonal construction aspects and timing required and the desirability of offering the service at an early date has been made crystal clear to the federal authorities.

**MR. SCHREYER:** You're not aware whether there is some one definitive occasion coming up such as a hearing or a meeting or some other type of definitive occasion which this is on the agenda for resolution?

**MR. HOLLAND:** Mr. Chairman, the Minister has mentioned one meeting this week that has certainly captured our interest, that is between the CRTC and rural licensees.

**MR. SCHREYER:** Perhaps I should ask the Minister, is it likely that this question will be resolved or will this be exploratory?

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**MR. MCGILL:** There have been a number of meetings that might be described as exploratory. We understand that this is the basic reason for the meeting to be held this week and we are, as always, hopeful that some of the impediments to progress in this area will be eliminated by this meeting.

**MR. SCHREYER:** Mr. Chairman, a quick summary of page four of the document that was distributed would indicate that the CRTC has ordered, in effect, an intercity cost subsidy and has left, however, the working out of the detail and the specifics of formula to the association. I'd like to ask, in the event that there is an inability to agree on the specifics of the principle laid down by the CRTC, is there clear provision for some form of arbitration, or would the disagreement on specifics simply linger on?

**MR. HOLLAND:** Well, Mr. Chairman, the CRTC was responding to submissions from MTS and at least one of the Winnipeg licensees, that an arrangement of this sort would be necessary if service was going to be extended outside Winnipeg. So that is included in their decision. They have the authority to arrive at and approve the extent of the subsidy.

**MR. SCHREYER:** Who has the authority?

**MR. HOLLAND:** The CRTC.

**MR. SCHREYER:** So it's assumed they are the arbitrator if an arbitration is necessary.

**MR. HOLLAND:** Yes.

**MR. SCHREYER:** Finally, Mr. Chairman, I'd like to ask — this is a far more general question — I'm aware that the Telephone System has prepared over the years quite a wide-ranging compilation of statistical data with respect to total plant, in-service value of plant, employees cost, capital cost per employee, etc. Can we be advised whether, on the basis of interprovincial comparison per 1,000 people say, whether Manitoba Telephone System's total investment in place, in capital indebtedness is undue or out of proportion to other provinces in our country, or are we near an average?

**MR. HOLLAND:** Mr. Chairman, the MTS capital investment per telephone is the second lowest of the major telephone companies, and the rate of capital investment over the past five years is the lowest of any company.

**MR. SCHREYER:** Well, Mr. Chairman, I'm not suggesting it, but there has been suggestion of recent date to the effect that the Manitoba Telephone System's capitalization and indebtedness is undue in relation to other telephone systems. I'd invite comment on that, because I don't believe it to be correct.

**MR. HOLLAND:** Well, Mr. Chairman, I think that comparisons between the publicly-owned and privately-owned major telephone companies have to be done separately with due weight to the economic factors affecting them. Certainly we can say that the debt ratio of MTS has not deteriorated in the past 10 years or so, and in fact the last two years, we have the highest net earnings in MTS history, and those net earnings are pivotal to keeping the debt ratio down.

**MR. SCHREYER:** Then that, Mr. Chairman, leads me to my final question. If the debt ratio has remained fairly constant and has not deteriorated, to use Mr. Holland's words, is it also correct that the Telephone System continues — I remember years back, reference to telephone rates in Manitoba being just about among the lowest of any industrial country, which is any country really — is that still correct, among the lowest of any industrial country or jurisdiction?

**MR. HOLLAND:** Mr. Chairman, among all of the major telephone companies certainly in North America, it has the lowest exchange rates. We guard against the statement, because there are of course hundreds and hundreds of very small telephone companies. We have not compared with all of them, but amongst the major companies, it has the lowest exchange rates.

**MR. SCHREYER:** Well, in referring to telephone companies or systems that serve several hundred thousand or a million or more, in that sense, would you make that statement?

**MR. HOLLAND:** I believe that it has the lowest residential and business exchange rates of any of those.

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**MR. SCHREYER:** Thank you.

**MR. CHAIRMAN:** To the Members of the Committee, the Minister of Highways, responsible for the Manitoba Public Insurance Corporation has his staff people here. I understand that there has been an arrangement where Members of the Committee and Members of the Legislature may wish to spend a little more time talking to the Public Insurance Corporation people on an informal basis. The report has been approved.

It is now 11:25. Two Members of this Committee have expressed an interest to go on to other matters relating to the Manitoba Telephone System; what is the general wish of the Committee? Should the Minister of Highways keep his people here from Public Insurance, and we spend the next hour with them and approve of this report, or should we carry on with the telephone report? I'm looking for some direction from the Committee.

**MR. SCHREYER:** Well, Mr. Chairman, you referred to an arrangement and indeed there was an understanding and arrangement as between the Government House Leader and myself, which I communicated to my colleagues, that sometime on or about a quarter to eleven — we're not quite there — but I would think that one hour would probably suffice. So that's not the problem, but rather I suppose it's a question of ascertaining how many members of the Committee still have questions with respect to telephones. I have none. I don't think Mr. Walding has any.

**MR. CHAIRMAN:** To the members of the Committee, what I would like to do is not stop the telephone report and go on to Public Insurance questions and then bring the telephone people back on another day to wrap up maybe 15 minutes worth of questioning. Can we approve of the 1976-77 annual report of the Telephone System and then go on to the Public Insurance?

The Member for Transcona had indicated that there was another area of discussion. Is it something that will only take a matter of minutes?

**MR. PARASIUOK:** I think it might only take a couple of minutes. The Chairman of the Manitoba Telephone System distributed to us this morning a four-page paper entitled, "Cable TV — Why Is It a Hot Issue?" You know, it was a good paper and it was useful. Does he have Volume No. 2, "Cable versus Telesat — Why Is It a Hot Issue?" If you've got a second volume, that probably would suffice and I could ask questions from that paper directly to the Minister or to the Chairman at some later date. But I'd like to have an explanation of that issue in the way that this paper provides it because I think that was very useful.

**MR. CHAIRMAN:** Mr. Holland, any comment on the question. ?!

**MR. HOLLAND:** Well, Mr. Chairman, the Telesat proposals are quite new and we do not have full information on them at this stage, other than certain economic information, which confirm — at least to our satisfaction — that our planning is still quite appropriate.

Our understanding is, that the Telesat proposal, which was made probably more than a year ago, requires that a minimum of a million and a half subscribers participate in that, such that the utility of scale brings the unit cost down to a manageable level. We're not aware of how many or if any specific centres have yet subscribed to that service.

It would entail bringing signals from the eastern U.S., whereas Manitobans are now used to the mid-west signals and the activities there. I presume there would be time zone problems to work out; also the rural licensees have undertaken to do considerable inter-community regional programming.

The coaxial cable system, of course, is necessary if that is to be done, linking some of the communities, particularly again, in the western region. Perhaps I could ask Mr. Backhouse to make some observations on the relative economics.

**MR. CHAIRMAN:** Mr. Backhouse.

**MR. BACKHOUSE:** Mr. Chairman, as Mr. Holland said, the Telesat proposal which was provided to Manitoba Cable Operators, was based upon serving 1.5 million cable subscribers in Canada. I think to put that in perspective, I could say that the total number of cable subscribers in Canada is 3.5 million. The total number of cable subscribers in Manitoba, including Winnipeg and the new licensees, when they're served and their development is optimized, would be of the order of 200,000.

The Telesat proposal is for seven channels. The seven channels would comprise four U.S. channels plus three Canadian channels.

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The Telephone ICBN proposal is based on transmitting three U.S. channels and the cable systems would pick up the local Canadian channels locally, in the community and in some cases would use the ICBN cable to distribute local channels, thereby obviating the need to provide other lead-ends.

The Telesat proposal, based on providing seven channels to one and a half million subscribers — when you take into account the ground station receivers, the ground station transmitter that goes up to the satellite, and the lease of the channels on the satellite itself — is quoted by Telesat at a rate of \$1.70 per subscriber per month.

If we take the MTS proposal for three channels and express that on a total average cost basis across the 200,000 subscribers in Manitoba, we get a figure of 65 cents per subscriber per month.

Now if you reduce both quotations down to a single channel quotation and divide the \$1.70 by seven channels, that works out to 24 cents per subscriber per month, in Manitoba.

And doing the same thing with the MTS system, that's 65 cents based on four channels, you get a figure of 16 cents per subscriber per month.

Now what that says to us is, even if the Telesat system was fully optimized at the one and a half million subscribers, which would require .3 million subscribers outside of Manitoba subscribing to it, but even if all of that happened you would be talking about a 24 cent per subscriber per channel rate compared to the MTS rate of 16 cents per subscriber per month per channel.

**MR. CHAIRMAN:** Mr. Parasiuk.

**MR. PARASIUk:** Mr. Chairman, I don't want to take more than about 10 minutes on this particular topic, which I think would give us sufficient time to get into the MPIC.

I'm wondering if the MTS is intending to do a three or four-page explanatory piece like this for its own employees and if it does so, would it undertake to send us copies of that explanatory piece, if it's done, because I don't want to take up too much of the Committee's time on this issue?

However, it strikes me that it is a very large issue that is going to — what could I say — get hotter rather than cooler, because I think that the economics of cable versus Telesat may be better in rural Manitoba. I don't know if they are the same with respect to northern Manitoba. If I look at your paper that you distributed to us this morning regarding ownership of cable television, I indicated four, sort of, basic arguments that you put forward in that paper. I'm wondering if those our arguments hold true with respect to cable versus Telesat, in terms of greater efficiency or indicating that the economics of it are such that it would appear to be more efficient, at least on a per channel basis, possibly in southern Manitoba; reducing barriers to entry — probably, although that depends on the costs required for the specific stations in the receiving stations from the Telesat — I don't know if it relates to maintaining a monopoly position with respect to other types of telecommunications, but conceivably it would there, too.

I guess the major question is whether Telesat, in fact, is a better way of providing greater access to telecommunications or television, than is cable, especially for more remote and isolated rural communities and especially northern communities.

I don't want to take up that much time of the committee on this matter, but it does strike me as being a fairly large issue that has received some play because private companies have indicated that they were interested in providing this type of service to rural Manitoba. They are also saying that it would be a better way of providing it to northern Manitoba.

I can recall when Telesat was launched, and I think that MTS is a partner in Telesat — somewhat of an irony at this particular stage — that one of the biggest selling points of Telesat was that it would somehow provide all this programming for northern Canada. I don't know if it's taken place yet, but people were talking about Inuvik being able to get the same type of reception and variety of programs that people in Toronto were receiving, by bouncing this off the Telesat communication device, and that's why it was sent up.

There was a great deal of fanfare on this, when the corporation was launched and when the satellite was sent up. So I find myself at loose ends now, when we are getting down to the nitty gritty of talking about whether in fact we should proceed with that type of system, which seems more futuristic and whether we should proceed with the cable system, which in the north may in fact create some difficulties for us. But I'm in no position to judge because I don't have enough information on it.

**MR. CHAIRMAN:** Mr. Holland.

**MR. HOLLAND:** Mr. Chairman, MTS is a minority shareholder of Telesat. Its services to the north are extensive and have been invaluable, including oil exploration and off-shore projects, and the speed with which communication systems can be placed.

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Mr. Parasiuk is quite correct, that undoubtedly it will have a role to play in an array of northern telecommunications services, in due course. Undoubtedly, we shall be dealing with this subject for our 5,000 employees and we'll be delighted to put Mr. Parasiuk on our Telephone Echo subscription list.

**MR. PARASIUK:** Thank you. I think that will be it. I'll just mention to the Minister, that when do get that information I might be in contact with him or through him to the Chairman, to get some follow-up answers on questions that I might raise as a result of that. Thank you.

**MR. CHAIRMAN:** I'm sure he'll look forward to your call.

**MR. CHAIRMAN:** May I have the permission of the Committee to approve of the Manitoba Telephone System Annual Report as it is before us, rather than page by page? Pass.

Now we can take a moment's break and then we can go into an informal meeting of Public Utilities with regard to Public Insurance.

**MANITOBA PUBLIC INSURANCE CORPORATION**

**MR. CHAIRMAN:** . . . notify Mr. Schreyer that we are about to start. It was indicated by some members of committee in the Legislature that they wish to ask some additional questions to the General Manager and Chairman of the Public Insurance Corporation and some of his staff people. Who wishes to start, and from what point? Mr. Uruski.

**MR. BILLIE URUSKI:** Thank you, Mr. Chairman. First, before I begin, I would like to place on the record my thanks to the House Leader of the Conservative Party for recognizing the need to have an additional meeting of this committee to discuss the matters relating to the Public Insurance Corporation. This would certainly not have been necessary at this point in time had common sense prevailed at the last meeting. We certainly appreciate the move made by the House Leader of the Conservative Party to have the committee called again this morning.

I would like to ask several questions initially dealing with finances of the Corporation, if I could. Mr. Chairman, and as I understand that the total income of \$111.8 million for the year 1977, financial year of the Corporation, could the Chairman give me a breakdown of the income as it relates to vehicle, drivers and of course the gasoline is there at approximately \$6.8 million, and I would like the breakdown as to the income from the surcharge points separated out of the income from the accident surcharges, as well.

While they are getting the figures, I would like to ask the Chairman as to how many motorists would he indicate have increased their liability coverage to the half-million or one million mark as a result of his release and his concern, because of some of the claims that have exceeded the liability coverage that motorists have carried. Has there been a substantial increase this year in the number of motorists?

**MR. CHAIRMAN:** Mr. Dutton.

**MR. DUTTON:** Mr. Chairman, we can separate the income and total that you are speaking of. Of course, it is broken down into two main areas, and that is automobile insurance and general insurance are the two main components.

Of that, the premiums written for the general business were a little over \$8 million and automobile premiums written constitute pretty well the rest of it. This is broken down, or we do have the premiums of \$96 million, almost \$97 million, and the gasoline tax revenue of \$6.7 million. I think the two figures will then total out as to the total amount.

Now, if you wish to know a breakdown on that as to how much premium income is derived from the coverage on vehicles and how much from drivers' licences, I can give you that.

**MR. URUSKI:** Please.

**MR. DUTTON:** The premiums written on drivers is \$11.5 million. So if we work back from that, you will get the other figure.

**MR. URUSKI:** Okay, is there a breakdown between the basic insurance and the extension coverage?

**MR. DUTTON:** Yes, the basic insurance was \$60 million; the extension \$19 million and a special risk extension \$4.4 million, and Motor Transport Board of \$3.9 million. Now, there are some returns

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be taken off that. That's why your figures will perhaps not add up, because we're seeding off certain amount of premiums for reinsurance.

**MR. URUSKI:** The special risk, is that the trailers?

**MR. DUTTON:** The special risk extension really means a commercial, which requires itself a special policy.

**MR. URUSKI:** All right. And the income on the surcharge for points and the income on the surcharge for accidents?

**MR. DUTTON:** We haven't got that here; I'm sorry.

**MR. URUSKI:** Okay. The question on the numbers or approximate numbers as to numbers of motorists who took increased liability coverage in excess of a half million to a million?

**MR. DUTTON:** Our quarterly statistics are not available at this stage because you are, I'm sure, aware that the increase was just put through as of March 1st and we haven't got the information. But I can tell you from what I have seen of it and what I believe, that there is considerable increase in what we call our 104's, which means it is not a clean renewal. And a reason for that, we are assuming, is that people have increased the third party coverage. We do know that about less than 10 percent only carry the \$50,000 third party and, of that 10 percent, some may be insured with other parties. And of course there is also the government vehicles which only carry the 50.

**MR. URUSKI:** Right. So that there may be a substantial change.

**MR. DUTTON:** Yes. I am quite convinced that there is quite a substantial jump.

**MR. URUSKI:** There was an announcement made last September dealing with the increase in accident benefits. Is there an estimated cost of those benefits which could have been put in last fall?

**MR. DUTTON:** When we made a recommendation — my board did — to the government of the day that accident benefits be increased, we felt at that time that we had sufficient funds and we were making a surplus that was large enough to take care of it. Basically, it did propose that the weekly indemnity increase from \$75 to \$114, if my memory serves me right. We thought that that \$114 was really the basic wage, minimum wage, after income tax. As you are aware, the weekly indemnity is not taxable. There were other increases, too, but that whole package we felt would cost about \$5 million — upwards of \$5 million. At that time we recommended that we would not increase the rates if this was put in, and now we are backing up to the rates that came in force on the 1st of March. Had that plan been put into force, we would have effected that without any increase.

Now, that was given to the government at that time which, of course, was not the present administration. We have not presented this same proposition from my board to the Minister responsible at this time.

**MR. URUSKI:** As I understand from the meeting that the — I was not here, not being a member of the committee — previous Tuesday, prior to that famous meeting —(Interjection)— Or infamous. Could you indicate as to the extent of increase in claims and how that would have affected your income picture this year had the benefits been into place and the increase in claims that you have? Do you have a rough guesstimate that you could present to the committee?

**MR. DUTTON:** Well of course we were basing the increased coverage on a number of known factors at the time. We knew what the rates would be, and we knew what the premium income would be derived from all sources. We did indicate that we could expect an increase in the cost per claim and perhaps an increase in the number of claims.

We did not anticipate, however, that the claims would jump as much as they have this last winter. They have jumped some 11 percent, which was quite a jump. That is up to when I was reporting to the committee here a few weeks ago. And I'm sure that we are all aware of the recent hailstorm which is going to cost us a good sum of money. It may get into our catastrophe cover and I can tell you that the catastrophe cover is \$1 million deductible. In other words, we pay the first million and five percent of anything over that, and for the general business it is \$500,000 and we pay five percent over that. So if the costs go beyond that we will recover from the reinsurers from

**MR. URUSKI:** Based on the estimate that was made last fall of the benefits costing approximately \$5 million for one year, and of course based on the assumption that the income of the corporation would not change substantially primarily dealing with the two cent gasoline tax, could you indicate whether or not on those statistics — I think you had an increase in accidents of the previous year of approximately one percent only — what the financial picture of the corporation would have been had all that stayed static and the increase in claims had not occurred that you have d here?

**MR. DUTTON:** First of all, we must appreciate that the increase in benefits, had they been put through, would have also been on the entire fiscal year, as opposed to any changes in premium which starts on March 1st. But on the assumption that we would have retained the two cents a gallon gas tax, I think the corporation would have still been in a break-even picture, roughly.

**MR. URUSKI:** Okay, so you have had now an increase of 11 percent in the claims over last year.

**MR. DUTTON:** That is up to that period of time. What the picture is for the month just ended I think it's a little early for me to report on it. But I think it was satisfactory anyway, and the percentage may be dropping slightly. It was our hope that once we got over the very rough winter . . . Because the roads were in pretty bad shape. That's what caused, I think, more than anything else, the 11 percent increase. But with the fact that the roads are improving, I think people are driving normally again and the accident ratio seems to be dropping. So I don't think it will be the full 11 percent at the end of the year. And so therefore I think, as I say, the picture looks to me now that we may end up with at least a break-even, as I said, or a small surplus. The same thing would have applied, of course, if we had had the accident benefits in because we were getting their two cents a gallon on gas, which we are not getting now.

**MR. URUSKI:** Could you indicate on the basis that maybe one month might change, or the future months might change the picture, could you indicate as to, with now the loss of approximately \$1 million in gasoline tax which is roughly close to 10 percent of your income, what the increase in premiums will likely be in this renewal period next March?

**MR. DUTTON:** Of course we are looking way ahead now. We are looking ahead to March 1st of next year and naturally the rates have to be struck before December of this year. But I think the case will be that an increase ought to be expected — increase in rates — and I mentioned the other day that perhaps 10 percent is a ballpark figure to talk about. I don't think that is unusual at all because we haven't had a rate increase for a number of years and the cost of repairing vehicles continues to go up. There is an increase in body shop rates, the charge-out rates. The parts, of course, because of the devaluation of the dollar continue to cost more. And so there is only one solution and our income must keep pace with the outgo in connection with the number of claims that we have. Because we are that far behind time, I think an increase is a natural thing and probably would have happened even if we had retained the two cents a gallon.

**MR. URUSKI:** If the two cents a gallon had been maintained8 with these increases in claims and the new benefits, you may have been in the position that you would have had to raise the rates this year. You would have been in a very close . . .

**MR. DUTTON:** I think we'd have had to raise the rates had we put through the increase in benefits. We8 would not have raised them as we said this year because you know, they were to be put into effect at no increase in rates and we wouldn't have increased them. But ut I think at the end o the year, we'd have said, even if we'd kept that two cents a gallon, "Certainly we'll have to make an increase in rates. "

**MR. URUSKI:** Thank you.

**MR. PAWLEY:** Mr. Chairman, I want to just deal with an area that I don't believe has been dealt with previously to ascertain some views from Mr. Dutton, and that is in particular in relationship to the system of distribution of insurance proceeds to those making claims. Our present system is based upon tort and general liability, general damages, versus a system of compensation in which payments will be made regardless of fault. I would like first to ask Mr. Dutton's views as to a system of insurance in which we move away from dependence upon payment of damages based upon general damages and tort liability to one of compensation and no-fault payment.

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**MR. DUTTON:** There is, at the present time, an international conference going on at the hotel and which when I leave here will be returning to it and one of the areas that we are discussing and most interesting is8 the introduction in Quebec of a complete no-fault plan. We find that they ave had a number of years of experience in New Zealand, and their manager is there too, on a complete no-fault plan.

I think that the courts, just as my personal view from what I see, the courts seem to be doing all they can to make sure that people who are injured in an automobile accident are compensated. I think the emphasis is on compensating a victim of an accident. That being the case, and if I am correct in my assumption, it seemed to me only logical that we should put through or have a look t some no-fault plan which will compensate them even quicker, without botherin with litigation and oing to get legal advice before you know how much you can get.

In Quebec that's really what they are doing. They are saying, you are going to forego your rights i tort your day in court is gone then. They are replacing it with payments of up to \$18,000 a year or anyone injured in an automobile accident. They maintain that \$18,000 covers 85 percent of the itizens of the province, because 85 percent get \$18,000 a year or less as an income. People still an, if they wish — the other 15 percent — buy higher levels of protection. Now, that's a system at, in effect, that's rather brief about it but that's what they are putting into affect there.

In Saskatchewan, they were toying with an idea, but I think Saskatchewan found personally there's ne flaw in it, the reparation plan that they were talking about for no-fault, and that is, they said e're going to remove tort even for the damage to the vehicle, not only the injury to the person. low, this is wrong, because in my experience it's been that a person will scream loudest to get ack his — n deductibleever mind anything else. If someone goes through a red light and hits your ar, he's entirely at fault for driving recklessly. A person takes umbrage when he feels it's going o cost him \$200 because of the other person's driving — whatever the deductible is.

So in Quebec, they've left the vehicle damage itself under the tort system, they are taking the cident victim out and putting him under no-fault, and that's the plan there. I am going to be meeting ith their president, or have a meeting with him. His name is Mr. DeCosta, by the way — he's ere — and try to work out some basis wherein any motorist in Manitoba going down there, first f all, will have full information, and secondly, do what we can to make sure that they get the mpensation that they would normally receive under the tort system.

**IR. PAWLEY:** Well, if I could just deal with that final point for a second. A Manitoba motorist i Quebec under that system would, in the event of an accident, would be rewarded however, on ie scale of our benefits in Manitoba, would he not, or would he be . . .

**IR. DUTTON:** No, we haven't got any reciprocal arrangements with them as yet, and this is what e will be talking to them about and see if there are areas that we can agree on. But first of all, a person is driving a car in Quebec now and is involved in an accident for which he was at fault r there was no wrong-doer involved, he would receive just what he is getting now, the part two enefits, which are the no-fault benefits under our Act, \$75.00 a week if he is totally disabled. owever, if there is a wrong-doer, as we know here in this province or any other territories, he en has a right to go to court and get a judgment against the person, and the persons insurance company will respond on his behalf.

However, in Quebec, that's not the case, because the tort system has been removed, and what ey will do is pay you a percentage depending upon the degree that you are at fault. This is an ea that has to be worked out, and you can see can be a little bit dicey. In turn, they believe at a Quebec motorist coming here is subject to our laws and can sue, you see. It's not too big problem with us, but I'm sure you'll realize that anybody living in Hull or living in Ottawa and iving back and forth across that bridge has got a different situation every day.

**IR. PAWLEY:** I'd just like to have your comments in another area, because basically I concur at the present — I feel personally speaking for myself — that the present system is inadequate d in so many ways it's inhuman and wasteful, and that we should proceed towards a different stem of payment. The only area that sometimes concerns me is that of the paraplegic. The disabled r life, and at the same time suffering over a lengthy period of time and the inconvenience, whether not a compensation system could properly compensate the paraplegic for what he or she has one through. I'd just like your comments on that particular type of example.

**R. DUTTON:** Well, I think that an individual who is permanently injured — a paraplegic, a idriplegic or what have you — partially under our system is compensated, because we do know at most of the people carry third party coverage that will run into a few hundred thousands of llars. Now, if there is a wrong-doer — and this is where the key to it is if — is a tort there's all right; he can sue someone, and he's going to recover it anyway.

**MR. PAWLEY:** But if there isn't?

**MR. DUTTON:** But if there isn't, I think that he is not adequately compensated, I agree, because certainly the \$75.00 a week and the rehabilitation that we put through will certainly not pay for his pain and suffering and his upkeep.

**MR. PAWLEY:** Mr. Dutton, I've seen studies in the States of a compensation system versus a system based upon payment of general damages, and to some surprise on my part — and I'm not sure whether those calculations would be relevant in Canada — the compensation system or no-fault system of insurance could be less costly in the existing system with its heavy reliance upon payment of general damages, it's legal costs, adjusting costs, administrative costs, that are all wrapped up in the present system, and I just wonder if there have been any studies that you're aware of or the Canadian scene that could give us some indication of cost benefit?

**MR. DUTTON:** Well, certainly there are a number of systems in the States, and if you know, our system is a modified no-fault system. It's not a complete no-fault system. You go into some states in the United States, Michigan, and a few more have a no-fault plan, and they are subject to certain thresholds, too, before you can sue. There's a variety of them, and perhaps to say no-fault is a misnomer to start off with, but I think the best thing for us to look at, and closer at hand, is the Quebec plan. It's just starting up now. It's brand new. We can find out if the payments that they are talking about . . . By the way they're payments are indexed too, so as the cost of living goes, the injured person is going to be looked after. So to follow their plan and see if it is the type of thing we could recommend to the government in Manitoba. They surely haven't got all the answers down there at this stage either. And again we were talking to our friends down from New Zealand, they're still finding problems with their plan. I think if we study those two, it would give us a better example than to worry about United States, where their horrendous awards and the tort system has changed everything. We haven't got that type of thing here, thank goodness. We will be studying it. We are going to continue to study it.

I personally believe that anybody who's injured in an automobile accident ought to be looked after. No question about that, and there ought to be a way that we can get the income from the motoring public too, because it is a vehicle that is creating the accident and should be paid from that fund. That's my personal thought.

**MR. PAWLEY:** But generally, either it's the accident fund that looks after that particular person or that person ends up on the welfare rolls, in any event, as I see it. It's much better if the accident fund, from a social point of view, is the one that is responsible.

I wonder if I could just pursue one other area, and that is dealing with the accident payments, limited accident payments, which are . . . I would ask Mr. Dutton, are we at the lower level now of no-fault accident payments in Canada, in Manitoba, compared to both other public and private plans in the country?

**MR. DUTTON:** I think that answer is in the affirmative.

**MR. PAWLEY:** Could I ask what the total disability weekly payments are in Saskatchewan and Alberta, so we can compare with both a . . .

**MR. DUTTON:** Saskatchewan, I was noticing too in our discussions down there today, they have made a change in their payments so that a person who is buying a package policy also can increase or does increase his no-fault payment under that section. So, in total, and most people do buy the package policy . . . We don't sell that type of thing here. We don't have to under our system. So their payments in total would be higher than ours. They are higher. I haven't got the exact figures with me right now. I do believe that what you said is quite right, that our no-fault payments now are not as high as many areas in the country.

**MR. PAWLEY:** Well, what I'm concerned about is the result of that. The result, as I see it, is growing reliance then upon legal action and pursuit through the courts to obtain remedies rather than dependence upon payment of no-fault accidents. I believe it would not be an unfair statement to say that after the plan came into existence in 1971 that there was less legal action, there were less suits in the court because there was a level of no-fault payment.

The concern that I would like to express is that as the no-fault accident benefits become less and less in relationship to the general tort end, that there's going to be more and more reliance upon the legal profession. I suppose there's not too much from a personal point of view wrong

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ith that, but I think from a social point of view that it's unnecessary and a social waste that the people have to rely upon the legal profession to obtain remedies, so I probably am making that more as a statement of belief rather than presenting it to Mr. Dutton.

But I would like to say to the Minister that I would like to see, and I'm pleased that Mr. Dutton as indicated that the corporation will be examining carefully the Quebec experience, because if there's one area that I always felt that in Manitoba we were arguing the wrong issue, the issue is not really private versus public, but is compensation versus tort system of insurance, and our present system is expensive to administer, it involves heavy reliance upon legal and adjusting services, it is a system which encourages the claimant to malinger, sometimes to cheat, to exaggerate, it's a system that lacks human qualities, because so often the claimant who through a lapse of judgment can be involved in an accident that will cripple that claimant for the rest of his life, can under our present system end up with certainly lifetime payments, which is better than the old, but payments which are restricted to \$75.00 a week. To my mind that is unfair, it's an unhuman type of system if we want to talk about providing a fair distribution of benefits. I think it's long overdue. We said this while we were in government and I say it now to you, since you now have responsibility for automobile insurance that it is time that we re-examine the entire basis of insurance that we're operating under. I look forward to the ascertaining of the results in Quebec. I think Quebec has now the lead here in insurance and I would hope, Mr. Minister, that you would keep this in the back of your mind that we'll not be content to depend upon this archaic out-of-date system of insurance in Manitoba, but will look forward to insurance reform in the not-too-distant future.

**IR. CHAIRMAN:** The Member for St. George.

**IR. URUSKI:** Thank you, Mr. Chairman. I would like to also share in those comments and urge the Chairman and General Manager that, in terms of the specifics that were presented last fall, that they be re-examined in light of the financial situation and be brought forward again for the government's consideration, prior to next year's renewal period of time so that they can be considered as we are now rather than being in the forefront of having no-fault benefits paid to accident victims; we are falling behind. I would also like to ask if the Chairman and General Manager could provide for members, if there are details of the Quebec plan, if they can be provided to us dealing with the nature of the compensation. There are a number of questions that we'd have in terms of dealing with children or minors, how they are compensated, so whatever information can be made available I would hope that you would provide to members of the Assembly on that basis, as both Mr. Pawley and I are not direct members of this committee, but we are vitally interested in this particular subject.

**IR. DUTTON:** That can be done, Mr. Chairman, if it's the wish of the committee. Of course all the initial material was in French, you'll appreciate that, but they do have the English version now. You know, you start reading insurance documents, they're tough enough when they're in English, but when they're in French, they're really rough. But I have them in English.

**R. CHAIRMAN:** If I can interrupt — this material that the member's asking for, is it fairly bulky? Do you have to reproduce it or . . .

**R. DUTTON:** No, I'm sure that the association I have with Mr. DeCosta that he'll make the material available to me.

**R. URUSKI:** Thank you. I would like to ask the Chairman whether any other jurisdictions who have public insurance utilize gasoline revenues as part of their revenue structure?

**R. DUTTON:** In Canada, yes the Province of Saskatchewan is three cents a gallon goes into their fund and in Quebec they're getting their income from a number of sources. Their system in some respects is similar to ours, they're getting a certain amount of premium on their driver's license and a certain amount of premium on the vehicle registration, on the vehicles in other words, and two cents a gallon on gasoline and the rest of their income is derived from investment income.

**R. URUSKI:** Quebec does charge, derive income from two cents . . .

**R. DUTTON:** Yes, I'm sure it is two cents a gallon, two cents a gallon, yes.\$

**R. URUSKI:** So that Manitoba is not the only province to have gasoline, derive part of the premium on gasoline and I believe British Columbia was in the process of implementing upwards to 10 cents

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of their revenues to gasoline, however, that method was done away with, is that correct?

**MR. DUTTON:** Yes, they didn't get many gasoline, they gave them a cheque for \$181 million to cover the deficit and said don't do it again.

**MR. URUSKI:** Could you — another topic, Mr. Chairman — indicate to me the number of units in the salvage area that are being written off annually? If you have the figures for 1976 and for 1977 and the average amount of revenue derived per unit from the salvage.

**MR. DUTTON:** The figure is still running around 8,000 . . .

**MR. URUSKI:** Approximately 8,000.

**MR. DUTTON:** . . . yes, about 8,000 vehicles a year being written off.

**MR. URUSKI:** You've had an approximate increase of about 18 percent in income. Is that primarily because of the increased value of the cars, the automobiles today?

**MR. DUTTON:** Yes, because of increased values, any of the parts that the salvage people recycle of course, are worth more money now and I'm assuming they're quite prepared to bid a little higher for certain vehicles than they would have in the past.

**MR. URUSKI:** How far have you advanced on your move to set up a salvage operation within the corporation?

**MR. DUTTON:** We've made no move in that area. What we have done is, we have some 50 acres of land, it's fenced now and it's a stabilized base and buildings are on it, but other than auctioning and auctioning in other territories now such as in Brandon, we've made no move. In other words if it comes down to stripping and recycling there's been no move in that area.

**MR. URUSKI:** You were proceeding to develop plans into the salvage area. At what stage are those plans at the present time and are you moving ahead?

**MR. DUTTON:** The plans at the present time are . . . We have no plans to proceed further than what we are doing at the present time, let's put it that way.

**MR. URUSKI:** Well, you had authority from the previous administration to proceed into the salvage area, has that authority been rescinded?

**MR. DUTTON:** No, no authority has been rescinded by the government of the day, but we have not, either, explored this situation with the Minister. We have simply sat on it at the corporate level and not gone any further.

**MR. URUSKI:** Well, has there been any change in the viability as it was a number of years back as compared to today, has there been any change in the economics of setting up such a system substantially?

**MR. DUTTON:** There has in some respects. There was not complete agreement at the administrative level as to how this ought to be done. As you are aware, Saskatchewan does stripping and selling of parts and the only experience we have is that what they produce for us. However, they have a different system of establishing the value of the wrecked vehicle when it's taken over in their salvage compound than we have, and that being the case, depending upon what they showed they paid for the vehicle, it has a great deal to do with the profitability from stripping that vehicle. We were also looking at it as to whether we'd go into an area of bay stripping such as they have, or go into a disassembly system, if you like, where vehicles would be moving along an assembly line and stripped. They have one of the those down in the United States, but we never got to the stage of finding out just what we ought to do with it.

We are looking at, incidentally, what British Columbia is doing. This is coming out of these meetings too, they have what they call a hot-line. When the estimators are looking over the vehicles he'll say, "Okay this is probably needs a fender, it could be replaced but it should be a used fender, it's an older car." His hot-line puts a call through to all the salvage people. They get it immediately that we need whatever the part is and they will respond that they have such a part at whatever the body shop is, whatever the salvage people is, and it's written right on the estimate sheet. The

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erson can come in and take it to any repair he wants and right on the estimate sheet is where the used part is available. And, we're having a look at that to see if that type of thing is maybe the next step to getting used parts on vehicles, because our goal is twofold really. It's to maximize the return for the salvage that we have and secondly, to make use of recycled parts where it's possible. To me, with costs of parts continually going up because of the devaluation of the Canadian dollar, we ought to make use if we can of all of the material that's in this country, rather than sending own there for more at a high cost.

**I.R. URUSKI:** Exactly, that's my very point, Mr. Chairman. I believe that the concept of the hot-line, you want to call it that, was offered to the industry along those lines to set up a central facility which would, in effect, accomplish the very thing that you are speaking about. Has the industry Manitoba, after being offered that type of a concept to utilize in a more effective way the recycled parts, have they responded to that finally in a favourable way because they certainly were not receptive to that idea several years ago?

**I.R. DUTTON:** I think they were receptive to the idea. It's a case of who is going to pay the start-up costs for a plan of this nature. That seems to be where the failure is at the present, or it was the last time I talked to them. We haven't met with them for a long time and perhaps it could be said that it's our fault. I'm not sure but we haven't met with the salvage people for months and months.

**I.R. URUSKI:** Yes, I think what would spur probably some meetings onward is your statements tend to indicate that you are continuing to move into the salvage area seeing as they were offered to provide used parts because there were complaints previously, and I'm sure there still are complaints that not enough used parts are being utilized by the corporation and if that's the case, that facility that they were offered to set up certainly should be within their interests, in their own financial interests to set up that facility and show the corporation that they can provide the parts at a reasonable cost similar to that in Saskatchewan, and be able to do away with the perennial complaint that they make about the corporation not using more used parts. So I would hope that you, Mr. Chairman, are going to indicate that you are continuing to move into the area of salvage and that should spur the industry itself into meeting some of the challenge in providing more used parts that they say certainly should be used and get off their fannies. Because I am sure that the corporation, and I think you will confirm this, is not maximizing its return and usefulness of the recycled parts.

**I.R. DUTTON:** You know, it's very timely that you should mention it because before I left the meetings of managers down there to come up here, this is exactly what we were discussing, as to what happens in each country that they do repair the vehicle and certainly I'm sure from the experience of the others and of course, from the meetings we obviously will be having with the salvage people here that a better solution to our problem should arise.

**I.R. URUSKI:** You were doing some training of staff people on frame machines and the like, is that method still continuing within the corporation?

**I.R. DUTTON:** Yes, we have the framing machine and of course it's a modern type, it's called asyliner and our staff is trained on the machine itself and there are a number of these machines now in the province.

**I.R. URUSKI:** In your salvage operation are you. . . The method of sale is continuing on primarily by the auction system?

**I.R. DUTTON:** Yes, as a matter of fact the use of auctioning is increasing not decreasing. We were selling by tender in Brandon but we decided that we would auction down there and it has increased our return per unit quite substantially.

**I.R. URUSKI:** Do you sell any units from time to time on an offer basis for vehicles?

**I.R. DUTTON:** They had been doing that but I am of the view that this is not . . . Probably it's right, they have a special type of unit they may want to dispose of and perhaps a mobile home something of this nature that they can get rid of in that fashion, but I think we have to control and we have to auction these things out and perhaps put it on a reserve bid rather than . . . There's a danger always, or maybe misconstrued anyway as to any private sale.

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**MR. URUSKI:** I have several questions with respect to the general insurance area and I would like to ascertain as to the percentage of business in the Manitoba market of the Corporation now.

**MR. DUTTON:** About 15 percent.

**MR. URUSKI:** About 15 percent. In your report you indicated there are 85,000 Manitobans insured in the general insurance. Is that actual policies or would that encompass family units?

**MR. DUTTON:** No, most of them are homeowners.

**MR. URUSKI:** Yes, the bulk of your policies . . .

**MR. DUTTON:** The bulk of policies issued, of course, are the homeowner type, yes.

**MR. URUSKI:** Are you continuing to write more and more business annually? Has the business volume slowed down at all in the last, say, in the last year?

**MR. DUTTON:** Yes, we are continuing to write more business but it has of course slowed down because you hit a certain peak and you can't continue the fast climb. But, no, we will write more business this year than we did a year ago, certainly.

**MR. URUSKI:** In numbers?

**MR. DUTTON:** In numbers and in dollars, yes.

**MR. URUSKI:** Have you had any increase in general insurance premiums in the last year on homeowners' policies?

**MR. DUTTON:** No, on homeowners' policies endorsements go out changing the rates the other way, offering some decrease in certain areas because of certain reclassifications of towns, and so on. And so it's just the opposite, really, at this stage.

You see the insurance industry, generally speaking, was faced with horrendous losses a few years ago — the highest losses in the history of the industry — and rates, therefore, were increased quite substantially and changes in coverage and many other things effected, including reduced agent's commission.

They have been able to turn the picture around so that, generally speaking, insurance companies are making a profit in this area now. Of course the moment they get into a profit, the old competition dilemma appears again where they are going to start cutting rates to get more business and the next thing you know they will be back in a loss and they'll raise the rates again. It's just like a yo-yo.

**MR. URUSKI:** Could you indicate whether you are insuring the utilities in the Province of Manitoba for general and liability coverage — both Hydro and Telephones?

**MR. DUTTON:** Yes, I can indicate. The Hydro account we did not bid on it this time. There were many reasons for it, but we are of the view that the Corporation should stay clear of the bid. You are aware, of course, that it is a huge project to insure that and the fact that we did it, as one carrier, is quite a compliment to the underwriters and the high regard in which we are held in the insurance field.

However, we believe that the competitive factors will prevail again and for us to buy what we call facultative reinsurance may have been a horrendous task.

The telephone account, I believe, is just coming up and the status of that I don't know as yet.

**MR. URUSKI:** You are in the process of submitting . . .

**MR. CHAIRMAN:** Before the member carries on, I'd like to get some direction from the members present. It is slightly past twelve-thirty now, the Member for Transcona has expressed an interest. Mr. Schreyer is here. Maybe I can get some indication from all people as to how much longer you think we will be. Is it a matter of 15, 20 minutes? Therefore, I would suggest we stay. If it's a matter of well over a half an hour, maybe we should meet again on Thursday morning. It seems to be the general feeling that we can finish in the next 15 minutes to half an hour. Mr. Uruski.

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**MR. URUSKI:** Mr. Chairman, the corporation now is not placing the business, the utilities are not placing their business direct with the corporation?

**MR. DUTTON:** Yes, that's right they're not placing it direct with us. At least that's the last indication had.

**MR. URUSKI:** Right. What about MHRC, Manitoba Housing and Renewal Corporation?

**MR. DUTTON:** Yes, we have some of it, we have some of it, Mr. Chairman.

**MR. URUSKI:** Okay, as I understand MHRC insurance was placed through agents in each community that there was a project within that community. If that does not continue, can you indicate what the policy is? Will those same agents be given an opportunity to quote your rates and other companies' rates for the units, or has there been a complete change in policy?

**MR. DUTTON:** Well, we can only answer, of course, for the corporation and certainly we are inclined to support the agent in the small community and it does mean a loss to him if he loses some of these accounts. However, the big broker has quite an advantage over them . . . it all in one spot and perhaps could do it at less cost so it's up to those placing the insurance rather than ourselves as the acceptors of the insurance.

**MR. URUSKI:** Well as I understand, as the insurance time expires, the new renewals will be on quote basis. Are you aware whether the likes of Johnson, Higgins and Reed, Shaw, Stenhouse will be putting in large "on blocks of units" or the entire portfolio, or whether you will still be putting in "on a project by project" basis as you have in the past?

**MR. DUTTON:** I think that the large broker of course, would like to have his fair share so to speak, 9 percent. No, they want the entire amount if they can get it and they may be able to prove that this is the most economical way of doing business, but I think that would be the trend, they would try to encourage them to purchase their insurance in that fashion. As a matter of fact, we see it happening in schools here. It's no secret, it happens in any associations. Could be an offer for hospitals, but that's how they operate and naturally if you can get them all under one roof and one policy it's quite an advantage administratively to the broker.

**MR. URUSKI:** You're not aware whether that is the trend that is being taken at the present time.

**MR. DUTTON:** Oh, I think it will be the trend as far as the broker is concerned, but the people who are placing their insurance, I don't know what their thoughts are.

**MR. CHAIRMAN:** Mr. Parasiuk.

**MR. PARASIUK:** Thank you, Mr. Chairman. To the Chairman of the MPIC, I'd asked some questions if the Minister regarding the securities contract given to Metropolitan Securities without a tender, he advised that it would be best to ask you those questions in committee, so I'd like to take a couple of minutes just to ask you some questions on that. What were the reasons for terminating and bringing in the new contact without tender?

**MR. DUTTON:** First of all we never did call for tenders at any time on our security and the security is at the salvage unit itself. People are attracted by wrecked cars and sometimes like to pick up tape deck or whatever, so we decided that we would have to have someone on guard there. We've tried many things, we used to try dogs and dogs get a little lazy after awhile, so we went from that to security. But things were still disappearing and it was my decision, I thought that what I would like to do is to, first of all we'd try to find out what was happening, was it a case of collusion, was it a case of inside knowledge, it's a whodunit type of a story, but we couldn't find out. So what I did one day is I said, "Okay, give me the names of these security firms," because frankly I am just not familiar with security firms and they gave me a list of names and I told the men, "Okay, you take this one and you put him on duty at 5 o'clock this Friday night and don't tell anyone of the change," in case something was cooking on that weekend. And that's really what it was all about and I realize I stirred up something, but I'm the author of it, I did it and no one else.

**MR. PARASIUK:** Have you found that the new firm has worked out better than the old firm, or is the problem still in existence.

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**MR. DUTTON:** I'm sorry . . .

**MR. PARASIUk:** Has the problem been resolved by putting the new firm in charge.

**MR. DUTTON:** Yes, they came up with some suggestions that I think have a great deal of merit in the method of handling it and they have tightened up some of the procedures that were there. People are not allowed to roam around the area as they were in the past, and also to build guard-house at the entrance to allow people in. You know we've got in a year's time a few million dollars worth of sales out of that area and at any one time there'd be maybe 400 or 500 vehicles some of which are not our property yet we have to secure them because the police may be still investigating or the person hasn't released the vehicle to us. So it is an area that we have to watch and have to be careful with and I think the firm that we now have are doing a good job and they have no contract with us. They've simply been told and understand that if they don't continue to do a good job then we'll be looking elsewhere.

**MR. PARASIUk:** They're providing security for the compound, is that correct?

**MR. DUTTON:** That's right, the compound.

**MR. CHAIAN:** Mr. Schreyer. Any other questions? Mr. Uruski.

**MR. URUSKI:** In dealing with the security services, Mr. Chairman, you have a branch dealing with cases of attempted fraud against the corporation. Could you indicate as to whether there has been in the last year any increase in activity, in fraudulent activity against the corporation in claims and the like, and how many cases would the branch have handled in the last year, and how many staff is there?

**MR. DUTTON:** I can get you a detailed report, I haven't got it with me but I can tell you that generally speaking the Special Investigation Unit are doing an excellent job for us. They don't receive that much publicity, but they're instrumental in bringing to the attention of the police the number of fraudulent claims and many charges are laid as a result of it. And, there's also the factor that the public know, anyone who thinks he's going to rip us off, he surely must be aware by now that they can be subjected to the investigation of the special unit and they're all ex-policemen, and they don't know too many of the perhaps, so-called undesirable elements that we may have on our books and are able to work with the police force in straightening out many of these fraudulent claims. I can get you the report because we do keep one, if the committee is interested. Certainly we'll give them a report as to how many investigations they've made, how many claims were withdrawn as a result. Because the first thing a person will do if he knows that he is being trapped in a fraudulent claim is not sign anything, and simply withdraw it and of course, he's not committed fraud really has he? Or how many cases that we have actually got them on fraud and they have been convicted in court. A lot of the convictions, our boys aren't mentioned, of course, because it's the police that do it.

**MR. URUSKI:** They turn the matters over to the local police authority. Could you indicate whether there is an increase or what the level of claims that are being rejected for one case or another for not having proper insurance on a vehicle, either by category or by failure to pay, whether the incidents of these types of infractions are increasing and what kind of numbers are there over the last year in terms of invalidating a person's claims?

**MR. DUTTON:** Well, if they're really involved in *ex gratia* payments, no, they're not increasing. I think the opposite is the case, because the staff and the sales force are more familiar with the regulations than they were previously.

However, there's always the case where a person has innocently registered his vehicle in the wrong category, has been advised to do so. I suppose one of the reasons for that is all the renewals go through within a three or four week period and there's always a big rush, and perhaps temporary staff is hired, who are not as familiar as they ought to be, but the numbers are decreasing. Certainly the number that we hold in suspense that the computer rejects for us, is now down to a very low minimum. There's very few of them handled, so the system itself is running very well. The *ex gratia* payments, I had a committee that used to meet once a week, I find it is rarely necessary to do that now.

**MR. CHAIRMAN:** Mr. Parasiuk.

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**MR. PARASIUk:** Two short questions to finish off. Going back to the securities issue, I assume he prices being charged to the corporation for security services are roughly the same between he different companies.

**MR. DUTTON:** Oh, yes. I think they are roughly the same. What they have on the security service s one person, you see, it's not a large guard. It's not a costly thing to us.

**MR. PARASIUk:** Fine.

**MR. CHAIRMAN:** Any other questions from any of the members? If not, Committee rise.