

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON PUBLIC UTILITIES**  
**AND NATURAL RESOURCES**

**Tuesday, 15 July, 1986**

**TIME — 10:00 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRMAN — Mr. C. Santos (Burrows)**

**ATTENDANCE — QUORUM - 6**

*Members of the Committee present:*

Hon. Mr. Mackling, Hon. Ms. Wasylycia-Leis,  
Messrs. Dolin, Maloway, Manness, Nordman,  
Orchard, Santos, Scott, and Smith (Ellice)

**APPEARING:** Mr. Gordon W. Holland, General  
Manager and Chief Executive Officer, Manitoba  
Telephone System

Mr. Dennis H. Wardrop, Director, Corporate  
Development, Manitoba Telephone System

Ms. Jean W. Edmonds, Chairperson of the  
Board, Manitoba Telephone System

Mr. D.J. (Don) Plunkett, Operating Officer,  
MTX

**MATTERS UNDER DISCUSSION:**

Annual Report of Manitoba Telephone System

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**MR. CHAIRMAN:** The committee will come to order.  
Mr. Holland will have some answers to some of the  
questions posed last time.

**MR. G. HOLLAND:** Mr. Chairman, there was a question  
as to why MTS had not provided adequate notice to  
Portage Cablevision for a rate increase. We sent a letter  
to Portage Cable, dated August 26, 1983, notification  
of a rate change effective December 1, 1983. Portage  
Cable had not received CRTC approval to pass through  
the rate increase to customers when it came into effect  
on December 1, 1983.

At the present time, CRTC is considering allowing  
cable operators to increase monthly fees without  
application, or automatically after proper notification  
to subscribers and to the commission. This will allow  
the licensee to recover his increased expenses relating  
to inflation and certain third-party charges.

The contract states that MTS must give 90-days  
notice on rate changes, although we have indicated  
our intention informally to provide 180-days notice for  
any future rate changes.

**MR. CHAIRMAN:** The Member for Pembina.

**MR. D. ORCHARD:** Mr. Chairman, just one question  
on that rate increase, and Mr. Holland might not have

that answer because it really isn't MTS's responsibility.  
Does he have any idea when the rate increase was  
approved, the pass-through was approved by CRTC,  
to give us an idea of what kind of a time frame Portage  
Cablevision found themselves in, in the circumstance  
of not being able to pass through additional charges  
by MTS?

**MR. G. HOLLAND:** Mr. Chairman, I'm not sure that  
we would know when Portage Cable filed its application  
or when the CRTC decision was published.

Another question related to the TRAX-45 mobile  
service and the question was why can this be used  
only in the Portage la Prairie area?

Then, secondly, how did MTS develop the rates for  
TRAX-45?

This service was introduced as a local service in  
Portage la Prairie in 1985, to meet a market need and  
to complement the existing portfolio of mobile services.

TRAX-45 is designed and rated as a local service.  
For those customers requiring a mobile service over  
a larger area than the Portage la Prairie exchange, the  
System offers PMTS, or the Public Mobile Telephone  
System, which provides province-wide mobile coverage.  
The rates are designed to recover the identifiable  
incremental costs and to provide a modest contribution  
to the revenues of the system. The rate is \$17.50 per  
month with unlimited usage; the mobile terminal, which  
can be rented from MTS or purchased by the customer,  
is in addition to the \$17.50 per month.

Another question, Mr. Chairman, was: Does MTS  
provide multi-party or single-party service in Northern  
Manitoba, and I'm able to confirm that over 97 percent  
of customers in the North are served by single-party  
services because of the densely populated communities.  
Northern Manitoba is defined as the area north of the  
53rd Parallel.

**MR. D. ORCHARD:** What was that percentage, again,  
97?

**MR. G. HOLLAND:** 97 percent.

Last meeting, Mr. Chairman, I think I indicated that  
the local distribution systems for cable television started  
making a contribution to MTS after 30 percent  
penetration and the figure should have been 50 percent.

Another question was on the overall economics of  
cable and the aggregate revenues derived from CATV  
Services have, over the period of MTS participation in  
this field, exceeded the incremental assigned cost of  
service. This includes revenues and incremental costs  
for all Winnipeg and provincial plant. The methodology  
which MTS uses in determining revenue contribution  
was reviewed by the Public Utilities Board during public  
hearings in 1979 and 1980.

**MR. D. ORCHARD:** Mr. Chairman, on the cable  
television provision of service, two questions. What is

the overall net revenue contribution to the system, and is that net contribution to MTS able to be further broken down to separate out Winnipeg, which is the two major providers of cable television, versus all others which are located outside the boundaries of Winnipeg? Are those net revenue figures able to be broken down to determine the contribution of Winnipeg versus the rest of Manitoba?

**MR. G. HOLLAND:** Mr. Chairman, I would think the three most logical breakdowns, or those for which figures are most readily available, would be the Greater Winnipeg systems, the inter-city components, the ICBN and the local distribution outside of Winnipeg. I believe we could get figures for those three breakdowns based on incremental cost.

**MR. D. ORCHARD:** Now would that indicate the net revenue contribution from the Winnipeg plant and then a net revenue contribution - presumably Inter-City is simply to provide service to Portage, Minnedosa, Brandon, Thompson etc., etc., so that the Inter-City and the local Broadband Networks would then include the outside of Winnipeg installations. So would the breakdown be available as requested, Winnipeg versus the rest of Manitoba?

**MR. G. HOLLAND:** Yes, Mr. Chairman, on the basis that I have described.

**MR. D. ORCHARD:** Well, Mr. Chairman, I look forward to seeing those numbers. Specifically the one that I had interest in was of course the Valley Cablevision which, going back into history and reaching a fair ways back into time, was purchased by MTS, I believe, for \$1 million. I'm deeply interested in knowing whether that has turned out to be a net revenue generator, because there were circumstances there which were somewhat unusual in terms of MTS getting involved in that particular system, and that one is of particular interest. So if Mr. Holland could provide that at a later date, it would be much appreciated.

**MR. G. HOLLAND:** Mr. Chairman, we're compiling figures on Valley Cablevision, but I wasn't able to obtain them for today.

**MR. D. ORCHARD:** That's it.

Mr. Chairman, can I move into several general areas before we move into the MTX Annual Report?

First of all, could Mr. Holland indicate how many installers, I guess is the general classification of the employees that currently MTS has on staff? What I'm trying to determine is the necessity and the need and what relationship the 40 workers from Alberta who were brought in, I believe, the 1st of May, how those 40 related to the numbers that are already in the System and working within the System.

**MR. G. HOLLAND:** Mr. Chairman, the count of pay cheques issued - that is all categories of staff - for the month of May shows that it's 5,046. That would be part-time, term, permanent, all categories.

**MR. D. ORCHARD:** Specifically, what numbers of that 5,046 are in the installer category, the same type of

employee, 40 of which were brought in from Alberta? Would we be talking 100 in the system, 200 in the system?

**MR. G. HOLLAND:** Mr. Chairman, I would have to get that exact figure, but it's several hundreds in our maintenance and operations area. That includes installation and repair, our capital construction program, several hundreds, probably 800 to 900. The number that we have available from Alberta is up to 40 and the estimated time is four to six months. They, of course, are experienced and seasoned craftspersons.

**MR. D. ORCHARD:** Mr. Chairman, going from the press coverage of the installers, that caused a bit of a problem within the system in terms of the union representing MTS employees taking exception to having employees brought in, instead of what they allege is a lack of planning from a year or two years ago, whereby the Telephone System got themselves into the situation without advanced planning.

Now I would suspect the real reason falls somewhere in-between the union's position and management's position, but I'm not here to determine who's right and who's wrong. What I'd like to find out is whether the MTS management considered the importation of 40 workers from Alberta for that four-to-six month period was a less expensive method of providing a catchup on the business installations of telephone equipment, whether the importation of workers was a less expensive route to go than, say, increased overtime to Manitoba Telephone System employees?

**MR. G. HOLLAND:** Let me say, first of all, Mr. Chairman, that we consulted very closely with IBW, which is the union representing our employees in this category. The reason for it was that, despite a great deal of overtime, our service due dates and response times to the business community in Winnipeg were deteriorating. The only way that we could improve that situation was to have the necessary skills at hand, so we had cable spicers, installation and repair, particularly those skilled in PBX and other business installations, arranged. It takes four to five years to qualify a journeyman in this area. We did have drastically reduced work volumes in the 1981-82 period to respond to reduced workloads so that our intake of apprentices also dropped in that period. At the moment we have over 200 apprentices at various stages of training so that the need to use external forces is a short-term plan.

**MR. D. ORCHARD:** Mr. Chairman, Mr. Holland indicated that up to 40 were to be brought in from Alberta. What has that averaged over the last number of weeks? Has it been 20, 30?

**MR. G. HOLLAND:** Mr. Chairman, my understanding is that since May we have been using the 40 personnel, but I will confirm that by week and provide it to Mr. Orchard.

**MR. D. ORCHARD:** Okay. That'll be fine, but 40 is a good guesstimation.

The Auditor commented on your overtime. Now, was that basis the fact that some of the installers over the

past year, or whatever, prior to the auditor's comment, obtaining substantial amounts of overtime and hence having fairly substantial salary cheques? Is that the reason why the Auditor made the comment?

**MR. G. HOLLAND:** Mr. Chairman, overtime is a planned and ongoing resource to meet short-term fluctuations in workloads - peaks and gullies. We dislike extensive overtime or for prolonged periods because the productivity definitely drops off and our staff become less and less willing to work overtime. I can't speak for the Provincial Auditor, but I presume he would be concerned about productivity aspects.

**MR. D. ORCHARD:** The one indication I had received, and it's totally unconfirmed, is that some of the installers were able through overtime to achieve a take-home pay equivalent to the president's. Was that in any way, shape or form factual?

**MR. G. HOLLAND:** Mr. Chairman, that wouldn't be much overtime.

**MR. D. ORCHARD:** But that didn't answer the question, Mr. Holland.

**MR. G. HOLLAND:** Mr. Chairman, I don't have any figures on that. Again, we can obtain illustrations of overtime over the last six months if that would be helpful.

**MR. D. ORCHARD:** It might establish a range to see the amount of overtime that was paid that caused the Auditor some alarm. Did business have to basically take it or leave it and pay the overtime, or else wait for their installation, and hence drove up the installation costs to the business during this period time in which you are backlogged?

**MR. G. HOLLAND:** Mr. Chairman, the business due dates were getting to be, say 26 working days, which was not acceptable to them. Our policy is to provide service in strict accordance with the dates of orders received. We did offer - if business wished to advance those dates - offer overtime to our craftspersons and do the work at the customer's expense.

**MR. D. ORCHARD:** So that there was an increase in the cost, if one wanted his in-service date advanced over the 26 working day working period. Could Mr. Holland indicate whether the paralleling of the . . . Like the last MGEA contract provided for an extra week of holidays, and presumably the Manitoba Telephone System had to basically match that MGEA contract offering, and I presume they did. Given that you're having the 40 employees, or up to 40 employees in from Alberta for a four-to-six month period, working three weeks per month, that translates into about 480 work weeks, if you use those installers from Alberta for four months up to a maximum, of say 640 work weeks, if you extend their service contract to the six months that you indicated; given that you've got in the range of 800 to 900 employees in that category, it would seem there's a fairly direct relationship between meeting the Manitoba Government Employees' extra week of

holiday to your problem in the Manitoba Telephone System in terms of installation. Is that a fair assessment of one of the contributing factors to the delay in MTS?

**MR. G. HOLLAND:** Mr. Chairman, there are a number of contributing factors. Certainly the one-time extra week vacation was one; the most significant though was an increase in our work volumes in the business community from 18 percent to 28 percent over the preceding year.

The other factor was that we had a very large construction program, some \$148 million compared to the prior year's 112, as I recall. So there were quite a number of contributing factors to the workload.

**MR. D. ORCHARD:** Agreed, but certainly a factor of some considerable import was having to meet the MGEA contract that was negotiated in lieu of wage settlement. In the case of the Civil Service, it was quipped by many that maybe we had a surplus of civil servants in the line departments and could afford a weeks holidays and not really decrease service. In the case of MTS, clearly that contributed, No. 1, to a significant backlog. In cases of urgency amongst businesses requesting new installations, they either had to wait with obvious implications on the financial viability of their business, or else they had to pay the overtime stimulated by the extra week granted in the MGEA contract. It was either lose money through delay in installation, or pay overtime money. Certainly the MGEA contract, as settled by the NDP prior to the last election, has once again cost the people of Manitoba in more ways than what was evident at the time it was settled.

**MR. G. HOLLAND:** Mr. Chairman, I would tend to describe it as a situation where we were not prepared to continue that quality of service to the business community, and we wished to restore our usual due-date times and response times. So this seemed to be the most rational means of doing that.

**MR. D. ORCHARD:** Mr. Chairman, I won't make any more comment on that, because I think it's been aired significantly, and I think the union has made their position fairly clear. Obviously, the Telephone System with additional apprentices in place has recognized the union's desire to have Manitoba workers doing Manitoba installations. I concur with that.

Mr. Chairman, can I ask two general questions? I won't get the answer today, but one of them stems back to April 30, 1985. If this answer was provided, as was undertaken by Mr. Holland then, I've simply misplaced the reply. But I requested the effective interest rate on the retirement of Series 10P, and I don't recall receiving that. Could Mr. Holland make that available? As well, could he provide for me the effective interest rate on I believe Issue 10J, which is the Japanese issue that was retired in this past - yes, 10J that will be retired very shortly. Could Mr. Holland provide the effective interest rates on both of those foreign borrowings, and that can be done at a later date?

**MR. G. HOLLAND:** Yes, Mr. Chairman, we'll provide that.

**MR. D. ORCHARD:** Mr. Chairman, I want to move into a new area, the FAST alarm system. We've discussed

this on numerous committee hearings. Can Mr. Holland indicate what the customer base is for FAST at the present time?

**MR. G. HOLLAND:** Mr. Chairman, the number of customer premises with FAST service was 4,120 in March of 1985 and 6,384 in March of 1986.

**MR. D. ORCHARD:** Okay.

**MR. G. HOLLAND:** I might also . . . Sorry.

**MR. CHAIRMAN:** Mr. Holland has some more information.

**MR. G. HOLLAND:** There are now nine private alarm agencies offering the FAST service, and the reliability has improved considerably.

**MR. D. ORCHARD:** Mr. Chairman, can Mr. Holland indicate, of the 2,264 new customers, whether there is another group of Manitoba Housing and Renewal Corporation installations included in that increased figure of 2,264?

**MR. G. HOLLAND:** Mr. Chairman, I believe Mr. Wardrop has that information.

**MR. CHAIRMAN:** Mr. Wardrop.

**MR. D. WARDROP:** The figure of 6,384 customer premises served by FAST that Mr. Holland referred to included a total of 3,900 that were in service of the Winnipeg Regional Housing Corporation.

**MR. D. ORCHARD:** So a full 1,200 of those new customers are MHRC and, if I recall the revenue figures from MHRC, it was barely covering the cost of operation. It was put in at a very inexpensive rate. There then would be 1,064 customers outside of the Winnipeg Regional Housing Authority. Can Mr. Wardrop provide me with the operating revenues for the past fiscal year and the operating expenses?

**MR. D. WARDROP:** The operating revenues were \$498,300; the operating expenses were \$383,500.00. I would mention though that the operating expenses that have been read in are, to some degree, overstated in that they do not take into account the cost avoidance that results from the FAST system detecting troubles that are also telephone troubles and, because the FAST system detects them very rapidly, those troubles in our accounting processes get assigned, their expenses are assigned to the FAST system where, in fact, there is an effective cost avoidance because there isn't an equivalent telephone trouble serviced on that. So the figure for expenses is somewhat overstated.

**MR. D. ORCHARD:** Mr. Chairman, does that figure of \$383,500 include interest charges? If so, to what extent are interest charges part of that \$383,000 expense line?

**MR. D. WARDROP:** No, these are strictly the operating expenses. They do not include interest on the capital and so on.

**MR. D. ORCHARD:** Now the last figure I've got for capital investment is in the neighbourhood of \$4.7 million, giving interest rates at, let's just pick a number and say, 10 percent. That means interest costs of the FAST system would be in the neighbourhood of \$470,000.00. A quick calculation would have you with interest expenses totalling \$850,000, we're still at a net loss to the system with increased customer base of approximately \$350,000.00. Is that a fair assessment?

**MR. D. WARDROP:** I haven't followed all your figures, Mr. Orchard. Perhaps I could get you the current figures along the lines that you are suggesting with the total breakdown.

**MR. D. ORCHARD:** That would be fine.

Mr. Wardrop, have the line rates for other methods of alarm provisions increased in the period that we've just been talking about. For instance, single-wire alarm services that are available under other systems, have those rates increased to those companies providing that service to their customers?

**MR. D. WARDROP:** Yes, there have been some upward rate revisions to our private line rates.

**MR. D. ORCHARD:** In terms of percent, are those available?

**MR. D. WARDROP:** They could be obtained.

**MR. D. ORCHARD:** Mr. Chairman, I won't dwell on this any longer than just a few comments, and maybe the Minister would want to comment. Every year, we go through FAST and, every year, by the time we add in interest on the capital investment, we end up with a net loss to the system. The FAST system was one of those high-tech entries into the competitive market that was to provide cross subsidization. You add in interest. It clearly is not even at break even as of yet.

It's one of those ventures that I'm sure the new board chairman, and others, as they're considering new adventurism in MTS, might want to consider very seriously because I believe now that FAST is significantly behind its revenue projections that were made in the business case done some six years ago, to get into FAST. This is in face of increasing the cost to competitive alarm companies and their provision of service, through the increase in rental rates on single-line installations, etc., etc., an area that we went over substantially last year.

The Minister and I will agree or disagree philosophically on whether this is good or bad, but I simply want to make the case again, as I have made for about four years now, that FAST is a net drain on MTS revenues and the people buying monthly service are paying for the costs of the FAST alarm system.

**HON. A. MACKLING:** I believe that the honourable member and I will agree to disagree on that, and he's quite right in making that assumption. I believe that, like any other investment decision, there has to be a recognition that there is a period of time when the investment does not pay the full reward. Many businesses commenced where there is a fairly extensive

period of time in which operations, the revenues don't meet expenses. It depends on the nature of the business, how long that occurs.

The statistics do indicate very substantial growth, despite the fact that the honourable member highlights the numbers involved in elderly housing services. These are very vital services and I think we're indebted to the former Minister, the honourable member, in agreeing that the corporation should make this investment because it is an investment in service that is invaluable. How do you put a price tag on the value to people of a prompt response in respect to emergency needs, whatever they may be.

There's no question about the value of this service socially and, from our perspective, we believe that the service will, in the course of time, develop a sufficient revenue base of its own to justify it on a straight market basis.

I think, as the honourable member has indicated, we'll agree to disagree at this time as to its economic worth or market worth, and we'll continue to disagree, I guess, until either one of us changes.

**MR. D. ORCHARD:** Fully 61 percent of the FAST customers are in-house government customers through the Winnipeg Housing Authority, at a substantially reduced rate, simply to get customers on line. The aspect of safety is not the one that we're talking about. Any alarm system would provide that kind of safety.

What we're talking about is a business case was made some six years ago, which indicated net revenues in a very short window of time. Those have not been achieved. They are still not being achieved, and I simply want to, once again, tell the Minister, and I don't have to tell him because he knows this — if he's looking at his numbers, he knows this — that this is a net drain on the telephone system. If it was put it to be a social program, which it wasn't when it was introduced to myself as Minister, and to the Government of the Day, it wasn't introduced as a social program. It was introduced as a business proposition. That business proposition has failed. If it is providing a social service, then maybe the Minister should approach his Cabinet colleagues, particularly the Minister of Housing, and say, you are receiving a social benefit from the 3,900 installations and you should pay more.

He knows very well the Housing Authority would not pay more and hence MTS is providing a subsidized service to 3,900 housing units in Winnipeg, and the business plan has not materialized and regular telephone users are cross-subsidizing FAST, rather than vice versa.

**HON. A. MACKLING:** I think the honourable member will agree, notwithstanding his philosophic position, that many of the public investments we enjoy today, if looked upon from a strictly short-term return framework, we would not enjoy today. The very substantial investments that we as a society put into our highway system, into . . .

**MR. D. ORCHARD:** You don't put it into the highway system any more.

**HON. A. MACKLING:** The honourable member says we don't put it in. Billions of dollars have been put into

highways systems. You don't measure the economic return in a matter of short years. You look at the total benefit, the macro-economic benefits.

In this case, this system is developing rapidly. When you consider a 50 percent increase in the number of hook-ups, that's a significant increase in one year. It's fully expected that this growth will continue.

You're talking about the social benefit. I think, for the record, since I know the media would like to get something newsworthy out of this meeting, that the Winnipeg Regional Housing Authority has indicated that there were 1,843 alarms received; 129 were ambulance calls; 42 were considered life-threatening — heart attacks, strokes, respiratory illness, choking, hemorrhaging.

I think, therefore, it is clear that this type of service is vital, is needed, and the expectation of the corporation, when the service was instituted, and the expectation of the then Minister will be vindicated, maybe not in the tight time frame that the honourable member expects, but in the time . . .

**MR. D. ORCHARD:** No, what was projected by the System.

**HON. A. MACKLING:** . . . that the public will recognize as reasonable in order to ensure that the System develops in a reasonable manner.

**MR. D. ORCHARD:** Mr. Chairman, you know the Minister fights a losing argument because, No. 1, the System made the projection that it would be profitable much sooner. No. 2, whilst they are attempting to sell FAST, they are driving the costs up of other competitive alarm systems that happen to have to use the MTS system to deliver the alarms. It's hardly a reasonable competitive situation we're into with FAST, and the Minister well knows that.

Now, Mr. Chairman, if we can move on to the FRED system, I've got a few questions on FRED that I'd like to pose to the president. First of all, can Mr. Holland indicate the cost to the Manitoba Telephone System to date of the FAST system, including promoting the sale of the FAST system, the total cost to date since the FRED system was made available? What are the annual costs of that promotion?

**HON. A. MACKLING:** Excuse me, were you referring to FRED?

**MR. D. ORCHARD:** Right.

**HON. A. MACKLING:** I'm sorry, you used FAST and FRED interchangeably there . . .

**MR. D. ORCHARD:** I'm sorry, I'm just on FRED now.

**HON. A. MACKLING:** Okay, it's FAST FRED.

**MR. D. ORCHARD:** There are those who would disagree with that too.

**HON. A. MACKLING:** Some of us think FRED's been too slow, I know.

**MR. G. HOLLAND:** Mr. Chairman, there are 38 FRED systems installed at this stage, in cooperation with the

municipal authorities. We provided the committee last year with typical calculations as to how the FRED ratings were developed and what the components were. Would it be acceptable if we did the same thing again? Each system is tailor-made and designed for that community's requirements, and is rated individually.

**MR. D. ORCHARD:** I was under the impression, Mr. Chairman, that the MTS undertook enterprise accounting, so that the cost of the FRED system, in terms of promotion, would be something that would be available. If that's not the case, then how does MTS determine what it costs them to offer FRED because, once again, FRED is a system that theoretically is being offered as one of those salvation systems that will provide net revenue to the Telephone System so that they can cross-subsidize telephone service? What I'm extremely interested in finding out is: what are the annual costs of promoting FRED? Then of course the follow-through question is: what are the annual revenues?

If those aren't available today, then we're simply spinning our wheels. If they're not available, I'd appreciate an attempt to make those available at a later date, because what I'm wanting to determine is the profitability of the FRED system.

**MR. G. HOLLAND:** Mr. Chairman, we'll compile the financial data for the 38 communities, and provide that to the committee.

**MR. D. ORCHARD:** I trust that information will have the cost to the Telephone System of promoting and providing and selling and servicing and offering the FRED service, and will show as well the income to the Manitoba Telephone System from the FRED service.

**MR. G. HOLLAND:** Mr. Chairman, as was done last year, it will show our assumptions in apportioning costs to this service. One example, of course, is the traffic operators who take the calls and refer them to the emergency personnel. That requires some assumptions on allocation of costs, but we will highlight our assumptions as part of it, yes.

**MR. D. ORCHARD:** Can Mr. Holland indicate whether any other system was studied to determine whether any other system would provide the kind of fire alarm service for the municipalities, other than the FRED system?

**MR. G. HOLLAND:** Mr. Chairman, this started as a result of resolutions by the Union of Municipalities in, I believe, 1979 and 1980. We have been working very closely with provincial and municipal emergency authorities since that time. We've attempted to provide a service that meets the immediate requirements of the municipalities, but also is amenable to extension, if required, to other broader emergency purposes. So the offering — and it's more than one; there are modules to the FRED offering, according to each municipal requirement — was designed in close consultation with the committees.

**MR. D. ORCHARD:** So then I take it this is an MTS in-house design. No other system was considered as

to whether it could be provided on an interconnect basis. The one I know the most about is, of course, the Motorola system, which is used by some fire departments, in which Motorola had some difficulties in achieving an interconnect relationship with the Manitoba Telephone System. Is it fair to assume then that, basis the resolutions of 1979 and 1980 from the various municipal councils, MTS took about to design their own in-house system, and didn't determine whether existing systems could be interconnected with the Telephone System and provide this kind of a system throughout the province?

**MR. G. HOLLAND:** As I said earlier, Mr. Chairman, the MTS worked with representatives of the municipal authorities to develop the system and to try and do it with economics that were affordable at the municipal level. Certainly we're aware that Motorola and others provide stand-alone systems in certain of the municipalities. Our system also, of course, uses equipment supplied by the mobile manufacturers.

**MR. D. ORCHARD:** Mr. Chairman, I guess the overall goal of an interconnected system throughout the province is maybe a good high-tech goal. I don't know whether a fire department in Lundar necessarily needs an interconnect with the Winnipeg Fire Department or Brandon would need an interconnect with Winnipeg on ambulance service, because those sorts of interconnect, although laudable in their technical capabilities, are limited in their use to handle the crisis of fire or ambulance at a local area. So the interconnected system, I think, had a great deal of service offering to the local municipalities, he could have provided MTS with revenues had they sought out an interconnected arrangement which was suitable to both the provider of the service — say Motorola in this case — and the Manitoba Telephone System so that MTS could derive some revenues from the interconnect. It would appear as if we're on the track of having FRED throughout the province, whether it's the best system or a good system or an in-between system.

Now, can I ask Mr. Holland if the traffic operators he referred to who intercept the FRED calls, are the same operators that I would, for instance, when I'm at home and I'm wanting to place a credit card call and I dial the operator, are those the same operators that I intercept in placing a credit card call as the FRED system would intercept?

**MR. G. HOLLAND:** Mr. Chairman, they're the same staff, but I believe that the emergency numbers come into special terminals so that they get immediate attention.

**MR. D. ORCHARD:** That, Mr. Chairman, was my next question because I've sat on the end of my telephone at home listening to it ring 20, 30, whatever times and the operators are busy and don't come on the line, and that would not be a very efficient system for an emergency reporting system. So you are saying that FRED calls come in on a separate terminal so that they are responded to immediately?

**MR. G. HOLLAND:** Yes, Mr. Chairman. Then, of course, it has the advantage that is a seven day, twenty-four-hour-per-day availability to the municipal authorities.

**MR. D. ORCHARD:** I don't think, Mr. Chairman, that is any different than the Motorola system. It's seven days, twenty-four-hours-a-day as well.

Mr. Chairman, can I ask the Minister if the Province of Manitoba is being asked by the Telephone System or has had a proposal made to them by the Telephone System to put any capital funds into the provision of the FRED system throughout the province?

**HON. A. MACKLING:** We are still looking at ways in which we can assist in the more fully flesh development of the FRED system in Manitoba.

**MR. D. ORCHARD:** Mr. Chairman, the Minister has been listening to Mr. Holland's answers too long. Does that mean you're being asked for capital contribution by the Manitoba Telephone System?

**HON. A. MACKLING:** Not necessarily so. We, as a government, are convinced that there is a need throughout Manitoba for effective systems to deal with the concerns in respect to fire and emergency systems, and have agreed with the municipalities that a comprehensive system would be preferable and we're looking at alternatives in respect to providing assistance to insure that development takes place sooner rather than later.

**MR. D. ORCHARD:** Have any numbers been attached to that assistance that may be provided to provide service sooner rather than later?

**HON. A. MACKLING:** I'm sure there are estimations as to cost. I suppose that I could provide an estimation as to cost to the honourable member.

**MR. D. ORCHARD:** Would that estimation of cost be in the several millions of dollars?

**HON. A. MACKLING:** I would suspect that would be the case.

**MR. D. ORCHARD:** Like \$3.86 million?

**HON. A. MACKLING:** I wouldn't question it. It could be that figure more or less.

**MR. D. ORCHARD:** And of that figure, more or less, what has the province been asked to put in? The full 3.86 million or a portion thereof?

**HON. A. MACKLING:** I'd have to take that question as notice. I don't recall the options for funding, so therefore wouldn't want to speculate right now.

**MR. D. ORCHARD:** The Minister in his cooperative attitude will provide that information at a later date?

**HON. A. MACKLING:** Yes, to the extent that I think that I can, I will. When these matters are under active policy consideration, I don't think it's useful to bandy around the numbers too effectively. We have to make an evaluation. Those are merely estimates of cost. I'll certainly provide the member with the information if I think that is certainly appropriate.

**MR. D. ORCHARD:** I thank the Minister for that undertaking and I just offer him my caution, and he knows full well where I'm coming from in terms of my caution, that here we have the Telephone System with a high-tech venture again, called FRED, now coming to the government presumably for some substantial capital monies to provide an alarm service throughout the province to the municipalities. I contend, and only an inquiry or an independent review would determine whether I'm right or wrong, but I contend that there are other services available, one of them being from Motorola, a very reputable company, with an alarm system that's in use in other jurisdictions very successfully, and in use in Manitoba very successfully, and that alarm system from Motorola or other companies may well provide equivalent service at significantly less cost and provide the Manitoba Telephone System with revenues from interconnect that Manitoba Telephone System had so desired.

The Telephone System appears to have convinced this government that the way to go is FRED and are going to now convince them, I would predict, to put in a substantial amount of capital money at a time when this Minister constantly stands up and others stand up and say we don't have money for university funding, for health care funding, etc. for construction of highways.

I simply ask the Minister that when he is considering this proposal that he asks the questions, have other systems been evaluated; have other systems proven effective; will other systems provide revenue through interconnect and still provide the service as an economic cost as FRED will? Those questions must be answered by the Minister and the government before they make the decision to plough ahead putting money in. All I have to do is refer back to the FAST system where a government was told that the system would be good, would be profitable, would have good customer penetration. Those predictions have not turned out to be true and I offer the Minister a lot of caution in proceeding posthaste into the FRED system without having those basic questions of evaluation answered beforehand.

Now, Mr. Chairman, if the Minister has got no comment or Mr. Holland has no comment, I've got another area that I'd like to pursue.

**HON. A. MACKLING:** I would just like to say this briefly that, of course, the honourable member has certainly every right to voice his concerns and his apprehensions about the thrusts of the corporation. Certainly, we will insure that the investments are made prudently and wisely. We have agreed to disagree in respect to the investment in FAST. We think the decision was a right one and will prove itself to be a right one on both counts over time.

In respect to FRED, the fact that we don't have this system in being today proves our caution in respect to its development, but we are looking at options to ensure that when a decision is made to look at a more expeditious development at FRED, it will be on a sound basis.

**MR. D. ORCHARD:** Mr. Chairman, I thank the Minister for that assurance. I hope that it ends up being a correct assurance, and a realizable one.

Mr. Chairman, the January 13, 1986 press release, Government Information Services, indicates that Bidhu Jha has been appointed to the Manitoba Telephone System. Can the president or the Minister indicate whether MTS or MTX, in terms of their offerings of business equipment and office equipment systems, have any dealings with this new board member's business in Winnipeg?

**HON. A. MACKLING:** I, of my personal knowledge, have not. I would assume that should that occur, that there would be the usual disclosure made and an absention from any decision-making. I will ask the general manager or the chairperson to respond, either.

**MR. G. HOLLAND:** Mr. Chairman, we worked very closely in the past with Mr. Jha's firm, trying to identify markets and market requirements, and have used his products. I would have to get specific information.

**MR. D. ORCHARD:** Have those products been used since Mr. Jha's appointment to the MTS board?

**MR. G. HOLLAND:** I have no knowledge on that. As I say, I would have to check specific information and provide that later.

**MR. D. ORCHARD:** Mr. Chairman, maybe this is an area where the chairman of the board would have more knowledge, since any of those decisions made by the board would have required, as the Minister said, the absention of Mr. Jha from any of those decisions. Has any such decision been made in the past little while?

**MR. CHAIRMAN:** Ms. Edmonds.

**MS. J. EDMONDS:** Nothing of that nature has come before the board since Mr. Jha's appointment. The board has had more than one discussion on the question of conflict of interest and the steps one would take to protect members from such allegations should any suggestion of anything like that arise.

**MR. D. ORCHARD:** Can I pose a question as to whether - and the reason why I'm marrying the two is that Page 8 of the annual report, in the third paragraph, indicates that the Business Centre is moving into what appears to be the area of Mr. Jha's business expertise.

Can I ask Mr. Holland whether MTX is seeking out any foreign sales which might involve any of the product offerings that are available through Mr. Jha's business firm?

**MR. G. HOLLAND:** Mr. Chairman, I have no knowledge of that. I have to ask Mr. Plunkett, the President of MTX, if he's aware of any activities.

**MR. CHAIRMAN:** Mr. Plunkett.

**MR. D. PLUNKETT:** No, Mr. Chairman, we are not marketing any of their products.

**MR. D. ORCHARD:** Thank you, Mr. Chairman. Mr. Chairman, I want to move to a specific line in the report, which is Commercial Marketing and General

Administration costs of the System. In Mr. Holland's opening remarks, he's indicated that total operating expenses for the Manitoba Telephone System increased by 9 percent last year. The year-over-year increase of commercial marketing and general administration, 1983-84, over 1984-85, increased by almost \$13 million, or 15.5 percent, a significant . . .

**HON. A. MACKLING:** What page are you referring to?

**MR. D. ORCHARD:** Page 14. If one wishes to go to the pie graph, it's there, too, but Page 14. Now, you've got a general increase in operating expenses throughout the System of 9 percent, but yet the Commercial Marketing and General Administration costs are increasing by 15.7 percent. In the year previous, comparing the year 1982-83 to the year 1983-84, the System costs went up by 9.1 percent, on average, whereas Commercial Marketing and General Administration costs went up by 12.5 percent.

It would seem as if some of the complaints, as lodged by the employees surveyed, that middle management and senior management are becoming quite numerous and quite well paid, appears to be following through in the statistical analysis of the balance sheet, where you have general System increases in the neighbourhood of 9 percent, and Commercial Marketing and General Administration costs increasing by 12 percent year-over-year, for fiscal year 1982-83 over 1983-84, and 15.5 percent for the fiscal year 1983-84 over fiscal 1984-85.

Can Mr. Holland indicate whether that is an area that is being currently investigated to see whether, indeed, we are over-senior-managed in the Manitoba Telephone System?

**HON. A. MACKLING:** Before the general manager responds, I would like to draw to the attention of the honourable member the reference in Note 10 in General and Administration. The honourable member is quite correct; there is a substantial increase there. Note 10 is an explanatory note in respect to the funding of pension liability. A significant amount of money is provided there for that outstanding liability. That occasions the significant increase, the bulk of the significant increase there.

I will ask Mr. Holland to deal with the Commercial and Marketing area.

**MR. G. HOLLAND:** Mr. Chairman, the Commercial and Marketing increase is 10.4 percent, which is not far off from our general expense increase. Footnote 10 indicates that the provision for funding of the pension liability increased from \$5 million to \$14.7 million, so that accounts for virtually all of the increase under General Administration.

**MR. D. ORCHARD:** Mr. Chairman, the employee survey was undertaken in 1983 and it identified a number of problem areas within the system in terms of personnel relations.

Can Mr. Holland indicate whether any follow-up has been completed on the employees surveyed to attempt to rectify some of the problem areas identified, and whether any further consultant studies are currently

being undertaken to determine corporate effectiveness or retraining needs within the corporation?

**MR. G. HOLLAND:** Mr. Chairman, the employee survey, which is almost three years old, did identify quite a number of employee concerns but happily it also identified a number of employee satisfaction areas. I think we have had an opportunity to check the results with other large corporations and we find that we're probably fairly typical in the responses of surveys of this sort. I would say that the dominant theme of the response that we got was the demand by employees for more information on corporate-wide activities and our planning and how we were preparing for a much more competitive era.

One, I think, very effective way of communicating with our employees is the Echo, and we have tried to develop a much more informative and complete story through the Echo. We also use employee information letters which go to every employee. We now have a so-called billboard service on the Envoy system which is accessible to all MTS people. We have a call in number with current events and news which employees can access, and retired employees.

We have gone through the survey methodically. We have not engaged a consultant to do an update on it, but we will be probably, in early 1987, trying to devise our own survey and consultation process with staff to get an update of current views. It likely will be done in-house.

**MR. D. ORCHARD:** Mr. Chairman, I just want to touch on one other area of the internal hiring practices and promotions within the corporation. The 1983 employee survey, I don't know whether these figures are significant in terms of comparison with other corporations, but they appear to be fairly significant in terms of the attitude within MTS employees.

Roughly 26 percent of the respondents believe that most people at MTS are selected for promotion for non-business reasons. Their promotion is based neither on performance nor necessarily length of service. And 53.5 percent of the surveyed employees felt their chances of being promoted were not good, but yet when they joined the corporation, 94 percent felt the career opportunities were excellent to fairly good, and after being there for a while, of course dropped to the 50 percent.

There are some quotes from employees that: "I feel most promotions at MTS are decided before job postings are issued and the postings are a mere formality. Most jobs in our department don't hit the posting board. You hear about them after the fact. I'll get promoted but I don't want to wait around for another 10 years. I can learn about all jobs posted quite easily. My problem is that I'm interested in the jobs that don't get posted."

Another quote: "The main source of getting a job at MTS is pull. Mothers, fathers, relatives and friends often get people their jobs. I think more people should be interviewed for job openings."

Another quote regarding the MTS job selection process: "It is unfair and biased. Nothing saps incentive more than working hard many years with the system only to have junior people with relatives and friends in

management promoted over them. Nepotism and favoritism run rampant within the system."

Those are fairly strong comments and there are more of them. I think it would take too much of the time of the committee to go through them. But just in going through the internal telephone directory of the Telephone System, and this is a preliminary look at the Telephone System, and trying to identify some of the alleged family relationships that employees have said exist in terms of promotions and securing jobs, I come up with about 14 just as a preliminary look at the system of either father-son or husband-wife combinations or husband-daughter or whatever.

Now, Mr. Holland, is that an unusual figure for a telephone system with the number of employees? Does he consider that to be an area that should be looked at, and whether those are simply disgruntled employees, who have been let's say bypassed for a promotion, just venting their aggravation in a survey, or is there a legitimate concern that you might have as the president and chief executive officer of the methods by which people are either hired or promoted within the System?

**MR. G. HOLLAND:** Mr. Chairman, I suppose another way of expressing that would be that three out of four employees felt that the appointments were made on good sound business reasons. We follow a classic selection process with the bulletining of virtually all positions throughout the System's buildings. The only exception to that is developmental assignments for limited periods which require the approval of the personnel manager. Those are done to make sure that we have adequate experience, skills and depth in our ranks.

We do not disqualify relatives or friends. I think simply because MTS is such a large organization you would be disqualifying a very large number of people, plus the fact that if you read the Echo you will notice that MTS employees frequently marry MTS employees and we do not turf one or the other out when that occurs. I should think that 14 out of 5,000 would not be an unusual number, but I would add to that. We do have third generation families working at MTS on a number of occasions and I'm not sure that is an unhealthy scene.

I would speculate that the statistics were somewhat slanted in 1983 because we were at that time and have since been working very aggressively at our equal opportunity programs and trying to make certain that MTS reflects the community it serves in its employment practices. When that is done, when there is an educational or a sensitization process ongoing, it does cause some apprehension as to whether that will intervene with expected career paths or promotions and so on. That is another reason why we would like to, three-and-a-half years later, take another consultation with our staff and see whether actually then since have allayed some of the concerns.

**MR. D. ORCHARD:** I appreciate Mr. Holland's answer. That, no doubt, is much the case as he has indicated and I raised the issue only to determine whether he had considered it a problem and, given some of the recent hirings in Hydro, it seems to be rather topical in Crown corporations. I'm pleased that Mr. Holland

doesn't have concerns about that sort of practice being a reality in the Manitoba Telephone System.

**MS. J. EDMONDS:** Mr. Chairman, I just wanted to add that when I came on the scene a year ago, I'm pleased to see that the honourable member also finds telephone directories a very good source of research. I looked at our telephone directory and the only case in which I inquired about what appeared to be a family relationship, turned out to be one of those cases in which two young people had met on the job and married and remained with the Telephone Company in quite different sections and quite different roles. I think we're very fortunate to have both of them. It certainly was something that one looks out for and I'm happy to say that in the year I've been there, I haven't seen any cause for alarm.

**MR. D. ORCHARD:** You know, this just stimulates a suggestion. Do you think that during the winter months when our farmers are not as busy, that you might hire them into the Telephone System, because there seems to be a crisis in rural Manitoba of finding mates and recently come into the newspaper and since MTS is doing such a heck of a job over there, maybe we could get some winter employment over there on a temporary basis to get some more of these lonely farmers matched up with suitable employees at MTS.

**HON. A. MACKLING:** I'm advised, although I didn't make a particular inquiry about it, that telephone operators now can be even more friendly than they have been in the past. There's some latitude now for individual judgment and so perhaps they might say the odd kind word to some desperate soul out there in the boonies.

**MR. D. ORCHARD:** The boonies?

**HON. A. MACKLING:** Well, when I look at the Member for Pembina, I think of the boonies. I'm sorry. I apologize to the people in Pembina and the honourable member too.

**MR. D. ORCHARD:** You apologize with tongue in cheek, but we in rural Manitoba know what you think of us.

**HON. A. MACKLING:** I live in the boonies, Don.

**MR. D. ORCHARD:** So, Springfield is now the boonies? That's what the previous Member for Springfield thought and he's no longer here.

Mr. Chairman, I think it might be appropriate now with the remaining time and I hope we can complete it to move into MTX discussion. First of all, I just want to make a general comment that last year at this time there was a projection given to us that MTX would suffer a loss of \$50,000.00. That was the estimate at this time last year. That loss has now come in at \$251,000 with a positive contribution to MTX's operation of \$116,000 on a positive foreign exchange gain, so that factoring out foreign exchange transactions, because I'm making the assumption that MTX did not plan to have a positive foreign exchange increase, that would mean the losses from the operations would be

in the neighbourhood of \$367,000.00. That's substantially higher than the \$50,000 that was projected at this time - well in May of last year when we dealt with the annual report of the Manitoba Telephone System and MTX. Current projections for this year indicate that the loss is going to be \$90,000.00. I certainly hope that we don't have a seven-fold increase this year as we had last year.

Now, there are a number of questions that come from the Annual Report of MTX. Now, first of all, I have to tell you, Mr. Minister, and to the president of the Telephone System, that I have an extreme amount of difficulty rationalizing the figures in the MTX Annual Report to those figures that are presented in Note 11, wherein MTX's operations are summarized. I find them difficult to end up at the same place. For instance, we can get into the anomalies and my suggestion would be in the interests of clarity in future MTS Annual Reports, that reporting in Note 11, or whatever note it might be, be more closely related to the MTX Annual Report, so that we can see what's going on.

Now, can I ask some questions of Mr. Holland on the foreign exchange gain of \$113,000 from last year, if I've got the number correct - \$116,234.00. First of all, how was that achieved and was this an expected revenue to MTX?

**MR. G. HOLLAND:** Mr. Chairman, Mr. Provencher can discuss that figure, I believe. Sorry, Mr. Plunkett.

**MR. D. PLUNKETT:** Mr. Chairman, the 116 was not planned. It was achieved through the difference in timing between the billings or paying our supplier invoices and the billings that we subsequently made to our clients.

**MR. D. ORCHARD:** So that in actual fact that was a very unplanned profit, if you will, and if that did not occur, then losses to the MTX would have been in the neighbourhood of that \$367,000 mark instead of the \$251,000.00?

**MR. D. PLUNKETT:** That's correct, Mr. Chairman.

**MR. D. ORCHARD:** With the foreign exchange transaction gain of \$116,000, have we actually received that or is that value tied up in the accounts receivable?

**MR. D. PLUNKETT:** We have actually received that in cash, Mr. Chairman.

**MR. D. ORCHARD:** Fine.

Mr. Chairman, you'll have to bear with me because when I get into questions on MTX, I have to rearrange my thoughts substantially because it is a very complex series of dealings that we've got ongoing here.

First of all, as a general observation, in terms of comparing the 1984 balance sheet with the 1985 balance sheet, we've got a \$5 million in rough figures, in round figures, a \$5 million increase in accounts receivable. That's a 180 percent increase in accounts receivable.

At the same time, if we go down to the liabilities, we've got a substantial increase in the liabilities due to the parent Note 3 where we now owe to the parent, and I presume that's to the Manitoba Telephone System,

some \$6.8 million compared to 1.5 million just one year ago.

Now it would appear to me, as a non-educated observer of balance sheets, that given the loss that is incurred and given the dramatic increase in accounts receivable year-over-year on virtually, I might say, the same almost identical sales - well no, sales are up about 2.3 million, but cost of sales are up substantially. But basically, it appears to me from the balance sheet that this company, MTX Telecom Services Inc., is going in exactly the wrong direction. It's got a lot of accounts receivables out there, and it's got a lot of liabilities to the parent company. That, to me, may well translate into a substantial exposure to the Manitoba Telephone System. I hope we can, during the course of this morning, come to some understanding of what that liability might be.

Now can I ask some more general questions just on Page 1 of the - oh gee, I'm not even on Page 1. The pages aren't numbered in the Telecom Services. We have in the notes, Note 3, "Related Party Transactions," which stems from accounts receivable, where we are to refer to Notes 2, 3 and 4 to determine what's involved in the \$7.779 million accounts receivable. We are referred to interest charged to MTX by the System on notes and advances made to MTX during the year, a total of \$545,000 of interest charged according to Note 3.5. Now can Mr. Plunkett explain the dramatic increase in interest payable to the Manitoba Telephone System from 1984, where it was 68,000, to 1985, where it is now 545,000.00?

**MR. D. PLUNKETT:** The increase in interest expense or interest charges to MTX by MTS is mainly due to the increase in accounts receivable, and they are the advances from the parent, Mr. Chairman.

**MR. D. ORCHARD:** The increase in accounts receivable, are we talking about the \$7.779 million of accounts receivable, or does MTX owe MTS money and it's on their accounts receivable, in other words, MTS' accounts receivable that interest is being charged?

**MR. D. PLUNKETT:** Mr. Chairman, the interest is on the \$6.796 million, which is the accounts payable to the parent, MTS. I'm sorry, it's due to parent - pardon me.

**MR. D. ORCHARD:** And that figure is \$6,796,771.00?

**MR. D. PLUNKETT:** That's correct, Mr. Chairman.

**MR. D. ORCHARD:** Now those accounts payable to the parent company involve what transactions?

**MR. D. PLUNKETT:** Mr. Chairman, it's the ongoing business process of advancing funds to MTX to meet their obligations to suppliers.

**MR. D. ORCHARD:** So those aren't really accounts payable. Those are notes and advances from MTS to MTX?

**MR. D. PLUNKETT:** That's correct, Mr. Chairman.

**MR. D. ORCHARD:** Now in terms of the accounts receivable of \$7.779 million, Mr. Plunkett, can you provide to us - if I can find my correct page here. First of all, that is the accounts receivable as at March 31, 1985. What are the accounts receivable today?

**MR. D. PLUNKETT:** Mr. Chairman, I'll have to get that information, and provide it later.

**MR. D. ORCHARD:** Mr. Chairman, that might present a problem in completing discussion of MTX today, if that information was not available this morning. You see, Mr. Chairman, what I want to get into is I want to find out the value of the accounts receivable today because, in the Manitoba Telephone System Report as well as in the MTX report, there is that note in here that the recoverability by MTX of the investment in SADL and the related trade receivables described above is uncertain at this time. That is already almost a year-and-a-half old information.

What I want to determine is the accounts receivable position today. I would like to have an aging schedule of those accounts receivable to see whether they are significantly overdue. I want to have the System's assessment of how collectable they are today. I want to know whether the interest on the notes is being paid by the customers who owe the money to MTX, and what the interest rate is. All of those questions are important to determine the financial viability of MTX and what the financial drain may or may not be on MTX because, as the Minister is well aware - and I'm not sure the total guarantees that are offered by MTS, but I know that MTX has a guarantee of \$3 million on receivables to the banks, which is supported by a Letter of Comfort from MTS, so that there is an exposure to MTS of \$3 million there. In addition, it is my understanding that MTX has a Province of Manitoba guarantee of \$4 million. So we've got \$7 million worth of guarantees, and we've got over \$7 million worth of accounts receivable.

**MR. D. PLUNKETT:** Mr. Chairman, most of that information that has been requested will be difficult to provide this morning. We can talk in general terms about the accounts receivable, the make-up of them and how they came about, but I cannot provide aging or the total amount of interest charged on the accounts receivable, nor the specific interest rates. But I can reply in general terms, if that would be satisfactory.

**MR. D. ORCHARD:** Mr. Chairman, I guess that's going to present some difficulty in concluding today, because I think there is a significant warning in the MTS Annual Report, as well as in the MTX Annual Report, on these accounts receivable to determine the financial health - and this is our only opportunity to do this - of MTX, and we really need to have that kind of information.

So what I would suggest is I will carry through maybe with a series of questions, which may or may not be able to be answered this morning, and then if we could meet, and I hate to do this because I'm busy in the next week and a half with Health Estimates, but maybe we could reschedule a second meeting for an hour or so to go through MTX at a later date.

So can I start off by asking whether there are any other guarantees that MTX is offering to its creditors

and the banks that it deals with other than the \$3 million guarantee, which is supported by a letter of comfort from MTS, and other than the \$4 million direct guarantee from the Province of Manitoba. Is MDC or any other arm of the Provincial Government offering guarantees to MTX?

**MR. D. PLUNKETT:** Mr. Chairman, there are no other guarantees being offered to MTX.

**MR. D. ORCHARD:** Now, I think what I should go to next - in general terms, if we take a look at the Statement of Income and Retained Earnings for MTX Telecom Services, in 1984, we had sales of \$6.6 million, gross profit of \$644,000, for a gross margin of 9.8 percent. For 1985, we have \$8.8 million worth of sales and a gross profit of \$171,000 or 1.9 percent. Why have our gross profits in that one year dropped from 10 percent to 2 percent?

**MR. D. PLUNKETT:** Mr. Chairman, as I recall, there were some accounting anomalies between the two years, and we actually had to pick up some losses in 1985.

**MR. D. ORCHARD:** Accounting anomalies. Maybe I should just ask for an explanation of that, accounting anomalies, and the nature of those accounting anomalies, and where one would find the pickup on those anomalies in the 1985 statement?

**MR. D. PLUNKETT:** Mr. Chairman, I should have said bookkeeping errors. We will not identify them anywhere in 1985 or 1984, but we made some errors in 1984 that were carried through to 1985 and recognized in 1985.

**MR. D. ORCHARD:** Is it a fair question to pose as to whether those accounting errors in 1984, had they not been there, that you would have lost money in 1984?

**MR. D. PLUNKETT:** No, that is not a fair assumption.

**MR. D. ORCHARD:** Well, I have to say that I am confused. There were accounting errors in 1984 at a time when you achieved a 10 percent gross profit level. Those accounting errors were corrected and, theoretically, we are on a solid accounting basis for 1985 and we're down to a 2 percent gross margin. Like why?

**MR. D. PLUNKETT:** Mr. Chairman, the errors were corrected in 1985 and were reflected in the 1985 statements. I should further add that the profit levels are down because of the decrease in sales to one of the Saudi companies.

**MR. D. ORCHARD:** Okay. In correcting the accounting errors from 1984 in the 1985 statement, did that drive up the cost of sales?

**MR. D. PLUNKETT:** Yes, by approximately 100,000, Mr. Chairman.

**MR. D. ORCHARD:** Does that mean if it was accounted properly in 1984 that the cost of sales would have been up by \$100,000 in 1984?

**MR. D. PLUNKETT:** Most likely, Mr. Chairman. The reason I can't be more definite is that it may have been '83 and '84.

**MR. D. ORCHARD:** What were the nature of these accounting errors? What specifically were they?

**MR. D. PLUNKETT:** We had double accounted for our costs when we were setting up our year-end accruals and should not have.

**MR. D. ORCHARD:** You double accounted an expense item? An expense item was double accounted?

**MR. D. PLUNKETT:** Mr. Chairman, we reserved for it in work in progress when it should have been expense.

**MR. D. ORCHARD:** Well, that's interesting, Mr. Chairman, because I had a question beside work in progress from the first page of "what is it?"; but it isn't even in 1984, but yet it should have been in 1984. You said that it was accounted as work in progress in 1984 and it should have been an expense, but yet if you look at work in progress on the asset sheet, Page 1, you'll find there's a zero figure. Now if something in expense was accounted as work in progress in 1984, why is there a zero entry for work in progress in 1984?

**MR. D. PLUNKETT:** Mr. Chairman, we defer costs of projects in two categories: one is work in process which is normally projects; the other is in deferred development costs which can be marketing or other costs.

I would assume that the deferral of those costs was in the deferred development cost category.

**MR. D. ORCHARD:** So, Mr. Chairman, the accounting error first explained as work in progress maybe wasn't work in progress, but maybe it was deferred development costs, and if that were the case, then is work in progress, or is deferred development costs considered part of the cost of sales?

**MR. D. PLUNKETT:** Only when it is written off to cost of sales at the time of the conclusion of all costs related to that sale, Mr. Chairman.

**MR. D. ORCHARD:** But in this particular case, if we go to Page 1 on assets, deferred development costs should have been \$210,000, presumably, not \$310,000. And then where would that \$100,000 have appeared on the balance sheet?

**MR. D. PLUNKETT:** I would have to verify where those numbers do appear on the balance sheet, but I would believe that they should be in the deferred development costs.

**MR. D. ORCHARD:** I maybe missed the answer. I missed the answer.

**MR. D. PLUNKETT:** Mr. Chairman, there wasn't one.

**MR. D. ORCHARD:** Yes, I thought so.

**MR. D. PLUNKETT:** I would like to ask if I can come back and clearly identify at a later date exactly what the anomaly is.

**MR. D. ORCHARD:** Okay, that's something we'll do next meeting now.

Now, we have in terms of bank drafts, and let's go into the contingency note, I believe that's where it is. Contingencies, Note 4, indicate that we have the guarantees as mentioned before, the 4 million and the 3 million. According to the balance sheet, we have accounts receivable of \$7,779,748 for 1985. Presumably that's a year-end figure. Note 4 indicates the company has bank drafts outstanding, including interest, of \$5,213,948 as of March 31, 1985 that have been accepted by these customers. That is an intriguing series of words that have been accepted by these customers.

Does one assume from that that there are certain accounts receivable that are not covered by bank drafts?

**MR. D. PLUNKETT:** Mr. Chairman, none of the accounts receivable are covered by bank drafts. Once the bank draft is issued, our cash is increased and our accounts receivable are decreased.

**MR. D. ORCHARD:** Can Mr. Plunkett show me where that shows up in the balance sheet or the Statement of Income and Retained Earnings or the changes in financial position?

**MR. D. PLUNKETT:** Mr. Chairman, that's the bookkeeping or accounting method for using this. There are no bank drafts at all on the balance sheet.

**MR. D. ORCHARD:** Of the accounts receivable, \$7,779,748, how are they secured?

**MR. D. PLUNKETT:** They would, generally speaking, be secured through the assets or inventory sold or supplies sold. In this case, most of it is to our Saudi customers; the rest would be unsecured.

**MR. D. ORCHARD:** How much of the \$7,779,748 is secured then, of the accounts receivable is secured, and how much is unsecured?

**MR. D. PLUNKETT:** Mr. Chairman, in Note 2 to the Financial Statements, there was \$7,360,000 due from companies in Saudi Arabia which would be secured.

**MR. D. ORCHARD:** Is that \$7,360,000 included in the \$7,779,748 of accounts receivable?

**MR. D. PLUNKETT:** Yes, Mr. Chairman.

**MR. D. ORCHARD:** And that full value of \$7,360,000 is secured, as Mr. Plunkett said?

**MR. D. PLUNKETT:** We have first call on the inventory of those companies, Mr. Chairman.

**MR. D. ORCHARD:** Does the inventory exist in those companies?

**MR. D. PLUNKETT:** There is inventory in those companies, Mr. Chairman.

**MR. D. ORCHARD:** Is there sufficient inventory in those companies to assure security of \$7,360,000 worth of accounts?

**MR. D. PLUNKETT:** Not just in inventory, Mr. Chairman, there are also accounts receivable in the companies.

**MR. D. ORCHARD:** Now, I presume the companies we're talking about are the 100 percent-owned Saudi Arabian companies owned by Sheik Abdullah Al Bassan?

**MR. D. PLUNKETT:** It would also be the Saudi Arabian Datacom Ltd. joint venture, Mr. Chairman.

**MR. D. ORCHARD:** What value of accounts receivable are owed by SADL, and what is the balance of accounts receivable owed by 100 percent-owned Saudi Arabian companies by the Sheik?

**MR. D. PLUNKETT:** I do not have that information at this time, Mr. Chairman.

**MR. D. ORCHARD:** Okay. Hopefully, Mr. Chairman, then we can have that information next time we meet.

Now, in contingencies, and let's go back to contingencies again, the company, I presume we're talking MTX, has bank drafts outstanding, including interest of \$5,213,948.00. Is that \$5,213,000 part and parcel of the \$7,779,748 of accounts receivable?

**MR. D. PLUNKETT:** No, Mr. Chairman.

**MR. D. ORCHARD:** And on a previous question, Mr. Plunkett, you indicated that the \$5 million doesn't appear in the balance sheet? That's correct, it doesn't appear in the balance sheet?

**MR. D. PLUNKETT:** No, it doesn't, Mr. Chairman. That's why it's under the heading of contingencies or contingent liabilities.

**MR. D. ORCHARD:** Okay. Then do we add the figure of \$7,779,748 to the figure \$5,213,948 to come up with the total exposure, the total receivables of MTX?

**MR. D. PLUNKETT:** No, Mr. Chairman. We've already received the \$5,213,000. I assume we're still talking as of March 31, 1985. The \$7 million was drawn down at later dates.

**MR. D. ORCHARD:** I have to admit, Mr. Chairman, I don't understand what has happened here, and maybe it's because I'm just a little thick and not quite able to comprehend what's going on here.

Mr. Plunkett, are you saying that the \$5,213,948 of bank drafts outstanding are not monies that are secured and owed to MTX, and are secured and represent bank drafts which give a payment schedule over a period of one year to 24 months to pay that money to MTX; but you're saying that that in fact is money that is already in our accounts of MTX?

**MR. D. PLUNKETT:** Perhaps I could explain it this way, Mr. Chairman. The 5.213 million represents sales that have been made and accounts receivable that have been collected from those previous sales.

At the time that we draw the drafts from the banks, we get the money at that date, less the interest that will be computed. The drafts are then accepted by our customer who, on its due date, then pays the draft. In actual fact, the customer owes the bank. If the customer defaults, then we are obligated to meet that payment.

**MR. D. ORCHARD:** As of March 31, 1985, those drafts were outstanding. They weren't, at that point in time, paid by the customer. Is that a fair assumption?

**MR. D. PLUNKETT:** Yes, Mr. Chairman, they were not as yet due.

**MR. D. ORCHARD:** Now is there any reason for alarm for the last words at the end of that notation, in other words, "The company has bank drafts outstanding, including interest of X number of dollars as of March 31, 1985, that have been accepted by these customers"? Are there some accounts receivable that the customers are not willing to sign bank drafts, and hence secure MTX's accounts receivable? Is that a conclusion one makes from reading that statement?

**MR. D. PLUNKETT:** No, Mr. Chairman. The accounts receivable that are shown on the balance sheet of some \$7 million were subsequently drawn down through the note process over 1986.

**MR. D. ORCHARD:** Now were they paid with interest?

**MR. D. PLUNKETT:** All notes are paid as they come due with the interest that is associated with them, Mr. Chairman.

**MR. D. ORCHARD:** What bank is MTX currently using?

**MR. D. PLUNKETT:** Mr. Chairman, if I could have a clarification on the question, is the question directed to the notes or is it directed to our general banking?

**MR. D. ORCHARD:** To the notes and, if there's a difference, you could indicate who the general banking is done with.

**MR. D. PLUNKETT:** Mr. Chairman, our general account is with the Bank of Nova Scotia, the main branch, and we also have an account with them for the drawing down of drafts. We also have another one with the Royal Bank of Canada.

**MR. D. ORCHARD:** Mr. Chairman, I read an interesting article in Newsweek back in May, where the headline on the article is: "The Sheiks Rediscover Religion." Basically, it describes in here how, with a downturn in the Saudi economy, borrowers in Saudi Arabia are stiffing creditors by invoking shariah - I hope I pronounce it right - the law of Islam which prohibits the payment of interest.

Now on our accounts receivable from the Saudi companies, we are not having sharia invoked on us so that we're not collecting interest?

**MR. D. PLUNKETT:** Mr. Chairman, the Saudi companies pay interest at the going rate on their outstanding accounts receivable.

**MR. D. ORCHARD:** So there is no difficulty with the Islamic law, shariah.

**MR. D. PLUNKETT:** No, Mr. Chairman.

**MR. D. ORCHARD:** Now further on the contingencies, we have the 5.213 million in bank drafts which, Mr. Plunkett has indicated, during the year 1985 were drawn down and retired. MTX presumably received the cash.

It says: "Subsequent to March 31, 1985, MTX has drawn down an additional \$4.3 million of bank drafts against its Saudi Arabia major customers." Is that the same transaction that you referred to earlier?

**MR. D. PLUNKETT:** Mr. Chairman, that \$4.3 million was drawn down against the \$7.7 million in accounts receivable.

**MR. D. ORCHARD:** The next paragraph says, "Of the total amounts drawn down, \$2.7 million was subsequently paid by MTX's major Saudian Arabian customers." Could you provide an explanation of the transaction, and what actually happened there?

**MR. D. PLUNKETT:** Mr. Chairman, what the note is referring to is the payment of the notes that were drawn down as they came due. However, MTX was in the process, with its Saudi partner, of increasing its investment in the Saudi joint venture. As part of that process, MTX paid off some notes equivalent over the year, I believe, to \$2 million to increase our investment and increase the capitalization of our joint venture.

**MR. D. ORCHARD:** Let me make sure I understand that explanation. Are you saying that MTX used its funds to pay down bank drafts, which were owed by the Saudian Arabian customers? MTX paid some of those down to the value of \$2 million on behalf of the Saudi Arabian customers, with that money reflecting approximately a \$1.449 million capital infusion into the 50 percent, joint-owned venture. Is that what happened?

**MR. D. PLUNKETT:** Yes, Mr. Chairman, that's what happened and, at the same time, our Saudia partner contributed a like amount.

**MR. D. ORCHARD:** So then, in my non-accounting mind, does that mean that MTX retired \$2 million of debt that was owed to it and hence MTX actually, if you want it to be in blunt terms, wrote off \$2 million worth of receivables as part of an agreement whereby \$1,449,030 was treated as a shareholder advance to SADL? In other words, the money ended up in the 50-50 owned company, but MTX actually gave up the collection of \$2 million to accomplish that.

**MR. D. PLUNKETT:** MTX did not give up any receivables whatsoever. Rather than MTX paying into SADL the 1.4 million at this point in time, we chose to repay some notes that were coming due in Canada on behalf of SADL. Our Saudi partner did likewise in Saudi Arabia.

**MR. D. ORCHARD:** You mentioned a figure of \$2 million earlier on in notes that were retired by MTX, and 1.449 million ended up as shareholders' advance to SADL. What happened to the balance of the \$2 million? Where did it go?

**MR. D. PLUNKETT:** Mr. Chairman, the balance of almost 600,000 was paid into the company at a later date to make up the total capital infusion into the company of \$2 million from each partner.

**MR. D. ORCHARD:** What security do we have as a result of that infusion of \$2 million in the SADL?

**MR. D. PLUNKETT:** Mr. Chairman, it's a normal capital investment and in common shares, whatever security goes with common shares, you're entitled to. I might add that we do take out EDC insurance on our equity investment in Saudi Arabia.

**MR. D. ORCHARD:** That begs the question of what is the net worth on the balance sheet of SADL? Because we now have a \$2 million equity investment there secured by whatever assets are in the company. What are the assets of SADL? Do they equate to the \$2 million we've got in, let alone the \$4 million that presumably is in, in total, when you consider the joint venture partner?

**MR. D. PLUNKETT:** Mr. Chairman, a clarification. Are you referring to the SADL statements or are you referring to the MTX statements?

**MR. D. ORCHARD:** Mr. Chairman, I think Mr. Plunkett just told me that you have a \$2 million investment in SADL. I asked you what the security was of that \$2 million investment. You indicated to me that it was secured by whatever the share value would be, shares having call on the assets of SADL. I ask, what are the assets of SADL? That seems to be an important question since we've got \$2 million invested by MTX in SADL. Are there \$2 million worth of assets in SADL?

**MR. D. PLUNKETT:** With the exception of the small loss that was incurred in 1985, there are sufficient assets to cover off our invested capital.

**MR. D. ORCHARD:** In what form are those assets?

**MR. D. PLUNKETT:** The assets would take the form of cash, accounts receivable from their plants, inventory, fixed assets such as cars, buildings, leasehold improvements, the normal sorts of assets.

**MR. D. ORCHARD:** When you get into using accounts receivable as security, what is the security of those accounts receivable? Because, within MTX alone, we have a financial note saying the investment in the related trade receivables described above as uncertain at this time. What is the security of the receivables in SADL for which we have some \$2 million at risk?

**MR. D. PLUNKETT:** The note is in the financial statements because the recapture or the recoup of the capital investment is subject to future earnings of the

company, which are not readily predictable at that time nor at this time.

**MR. D. ORCHARD:** I guess that really is where we're at, aren't we? Because, we've got direct collectibles to MTX that are noted as being uncertain. I presume that the accounts receivable — and Mr. Plunkett, you can correct me if I'm wrong — that the accounts receivable to SADL which is a 50-50 joint venture, are primarily accounts receivable from the 100 percent-owned companies of Sheik Abdullah Al Bassan, who is the 50 percent owner in SADL.

If I recall from last year's hearings, there was nothing other than the personal name of the Sheik on the line in terms of making those collectibles from his 100 percent owned companies realizable. We were running on faith and good hope, in terms that they would be collectible. Now are we likewise, with these accounts receivable in SADL, dealing with 100 percent owned companies by the sheik; and that is where those accounts receivables for which we are assuming some \$2 million worth of security, is that the nature of those accounts receivable? Are they from the 100 percent owned company by the sheik?

**MR. D. PLUNKETT:** The receivables from Saudi Arabia would be from both the companies that he owns 100 percent and from the Joint Venture Company.

**MR. D. ORCHARD:** You mean to tell me that we have an accounts receivable to SADL from SADL that you're considering an asset? How can you have accounts receivable from a 50 percent joint company? Now, either I missed the answer or something is strange.

**MR. D. PLUNKETT:** MR. Chairman, if we're referring to the \$7 million accounts receivable . . .

**MR. D. ORCHARD:** No, we're not referring to the \$7 million, we're referring to the accounts receivable in SADL which we now are using as security for a \$2 million investment in SADL. Where are the accounts receivable in SADL from?

**MR. D. PLUNKETT:** Their clients, wherever they may be, are not all from their 100 percent Saudi companies.

**MR. D. ORCHARD:** How are those accounts receivable secured; by bank draft? By what method of security?

**MR. D. PLUNKETT:** Their receivables are not secured except to the extent that the equipment or services have been supplied to other Saudi companies.

**MR. D. ORCHARD:** So, they are unsecured accounts receivable and if I can find a note in here where one of the reasons for a loss in SADL, if I can find it, I think it's investment note No. 2, the last paragraph, where SADL recorded an operating profit after management fees of \$88,618 of which \$44,309 has been taken into income my MTX. This profit has been offset by MTX's share of the loss of the sale of computers by SADL subsequent to the year-end in the amount of \$157,475.00. Now, you're telling me that the accounts receivable in SADL are not secured other than by the

equipment that they have sold. The only time you've had to sell equipment, you've lost \$157,000. And you're telling me your accounts receivable are secure?

**MR. D. PLUNKETT:** Mr. Chairman, these computers were not sold; they were written off; they were obsolete. They could not be sold over there and were brought back to Canada for resale on the surplus market. I don't believe that's the only sale by SADL.

**MR. D. ORCHARD:** That brings us right back to square one. Are the accounts receivable for equipment presumably sold by SADL to 100 percent companies and to other companies in Saudi Arabia, is the equipment likewise out-of-date and we would incur the same kind of loss here if the accounts weren't paid, if we had to recoup the asset, namely the computers or whatever electronic equipment they are?

**MR. D. PLUNKETT:** Mr. Chairman, as with any company that has inventory, some of it goes obsolete from time to time. I would expect that there might be some obsolete inventory in SADL's inventory. However, some of that equipment, if not all of it, could be used in the Manitoba Telephone System's network, if at all possible.

**MR. D. ORCHARD:** I have to tell you that I don't have, basis the information given this morning, I don't have a whole lot of confidence in our \$2 million investment in SADL, and unless Mr. Plunkett and other officers can bring forward some pretty substantive information to the next committee hearing, I think that the judgement made to inject another \$1,449,030 into that 50-50 owned company is seriously open to question. Because we've put that money, and we already had - if I go back to the financial sheet, the financial report - we had a net investment, Note 2, Investment on the Assets of originally \$794,000, I believe, in SADL, if my memory serves me correct, if we go to Note 2, and that's what it is 50 percent ownership, that's our investment. It is reduced from 1984 to 1985 down to \$680,887 despite a profit which I read into the record a few minutes ago of some \$88,000, \$44,000 of which we shared in, because they had to write off and lose money on the sale of computers. Now our equity went down 1984 over 1985, and subsequent to that we apparently have decided to throw more bad money after worse by putting another \$1 million, almost \$1.5 million back into SADL. And the security from the description this morning doesn't seem all that good.

Mr. Chairman, there are a number of other questions that have yet to be answered about MTX but I have to tell you, Mr. Chairman, I'm getting to the stage where I think the Minister owes the telephone system and its customers a complete inquiry into this operation because we have got a . . . I tried at one time to develop the corporate flow in which we are involved with the Saudi Arabian companies and you go from MTS down to MTX, and then you spin off with a 50 percent investment in SADL.

The other 50 percent owned by Sheik Al Bassan through Al Bassan International, who also owns Al Bassan International Telecom, Al Bassan International Databcom, for which we provide contract employees, for which we provide equipment sales, some channelled direct from MTX, some channelled through SADL.

Mr. Chairman, I think the Minister has to start asking himself whether this exposure in Saudi Arabia is far too great for the potential benefit that may be there, bearing in mind that last year we were told there's going to be a \$50,000 loss. In fact, it turned out if we take out the unusual one-time foreign currency exchange gain, the loss was \$370,000, a multiple of seven, and at the same time you're about to go to the Public Utilities Board for a rate increase while we have this kind of transaction, this web of transaction going on in Saudi Arabia for which we don't know today whether our accounts receivable are secure.

We know that some of them have been paid down but we don't know what additional sales have been made and whether the accounts receivable are still \$7.7 million or whether they're more. We don't know the aging account, we don't know the potential losses. And I'm sure, Mr. Minister, sitting there listening to the responses, you can't have been completely clear on the whole process for which these corporate transactions are going through, because I am not entirely clear.

But I think enough questions have been raised a year ago and now today, facing larger losses, that I think, Mr. Minister, it's time to get a handle on this, whether it be through an independent inquiry or whatever method you see fit. But I seriously question the financial viability of MTX's participation in Saudi Arabia. I believe if full analysis was available that we would find ourselves substantially exposed, potentially facing substantial losses and I think from one standpoint alone an inquiry would do nothing better than clearing the air. I may be entirely wrong and I hope I am for the ratepayers sake in Manitoba because they're going to pick up the costs if I'm correct in my assumptions.

Mr. Chairman, what makes this even more interesting is that we look at subsequent events in the notes to the MTX Annual Statement, and we find in there that the Manitoba Telephone System has put in a further investment of \$8.5 million into MTX. And they now have gone off, according to these subsequent events, they've entered into an agreement with Cezar Industries of California for the purchase of technology for the sum of \$3,375,000. And as part of the consideration, MTX will continue the worldwide marketing and manufacturing rights to the technology, as well as a 20 percent interest in a company to be formed to market the products in the United States.

MTX, Mr. Chairman, and I say to the Minister with all due respect, I believe, is getting close to being out of control. Can the Minister tell us, for instance, whether he saw a business plan given to him by MTX, MTS, which justified a \$3,375,000 investment in Cezar Industries in California? Does the Minister know what technology is being purchased, what technology is going to be marketed? Has he seen a business case made by MTX to show the corporation how they will profit from this? And if he hasn't, who made those kinds of decisions? Does the Minister not see some cause for the concerns I'm raising to him today or is he simply going to accept that everything is all and wonderful in MTX?

**HON. A.MACKLING:** I assume that the honourable member has completed his questions. At least he's put

them together in a package now and put them to me. I think it should be understood that the Manitoba Telephone System is a very large corporation with significant investments in assets here, significant expertise through the history of development of staff knowledge of the technology that we employ here, and that at a stage some time ago it was considered that the corporation, in order to be able to utilize the technology of its staff, it would be appropriate to embark on an outreach providing benefit not only to Manitobans by the staff gaining experience elsewhere, but also facilitating the development of telecommunications elsewhere, and assisting in the demand for more of that high technology, not only in the form of services of highly trained people from Canada but also a continuing demand for the products that are manufactured in North America. All of that makes good sense, it still makes good sense. Those investments are never made without some concern about the possibility that there will be the need to write off investments. Every corporation faces that kind of risk when it makes investments, and the Manitoba Telephone System, through MTX, is no exception to that.

So when there is a note in the financial statements indicating a caution about that investment, that is there, quite frankly, to indicate that this is an investment. Investments sometimes succeed handsomely; sometimes they can fail. But when you look at the totality of the benefit that we have obtained thus far - and I'm going to ask the corporation to bring, for the benefit of the committee, I don't know how quickly I can obtain that; certainly I'll be able to report on it at some course - the macro benefits or the macro economics of the investment through MTX in Saudi Arabia.

I am advised that, in addition to the fact that we have been able to usefully employ highly paid staff that otherwise, at a stage in our corporation history, would have been surplus to us, we've been able to fully employ those people. As a result of our initiatives through MTX, there have been substantial orders of equipment in North America, and that has had significant benefits for all of us.

I do want to look at the macro economics, if I can use that expression, of the investment. But in respect to the concerns, certainly we have concerns about the ongoing security of those investments but, as I indicated earlier, one has to appreciate that there is always risk in investments. In respect to the investments - and I gather, Mr. Chairman, we will be meeting again, because there are specific items that the honourable member wants in respect to the MTX. So we'll be meeting again, and perhaps we can go into that in detail again.

In respect to the investments that the member is alluding to in respect to Cezar Industries, again we'll probably be able to give more amplification to that investment.

But again we are looking, in conjunction with other leading players in the telecommunications industry, at investments which we think are sound investments to ensure the continuing viability of the corporation, investments that we'll see now, probably investments in the Far East as well as the Middle East, investments in North America in the use of technology.

Where the board of the corporation, after due consideration, feels that those investments are worthy,

I certainly anticipate that this Minister will want to support the board in ensuring that the corporation is outgoing and outlooking, and is prepared to take some risks in respect to its utilization of its expertise and its ability to provide services and to employ our highly skilled people, not only here but elsewhere, where the market and the situation warrants that those investments would be prudent.

**MR. CHAIRMAN:** The Member for Pembina.

**MR. D. ORCHARD:** Mr. Chairman, we will discuss this at another meeting. No doubt, we will have some further comment in terms of the perceived benefits to the Manitoba Telephone System of MTX and other experimentation in the high-tech market. That same argument that the Minister just used was used in Project Ida. That cost the ratepayers of Manitoba considerable money.

When you get down to the stage, as the Minister has just done and as Mr. Holland did in his introductory remarks, of justifying the existence of MTX on the basis that it's a home for surplus staff, I think you've got to reassess your corporate priorities, because you're mandated to supply telephone service on a monopoly basis to the people of Manitoba. You're not an independently owned private corporation where, if you lose money, the shareholders, who are shareholders by choice, assume that loss. You're a Crown corporation where those losses are picked up every time you go to the Public Utilities Board to demand more rate increases. Until the Minister gets control of this and finds out whether MTX is going to be a net contributor - and I don't think he can answer that today because, if he can, he's going to provide an answer that Mr. Plunkett can't provide to us today.

Until he gets that answer, I think it is extremely ill-advised for this Minister and this government to allow the continuation of almost independent multi-national corporation activity by MTS in fields where, I maintain, it's big boys playing. As long as the taxpayers of Manitoba are on the hook to pay for any losses, no one takes any pain, except the people of Manitoba, and that isn't what MTS was originally mandated and chartered to do.

So I want the Minister and Mr. Holland, if they can, to provide further information next time we meet, No. 1, about government approval of the \$8.5 million shares of MTS in MTX. I want to know whether the Minister and the government were aware of the \$3.375 million investment in Cezar Industries, and I want to know whether they approved of it.

I would like to have the business plan tabled for this committee, which stimulated this \$3.375 million investment and this agreement with Cezar Industries. I want to see what MTS is projecting to be the net benefit of this investment, how many years it's going to take, how many years we're going to be at a loss position, because we've already gone through this with FAST. I can pick any number of areas with the Manitoba Telephone System that they've got into outside of their monopoly provision of service where they have cost the ratepayers money because they've lost money. FAST is but one.

I simply want the Minister to provide us, at the next meeting, with the business plan, the case study that

was given to the board. Obviously, he had to have access to it that led to the approval of another \$8.5 million worth of share investment in MTX and an investment, subsequent thereto I presume, of \$3.375 million in Cezar Industries. I want to see what the corporation is projecting.

**HON. A. MACKLING:** Mr. Chairperson, I don't disagree at all with the honourable member that we must have an ongoing concern to make sure that the investments that the corporation makes are made with a sound approach to what is in the best interests of the corporation in what appears to be an area that makes only common sense for the corporation but, in the long run, will benefit Manitobans. I think that, when the corporation does that, it should not however have a narrow, limited focus, but be prepared to take the kind of risks that our forefathers made when they made investments in public enterprise.

**MR. D. ORCHARD:** Mr. Chairman, the risk that the people of Manitoba made in Manitoba Telephone System was protected by a monopoly at which the Telephone System could go and get a rate increase. That was a no-risk investment. We're talking about getting out into Saudi Arabia in a competitive market where there is substantial risk. Those aren't the kind of risks that built this Manitoba Telephone System and the Minister knows that. They are into adventurism, they've got a tiger by the tail with MTX, and if this Minister doesn't recognize it, he shouldn't be the Minister.

**HON. A. MACKLING:** The honourable member talks nonsense. The honourable member knows that the Telephone System, for example, was in radio broadcasting, highly competitive, and pioneered in that.

**MR. D. ORCHARD:** And is it now? Is it now?

**HON. A. MACKLING:** And it isn't now, sure.

**MR. D. ORCHARD:** That's right.

**HON. A. MACKLING:** There are times when corporations show leadership and public corporations can show that leadership to us.

**MR. D. ORCHARD:** Show some leadership in Manitoba instead of Saudi Arabia.

**MR. CHAIRMAN:** The next meeting of the committee on Public Utilities and Natural Resources will be duly set and announced after consultation between the two House Leaders.

What is the pleasure of the committee?

**A MEMBER:** Committee rise.

**MR. CHAIRMAN:** Committee rise.

**COMMITTEE ROSE AT:** 12:30 p.m.