



**First Session - Thirty-Sixth Legislature**  
**of the**  
**Legislative Assembly of Manitoba**  
**Standing Committee**  
**on**  
**Public Utilities and Natural Resources**

*Chairperson*  
*Mr. Frank Pitura*  
*Constituency of Morris*



**Vol. XLV No. 1 - 10 a.m., Tuesday, September 26, 1995**

**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Sixth Legislature**

**Members, Constituencies and Political Affiliation**

<u>Name</u>	<u>Constituency</u>	<u>Party</u>
ASHTON, Steve	Thompson	N.D.P.
BARRETT, Becky	Wellington	N.D.P.
CERILLI, Marianne	Radisson	N.D.P.
CHOMIAK, Dave	Kildonan	N.D.P.
CUMMINGS, Glen, Hon.	Ste. Rose	P.C.
DACQUAY, Louise, Hon.	Seine River	P.C.
DERKACH, Leonard, Hon.	Roblin-Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DOER, Gary	Concordia	N.D.P.
DOWNEY, James, Hon.	Arthur-Virden	P.C.
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DYCK, Peter	Pembina	P.C.
ENNS, Harry, Hon.	Lakeside	P.C.
ERNST, Jim, Hon.	Charleswood	P.C.
EVANS, Clif	Interlake	N.D.P.
EVANS, Leonard S.	Brandon East	N.D.P.
FILMON, Gary, Hon.	Tuxedo	P.C.
FINDLAY, Glen, Hon.	Springfield	P.C.
FRIESEN, Jean	Wolseley	N.D.P.
GAUDRY, Neil	St. Boniface	Lib.
GILLESHAMMER, Harold, Hon.	Minnedosa	P.C.
HELWER, Edward	Gimli	P.C.
HICKES, George	Point Douglas	N.D.P.
JENNISSEN, Gerard	Flin Flon	N.D.P.
KOWALSKI, Gary	The Maples	Lib.
LAMOUREUX, Kevin	Inkster	Lib.
LATHLIN, Oscar	The Pas	N.D.P.
LAURENDEAU, Marcel	St. Norbert	P.C.
MACKINTOSH, Gord	St. Johns	N.D.P.
MALOWAY, Jim	Elmwood	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McALPINE, Gerry	Sturgeon Creek	P.C.
McCRAE, James, Hon.	Brandon West	P.C.
McGIFFORD, Diane	Osborne	N.D.P.
McINTOSH, Linda, Hon.	Assiniboia	P.C.
MIHYCHUK, MaryAnn	St. James	N.D.P.
MITCHELSON, Bonnie, Hon.	River East	P.C.
NEWMAN, David	Riel	P.C.
PALLISTER, Brian, Hon.	Portage la Prairie	P.C.
PENNER, Jack	Emerson	P.C.
PITURA, Frank	Morris	P.C.
PRAZNIK, Darren, Hon.	Lac du Bonnet	P.C.
RADCLIFFE, Mike	River Heights	P.C.
REID, Daryl	Transcona	N.D.P.
REIMER, Jack, Hon.	Niakwa	P.C.
RENDER, Shirley	St. Vital	P.C.
ROBINSON, Eric	Rupertsland	N.D.P.
ROCAN, Denis	Gladstone	P.C.
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STEFANSON, Eric, Hon.	Kirkfield Park	P.C.
STRUTHERS, Stan	Dauphin	N.D.P.
SVEINSON, Ben	La Verendrye	P.C.
TOEWS, Vic, Hon.	Rossmere	P.C.
TWEED, Mervin	Turtle Mountain	P.C.
VODREY, Rosemary, Hon.	Fort Garry	P.C.
WOWCHUK, Rosann	Swan River	N.D.P.

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

**Tuesday, September 26, 1995**

**TIME – 10 a.m.**

**LOCATION – Winnipeg, Manitoba**

**CHAIRPERSON – Mr. Frank Pitura (Morris)**

**ATTENDANCE - 9 – QUORUM - 6**

*Members of the Committee present:*

Hon. Mr. Findlay

Messrs. Ashton, Dewar, Laurendeau, McAlpine,  
Pitura, Mrs. Render, Mr. Sveinson, Ms. Wowchuk

**APPEARING:**

Ms. Jean Friesen, MLA for Wolseley  
Mr. Tom Stefanson, Chairman,  
Manitoba Telephone System  
Mr. Bill Fraser, Acting President and CEO,  
Manitoba Telephone System  
Mr. Barry Gordon, Vice-President, Network  
Services, Manitoba Telephone System

**MATTERS UNDER DISCUSSION:**

Annual Reports of the Manitoba Telephone System  
for the years ended December 31, 1993, and  
December 31, 1994.

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**Madam Clerk Assistant (Patricia Chaychuk-Fitzpatrick):** Order, please. Will the Standing Committee on Public Utilities and Natural Resources please come to order. Before the committee can proceed with the business before it, it must elect a Chairperson. Are there any nominations?

**Mr. Marcel Laurendeau (St. Norbert):** I would like to nominate Mr. Pitura.

**Madam Clerk Assistant:** Mr. Pitura has been nominated. Are there any other nominations? Seeing as there are no other nominations, Mr. Pitura has been elected. Will you please come and take the chair.

**Mr. Chairperson:** Before the committee can proceed with the business before it, the committee must elect a Vice-Chairperson. Are there any nominations for the position of Vice-Chairperson?

**Mr. Laurendeau:** I would like to nominate Mr. Sveinson.

**Mr. Chairperson:** Mr. Sveinson has been nominated. Are there any other nominations? As there are none, Mr. Sveinson is duly elected to be Vice-Chairperson for the Standing Committee on Public Utilities and Natural Resources.

This morning the committee will be considering the Annual Reports of the Manitoba Telephone System for the years ended December 31, 1993, and 1994. Does the minister responsible have an opening statement?

**Hon. Glen Findlay (Minister responsible for the administration of The Manitoba Telephone Act):** Yes, I do, Mr. Chairman.

**Mr. Chairperson:** And do you wish to introduce the officials in attendance for the Manitoba Telephone System?

**Mr. Findlay:** Yes, Mr. Chairman. I have the Chairman of the Board, Mr. Tom Stefanson; Acting President, Mr. Bill Fraser; and I will ask the president to introduce the other staff when he speaks, if you do not mind.

**Mr. Chairperson:** Would you like to proceed with your remarks then, Mr. Minister?

**Mr. Findlay:** Mr. Chairman, the subject before the committee today, as you have mentioned, is the '93 and '94 reports of the Manitoba Telephone System, and I am sure that members have specific questions on these

reports. We would like to be able to answer them the best we can here this morning, but in the event we do not we will certainly get back to the members with the information that they request as soon as possible.

I rather believe it is likely that they will certainly have more questions about events concerning MTS that have taken place over the summer of 1995. I have asked Tom Stefanson, Chairman, and Bill Fraser, Acting President, to give a brief overview and update on the changes that were announced. Before I turn to them, I would like to put these changes into context.

The members of the committee who have been here before will know that there are a number of trends that are driving the telecommunications industry. Here in Canada and, indeed, throughout the world, three of these trends are key to understanding where the industry is going.

First, the pace of technological change is constantly accelerating. With each passing day an innovation makes new services possible and, in turn, raises consumer expectations and certainly their demands. In fact, rising consumer demand in itself has become a second critical trend in this industry. Every telecommunications company confronts the indisputable fact that customers expect more services delivered to them instantly and in every conceivable configuration. They make these demands for many reasons, including the need to compete in a global economy. However, perhaps a more compelling reason is that they too are aware of the power of the telecommunications industry. Telecommunications users are fed daily reports about the value and potential of this technology. Descriptions of the digital world, fibre optics, wireless communications and the infamous information highway suggest that anything is possible and, indeed with today's technology, it is. For good reason our telecom users want it all.

The third basic trend in telecommunications is that it has become an intensely competitive industry. Telephone companies, once bastions of monopolies, now have active competition in all their markets. Our policy in telecommunications, which we have pursued for a number of years, is based on the recognition of these trends. More importantly, it is founded on

understanding them and accepting them as positive developments, Manitoba could reap important benefits. Specifically, we have seen that by bringing them into the mainstream of competitive telecommunications developments, Manitobans would be able to enjoy wider choices, see faster introduction of innovative services and lower prices in competitively supplied products and services.

Moreover, we have seen that by encouraging a competitive marketplace in telecommunications, new industries and jobs would be drawn to the province. At this time we have about 28 customer service Call Centres in the province employing some 2,500 people with an industry in that area that is certainly growing, and we hope to see more announcements that lead to more jobs in that area in the not too distant future.

Indeed, by accepting the reality and the necessity of change, we have reaped the benefits that changes in the telecommunications can bring to Manitobans. Manitobans can and must in terms of their daily lives be in touch with the world to market their products, to export their commodities, and telecommunications is very clearly the vehicle to do it. If we are to continue to secure the benefits of the future, such as those that were made possible by the emerging information highway, we have to keep adapting and changing.

That is at the heart of the announcement made this summer about MTS. The company is taking several important organizational steps that will equip it to respond more effectively to the new telecommunications environment and, most importantly, to the changing needs and expectations of its customers.

\* (1010)

I would now like to ask Mr. Tom Stefanson, Chair, to give a few opening remarks to describe the events that have taken place over the past few months.

**Mr. Tom Stefanson (Chairman, Manitoba Telephone System):** Mr. Chairman, in July MTS announced changes in the organizational structure of the company. I want to recap for the committee the key points of that announcement.

Specifically, these changes consist of this. The existing MTS is being transformed into a holding company and we are establishing four new subsidiary operating companies. MTSNet will provide local and network services. MTSCom will provide competitive services on the network. MTSMobility will provide cellular and other wireless services. MTSAdvance will pursue new business opportunities, directory publishing and Call Centre services.

As suggested by the minister today, these changes are being made to permit MTS to meet the changing needs and expectations of its customers while allowing it to succeed in a rapidly changing telecommunications industry.

In July, I explained that we are not breaking new ground. Similar organizational steps have been taken by virtually all the major telephone companies over the past several years because they have responded to the trends identified by the minister. MTS clearly is part of the new world, but some of the major developments have come to Manitoba only over the past two or three years.

In June, for example, full-blown competition in long distance services came to Manitoba when MTS, through equal access, was able to make its network available to firms wishing to compete with it. With this additional factor, about 70 percent of MTS annual operating revenues are now generated through services that are delivered in competition with other companies.

So what does competition have to do with organizational structures? The answer is quite a lot.

In 1908 MTS originally was created as a company that would function as a monopoly, and that is basically how it has operated for nearly 90 years. We have found what other telephone companies have discovered: A monopoly-based organizational structure does not work well in the present competitive environment.

Here is an example of what I mean. MTS, through one of its divisions, MTSMobility, provides cellular services in competition with another company. The CRTC has decided that cellular providers do not need

to be regulated, but only if they are structurally separate from telephone companies. That has practical implications, because MTSMobility has to meet regulatory conditions not required of its competitor, which cost time and money and put us at a competitive disadvantage.

Recognizing that we need to make change, we asked the firm of KPMG to review the situation and suggest what might be best for MTS for this new competitive environment. It recommended the holding company subsidiary structure as a way to meet MTS' needs in a changing industry and is also consistent with the direction of the CRTC's new regulatory framework.

In July we described the following advantages of this structure. First, it will give us greater flexibility in responding to the needs of customers and the competitive marketplace. Second, those parts of the company that provide direct services will be brought closer to customers by eliminating former layers of operational bureaucracy. Third, operations will be streamlined and resources will be used more effectively. Through streamlining and greater efficiency, MTS can keep customer prices as low as possible. Four, accountability for performance will be strengthened.

Finally, we emphasize that MTS will continue to serve Manitoba as it has for more than eight decades, but it will do so more effectively, more efficiently and more competitively.

Since July we have been moving to bring the new structure to life. Mr. Fraser will bring you up to date on some of our key financial issues as well as the progress being made on the organizational front.

**Mr. Bill Fraser (Acting President and Chief Executive Officer, Manitoba Telephone System):** I would like to first of all introduce Mr. Barry Gordon, who is the Vice-President of Network Services; and Ms. Heather Nault, who is the Vice-President of Corporate and Regulatory Affairs for MTS.

The minister and the chairman have emphasized that the organizational changes being made at MTS will benefit our customers and improve our ability to meet

the changing conditions of the telecommunications industry. I would like to emphasize that organizational changes are important, but that MTS is doing additional things to adapt to its new environment.

One of these has been to improve the finances of the corporation. This has been a special challenge because of the nature of traditional telephone company financing. Before competition, we used the revenues from certain services such as long distance, which were priced above cost, to support the prices of other services such as basic local residential services that generally have prices below cost.

Now that we are competing in such markets as long distance, the revenues we get from these services are no longer secure. Therefore, in order to compete and still keep the cost of basic service affordable, we have been working to reduce our debt and to control our expenses.

Here is what we have done. We have reduced our debt ratio. In January 1988, MTS's debt ratio was 91.2 percent. At the end of 1994, it was 79.3 percent. Our approved capital expenditures dropped from \$214 million to \$153 million between 1991 and 1995. Our operating and administrative budgets fell by 10 percent between 1993 and 1995. We have reduced the number of regular full-time and term employees by approximately a thousand through voluntary retirement opportunities and attrition.

MTS's productivity has been improving. However, the realities of our industry dictate that more has to be done. Here is one reason among many. The CRTC has made it plain that local service will be a competitive service in the next few years. MTS will compete in that market, but to do so successfully, the cost of providing local service must drop by approximately 30 percent.

As I have emphasized, we are working hard to reduce our costs, but like other telephone companies, we have been experiencing a decline in long-distance revenues. In the first half of 1995, they are down by \$10.3 million or 7.9 percent. MTS is receiving approximately \$60 million less in annual toll revenue than it did four and a half years ago.

The ways we can improve productivity are limited. We cannot make further major cuts in our capital expenditures or in many of the other expenses without running the risk of deterioration in service, and we cannot slip into deeper debt, because despite the progress we have made, MTS's debt ratio is still the highest of all Canadian telephone companies.

For these reasons, like telephone companies everywhere, we must continue the process of downsizing our staff complement. However, our financial circumstances preclude the possibility of making sufficient workplace reductions through attrition and voluntary retirement alone. As a result, in July, we announced a workforce reduction of another 250 employees this year. This downsizing will reduce expenses by approximately \$8 million to \$10 million annually, but because of the costs associated with these reductions, we will not see the savings until 1996.

After this announcement was made, we offered employees an opportunity to take early retirement and related packages. With employees taking these packages and others leaving through normal processes, there will be less than 80 involuntary terminations in 1995.

Meanwhile, since July, a great deal of work has been done on restructuring the corporation which is to be implemented by the end of this year. Here are the key steps that have been taken. Official approval has been given to the creation of four subsidiaries. The companies have been legally incorporated, business plans have been developed for all companies, and on the basis of these plans, detailed transition activities have begun.

Let me conclude and summarize by recalling what I said when we made our announcement this summer. We believe that the new organizational structure provides the framework to improve our service to our customers, our productivity and to control our costs, pursue new revenue opportunities and to compete effectively in a changing, competitive marketplace. Thank you, Mr. Chairman.

**Mr. Chairperson:** I thank the minister, Mr. Stefanson and Mr. Fraser for those remarks.

Does the critic from the official opposition party, Mr. Ashton, wish to make an opening statement?

**Mr. Steve Ashton (Thompson):** Yes. Before doing so, I would just like to ask in advance that we could agree on an hour of adjournment. We have a House leaders' meeting at 12 noon that has been scheduled. I have just been asked to confirm whether I will be able to attend, and while we might normally sit somewhat later, I just ask if we could adjourn by twelve o'clock today. We can assess also what progress we have made in terms of the committee at that point as to whether additional sittings are required.

\* (1020)

Now, what I would like to do is put our concerns right on the table--

**Mr. Chairperson:** Excuse me, Mr. Ashton. I will just ask that question right now.

Is it the will of the committee to adjourn at 12 noon? [agreed]

**Mr. Ashton:** Our concerns with MTS are fairly clear. We have stated the concerns, I think, publicly in the past. Certainly, as critic for our party, I have raised the basic concern. To be quite frank we want to maintain the Manitoba Telephone System as a public asset in this province. In fact, I feel a responsibility today, as critic for the opposition, because in many ways I feel that many of the questions I will be asking I will be raising not only on behalf of our party but also the people of Manitoba who are in essence the shareholders of this particular company, have been since the turn of the century.

Quite frankly, I really view MTS as one of our greatest assets, not just in terms of the book value of assets which are listed in both annual reports but also in terms of the service that it has historically provided, and in the changing world of telecommunications and deregulation the service it continues to provide.

So I will be asking some very specific questions as I did in the Legislature as to whether this government intends on privatizing part or all of MTS. In fact, I

asked that of the Premier (Mr. Filmon), received a rather noncommittal answer.

I am hoping to get some answers today because I talked to many MTS employees; I talked to many people in the province who are concerned that this government may attempt to privatize a part or all of MTS and particularly in the context, as the minister is aware, of the so-called balanced budget bill which does allow the government to sell off resources, assets, and in this case Crown corporations, and apply that money to whatever deficit they may have run up.

When you consider the fact the government has run up seven years worth of deficits, I think many people are very concerned that MTS, which I believe is very saleable in terms of the private sector, would certainly be used for that basis.

Our concern is very clear. We believe that MTS should be maintained as a public asset.

I will be asking questions about the restructuring. I will be asking questions about a number of activities of MTS as we go through it. But that is our bottom line.

My conclusion in my opening comments to the minister and to the government is I would strongly urge that they make a very clear commitment to maintaining MTS in whatever form it evolves into as a public asset, because I believe that if we lose part or all of MTS as a public asset we will suffer as a province.

It has been very important to our economic development, and I can speak as a northern representative. It has been extremely critical in rural and northern Manitoba. I believe that once you go down the path of privatization, you lose the ability, as we have in this case, essentially of a province of one million people where all of us are shareholders in the telephone company.

When I ask those questions today, I am hoping that we will get some commitments from the government that these restructurings are not simply a precursor to privatization. We want a commitment, and I am hoping this committee process will enable us to get that. Thank you.

**Mr. Chairperson:** I thank Mr. Ashton for those remarks. The next order of business is, did the committee wish to consider the reports on a page-by-page basis or in their entirety? Did the committee wish to consider the reports separately or address questions from both reports at the same time?

**Mr. Ashton:** I was going to suggest that we pass the 1993 Annual Report. There are some questions that may relate to some of the comments on that, but if we can pass that and focus in on the most recent report, the 1994 report. I would also suggest we deal with it in a general sense. That has been the normal procedure in terms of our committees in the past.

**Mr. Chairperson:** Thank you, Mr. Ashton. Shall the December 31, 1993, Annual Report of the Manitoba Telephone System pass?

**Some Honourable Members:** Pass.

**Mr. Chairperson:** The report is accordingly passed.

It is agreed that the questions can be addressed in a general sense. We can proceed.

**Mr. Ashton:** Mr. Chairperson, I will start with the first question to the minister and to the board. I would like to ask if any time in the restructuring process the restructuring was considered in the context of possible privatization of any or all of MTS?

**Mr. Findlay:** Clearly what the question the member asks requires an answer that takes into context everything that has been said here this morning and the whole process that the company is going through.

Just so the member knows, you know, my direction to MTS is clearly, respond to customer demand. Today it is a strong demand which requires new technology and new services available. I have said, keep rates down, keep basic service affordable to all customers, supply telephones to everybody in the province who wants one. We must keep the borrowings down. We must continuously attempt to bring the debt down, particularly the debt-to-equity ratio. Therefore, MTS has gone through the restructuring process which has been clearly explained here this morning, and the

purpose of the restructuring is to improve customer service, keep costs under control and give the customer the level of service he wants, and responsiveness to that customer.

In terms of ownership, I have not had anything put in front of me that says we should change the ownership, but I also want to tell the member, the world of never does not exist anymore. This is a changing world. I look across Canada; we have a Stentor with nine companies, two of which are Crown corporations--Manitoba and Saskatchewan. I will say to the member, there is nothing in front of me that says we should change the ownership, but, if we cannot meet the customer's demand and keep the debt under control, we have a difficult problem. Eight hundred and seventy-eight million dollars of debt currently that the government is guaranteeing is a significant amount of debt. I have lots of confidence that we have made some strides in that direction in the past, and we will continue to make strides in the reorganized company and meet all the customer demands. Thank you.

**Mr. Ashton:** Well, the answer, I think, creates somewhat more confusion than it provides clarity, and I would like to follow up from that because we have just seen a major restructuring of MTS. It is now broken into four corporate entities, and I want to ask some specific questions on where that leads. Was that restructuring done in the context of a possible sale of any part or all of MTS? Surely you are not going to restructure the corporation without having some sense of direction on whether it is going to remain as a Crown corporation or whether it is going to be privatized. I mean, surely, if privatization was even being remotely considered, that would be one of the factors in the restructuring.

**Mr. Findlay:** The restructuring was done for reasons that had nothing to do with privatization. They are two totally separate issues. The restructuring was done for economic reasons, for the company's ability to respond in today's marketplace, and it was clearly stated in the announcement back in July, by the president and the chairman, that privatization was not the driving force in this. It was not a consideration. They are totally separate, have no relationship to each other, and the restructuring puts MTS into an operating mode that is

similar to all the other telcos across Canada. So there is no relationship whatsoever. Privatization, as a principle, is not driving the organization, not at all. The only person that is raising the issue of privatization is the NDP opposition, the only people.

**Mr. Ashton:** Perhaps we are raising the issue because we receive answers from the minister that are not definitive. I asked the Premier, and the Premier said, well, Mr. Mackenzie King, privatize if necessary but not necessarily to privatize. You know, if the minister would give a clear answer—and I think it is a very clear-cut issue.

\* (1030)

In fact, it surprises me that the Conservative Party, which actually nationalized the telephone services, now is equivocating on where it stands on privatization, and I want to ask the minister again. Perhaps I am just misinterpreting his words, but will he not indicate that this is not being set up? I will not ask further questions if the minister says, no, we are not looking at privatization. He, in his answers, and the Premier, in his answers in the House, made it very clear to my mind that privatization is most definitely a serious option for the government. If that is not the case, I would appreciate the clarification right now.

**Mr. Findlay:** Mr. Chairman, I have said earlier today and on other occasions, I have not discussed the issue of privatization with anybody. The only person I have ever discussed it with is the member for Thompson who asked the question. I am very concerned about the financial and operational questions at MTS to be sure that our customers, our owners, get the level of service they want at affordable rates. That is what I am considering. That is what is driving my thoughts with MTS. It is driving the reorganization, and I have had no requests from anybody, nor have I had discussions with anybody outside of MTS about that question, only with the member for Thompson. So the answer is, I am not involved in that in any fashion.

**Mr. Ashton:** Well, that is a little bit more clear than the first answer, and I appreciate the minister now saying that he is not looking at privatizing MTS because, quite frankly, it is not just me that is raising

the issue. There are many people that have been looking at the equivocation, and I can show the minister the statement made by the Premier. It was not a rejection whatsoever, and have looked at some of the changes happening within MTS, and that is a legitimate concern. Look at the balanced budget bill, for example, which would allow the government to sell off a Crown corporation and then throw that in towards the balanced budget bill.

So if the minister is saying that he is not looking at privatization, I accept that. I would say that my recommendation would be that that remain the case, because I believe regardless of the structure that evolves in terms of MTS over the next period of time, I still believe that ownership should remain in the public hands. I think we are far better off when all one million of us are shareholders, as is the case with a Crown corporation, than when a private company that may not have the same interests in providing service within the context of the competitive environment in which MTS operates would not have the same interests if it was privatized, either part or all of it.

I appreciate that statement from the minister that MTS is not currently being restructured in terms of possible privatization. I thank the minister for that. I would like to ask him further questions in terms of the restructuring, because the four new components of MTS will be separate corporate entities. There will be a holding company, as I understand, or there is a holding company that has been set up. I would like to ask some questions in terms of the administrative structure. What changes will take place in terms of MTS currently with its current administrative structure in terms of presidents, vice-presidents, et cetera, and what will be the new structure in terms of the four separate entities?

I understand that there will be four presidents in each of those entities. Will these replace similar positions within MTS itself? Will there be other positions created in those four entities and what positions will be eliminated in the central structure of MTS to reflect the new corporate structure that has been evolved?

**Mr. Stefanson:** The new corporate structure, I am pleased to say in regard to your earlier questions, is

going to serve the corporation well regardless of issues like ownership. It is something that had to be done. There are several good reasons for doing so. It is something that the president and myself worked very closely on. Both of us are very, very committed to this.

I think the minister has already mentioned our debt. The present debt situation, even though improved from 91 percent to some 79 percent over the last seven years, is still a very serious problem for the corporation, especially when you are competing with other organizations where the normal debt is around 50 percent. So we have an extreme disadvantage in dealing against our competitors. We have taken the debt situation very, very seriously. There have been tremendous improvements in the funding of the pension liability. Some \$346-million obligation is now 85 percent funded. So the past few years there have been great improvements, but not good enough.

The existing structure, the reason behind the structure is simply to make MTS a stronger corporation. The four or five good reasons I mentioned within my opening remarks, there is certainly by dividing it into four operating subsidiaries going to be more empowerment and accountability in those subsidiaries. Right now, they are all departments of MTS. Expenses are allocated from above in a lot of situations. Accountability is not what is desirable to be able to compete in the existing environment.

We certainly need more empowerment at the employee level so that they can respond more quickly and efficiently and give them more flexibility. I gave a regulatory example as just another reason for doing what we are doing. Right now the regulatory situation causes all kinds of extra paperwork, countless hours of our employees' time and more cost at the end of the day and less certainty at the end of the day.

Our competitor in the mobility business does not have to go in front of the regulator. They can do what they want. This and other reasons, there is not one negative that I can see in doing what we are doing.

At the end of the day there will be four separate companies. They will operate independently of each other. MTS will become the holding company. MTS,

in other words, will be the ownership company and will only deal in the areas of managing those investments. In other words, we will have some strategic and financial planners. All plans will be brought forward to that particular company once a year, et cetera, but they are going to be given the ability to operate those companies.

We are doing a national search for presidents. Some of the presidents undoubtedly will come from within MTS and some will come from outside. I have not seen a list to this point of the applications, but I am told that there are some 94 formal applications for these positions. That in itself is encouraging.

There certainly will be no duplication of senior management. It can be said that the network company will be the big company. It will be the old historic MTS before we got into all these competitive forms of business. The bottom line is that the network company will, in addition to providing network services, provide all the local and rural services in Manitoba.

The other competitive companies, and this is another reason for doing this, because every time we turned around at MTS we were being accused that there was cross-information from our network company to some of our competitive divisions and that was giving our competitive divisions an advantage over the competitors. On top of that, there were often the allegations that we were making improper cross-subsidies between the various divisions. This will end all that because there is going to be a Chinese wall between these companies now. They are independent and the president of Mobility, for example, will have to deal on the same basis with the MTS network company as, say, Cantel has to deal with them. I think that will save us an awful lot of time in defending ourselves in public and in the business community.

\* (1040)

The effect, as I said earlier, on the people, there probably could be some change in roles. We have hired outside consultants who are leading a team which includes some of our own inside people who are putting the plans together. They are moving fairly quickly on it and at the end of the day I would think

that most people would be transferred in block according to where they are working right now, but some people may be in different positions than they are right now.

**Mr. Ashton:** I am just looking at the current corporate structure, and there was a vice-president hired to work on the restructuring. I am just wondering what happens to the structure of MTS itself. I mean, you have a CEO, you have vice-presidents, perhaps if you could outline the current corporate structure. Does that disappear under the new structure, and are those people then subject to either being hired or not hired in the four different entities according to the competitor process? What happens to the board? We currently have a board, the MTS Board. Do we end up with four separate boards? Do we still have a board for the holding company? I am just trying to get some sense of--I understand the concept of the four new areas in terms of their commercial roles, and I will get into that in a few minutes, but what happens to the corporate structure of MTS?

**Mr. Stefanson:** The corporate structure of MTS--MTS itself will not be a very large company. Certainly we will have fewer than a hundred employees at the end of the day. There will be a transition period which will probably--I am talking now the end of 1996. The MTS company which will be a holding company--my best estimate is about 75 employees. They will, to a large degree, be policy setting and monitoring employees. The primary objective of the holding company will be to protect the investments in these four subsidiary companies. It is no different than in the private world where B.C., for example, owns Bell Canada and Northern Telecom and B.C. Mobility and many other companies. Okay, B.C. is a fairly active investment company.

The primary objective is to evaluate, monitor. That will become the role of the MTS president and his staff. It will be a different role. He will not be concerning himself with day-to-day operational issues within these companies.

He is going to be more concerned with the overall watching of the four companies, as opposed to day-to-day operations. There are some very special functions

that will go into the holding company. For example, he will have at his disposal the internal audit group, so it gives him the ability to go into the subsidiary companies at any particular time.

The four subsidiary companies will have small boards. The plan is small boards of three to five people, and I think it is going to be--the recommendation coming down is five people. These presidents will be accountable to their boards, so we are creating an independence in these small companies. In other words, they are not like the divisions that the operational directives are going to come from above.

By creating the smaller subsidiaries, and this is quite unique in Canada with the small board concept, gives these guys independence that truly makes them accountable and makes their employees, gives them the empowerment to actually run their businesses. The belief here is that by doing this they will be able to run a much more efficient business and, at the end of the day, save this company. The thing is that if we are going to continue to keep it all under one big basket and nobody really seems to want accept accountability for anything, the manager of Mobility will say right now to you or whatever other division in the company, they will say to you that their hands are tied, and they should not be held accountable because too many decisions and too many costs are being allocated from above.

They will be accountable under this particular system. They will be answerable to their own boards, and their board at the end of the day will be answerable to the board of Holdco. The Manitoba Telephone System becomes Holdco. There is some confusion. They think there is no new Holdco company being created. It is the Manitoba Telephone System, and that is the company that is being referred to when somebody uses the term Holdco.

**Mr. Ashton:** I am trying to get a sense, though, and I understand the concept. This is the latest fad, if you like, in management. AT&T is doing it. You restructure into small corporations. Much of the same rhetoric is used. I am not questioning whether that is the approach or not the approach at this point in time, I am just saying this is the in thing, particularly in terms

of corporate structuring, which is to try to set up smaller units, and getting closer to the customers is another one of the buzz words.

I am trying to get some ideas. Are we going to end up—we have a corporate structure with MTS. We have a CEO; we have vice-presidents. What happens to that corporate structure? What corporate structure is then set up in the new units?

One of the reasons, quite frankly, I am raising this is because of what has happened in the private sector. It has happened at some privatized companies and some private sector corporations; it is that under restructuring there are some of the benefits you have pointed to, but there has also been the tendency for a growth of management high-level salaries, et cetera. I am just asking, are you going to eliminate vice-president positions for every president's position that is created? What is going to be the restructuring that takes place at that level?

**Mr. Stefanson:** There will be no more high-priced vice-presidents. The objective here is not to increase the size of senior management. The company, being more specific to your question in what happens to the Manitoba Telephone System, will have a president and perhaps at the end of the day one vice-president. The other companies will have a president and one or two vice-presidents. There will not be any more senior officials within these companies than there is right now.

**Mr. Ashton:** Other than the fact that I obviously assume if you have a president of a separate corporate entity, you would be looking at probably a somewhat higher salary range, I mean, given the fact you have people in the capacity as a CEO. You are saying, there will be no more people under the restructured organization, but I am just asking I guess whether there will be any change in the salary structure.

**Mr. Stefanson:** There will. In order to attract the people for the president's position with the qualities that we want, certainly there are going to be somewhat higher salaries than what we have right now. The vice-presidents at MTS have had a total freeze on their salaries for as far back as I can remember, and

compared to even SaskTel, the vice-presidents' salaries are probably only 60 percent of the senior vice-presidents of SaskTel, their salaries right now. We have no intention, and we realize that the public would not accept moving to what the norm is within the industry in Canada, but the people, the presidents at the top of these corporations, the four operating presidents who are going to be given the responsibility and are going to be held accountable, are going to earn more than what the vice-presidents do now. I cannot give you any numbers because we have not worked that through yet.

**Mr. Ashton:** What is the current level of remuneration for the CEO and vice-presidents? I am not asking for specific salaries.

**Mr. Stefanson:** You are speaking about the Manitoba Telephone System specifically?

**Mr. Ashton:** Yes.

**Mr. Stefanson:** The CEO has been \$150,000 for the last eight years or whatever, and the vice-presidents are all around \$90,000, \$89,000, \$90,000, in that range.

**Mr. Ashton:** What is going to happen to the vice-president's position that was recently established which dealt with the restructuring?

**Mr. Stefanson:** That is a temporary position, and once the transformation is complete early in 1996, that vice-president position will be discontinued.

**Mr. Ashton:** I want to ask some questions in terms of the board structure. You have indicated there would be five-person boards, four separate boards, and that will involve presumably appointment of individuals to that board. What will happen to the existing MTS Board?

**Mr. Stefanson:** Mr. Chairman, the existing MTS Board will remain as it is, and in regard to the other boards there will be new people appointed to them.

**Mr. Ashton:** So in other words there will be some addition in terms, then, obviously some cost element involved by having four new boards. I am just wondering why there would not be some restructuring

of the existing MTS Board itself if the board will be dealing with significantly less responsibilities certainly on a day-to-day basis in terms of the operations of the new corporate entity.

**Mr. Stefanson:** Mr. Chairman, the board is intact now, and as you are aware it is appointed through Order-in-Council by the government. The Manitoba Telephone Act calls for certain numbers of people on the board and we have always been within that number.

\* (1050)

The MTS Board will then be able to concentrate more on policy, the policy direction of the corporation and its subsidiaries overall. It will no longer have to tie itself up several hours at every board meeting with specific operational issues like, you know, why somebody's cellular system is not working in Dauphin, Manitoba, or wherever, so it will be able to concentrate more on the global issues of the four companies as it should, whereas the boards of the small companies are going to have people who will become more knowledgeable and have more expertise in a certain segment of the telecommunications business.

In other words—I will give you an example. Mobility for example has not received very much attention over the years at board meetings of MTS. Now when you have Mobility as also a growing business that is going to be a very substantial portion of the total telecommunication within the next five years or so, there will be a board that will deal exclusively with Mobility. Well, those board members will become well versed in the issues surrounding the wireless telecommunications.

**Mr. Ashton:** So if we are dealing with a situation where there is going to be the new board structures, I would like to ask in terms of the MTS, if the MTS Board is going to be continuing. Is it not the case of the amount being paid to—MTS Board members just recently underwent an increase. I am just wondering why.

**Mr. Stefanson:** Well, that again is an issue of the government, but I can tell you that the board of MTS, those board members, even what the increase is to, is

probably about one-third of what the comparable private sector boards are paid, and they have a tremendous responsibility, legal and otherwise, and their responsibility for the global operation of the five companies is not going to change.

All that is going to change is rather than getting involved in every kind of operational issue at the board meetings and tying up most of their board meetings with those kinds of issues they will now be able to address the bigger issues. I will tell you there are a lot of big global issues coming to the board lately, and they need the time for it.

**Mr. Findlay:** I would like to just give the member for Thompson some comfort that the new four companies, some of those board members will be from the existing board, so it will not be all new appointees to the four subsidiary boards.

I can also tell the member that, as the chairman has said, there is a tremendous level of responsibility on those board members today on an ongoing basis, but we are very cost conscious as a government. If it is deemed that in the restructured environment, which we will get into in '96, if the actual activity level of board members is going to go down, the remuneration will also be adjusted accordingly, so it is not an automatic increase unless there is the activity level to warrant it.

This is an undefined area as we continue to work our way through the restructuring, but I just want to give the member some comfort that the remuneration will reflect the level of activity in the future is where it is at or has been at for the last year or two.

**Mr. Ashton:** Perhaps I will ask the minister, since obviously it was the government that made this decision when the remuneration went up and what the amount was previously for chair and board members and what it is currently.

**Mr. Stefanson:** Mr. Chairman, on behalf of the minister, the figures prior to May of 1995 were \$3,900 per annum. I can tell you that there are boards such as the Liquor Commission, I do not want to start comparing boards that have had the \$7,500 per annum remuneration for 10 years at least. These fees right

now are being brought into line with those paid to other boards, such as the Liquor Commission, \$7,500.

**Mr. Ashton:** You will forgive me if I am somewhat puzzled here. MTS is restructuring. It is setting up four new corporations. I mean, one of the MTS Board members may have more time to deal with issues. It only makes logical sense that there are going to be less responsibilities in terms of day-to-day operation of the corporations. I am not saying there will not be any responsibilities. I would just like to ask why the government chose now, two months before the restructuring, to virtually double the payment to board members?

**Mr. Findlay:** The remuneration that we have just made reflects the activity that is going on now and has been going on for the last year, year and a half, maybe even two years, a very high level of activity. When we get restructured, the level of responsibility and duties of the various board members will be assessed and remuneration adjusted accordingly. Clearly there will be additional board members, so the overall package of remuneration is of grave concern to us if it goes up. As a government we will assess the level of activity after the restructuring is completed.

I think the member can appreciate at this point in time over the last number of months the very high level of activity working through what restructuring should be and carrying it out in the ongoing process so remuneration, I am sure if you asked the board members or anybody from the outside, does not fairly reflect the level of activity they are currently involved in, but it will in the future if that level of activity goes down as the member projects.

**Mr. Ashton:** I am still puzzled by the timing. I would like to ask a question because quite frankly this concern has been expressed to me by many employees of MTS and that is, what has been happening in terms of MTS salaries over that period of time?

Mention was made of the fact that vice-presidents have had their salaries frozen in the \$90,000-odd range. Can Mr. Stefanson perhaps give some indication of what the impact has been of the application of Filmon Fridays, as they have become generically known, Bill

22, on the take-home salaries of MTS employees over the last number of years?

**Mr. Stefanson:** Mr. Chairman, all the employees, excluding the senior management in the corporation, have received the same remuneration increases as all other Crown corporations and government employees. For example, over the last three years it was 3 percent, 3 percent, and the third year cost of living was in the final contract.

In regard to the Fridays, that is a mixed bag. There are some employees who did not like the Fridays, but there were an awful lot of employees who really did. So I cannot comment on that one.

But back to the initial discussion that you had on the board, the board members and MTS. I want to put it on the record right now, it is very fortunate, and I as chairman am very fortunate with the people who have served on that board and that board was committed to the debt situation in that company and the finances of that company before it was popular across this country to be concerned about that issue. That is why they have ploughed almost \$300 million into the pension retirement—well, there is more than 300—and that the debt ratio has come down during the seven years from 91 percent to 79 percent. That has been no small measure. At the same time, during that period of time, we did it without the pain in any layoffs, and the board has worked strenuously.

I believe at the end of the day you are going to have to have some very good leadership in this company if you are going to live with this kind of a debt situation and bring that debt down because we cannot compete. For example, like we are operating now, we made \$14 million last year. In the scope of if you consider our total revenues of \$550 million, approximately, that is a very small margin, and I cannot imagine that anybody is going to come to our rescue if we ended up losing \$15 million. Then what is the option? The options there are not options that I want to deal with, and I believe that there has to be a very good policy direction.

As I said earlier, the fees that are being paid to the MTS Board, which is probably—I do not want to

compare it to other boards but it has certainly had its share of issues on the table to deal with—is only being brought up to where the Liquor Commission board has been for 10 years. The policy decisions are going to continue whether they are separate operating companies or not—yes, they may not have to get into somebody's service in rural Manitoba—or whether our B Com department, our Business Communications department, did not deal properly with a customer in Brandon or whatever, but at the end of the day they are going to have to set the policies and be responsible for them.

**Mr. Ashton:** Well, my question though, I mean, I think Mr. Stefanson has covered all sorts of other issues he obviously wants to cover, but it was in regard to the impact of the Filmon Fridays. Perhaps I can provide that information. The essential impact of the application of Filmon Fridays was that regardless of any increases and the three, three and COLA increase that employees during the application of that bill were subject to, it works out to about a 3.7 percent rollback in salaries.

\* (1100)

Perhaps I will ask another question. How many positions have been eliminated? I think there was reference to approximately 1,000. Can, perhaps, Mr. Stefanson confirm exactly how many positions have been eliminated from MTS over the past period of time, past several years?

**Mr. Stefanson:** Mr. Chairman, the corporation now has some 4,100 and some odd employees, and I believe at the peak, back in '89 or '88 or whenever, it was somewhere around 5,300.

**Mr. Ashton:** So we had a fairly significant downsizing of MTS. We have had employees subject to the Filmon Fridays. We are now looking at a restructuring where the MTS Board ends up with arguably fewer responsibilities. I mean, to my mind that is a logical conclusion of what you are arguing, that the responsibilities, you know, become part of the four new corporate entities. So I am just wondering, whose idea was it to increase the board payments? Did

this come from the board itself or was this a government decision?

Quite frankly, I recognize that one board may pay this, one board may pay that, but I can tell you there are a lot of employees out there who can point to other employees that get paid a heck of a lot more than they do. But that does not mean, particularly in times of restraint and particularly when employees themselves are going through very difficult times—I think there was reference to 80, and I must admit I found the terminology to be somewhat interesting. It was called involuntary terminations. That is called layoffs in my terminology. There are even 80 people right now out of the 250 positions that were identified for elimination in July that are going to be laid off. I am just wondering whose request this was. Was this the board's request or was this the government deciding out of the blue, in a generous spirit, despite all the difficult times MTS employees are facing, that they wanted to increase the board payments by virtually double?

**Mr. Stefanson:** Mr. Chairman, firstly, I have explained that the reduction in the personnel of MTS from 5,300 to 4,100 over the last seven years has been done without a single layoff. If we still had 5,300 people working at MTS, MTS would be bankrupt. I think it is as simple as that. The reasons for the layoff are not because the board of MTS wanted to lay people off, in fact, there were no layoffs.

This has been done primarily through attrition, and you have to remember that technology has replaced a lot of positions at MTS, and none of those people have been laid off. They have been retrained for other jobs within the corporation. There have been many people who have taken early retirement. There have been many people who left MTS and, this is something that is troublesome to us, we have lost some good people. They have gone to other corporations; but the good news for them is the people at MTS are well trained. They are not like a lot of industries. In a lot of industries when people lose their jobs—and so far, I repeat, that nobody has been laid off at MTS and we have downsized by 1,200 people. I think that is quite an accomplishment in itself. Our people have the skill set that they can go out and get other jobs.

The telecommunications industry is expanding and it is certainly expanding in Manitoba. There are many more companies in the telecommunications industry in Manitoba where our people are able to get other employment. A lot of people have taken retirement at age 55, have taken retirement incentives and have gone out and got other jobs. So I think that the process has been managed well over the past seven years, and I do not see any reason to doubt that it cannot continue to serve us well. But the point is that the executive and the board of MTS are committed to the restructuring for business purposes and for business purposes only.

**Mr. Ashton:** I appreciate Mr. Stefanson restating a lot of the things he has already said. My question, though, was who requested the increase? Was it the board that requested the increase in May, or at a previous date or was it the government that, you know, actually decided to make that increase?

My point quite frankly is employees have had a tough time with rollbacks in terms of Bill 22 and with the layoffs. It has not been an easy process. I have talked to a lot of the people involved. The downsizing, there are going to be layoffs, that was confirmed earlier, the 80 involuntarily terminations. You know, vice-presidents have taken a freeze in their salary. As MLAs, we have done that. In the past we have unilaterally, we have taken a leadership role. We have brought our salaries—we applied Bill 70. We froze our own salaries, even though statutorily we did not have to do it. We showed some leadership. I guess what I am asking is, who made this request? Was it the board that asked for the rates to be increased or was it the government that unilaterally made the decision?

**Mr. Findlay:** Mr. Chairman, I want to be very straightforward with the member. I have been the Minister responsible now for seven, going on eight years. I appointed the original board of which three members are still on the board. They have given incredible service to MTS and the shareholders of Manitoba, the citizens at large. Their workload has escalated over that period of time because of all the demands and all the challenges that industry is creating. I was ashamed of what we were compensating them for, at \$3,900. I am still ashamed at \$7,500. It does not

anywhere near come close to the level of service they give or they are demanded to give.

I am sure the member is not aware of the number of meetings that happen beyond board meetings, demand by customers and businesses because they have problems with MTS or concerns, and the challenges that come from equal access—the cellular challenges that exist out there and the PCS industry that is going to come on stream create competitive erosion certainly to the wireless marketplace. They work very hard. They are very much underpaid at \$7,500.

I appreciate what the member is saying about employees taking home less. But had we not gone through the process of 10 days off each year, certainly there would have had to have been less employees at MTS just in order to balance the books. So jobs were saved by everybody taking less.

I have had lots of representation from the society at large over the last number of months, particularly an event that occurred in the spring. The general message is out there; everybody is saying, I am taking home less disposable income year after year. I do not care where they work, and the fear is losing the job. We avoided the fear of losing jobs by the 10 days off. I think it was generally respected by employees that that is what the net result was. Also, a lot of employees liked the idea of long weekends in the summer and that complete holiday between Christmas and New Years. So these are tough, challenging times.

MTS, in terms of their board, their executive members have led very well, and they are moving us towards a restructured environment that will allow them to compete. But to think that somehow the board members are overpaid, I want to assure the member they are grossly underpaid for the work they do. I know he cannot appreciate it because he is not close enough to it, and probably I do not even appreciate the hours and hours they put in with all the people they have discussions with and meetings with and trying to explain to customers that for a service delivery they have to pay the tariff.

**Mr. Ashton:** It is interesting, because I have been asking the question. I think what is really strange from

this is the fact that the government has now, in May of 1995, at a time when with all the restructuring, the changes which are going to reduce the role of the board, decided at this moment—and my reference to Filmon Fridays and the layoffs was to point out the difficult times which the minister and Mr. Stefanson have confirmed.

Does the minister not recognize that there are people that when they see this timing and the circumstances that the obvious question people are going to ask—and no one is questioning the role of board members. We have a good process in Manitoba. I am not questioning the process by which people are appointed. It has happened under different governments, through Order-in-Council. You can call people political appointments. That is why we have those boards put in place, though, in many ways, because governments wish to see boards that reflect their views on the way corporations should be run.

\* (1110)

It was not a reference to anything that has happened with any of the board members past or current. The fact is, though, in May of 1995 there was this significant increase and it has a major symbolic impact on people. I have heard this from a number of MTS people who are concerned about their jobs. They say, why now? Why, when you are restructuring MTS to supposedly make it more competitive, would you choose that particular moment?

I put the minister in that position, because he is an MLA. What would have happened a number of years ago when Bill 70 came in when everybody's wages were frozen if MLAs had come in and actually brought in a bill that increased their salaries by 25 percent? The argument could have been made that other MLAs are paid an amount or people with similar responsibilities, and we are overworked and underpaid—I mean, does it not strike the minister that there is something wrong here in terms of the message that he and his government are sending to MTS employees and the people of Manitoba, that they picked May of 1995 to increase the board payments?

**Mr. Findlay:** Mr. Chairman, there is a false perception here. I do not know whether the member can

understand what I am going to say but, clearly, in the past year and for the rest of this year there is a high demand for activity by those board members to carry out the restructuring.

The restructuring, although written on a press release, and we comment here, you may think it is a fait accompli and it is all in place, but that is not true. There is a tremendous amount of work that it takes to bring it to a finalization, bring it to reality. It will not happen yet for a few months, so there is a heavy workload in front of them now, during which point in time the salaries have been increased or their compensation has been increased.

Once we are into the restructured environment and the workload that the board of the holding company will be involved in, if it goes down, and the subsidiary companies, their level of activity will be assessed and the appropriate remuneration will then be paid. I cannot give a definitive answer, yea or nay, as to what that level will be, because that will come out of the ultimate product of restructuring that we are going through.

With all the activity going on in the industry, my suspicion is that the board members of the holding company will have a very high level of activity just to manage the affairs and the issues of maintaining a competitive company that is financially viable in the future. The assessment of their level of activity will be reflected in the remuneration of the future.

**Mr. Ashton:** Then the minister and Mr. Stefanson have stated their view on it. I think they know mine. I will move on to a couple of other questions to do with reorganization, because I would like to ask Mr. Stefanson and the minister, there are various statements in the '93-94 reports talking about the value of the MTS workforce, the specific philosophy, the Q Focus that was adopted, which is, I assume, similar to TQM, QWL, those type of management processes.

I would like to ask either Mr. Stefanson or the minister to what degree employees and employee groups have been involved in the restructuring process.

**Mr. Stefanson:** The employees have been involved in the restructuring process. The quality program that is

underway, which has been in progress now for about three years, is employee driven. It is not driven from the top down. It is driven from the middle or bottom up. The employees of the company certainly have had ownership of that. There are many work teams within MTS that are building business plans and structures for the four subsidiary companies.

As a matter of fact, I would suggest to you that it is total involvement from the employees, because we only have about three outside advisors. We have the person that you referred to earlier who is in charge of the project and temporarily an officer of the company until the project has been completed, and I can assure you that that person has no desire or intention of staying with us for one minute after it is completed. Other than legal and financial accounting, primarily everybody that is working on the project and will carry the transformation to a conclusion are people from within the corporation.

**Mr. Ashton:** There was also reference in the 1993 report to labour relations or relationships by objectives, the evolving labour-management team. What I would like to ask is why the employee organizations and three particular unions have not been involved in the restructuring to any significant extent if the stated intent of the labour relations philosophy of MTS was, and I state, the evolving labour-management team? It is an important element in strengthening MTS for the challenges of the future.

Why does this appear in the 1993 report when we are dealing with probably the most significant issue facing MTS in a long time, the restructuring. Why has there not been significant involvement of those particular organizations?

**Mr. Stefanson:** Mr. Chairman, there is certainly significant involvement by the membership. Whether the union leadership has been involved, I would suggest to you that they have been briefed and have been advised and their opinions in regard have been considered.

I would have to ask Mr. Fraser, who has been working very hard at meeting with employees

throughout Manitoba during the past month or so and has direct responsibility, along with the people from Human Resources for dealings with the unions, to maybe elaborate.

**Mr. Fraser:** Mr. Chairman, there have been ongoing discussions with the unions and with the employees. I personally have met on nine or ten occasions, the most recently being last Thursday and Friday in the Brandon area, with the staff in those areas. Myself as well as the representatives from our HR department, Denis Sutton and Brian Luce, have met twice with the union leadership in terms of providing them with an update of what is being done in terms of the reorganization. I guess it is three times now that we have met, and we have got a commitment to meet with them again on I believe it is October 2 to discuss it again.

Part of the difficulty in terms of the process is that there have to be trade-offs in these things. I mean, there is no question that no matter what we do, we cannot communicate enough with our employees and with their union representatives in terms of bringing about this change. However, on the other hand, and part of the experience with Q Focus was that it was very difficult with three different unions to get agreement on anything and be able to move forward and facilitate that change, and the unions did not speak with the same voice in terms of getting on board with what was required to do to bring about that change.

The change that is required here is being driven from a regulatory perspective and from a competitive perspective, and that transition has to be as short as possible, because our focus has to be on our customers and providing service to those customers and keeping those customers on MTS's network, and the longer we draw out this process, the more likely we are to run into difficulties in terms of customer-impacting difficulties. There is no question that there is a degree of stress and uncertainty as far as the employees are concerned and that the reason for these ongoing meetings is to try to explain to them what is happening and why and what the impacts will be, but the quicker we can do that and get on with the new organization, it is going to be focused more directly and more accountably on providing that service.

I think the feedback I have got in terms of meeting with those employees is that fundamentally they understand that. They understand that there are significant changes going on in the industry. They understand that new technology is driving productivity requirements, that the regulator is changing the way that they regulate the industry and is forcing productivity improvements and is going to a price cap form of regulation and that we have to meet those changes and change with them. That does not make it easy for them in terms of the anxiety and the uncertainty of their individual circumstances, but the message that they are given back is: let us get on with it quickly, let us get it done. Let us put the uncertainty behind us and let us be successful in the marketplace.

**Mr. Ashton:** Well, I want to suggest to you I have talked to many employees, and I have talked to employee representatives, as well. There is a strong sense that employees and employee organizations have not been involved in the restructuring. I am not talking about briefings or meetings with individuals. I am talking about the philosophy that is outlined in these two documents. The labour-management team, the relationship by objectives which talks specifically of the role of organizations and also the Q Focus approach which is outlined here, which I assume, if it is TQM-QWL type of approach, involves significant employee and employee organization involvement. In fact, I want to ask the minister if there are any employee representatives on the board currently?

\* (1120)

**Mr. Findlay:** No.

**Mr. Ashton:** Can the minister indicate when that was changed? Under the NDP government we brought in legislation that did provide for the appointment of employee representatives to the board.

**Mr. Findlay:** Over the course of time two employee reps were run, as I recall, and stepped down. They were not replaced by employees, and we advocate that the employee relationship with the company occur through the senior executive, as the acting president has just indicated. He is very outward going and forthright in talking with employees about the reality that the

company faces and the changes that must happen to satisfy the customer and keep our bottom line as black as possible.

**Mr. Ashton:** I think that is a very unfortunate way to deal with a major restructuring, that essentially there is no employee involvement at the board, and is, I believe, that limited involvement in terms of the actual restructuring process, quite outside of any board process. This, by the way, is not what I am saying. It is what people are telling me.

I think it is unfortunate, as well, because I mentioned earlier about some of the latest fads in management which this certainly reflects. Perhaps I would remind MTS of what is being suggested by many, as well, that one of the things that you need for an organization to compete in the 1990s is to involve the staff, and one of the ways in which you do it is you reduce hierarchies.

To my mind, when you do not have employee representatives on a board, and when you do not have the following through of the Q Focus philosophy that is outlined here, or the one that was outlined in '93, I really believe, Mr. Chairperson, that you end up with the kind of frustration that is out there. And I am not saying there would not be frustration anyway or disagreements, but I believe the more you involve employees, the more you let them know what is going on but involve them in the decision-making process, the better.

I would strongly urge that MTS follow its philosophy in that sense, and I say this partly critically but partly in the sense of a suggestion, because believe me, the people I have talked to feel totally left out of the process. That goes for people who are in employee organizations and employees. Quite frankly, until you involve them in the process I do not think you will get what you are hoping to achieve by this restructuring.

I would like to ask a question to follow up from that in terms of the 250 positions. There was reference made earlier to the 80 involuntary terminations, the layoffs that are part of that. So am I to understand that these 250 positions which were announced in July, and I think the original deadline was a six-week target over which this would happen, am I to understand that 170

out of the 250 positions have been reduced by attrition or early retirement and that there are now going to be 80 layoffs?

**Mr. Stefanson:** I will deal with the first part of this question, and I will refer this to Mr. Fraser. In regard to the employees in the corporation, the president and I are both committed to what is printed there and keeping and building a very strong relationship with all employees.

I think we must not confuse participation and management. Somebody has got to manage the process. In regard to the hierarchy at MTS I can say that in 1987-1988, there were 11 vice-presidents; we are down to eight. At that same time there were 50 senior managers in the corporation, now we are down to just under 30. So in reduction, I think that the senior managers of the company have been reduced every bit as much if not more than the employees. But I repeat that there may be some confusion about managing the process with participating in the process, and the senior management of the company has got to manage the process.

Mr. Fraser will now talk specifics according to the numbers that you referred to.

**Mr. Fraser:** Mr. Chairman, the July announcement indicated that there was a requirement to downsize by approximately 250 people in positions in 1995 for financial reasons in terms of maintaining the financial viability of the system on an ongoing basis. In order to do that we opened up a window for early retirement options and bridging programs and so on. There have been in excess of 170—I believe the last number I heard was 173 individuals took up those options. So just dealing with the approximate 250 number that we started out with, there is now less than 80 that would be required in terms of achieving that number.

**Mr. Ashton:** I thank Mr. Fraser for that information and we could continue the discussion in terms of the involvement of employees. But I would suggest that if you were to implement the kind of philosophy you talked about that essentially you are involving the employees in the management of the corporation. If

you want customer-driven type of management philosophy and strategy, I think you have got to involve them—quite frankly, I am telling you on behalf of employees I have talked to—involve them more in some of the real decisions.

It sends a real message when MTS in 1993 holds major meetings on corporate strategy and now we are dealing with the most significant ~~restructuring~~ the most significant changes in MTS in its history that there is a real sense that people are not involved in the real process. I just throw that out because I can tell you that is what people are telling me and for whatever it is worth, I raise it.

I notice some of the my colleagues have some further questions but I want to just put on—

**Mr. Findlay:** Can I just have a little quick comment? Reflecting on what the member has said, the real process effectively starts once reorganization is in place, in my mind. It is how those four companies get out and deal with the consumer, the customer, in a very proactive fashion. To my mind that is where we really have to be proactive in being sure that we deal with the customer on an appropriate and effective manner to keep them as customers or to win them back if we have lost them to a competitor in some fashion. So there is nothing as over. I say the big mission follows right after reorganization is in place and we get on with dealing with trying to have a satisfied customer base. I am sure some of the questions that the members are going to ask now are related to some degree of dissatisfaction of customers.

**Mr. Ashton:** We will continue this because I believe that you are going to have to empower your employees, and you empower your employees I believe you achieve exactly what you are talking about. I believe if you try and separate management from involvement as if they are two different things, you end up with consultation, a lot of times insufficient consultation and I do not believe you establish the kind of ethic you need. A lot of private sector companies are doing a very good job empowering their companies and I believe that is something that MTS, if it is going to live up to some of the things it is talking about, should be doing as well.

I just want to ask some brief questions before I turn over the floor to some of my colleagues, and I will be getting back to some of the broader issues, hopefully in another hearing, because I do believe we will need at least one more meeting to discuss some ongoing issues.

I would like to ask, though, some questions first of all in terms of the Internet. A lot of concern has been expressed by communities that are outside the Internet. I know Leaf Rapids, for example, has raised this—the Internet access established by MTS. I would like to ask what plans MTS has for the many communities in rural Manitoba that are outside of calling areas which are currently served by the new Internet plan. Leaf Rapids being one of them, but there are many others.

**Mr. Fraser:** Mr. Chairman, I would ask Mr. Gordon to deal with the specifics of the question.

\* (1130)

MTS has rolled out an Internet service, has requested CRTC approval for those rates which have just been received, as a matter of fact, in recent time. That service is on a competitive basis, and there is significant competition in that. Not just simply in the urban areas, but in the rural areas there are competitors springing up in that area. One of the things that competitive reality of the marketplace is that the growth of the service has to be done in a prudent manner in terms of not getting us into a situation where we have fixed debt costs, and we do not have the revenue stream in terms of supporting those debt costs. Because if our costs are not competitive, our prices are not going to be competitive, and competitors are going to come in with lower prices and take those markets away from us. We are going to left with an asset and a debt and no way of paying it off, and that is part of the history of the infrastructure in the telephone industry.

So there has been a significant investment made in terms of providing that service to a significant portion of the population. It does not cover all the areas, and it is impossible to do that at least at the front end. As that business grows and we get a larger customer base and we are in a position to be able to support higher investments, certainly the intention is to roll it out, but

the last thing that we want to do is get ourselves in a situation where we have fixed costs that are not sustainable by the revenue flows that we do and therefore our prices are not competitive, and that other people are getting the customers and we are not. So we have to do that in a very reasoned way.

**Mr. Findlay:** Just while Mr. Gordon is coming to the table here, I would just ask the member to understand what has taken place. The Internet initially was more for people in the university community involved in research and global community contact. Several months ago the university realized that with the growth in this sector, they could not handle it. They wanted to stay in the university context and they came to MTS, and MTS decided to become an Internet access provider. At the same time, there are many private sector Internet access providers in Manitoba. So along the way we also as a government put out a request for competitors to offer a backbone network in the province. MTS was the successful bidder, and that backbone network is in place now and facilitates the opportunity to rural Internet access. As Mr. Fraser has indicated, it is a competitive offering and must be financially viable on its own community by community. Mr. Gordon will expand.

**Mr. Barry Gordon (Vice-President, Network Services, Manitoba Telephone System):** Mr. Chairman, I have little to add to what the president and the minister have said. It is a very competitive undertaking, the Internet service business, and the assessment to enter a community has to be based upon the ability for that community to generate the revenue necessary to cover the costs and the cost of the investment and so on. That said, we have no plans for Leaf Rapids specifically at this moment, but as, hopefully, we are successful with the service and it generates sufficient revenue, we will continue to look at every area, because it is our intent to try and provide that as widely as possible. We understand the requirements and the needs for it, but it has to be done in a cost-effective way. We continuously evaluate that on the basis of how successful we are being.

**Mr. Ashton:** I appreciate that, and I just point to the fact that I think many communities are viewing Internet access as being very akin to access to phone service on

a residential basis. As much as I think the Internet a lot of times is overrated, I really do believe that there is a legitimate fear in a lot of communities that it is somewhat akin to the 19th Century railroads. If you are on the railroad, you thrive as a community. If you are off the railroad, you did not. Particularly given the access to education that is available on the Internet, I would strongly urge that other communities be included.

I just have one further question.

**Mr. Findlay:** Could I just comment a bit. The initial roll out that MTS is involved in is really hitting 10 communities plus the Community Calling area around those communities. So it covers quite a high percentage of the population, and the communities of Thompson, The Pas, Dauphin, Brandon, Portage, Winkler, Altona, Steinbach, Selkirk and Winnipeg, you know, are the big nodes, but the calling area around them takes in a very high percentage of the population of the province. It must be up in the vicinity of 80 percent and, on an economic basis, it will look at additional communities in a second phase process.

So ultimately I would hope to get to everybody, but it will have to be, as is indicated by staff, on an economic basis.

**Mr. Ashton:** I want to raise one final question, and that is in terms of MTS cellular service. Many communities in northern Manitoba, particularly northeastern Manitoba, are not part of the cellular network. At the same time, I would also like to transpose that with a question in terms of some of the emergency phones. Concern has been expressed about access to emergency phones not being available. There are a few that are there that are not advertised. Quite frankly, one of the reasons that people are very concerned about the need for cellular access is, you could not get an area of the province that is more subject to storms in the winter, you have long stretches of highway, so a lot of people are looking at cellular service as being a safety related matter, and it has been something that—there has been a private individual who is trying to get cellular service. A lot of people have signed petitions on it, certainly in our communities.

I would like to ask (a) whether there are any plans to extend the cellular service; (b) whether any other types of technology we are looking at in the next short period of time such as direct satellite telephones that might provide a similar type of service other than through cellular; and (c) what the situation is with the existing emergency phones, whether any have been closed, whether access has been limited to them and why many of those phones, there is no indication given to members of the public those phones do exist or have existed in the past so they can access those in case there is an emergency.

**Mr. Fraser:** Mr. Chairman, again, the background is similar to the Internet issue. I mean, it is a competitive service. Our major competitor at this point in time is Cantel. We are continually looking at our coverage area from an economic perspective with the same rationale in terms of maintaining competitive prices and not becoming overburdened with fixed costs in terms of debt that we cannot sustain and then driving our prices up and making us noncompetitive in the marketplace, but we are continually looking at rolling that service out. There is a tremendous market for it and we did invest significantly in the last couple of years in terms of rolling it out into the rural areas.

We have, I believe, well over 80 percent of the population of the province covered and, in fact, it has been something that Cantel has had to respond to, and they just recently last week announced that they are going to meet our coverage areas and provide significant investment. We are continually looking at opportunities. We moved that service up to the Swan River area. You know there have been ongoing demands from the Thompson area and other areas in terms of getting that service, and we continue to look at it, and as soon as it is economically feasible we certainly would be delighted to do that. But the last time that it was reviewed the expense at that point in time just did not justify it.

Certainly there are technology changes taking place all the time, and I would ask Mr. Gordon to maybe comment on that, but even in the cellular industry, I mean, we are expecting personal communication systems competition coming into that market next year, and it is a cheaper form of cellular service on a more

limited basis that is going to compete with the cellular business, also going to compete with the wire line company in terms of local access, and I am sure that in the future there will be other evolutions of that technology, but maybe I can ask Mr. Gordon to comment from a technology perspective.

**Mr. Gordon:** Yes, Mr. Chairman, there are a variety of technologies that are on the near and far horizon with respect to wireless communications. Mr. Fraser mentioned PCS, which is probably the one that is best known and arguably the closest in. It is quite a different application than cellular because, for example, there is limited mobility. You have to be within a range of a base station. There is no hand-off from one cell to another the way there is with cellular. It cannot be supported in a moving vehicle, that kind of thing, but it does lead to some very interesting local applications where, for example, you can have the same wireless phone in your home and then walk into a shopping mall and continue to use that same handset. So there are some applications that are being talked about. It is not obvious that they have a good commercial business case yet, but like many of these things it takes time to prove those in.

There is a microcellular technology which is really the cellular industry's response to PCS. They are looking at smaller cells, more cells, lower power, greater frequency re-use, that kind of thing, with the intent of potentially competing with the PCS carriers depending on who gets licensed, and that is a complicated issue in and of itself.

\* (1140)

On the satellite side, there are a variety of things that are on the horizon. No pun intended. The M-SAT, I think, is probably the best known, which is a joint Canadian-U.S. undertaking involving Telesat, actually TMI which was a spin-off of Telesat. This is a satellite service that would serve, again, hand-held units or vehicle-mounted units for people who are out of touch with normal communication facilities. At this point in time we are looking at the terminal equipment in the \$800, \$1,000, \$1,200 range, but there is every reason to believe that the same kind of cost reductions that cellular experienced will happen here as well. Again,

it depends on the volume. The initial estimates of usage cost, however, are significantly higher than for current services like cellular. For example, \$2 and \$3 a minute are where the business cases are being structured around at this point in time. You know, that is pretty expensive unless you have a need that can justify it.

M-SAT is a geostationary satellite offering, which means one satellite stays in the same spot and has a broad footprint. There are other satellite approaches called low-earth orbiting, which is a whole array of satellites. In the case of Motorola, a project called Iridium, there are 77 satellites which continually run around the earth and you are always in range of two or three of them. The advantage of that is lower launch costs, lower spacecraft costs, in fact, that there is not anything like the kind of delay that is one of the bugaboos of satellite two-way communication.

Today our customers, for example, in the North tell us that is one of the detriments of satellite service and so the low-earth orbiting approach does away with that. Where those go commercially towards the end of this century is very, very difficult to project, but there are lots of very large companies investing a fair amount of money. So out of all that is going to come some new technology, some new service approaches, that as they become affordable to us we will endeavour to adopt.

**Mr. Findlay:** Just a quick comment. I am very pleased with the level of cellular coverage we have in the province compared to other provinces across the country. I am very, very pleased. You know, 53 sites in Manitoba, and if you look at across Canada—and this map is available if any members are interested—Manitoba with a million people has more area than Saskatchewan, equal area to Alberta, and B.C. looks like they have virtually no coverage, only in the very high populated corridor around Vancouver. When you get down to Quebec and Ontario, they only cover the populated corridor. So our coverage basis our population spread is very, very good in a comparative sense.

If the member ever takes a trip down into the States, you will find that their coverage is only around the cities, not in the outlying areas. So we are well covered

in terms of delivering the service to Manitobans and doing it on, we will call it, a cost-recovery basis, and Cantel is chasing like heck to catch up, which is good news.

**Ms. Rosann Wowchuk (Swan River):** I have several issues that I would like to address with respect to the various services in rural Manitoba, but I see that our time is running short. But there is one in particular that I would like to address, and that is I would like information as to where we hear about 911 service coming to rural Manitoba. I would like some update on where that service is, when we can expect that service to be available to people in rural Manitoba, and how that service will be paid for. Because it is my understanding that people in rural Manitoba are going to have 911 service billed on their telephone bill, and I question that. I ask the minister for some explanation because we have 911 service in Winnipeg right now that is not billed to the customers, but my understanding is that in rural Manitoba we will have an extra charge on our bill and all rural Manitobans will for the 911 service. So if we could have some update as to when the service will be in place and how it will be paid for.

**Mr. Findlay:** Clearly this is an important question. It is an issue that has been in front of us. I have been wanting to see this for five or six years, to get 911 province-wide, because I think the public is very aware that in an emergency 911 is the number to call.

I have been involved in a classroom where the teacher was telling the students—and this was in a rural area, I had to remind the teacher after. You know, it may be available according to what you watch on TV and it may be available in the city, but it is not outside the city.

Clearly the city of Winnipeg and the city of Brandon both have 911. They pay for it entirely through the municipal taxes, so the citizens of Winnipeg and citizens of Brandon both pay the full cost of 911 because it is delivered at a municipal level.

We have looked at various ways and means of doing it in rural Manitoba. Some of the comments that came up along the way were, we have to have full

digitalization across the province so there are all digital switches across the province to achieve 911. We are at that point. In early '96, we will have complete digital switches right across the province. Certainly private lines make it easier for people to access the system and we will have all private lines in 1996.

Then it requires a system of who is going to be the relay. Who is going to receive the call and then dispatch the emergency service, whether it is in Minitonas or Melita or in Steinbach? The City of Brandon has come forward and said here is an economic opportunity for us to be the node for receiving those incoming calls and dispatch the emergency services. Clearly there are costs associated with running this.

The proposal that Brandon has put out to 190 municipal levels of government, towns, villages and R.M.s—and this letter went out in the last two or three months—following several discussions at municipal regional meetings where people from Brandon, and I think some cases also from MTS, explained the system how it would work and how it could be paid for, the proposal that they have is that each person in a municipality will be paying two fifty per capita through their municipal taxes. If there are 800 people in the R.M., they would have to collect two times eight fifty per year to pay that to Brandon for the cost of delivering the service.

In addition, there is a charge that is necessary on the telephone of 50 cents to a little over a dollar, the range that is currently being discussed to pay for the service. Before that can be implemented it has to be approved by CRTC. If everything fell into place, 911 may be up and running mid-1996 or latter 1996, provided all the approvals fall into place.

I can tell the member that in response to the letters going to the municipal levels of government, there has been a high level of yes coming back. We want to be part of the system and we will pay our portion, but the decision—it is a two-part pay-your-way system. We cannot be involved in subsidizing the program as we are not involved in Winnipeg and Brandon. Probably in an unfortunate census, the council of the City of Winnipeg passed a motion a year or two ago to say

they would not participate in the costs of supplying 911 to the rural areas, so there are still some open questions yet.

It is moving toward technically being possible. It is happening in every province across the country right now. I want to congratulate Brandon for the leadership role they have taken to try to be sure that they are the node for receiving the calls.

**Ms. Wowchuk:** I am very pleased that 911 service is finally coming to rural Manitoba. It is something that we need. I support the idea of it being paid over the tax base. But what I am questioning the minister on, and I do not quite understand, he says it is a user-pay so it will have to appear on the telephone bill, but this does not happen in Winnipeg. How is it that it can be covered by the tax base in Winnipeg but yet in rural Manitoba we are going to have to see a fee on the telephone bill?

\* (1150)

We know we pay. There is no free ride on anything. We pay for everything; no matter what, in some form we pay for it. I question why there should be a fee on the bill in rural Manitoba when it cannot be worked out so that it would be all spread out as it is in the city of Winnipeg.

**Mr. Findlay:** Maybe the president will comment but, Mr. Chairman, the split of paying for it between the tax base and the phone bill is the result of considerable discussion involving the players that come to that sort of saw-off. It is not approved by CRTC so it is not a fait accompli at all. Want me to ask the president if there is anything further you can add? It is still an ongoing process, but unless that resolves how it is paid for, it cannot be delivered. So it is important that we get to a resolution. That is the kind of a consensus that is there now, and I have not played a role other than to say I want to see it done. The players have come to that sort of saw-off at this point.

**Mr. Fraser:** The process that has being developed to roll out 911 in the province, as the minister has indicated, is a three-level process. The telephone

company has to invest in certain infrastructure in terms of providing the network facility to do that, the local areas have to agree in terms of setting up a dispatch centre and the emergency services, the police and the fire department and so on, are involved in terms of being able to respond to those dispatches. So there is expense in all those areas.

With the City of Winnipeg and with the City of Brandon, the city has put that complete system in place and paid for all the components of it. It is included in the property tax base and the individual homeowners are paying for it from that perspective.

In terms of what is being done now, it is deemed that it is just not practical in terms of the size of some of the smaller communities that want 911 service, and so there is a split out in terms of the investment required by the emergency service deliverers, the investment required in terms of having a dispatch facility and an answering point, of being able to deal with that, and the telephone company would put the infrastructure and the switching and so on in place to be able to do it, and it is only that one piece of it that you would be billed for on the telephone bill. It would be determined by the telephone infrastructure that is required to support that dispatch and answering service, and the municipalities would have to deal with the other costs.

In the cities of Winnipeg and Brandon, they have historically put in a complete system, and it has been paid for on the property taxes of the homeowners in those communities. MTS does not provide that service to the city of Winnipeg per se. It is paid for by the City of Winnipeg. There has been no incremental investment by the telephone system.

**Ms. Jean Friesen (Wolseley):** Mr. Chair, I wanted to ask some questions about education. I know that MTS has an interest in education, has been active in some classrooms and, of course, has been involved, over the last decade, in aspects of distance education. So I want to ask about MTS's connection to the new special operating agency, MERLIN, which is in operation this year, the '95-96 year. Where does MTS fit with the new special operating agency? What is its role, and what kind of written documentation is there in this role?

**Mr. Fraser:** I am sorry, I have to take that under advisement. I am quite honestly not familiar with MERLIN and what role MTS may be playing with regard to it. I do not know if anyone is familiar with that.

**Mr. Gordon:** Is that a recent name of another initiative that may have been ongoing?

**Ms. Friesen:** Mr. Chair, it is my understanding, and perhaps I should direct this to the minister, that MERLIN is a government agency which has been set up by this government as a special operating agency connected to, and responsible to, the Minister of Education for distance education. Perhaps the minister could clarify that, that this is his understanding of what MERLIN is.

**Mr. Findlay:** I will not dispute what the member has said, that it is set up under the Department of Education. They will use the MTS network to roll it out. They use the fibre optic cable, digital switches and all that. There are a lot of innovations going on in two-way interactive distance education, and the backbone network which we have just put in place, which the government is paying for I think, is critical to the roll out of that. So we all play different roles, but in terms of content and utilization of the system, that is coming from Education. But we have put the technology in place with the equipment that allows the technology to be delivered. We put that in place and that is our role. Maybe Mr. Gordon knows more.

**Mr. Gordon:** We have, in addition to what the minister has described in terms of our involvement, we have had a team of two or three people involved with the Department of Education and with the steering committee. I do not recall if it had a name, but responding to RFPs coming out of the Department of Education and doing an awful lot of work with the various school divisions and from time to time with various components of the university and with the Brandon University as well. I guess if that has all come together under some new agency, then we will have to get updated in respect of that aspect of it.

**Ms. Friesen:** That is my concern is that MTS has a history not just of infrastructure building but obviously

in participation and training and in making the linkages between the many institutions in the province involved in distance education. Now there is a separate special operating agency, operating under different rules and attempting to bring to co-ordinate this. I am concerned about where are the people with the experience, where are the people who have been doing the training, how are they going to be connected to this new special operating agency?

And are they going to be in competition? Are you going to still continue, for example, with the kinds of activities that you have been involved in, in the past? Where is that break going to occur? Do you anticipate, in effect, competition between MTS and a special operating agency of the government?

**Mr. Stefanson:** I would suggest that Mr. Fraser take all of the questions related to this issue as notice and report back to Ms. Friesen at a very early date.

**Ms. Friesen:** Thank you, I would appreciate that. Could I then go on to ask about the pricing of distance education to local school boards? One of the proposals, I believe, the way in which you operate now, I assume, is on a fee for service, is that right? And are you intending to move to a membership fee? That is, school boards, school districts, consortiums must have a membership fee in advance or in addition to fee-for-service operations. I know that there is considerable unease about this in school districts, and I want to know what MTS's position on it is, what it has been and what it is going to be.

**Mr. Fraser:** MTS has been attempting to get the best possible deal it can for the education community, but this is a tariffed item that is regulated by the CRTC consistently across Canada. Again, one of the criteria that they use is certainly in trying to ensure that there is not cross-subsidies between services so that one service or one group gets cross-subsidized from another area, and we are currently reviewing this whole issue with the CRTC. We have been going through a process and have proposed a number of things that in fact they have turned down in the past in terms of indicating that they were not satisfied with the rates that were being proposed. But we are still going through that process

in terms of trying to get the best possible deal that we can for the education community and at the same time to do it on a sound financial basis from MTS's perspective.

**Ms. Friesen:** Those are the kinds of issues I am concerned about, that MTS is going to continue to negotiate those prices, or is it going to be the new special operating agency? And I realize we are running, Mr. Chairman, to the end of our time. I wonder if in the written response that the minister is going to provide whether you could also include some of those CRTC applications and judgments. I assume that is public information, and some indication of what policy MTS is generally pursuing in this area.

**Mr. Chairperson:** The time is now 12 noon. Shall the December 31, 1994, Annual Report of the Manitoba Telephone System pass?

**Some Honourable Members:** No.

**Mr. Chairperson:** The report is not passed at the present time. What is the will of the committee?

**An Honourable Member:** Rise.

**Mr. Chairperson:** Committee rise.

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