



Third Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

33 Elizabeth II

Chairman
Mr. Phil Eyer
Constituency of River East



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES & NATURAL RESOURCES

Thursday, 10 May, 1984

TIME — 10:00 a.m.

LOCATION — Winnipeg

CHAIRMAN — Mr. Phil Eyer (River East)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Evans, Kostyra and Uskiw, Mrs. Dodick, Messrs. Enns, Eyer, Malinowski, Ransom and Scott

APPEARING: Mr. Gordon W. Holland, General Manager

Mr. Saul Miller, Chairman of the Board

Staff members: Mr. B. A. Deakin
Mr. B. A. Gordon
Mr. S. G. Anderson

WITNESSES:

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone System for the fiscal year ended March 31, 1983.

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MR. CHAIRMAN: The committee will come to order. We are considering the Annual Report of the Manitoba Telephone System. At the end of the last meeting, there were requests from a few members for information from the staff. Does the staff have that information to give either verbally or in written form?

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

MR. CHAIRMAN: What is the will of the committee on how to proceed?

Mr. Uskiw.

HON. S. USKIW: I would think we should perhaps respond to those questions that we took as notice last time and then get into the discussion later.

MR. CHAIRMAN: Well, whatever, yes. Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, there was a question last meeting asking that we identify the Province of Manitoba advances which were repaid in the sum of \$57,258,000 and that appeared on Page 11 of the Annual Report under the 1982 comparative data.

The following advances and bonds were repaid during the 1981-82 fiscal year. The Province of Manitoba Advance Series 9W, \$15 million; the Province of Manitoba Advance Series 10E, and that was a partial retirement, \$1,258,000; the Province of Manitoba

Unfunded Advance, \$21 million; and MTS Bond Series 1A, \$20 million; the total being \$57,258,000.00.

MR. CHAIRMAN: Any questions on that answer? Mr. Orchard.

MR. D. ORCHARD: I think, Mr. Holland, that you had indicated the retirement of Series 10P on Page 13 which was retired on November, 1983. I think you give that answer in Hansard, but we haven't seen Hansard yet.

MR. G. HOLLAND: Series 10P was retired on November 1, 1983.

Mr. Chairman, another question, what was the issue date of Province of Manitoba Advance Series 10P? Series 10P was issued effective November 1, 1977

MR. CHAIRMAN: Any questions on that answer? Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I think I've got in my notes here someplace where the foreign exchange adjustment was \$7.6 million, is that correct?

MR. G. HOLLAND: Mr. Chairman, the foreign exchange amortization figure for 1982-83 was 2,626,000 and for 1983-84, 4,620,000; withdrawals from the investment fund in 1983-84 was 9,381,000 and that was for series 10P and series 10J - 7,652,000 and 1,729,000 as realized foreign exchange losses.

MR. D. ORCHARD: Mr. Holland, just to clarify how serious 10P would have been retired, I take it that the 7,652,000 on foreign exchange loss would have come out - if I followed correctly from Tuesday's questioning - from the investment fund, which at March 31, 1983, stood at 29.7 million?

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

MR. D. ORCHARD: Okay, and then the principal on 10P, if I further understood from you, Mr. Holland, was retired through refinancing through re-borrowing?

MR. G. HOLLAND: Mr. Chairman, I don't have the specific figures on that. What happens each year is that the total capital program for the upcoming year of the roll-overs, the revenues available internally from MTS are all taken into account, the new borrowings are submitted to the Legislature, and the Minister of Finance rolls over the remaining portion. So I don't have that total picture with me; I can obtain it.

Mr. Chairman, now I have it with me. MTS received an advance from the province effective November 15, 1983, of \$64,736,750 and that was used for partial refinancing of series 10E, 960,000, that was December '82; and partial refinancing of series 10J, February, 1983, in the amount of \$3,600,000; refinancing

of series 10P - the series that Mr. Orchard is questioning - effective November, 1983, in the amount of \$45,850,000; series 1B refinancing November, 1983, \$10,200,000; and partial refinancing of series 10J, February, 1984, of 3,550,000; that totals \$64,160,000 and the remainder would be used for new debt in the following year.

MR. D. ORCHARD: Thank you.

MR. CHAIRMAN: The next question, Mr. Holland.

MR. G. HOLLAND: There was a question, Mr. Chairman, as to the initial FAST revenue projections and current revenue projections.

The initial planning for FAST in 1979 indicated that, based on a 1,000 subscriber system, annual revenues of \$156,000 could be realized. In 1981, FAST service was introduced and in the same year the system's capacity was increased to accommodate 5,500 subscribers, based on customer projections of market requirements. Forecasts at that time predicted that when the system reached capacity, in three years, annual revenues would be \$780,000.00.

Actual revenues for 1982-83 were \$82,000; for 1983-84, \$145,000 or \$182,000 on an annualized basis at March, 1984; and current revenue forecasts for 1984-85 are \$245,000.00.

MR. D. ORCHARD: How many customers, Mr. Chairman? There were a whole series of questions on FAST and if Mr. Holland had those answers then we could deal generally with the FAST Program, if that was possible.

MR. G. HOLLAND: Another question. What were the MTS capital purchases for FAST equipment? Those capital purchases totalled \$4,562,000.00.

Another question was: Please identify the terms of the contracts or supply agreements with Base 10 Systems? MTS entered into an initial contract with Base 10 for the supply of equipment to provide FAST service per 1,000 subscribers. The equipment was to be manufactured in accordance with MTS specifications and delivered on a staged basis. Subsequently, in response to alarm agency demand for service, MTS entered into a second agreement with Base 10 to expand the system by a further 4,500 subscriber units. This contract was amended subsequently to accommodate design enhancements necessary to meet ULC requirements, and those approvals were received from ULC in stages through April, 1984.

Another question: What are the rates for FAST Service? The current rate schedule varies by classification of service. That is single family residence, multi-family residences or commercial. In addition, the various types of service, that is, fire, intrusion and so on, within each classification, have different rates, as well.

A single-family residence can purchase three types of services for \$10.50, whereas commercial customers would pay \$15 for the same service monthly. I do have a copy of the complete rate schedule, Mr. Chairman, if Mr. Orchard would like to have that.

MR. D. ORCHARD: How many subscribers are there to the FAST service now?

MR. G. HOLLAND: Mr. Chairman, MTS provides service to five alarm agencies and they, in turn, in March 1984 had 1,127 FAST customers. That does not include the housing units that are scheduled to go into service in June.

MR. D. ORCHARD: How many again in 1984?

MR. G. HOLLAND: 1,127 in March 1984.

MR. D. ORCHARD: Mr. Holland, if I follow you correctly, in 1979 MTS did theoretically an accounting exercise to determine whether to go into FAST and, based on 1,000 subscribers, they projected revenues of \$156,000 on the basis of 1981 entry into the FAST alarming system, they increased the, I presume, capital investment so that up to 5,500 customers could be served by the FAST system. As of March 1984, there were 1,027 customers and, I believe - my notes are rather hasty - I believe when you indicated 1981, that the system was expanded to accommodate 5,500 customers that within three years, I believe, your revenues could be upwards of \$750,000.00. Did I hear correctly?

MR. G. HOLLAND: Projections in 1981 forecast annual revenues three years out of \$780,000, yes.

MR. D. ORCHARD: So 1981, forecasting revenues three years out, would make in 1984; revenues were forecast at 780,000 and is one fair to assume that three-year projection of \$780,000 revenue that the FAST system would be contributing a net profit to the Telephone System operations. Was that the basis of the 1981 projection?

MR. G. HOLLAND: Yes, Mr. Chairman. I believe, the forecast was from 1985-86, that complete year.

MR. D. ORCHARD: The \$780,000 revenue would be for fiscal year 1984-85, or 1985-86?

MR. G. HOLLAND: 1985-86.

MR. D. ORCHARD: Given that capital investment is roughly \$4.5 million and given that - now I don't know how we had a three-year projection in 1981 that ends this up in 1985-86, but we won't quibble about the numbers - but given that projections are at \$780,000 of revenue in 1985-86, and you are projecting for 1984-85, \$245,000 of revenue, and I would assume that 1984-85 - correct me if I'm wrong - would include the revenues expected from the MHRC installations? Would that be correct?

MR. G. HOLLAND: Mr. Chairman, I believe the 1984-85 forecast, yes, does include the housing contract.

MR. D. ORCHARD: What means have we got to triple in 1985-86, the revenue, to meet projections? Now that may be possible, but given the initial projections on which management and the board of MTS, back in 1979 and reaffirmed in 1981, given the projections that were made, when was it expected that the FAST system would contribute net revenue to the Telephone System?

MR. G. HOLLAND: Mr. Chairman, I don't have the economic analysis with me but, from these figures, I assume the turnaround would occur in 1985-86 according to the analysis.

MR. D. ORCHARD: To date, is it fair to assume as of March, 1984, a month-and-a-half ago, that the FAST System with 1,127 customers has been losing money for the Telephone System?

MR. G. HOLLAND: Mr. Chairman, a system like FAST is a long-term investment by MTS, a major new system, and can very frequently take many many years to turnaround. It obviously depends, if you do a two-year economic study and expect to recover that capital investment in two years, obviously it has not done so; but the projections are that the technology will be quite applicable for many years, that the need for this service will escalate, that the market will adjust and, in the longer term, that it will be a very beneficial investment.

MR. D. ORCHARD: Mr. Holland, I am not in a position, of course, to argue whether FAST is going to be the alarm system of the future or not, because I'm not technically competent to do that - and I appreciate you don't have the economic analysis here - but it would be interesting to find out at what point in time the economic analysis undertaken in 1979 on which the decision was made to go into FAST, it would be interesting to know from that original study what the projection was as to when the FAST system would be a net contributor to Telephone System revenues.

It would appear, Sir, that the FAST system has not met the subscriber expectations under which it was proposed as a revenue generator to the Telephone System. If I may presume to indicate the reasoning behind going into FAST, I would assume it would have been to contribute net revenues to keep the basic cost of telephone service down, which is the argument I know that was put to me when I was Minister responsible and, no doubt, is currently being put to the current government and the current Minister.

It would appear as if - and once again I make this observation tentatively because I don't know when the projection for net income contribution bases the analysis done in 1979 was, I don't know whether it was 1984, 85 or 86 - but it would appear as if the FAST system has been a drain on the system and having, for the interim period, a negative effect on revenues available for cross subsidization. Now we may well have that as start-up costs and down the road we will reap the benefits of it, but I have a couple of more question which I think might offer us a little more light on it.

Now in 1981, I assume that when FAST went up to the 1,500 customer potential, that it required an additional capital investment and the \$4.562 million capital investment represents the total system investment in place today.

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

MR. D. ORCHARD: Does this FAST system serve only the City of Winnipeg?

MR. G. HOLLAND: No, Mr. Chairman, it has been introduced in two or three centres outside of Winnipeg.

MR. D. ORCHARD: What centres are those outside of Winnipeg?

MR. G. HOLLAND: Brandon, Dauphin and Selkirk.

A MEMBER: No Woodlands?

MR. D. ORCHARD: He got his bonus yesterday. He had something done in Woodlands yesterday. I'm waiting for Miami myself.

Mr. Chairman, to Mr. Holland, then I take it the capital cost of \$4.562 million includes the necessary investment in Brandon, Dauphin and Selkirk to deliver the FAST service there?

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

MR. D. ORCHARD: Could Mr. Holland indicate how many customers there are in each of those three communities?

MR. G. HOLLAND: Mr. Chairman, I can obtain that information and report it to Mr. Orchard.

MR. D. ORCHARD: Fine. One more question. The FAST System, has the cost to the supply companies changed over the last three years that FAST has been available?

MR. G. HOLLAND: Mr. Chairman, there has been no overall rate adjustment, but I hesitate that there have been no rate changes whatsoever because we have worked with the customers in installation charges, special promotional programs, the method of writing and there may have been some minor adjustments, I can't recall that, but again I'll check and confirm.

MR. D. ORCHARD: You mentioned there are five companies offering the FAST Service and there are other alarm companies who use different alarm delivery methods, I guess one is direct wire, for instance. Have direct wire costs increased to those alarm companies since 1981?

MR. G. HOLLAND: Mr. Chairman, again, I don't have the exact detail, but they would have been increased proportionately with our other tariffs, in the same proportion as our other tariffs on each rate increase.

MR. D. ORCHARD: So given that in 1982 I think telephone rates went up by 5.9 percent, that would be the increase in direct wire cost to the alarm companies?

MR. G. HOLLAND: That would be the nature of the increase, yes.

MR. D. ORCHARD: I wonder if Mr. Holland could provide that information as to what the increase in direct wire costs have been since 1981, and can Mr. Holland indicate whether the direct wire costs are subject to Public Utility Board review and rate application?

MR. G. HOLLAND: Mr. Chairman, yes, those are subject to regulatory approval.

MR. D. ORCHARD: Now, on the MHRC offer that's coming on stream June 30th. Well, first of all, I understand that MTS does the installation charge for the FAST Alarm System for the alarm companies that are delivering this service, what's the installation charge on a single family residence?

MR. G. HOLLAND: Mr. Chairman, there is a standard installation charge of \$75.00 and a termination charge of \$55.00.

MR. D. ORCHARD: Okay, and if my memory serves me correct from the other day, a \$4.00 per month charge to the alarm company which they bill to the end consumer.

MR. G. HOLLAND: As I mentioned earlier, Mr. Chairman, the rates vary according to different types of dwellings. In a single-family residence the monthly charge is \$4.50 for fire service with up to three alarm points.

MR. D. ORCHARD: Now in the MHRC arrangement, MTS is going direct to MHRC and servicing this account, rather than it being through a private alarm company, what are the installation charges that MTS is charging to MHRC for installation?

MR. G. HOLLAND: Mr. Chairman, there was a \$2,500 initial charge for hookup of the services.

MR. D. ORCHARD: And how many services were hooked up?

MR. G. HOLLAND: This is a five-year contract; it involves the supply, installation and maintenance of 250 subscriber terminal units and each unit will provide service to 11 households, so there'll be a total of \$2,750 households.

MR. D. ORCHARD: And the monthly charge?

MR. G. HOLLAND: The monthly charge, Mr. Chairman, is \$17.60 per subscriber terminal unit or \$4,400, in total, monthly.

MR. D. ORCHARD: Now, let me make sure I'm getting this right. We've got 250 STUs servicing 2,750 units. So, that's 11 units per STU. Now is that the same as having 11 alarm points per STU, would that be a fair comparison?

MR. G. HOLLAND: I would say, yes, Mr. Chairman, it would be the same arrangement.

MR. D. ORCHARD: Then MHRC is certainly getting quite a reasonable deal from the Telephone System, they're getting a STU installed at \$10.00. If my initial charges by 250 STUs is correct, that would be \$10.00 per STU, with whatever electronic or wiring hookup would be required for that STU to be hooked into 11 separate alarm points. A comparable installation cost, Mr. Holland, would be \$75.00 charged to a private alarm company for a similar installation and, I would assume up to, I don't know how many alarm points. The monthly

that the private company would be paying to MTS would be \$4.50 for three alarm points. We've got \$7.60 for 11 alarm points.

Now, Mr. Chairman, I realize that we're sort of trying to find out answers somewhere which we can't get confirmed till the revenue projections from 1979 are known, but it would appear from an outside observer, that the entry into FAST did not reach the market penetration that was anticipated so that net revenues weren't forthcoming to the Telephone System.

The private alarm companies, for whatever reason, did not achieve a great deal of market penetration with the FAST system - 1,127 customers in March, 1984 - and this is, as I understand, at a flat monthly rate for the customer charges. At the same time, other alarm services which are provided by the private alarm companies, the direct wire cost, presumably, has gone up and Mr. Holland is going to provide us with the cost to the private alarm company of those cost increases.

Now, to achieve a revenue projection one year out of the projection for a \$780,000 revenue, we've got Manitoba Telephone System by-passing the private alarm companies, who are subscribers to the FAST system, and undertaking a direct installation agreement with Manitoba Housing and Renewal Corporation, another arm of government, for the installation, at considerably lower costs and considerably lower monthly rates, the FAST alarming system.

It would be easy to speculate, and we'll confirm it when we ask the Minister responsible for Housing as to whether they had approached or threw this alarming system out for tender, and whether the rates offered by MTS represent a situation where they have to meet a competitive bid from another alarming type of service, direct wire or whatever.

If that were the case, then the Telephone System may have a problem with the FAST system in that it is a service that may be too expensive for the average consumer and the rates have to come down as they did with the MHRC contract in order to make justification for a \$4.5 million investment in an alarming system.

I guess what I would throw out to the Minister now is that this is the kind of potential problem, I think, that we can get into when a Crown corporation such as Manitoba Telephone System uses a very persuasive argument that we have to have outside revenues in order to subsidize our basic telephone rates. It's an argument that's hard to diffuse, it's hard to disagree with. It's an argument that we, when we were government, didn't have major disagreements with, but it would appear on the surface, Mr. Chairman and Mr. Minister, that the FAST service, when it was proposed to our government, was to contribute XYZ dollars to the net income of the Telephone System and keep the black telephone rate down.

Under the separate enterprise accounting system the telephone operates, I think we would find, since 1981, that is has been a drain on the Telephone System revenues a cost to the black telephone user. It's not as if this entry into the alarm system market is solely a matter for the Manitoba Telephone System, because the alarm system and the provision of alarm burglar and fire alarm services in Winnipeg - I can't say about Brandon or Selkirk or Dauphin where the FAST system is now being offered - but certainly there was alarm

services available. They were in the private sector. They were providing, theoretically, reasonable protection to the consumers of alarm service in the City of Winnipeg, because in the last three years we've picked up 1,127 customers for the FAST system offered by MTS. Presumably there must be thousands more customers using other alarm systems in Winnipeg, but surely the Minister must see the problem that we get into when a Crown corporation from a monopoly standpoint ventures into the competitive area to enhance revenues for the monopoly services it must provide.

No. 1, it runs, in this case and in other cases, head on into private sector competition. That may be good or bad, but if it doesn't provide the revenues and provides competition in the private sector, and possibly costs jobs out there, then I think the conclusion has to be by any government and any Minister, regardless of political affiliation, that that's not good for the overall Manitoba economy, because No. 1, the Telephone System hasn't been able to cross subsidize lower telephone rates because the system hasn't been contributing net income, and then if jobs are lost in the private sector because of competition from the Crown corporation, we're double losers.

When the Telephone System is locked in . . . and then they've got some capital costs, they're not going to give those up. They are going to make every effort to sell that service, and that's where you can get into what has been described by some people who are exposed to competition in the private sector by MTS to predatory competition tactics by our own Crown corporation. That annoys people in the private sector and rightfully so because their tax dollars are supporting the Telephone System and they find them as a competitor to their business in the retailing of certain products.

I think, Mr. Minister, that the MHRC arrangement tends to confirm what happens in an instance like this where a service hasn't lived up to projections, hasn't generated the revenue. They've got to look for new customers, and they went to the internal in-house government offerings and they went to MHRC with a number of readily available units. They sold MHRC on the FAST system, obviously, but they didn't sell them on a competitive basis. They didn't sell it the same as what one of the five alarm companies could sell it, that it would be a \$75 installation charge and \$4.50 per month for three outlets. They sold it at the basis of a \$10 installation charge, servicing 11 units at a cost of \$7.60 per month.

I think, if you did your calculations, you might find that that service - I'm speculating here and I'll be wide open for correction - but that service might be sold by MTS direct to Manitoba Housing and Renewal Corporation for roughly one-tenth or one-twentieth of what they would sell the same service to the private alarm company offering it on their behalf.

I simply ask the Minister: Is that fair competition for the Crown corporation? I understand why it's happening, but is it fair competition and is it in the long-run benefit of Manitoba, because you can get into the bizarre circumstance with something like FAST where if it doesn't work and your alarm companies who are offering direct wire connection, offered by the Manitoba Telephone System, could have the rates put up on the direct wire to such a level that they are forced

to go to FAST whether they like to or not, because you see it's not really an arm's length competitive situation between FAST and other alarm services because often they are delivered by the same Crown corp.

If that's how they have to justify the market penetration on FAST that they predicted in 1981, then it has to be a natural conclusion that it wasn't the most economic system to be offered to the people of Manitoba, and the original idea of providing net revenue to subsidize telephone rates has done it at the cost of a more expensive alarm system than was available from the private sector, and that's wrong. That's not right, Sir. No matter how much we want to keep black telephone rates down, that is not a proper entry into the competitive field by Manitoba Telephone System. There are new alarming systems coming up that don't even use wires, I understand; that use radio frequencies, VHF or whatever.

I think the Minister should find out whether the Telephone System is planning on entering that market and whether that entry into that market is at the disadvantage of alarm companies with many employees in Manitoba who may not be around should that become an area of competition from the Manitoba Telephone System. Because Mr. Miller alluded yesterday, or at the close of hearing on Tuesday, that he didn't differentiate between a job in a private company and a job at MTS. A job is a job. There is some area for agreement there, but only if the job in MTS doesn't replace a job or two or three jobs in the private sector.

Mr. Millar says, "or vice versa," and that's why I asked Mr. Holland for the employee numbers of last year and you will find that the employment in MTS has been going down despite the fact they're in private sector offers competing with private sector.

Mr. Chairman, I have offered my caution to the Minister. Now I do it not from a partisan standpoint because we were government when FAST came in. So I am not doing it trying to score any political points or anything like that. But it's something that I think we have to be very very careful with because we, as non-technicians, can't possibly decide on a proposal as made as to whether this is really going to happen. I am offering my observations to the Minister in the hope that we don't end up with a circumstance where the Telephone System, through the noble desire of keeping telephone rates down, enters into unfair competition practice with existing service deliveries in the private sector and costs us jobs in the private sector in Manitoba.

HON. S. USKIW: Mr. Chairman, I am not sure that the premise in which the honourable member is putting his argument is accurate completely - and I presume that Mr. Holland may have something to say about that - but I want to say to the Member for Pembina that my own theory about the MTS is no different than it would be if MTS were a private corporation generating profit for the shareholders; that is if, in their wisdom, they are able to expand their operation and if they are able to spin off new ventures totally unrelated to providing communication services through the use of the fly-wheel effect of a giant corporation, then I think that does something for Manitoba.

If MTS was a private company in Manitoba and they were able to enter into a whole host of new areas as

a result of their in-house expertise that results in new jobs being created and new industries being created, I think that would be a great thing. I think it would be a great thing if MTS were to do it as a Crown corporation. So I think we lose an awful lot if we say to MTS that you are bound by certain narrow parameters and that you must not tread in certain areas because there may be other sectors that might be interested in those areas, if indeed MTS can do a job in those areas and bring about new opportunities for employees that are already there and for new ones that would come in.

I don't believe it's in the public interest to waste the potential that is already built into such a large operation as MTS or Manitoba Hydro, or any large Crown corporation. I think the thing is to take full advantage of the momentum that a large company like that generates and where it can spin off new opportunities for Manitobans to participate in. So I have no particular hang-up about new ventures. I think they have to be sold on their merit, if you like, but ultimately I wouldn't want to shackle MTS to the point where they have a very narrow framework within which they must provide services to the people of Manitoba.

I would rather take a broader viewpoint and look at each proposal on its own and if it makes sense for economic stimulation and development, such as selling services all over the world, expertise, I think that's a great thing if we can offer our expertise to developing countries, for example. I don't think we should say that's not our territory because it means jobs, it means revenue to the Province of Manitoba and if we have a company already established that is powerful enough to deliver a service like that, then we should not shy away from that opportunity.

MR. D. ORCHARD: Mr. Chairman, I thank the Minister for that statement and I have to say that I don't have major problems with it except from the standpoint that in this alarming system, as an example, where the telephone company offers the direct wire hookup on an alternate system and then offers a competing system at a flat rate and raises the rates on the alternate system, you, Sir, would not allow Bell Canada to do that if they were a private telephone company operating in Manitoba. You would not allow them to come in, offer an alarm system and at the same time have exclusive control over the rate structure on the delivery method of competing alarm systems. You wouldn't allow that, Sir, but we're allowing it now. I don't disagree with your argument that if they have the expertise to move into new areas to create revenues, fine, but they've got both sides of the balance on this one.

HON. S. USKIW: Perhaps Mr. Holland would want to make some comment that would either substantiate or challenge the premise that is being put forward by the Member for Pembina.

MR. G. HOLLAND: Mr. Chairman, I certainly would want to say that MTS is sensitive to the areas that Mr. Orchard is raising. We have a very close consultation with our customers, the alarm companies.

I met with their executive in February, the Manitoba Burglar and Fire Alarm Association. We discussed the

MTS offerings, rates, services and I believe have very good understandings with their association. FAST is a system that uses the existing paired wire telephone network. It is superimposed on the voice network without disruption of the voice service. As such, it has tremendous potential to bring this service to every business and household in the province and very good potential economics, as opposed to dedicated private line, which normally can be justified only for the large businesses.

The revenues that I have reported show rapid increase. I think that from '81 through '83, Mr. Wardrop described yesterday some of the birth pains and pangs in getting the technology into service. Obviously it must be a totally reliable system. Along with that, we have been seeking Underwriters Laboratory approval of the system, their standardization. That has taken a considerable amount of time because it is a relatively new technology.

Again, I can only say that investments of this sort with long pay back are quite common and I'm sure Mr. Orchard, as a former Minister of MTS, will recall the computer communications networks, for instance, Datapack and Dataroute and initial questions as to whether they could be justified in Winnipeg and only for our major customers. Of course, with the passage of a few years, those networks are now accessible to all major Manitoba centres. They are self-sustaining economically and do contribute to our overall revenue requirements.

The large direct client that has been served is, in fact, a large client. It does not have the usual installation costs of dispersed residential units. Special ratings were developed for that customer and whether that was done appropriately, I suppose, can be argued, but I think the principle of tailor-made rates for very large clients wouldn't be arguable.

MR. D. ORCHARD: One final question. Would the Telephone System be contemplating another \$50 discount for installation of FAST when in fact they deliver other alarm services?

MR. G. HOLLAND: Mr. Chairman, MTS has found that it has to acquaint our customers with the availability of many new services of many types, so you will notice that they're increasing promotions and bill-stuffers and other vehicles to acquaint Manitobans with the many services that MTS offers.

We have consulted closely again with the association on this area. They have questioned the form of promotion but not the principle thereof. This is under discussion with them at the moment. They would like to see other forms of incentives and those are being looked at right at the moment.

MR. D. ORCHARD: Mr. Chairman, I know that MTS is a skillful advertiser of its available services, always has been, but this was skillful advertising with a \$50 certificate involved which would pay for two-thirds of the installation cost. I doubt that a similar offering was made on behalf of an alarm company delivering a direct wire alarm service who are using your lines and may want to offer a discount. It was offered for FAST as provided by the Manitoba Telephone System.

Mr. Chairman, I'd like to ask Mr. Holland if the MTS is entering into or contemplating entering into the closed-circuit TV area?

MR. G. HOLLAND: Mr. Chairman, MTS has offered closed-circuit surveillance systems, especially designed by customer, for some time. We are reviewing that offering at the moment. This is done by outright sale of equipment.

There was an expectation initially that there would be a great deal of remote surveillance requiring MTS networks and that has not developed to the extent that we anticipated. There is a review under way right at the moment to develop recommendations for the board as to whether we should withdraw from that service offering.

MR. D. ORCHARD: In your review, have you found that the Manitoba market for close circuit TV has been underserved in any way, there's not enough competition, if you will, in the market, that customers are not receiving adequate service offerings?

MR. G. HOLLAND: Mr. Chairman, that's a difficult question to answer. MTS has been rather successful with its offerings, which must mean that there is a market niche there to be served. I suspect that in areas outside of Winnipeg and perhaps Brandon, there very likely is a shortage of suppliers and installation services and maintenance and so on.

MR. D. ORCHARD: Would that be the market potential target that you'd be shooting at if you were to make the decision to stay in closed-circuit television, those markets outside Winnipeg and Brandon?

MR. G. HOLLAND: Mr. Chairman, the economics would normally require that Winnipeg and Brandon be served to justify service outside of those centres, but I wouldn't want to anticipate the results of the review.

MR. D. ORCHARD: Then presumably, if MTS decided to get into this in an ongoing and continuing way, they would be again in competition with private sector offerers or retailers of that service.

MR. G. HOLLAND: Mr. Chairman, the fact is that we have been in competition with other suppliers in Manitoba. We are having discussions with those suppliers at the moment to ensure that that competition is there and equitable from all aspects, and also whether MTS should continue in that market sector.

MR. D. ORCHARD: Is this another area of separate accounting so that you keep close track of your - I'll use your words, Mr. Holland - is this one of these competitive services that he has handled in this accounting method that each competitive service is developed on the basis of a business case in which all associated costs are taken into account and carefully tracked? Does that apply to closed-circuit television?

MR. G. HOLLAND: Yes.

MR. D. ORCHARD: Then I guess a final couple of questions. Is MTS a distributor for any particular line

of equipment in closed-circuit television, what's the investment in providing that service, and has it been a net contributor to Telephone System revenues?

MR. G. HOLLAND: Mr. Chairman, I don't have those figures here. I would have to obtain them and provide them to Mr. Orchard.

MR. D. ORCHARD: I would appreciate it if Mr. Holland could provide that information. I might just get reorganized here, Mr. Chairman.

MR. CHAIRMAN: Are there any further questions and answers that were taken as notice last time, Mr. Holland?

MR. G. HOLLAND: Mr. Chairman, there was a question as to how many employees MTS has, and at March 31, 1984, there were 4,537 employees.

MR. CHAIRMAN: Any questions on that amount? Mr. Orchard.

MR. D. ORCHARD: Just a couple on employees before we do that area. Is MTS planning on a fairly substantial summer student employment program?

MR. G. HOLLAND: Mr. Chairman, we are expecting that we'll have about 65 summer students, which is perhaps a restrained program compared with previous years.

MR. D. ORCHARD: Are any of those students under any of the - what are some of your programs? Careerstart? This is in the Provincial Government.

MR. G. HOLLAND: Mr. Chairman, I don't believe so. We do recruit our summer students through the STEP program, the Student Employment Program, which coordinates the province's employment activities.

MR. D. ORCHARD: Has MTS been striving to achieve any particular goals as an equal-opportunity employer? Have you set any objectives within the corporation?

MR. G. HOLLAND: Mr. Chairman, MTS has had a board committee on equal employment opportunities since, I believe, 1976. That committee is chaired by a member of the board, involves our personnel manager, representatives of the three unions, and management. Over the years they have analyzed data at MTS to illustrate how we compare to the community at large, but they have undertaken educational and sensitization programs throughout the system and throughout all the centres where we have staff. I believe that considerable progress has been reported to the board over that period in terms of our employment practices and internal procedures.

MR. D. ORCHARD: I appreciate that, Mr. Chairman. Thank you, Mr. Holland. I just look around the periphery of the room here and I see a predominance of one gender, and I assume these are the senior management people in the Telephone System. Possibly, in years to come - not that these gentlemen aren't very pleasant

to look at - but we might have some of the fairer sex here in senior management positions with the Telephone System over the next number of years as graduates and expertise and knowledge and ability in the engineering field, and the electronic field is certainly there with current student graduating classes which are approaching 50/50 in terms of men and women.

MR. CHAIRMAN: Mr. Doern.

MR. R. DOERN: Mr. Chairman, just a couple of questions over student employment. My impression was, as a member of the board, that there was a very small number of jobs open to students during the summer. I was just wondering if Mr. Holland could indicate how many students will be hired this summer.

MR. G. HOLLAND: Mr. Chairman, we're planning for 65.

MR. R. DOERN: And that's on a general total of how many employees right now?

MR. G. HOLLAND: 4,533 at the end of March.

MR. R. DOERN: What I fail to understand there is that obviously there are several thousand people, perhaps the overwhelming bulk who take their holidays in the summertime, and there's a pressing need and urgency for student employment. I was just wondering why that figure appears to be so low.

MR. G. HOLLAND: Mr. Chairman, vacations at MTS are very carefully managed. Over the summer months, for instance, we restrict vacations to two weeks for many of our customer service areas and departments. We do have a substantial number of term employees during the construction season in addition to the summer students; but, overall, we have certainly been practising very tight expense containment and, as I mentioned, the numbers are lower this year than in the past and I think that would be attributable to our attempts to keep the expenditures at a minimum level.

MR. R. DOERN: Would it not be the case, let's say, in the past five or ten years, that there might be several hundred students hired by MTS in the summer?

MR. G. HOLLAND: Mr. Chairman, it depends on the nature of our construction program to some considerable extent. Some years we've had programs that lend themselves to the use of students, and Mr. Doern, in particular, will recall the residential jacking program that went on for two or three years where we used students extensively. My recollection would be that typical figures would have been 130 to 200 in past years.

MR. R. DOERN: I'm sorry, I didn't hear that last sentence.

MR. G. HOLLAND: My recollection would be that prior to the last couple of years, typical figures would have been 130 to 200 students.

MR. R. DOERN: Does the corporation feel any obligation to provide positions to students, especially

at this point in time where there is a tremendous amount of unemployment among young people and people trying to pay their way through university? Is there any special effort made to hire students, or is this just a case of tightening up the corporation and, if there's anything left over, the students get the jobs and, if not, then there are no student jobs available?

MR. S. MILLER: Mr. Chairman, in response to that question, this is not just something I think Mr. Holland can answer, but it's a matter that the board looks at too. Certainly, we're aware of the fact that students need summer employment. At the same time, one should not just hire students to sit around and twiddle their thumbs. If there's no work for them, we just aren't going to hire them. Keeping in mind that we also are in a period where revenues did not drop from anticipated levels, there's been a general slow down and, as a result, the number of people who would require students just aren't there.

The reference was made to the Jacking Program, well that was ideal for summer students. You know, they could go from house to house and install jacks, but that is completed, it's done. We have nothing similar of that nature right now. If something of that nature occurred, certainly it would be used for summer employment. But to artificially simply create positions and have them filled with students I think would be unfair to the students; it would certainly be unfair to the people who use telephones, because it would have to be reflected in their rates and we are trying to live within guidelines to limit our revenue rate increases to the minimum and maintain as tight and efficient an operation as we possibly can. So that, although we share the same responsibilities as any other corporation in trying to provide summer employment, we cannot artificially make it up.

MR. R. DOERN: Mr. Chairman, my impression was, a number of months ago, that MTS's original projected summer plans were only for about 20 or 30 positions. Was that the case, that there was originally only an expectation of a couple of dozen and that has now increased to 65, or was this the original estimate?

MR. G. HOLLAND: Mr. Chairman, Mr. Doern may be thinking of last year and the year preceding when we terminated some student employment in mid-summer and I believe that worked out to the equivalent of some 30-odd students.

MR. R. DOERN: The other question I want to ask there was, it sounds as if, from the answers I'm receiving, that students are looked upon to do labour and they're undoubtedly happy to have any type of employment whatsoever. But what about people, say, who are taking degrees in management, commerce, business administration and the various engineering disciplines, in particular, does MTS hire people with that type of background in the sense of looking for new talent, because there have been a lot of resignations in recent years in the sense of the window concept and looking to retire some senior employees and so on, so we know what happens at one end, but what about a search for talent, other than giving some bright engineer a chance

to dig a hole and plant a pole, what about looking at somebody with a view to becoming an MTS electronics engineer and a possible management level employee? What is being done in that direction?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, MTS is one of the major participants in the University of Manitoba Computer Student Internship Program where they spend X months in the work scene and X months back in the classrooms. We've been involved in that program from the onset. We do very much favour the idea of having engineering students and Red River Community College students familiarize themselves with work at MTS and, hopefully, attract them at the end of the period. That has gone on for decades at MTS, but I believe the great majority of students for Summer 1984 will be in the traffic and clerical areas.

MR. R. DOERN: So, I understand then that there'll be 65-odd student openings in the summertime. Now then, what happens, again - perhaps you just answered this or part of it - in the corporation from September to May if one were to walk around head office now or visit some of the plants or areas where there are, let's say, management personnel and engineers and people who have various trades. Would one find any part-time students employed in those areas in the winter and spring?

MR. G. HOLLAND: Mr. Chairman, the Computer Student Internship Program is a year-round program. I believe that you would find a great many part-time students in the traffic area. We staff 24 hours a day, seven days a week and it can be ideal for students, so I think you would see them there. I have just been told, by the way, that there will be four students working in engineering this summer, as well.

MR. R. DOERN: How many graduates would you anticipate would be hired, say, in 1984 by MTS, do you have any sort of rough figure on that, a normal year at this point in time?

MR. G. HOLLAND: Mr. Chairman, that varies substantially from year to year but, again, my recollection is that we employed five engineers this spring, five new graduates this spring.

MR. R. DOERN: And those are all engineering graduates?

MR. G. HOLLAND: Yes.

MR. R. DOERN: And what about the business administration, commerce, etc.?

MR. G. HOLLAND: Mr. Chairman, I don't have those figures here but I can certainly obtain them and make sure Mr. Doern gets them.

MR. R. DOERN: My final question would be, if you were hiring five or 10 graduates, do they tend to be 100 percent from Manitoba universities or predominantly from Manitoba universities?

MR. G. HOLLAND: Mr. Chairman, certainly predominantly from Manitoba universities and community colleges. The only exception would be where we required a discipline that didn't exist in our own universities.

MR. R. DOERN: From Red River Community College and the other similar colleges in the province, what type of graduates come out of there that can go directly into MTS? Is there some particular trade or blue collar skills, etc., that are directly geared toward the Telephone Company or vice versa?

MR. G. HOLLAND: Mr. Chairman, they have one- and two-year programs in electrical technology and they are very well qualified and competent to work at MTS.

MR. CHAIRMAN: Do you have any further questions, Mr. Doern?

MR. R. DOERN: I think I'd like to raise one other area briefly and then I'll yield the floor to Mr. Banman.

Just a couple of questions on another topic here altogether. One of the current rages in the telephone telecommunications area is - what do we call it now? - the cordless telephone, and with the introduction of that device it looked like everybody was going to buy one and we'd be overrun with people running around with cordless telephones. I think this is probably one of the biggest sales areas, potential markets for telephone companies, so could Mr. Holland indicate what sort of sales there are in this area? Is MTS promoting this type of sale in conjunction with private sellers of telephones?

MR. G. HOLLAND: Mr. Chairman, we certainly are offering cordless telephones with very careful cautions to the customers as to the limitations of them.

The technical performance, the possibility of insecure conversations, the many engineering pitfalls, we attempt to inform our customers of. So I would say we do not aggressively market them but we do have them available for the specific situations where they're ideal, such as used car lots, boat docks and uses of that sort.

MR. R. DOERN: Are they advertised in the telephone book itself? In that section, are there photographs and promotions in the current book?

MR. G. HOLLAND: Mr. Chairman, they are included in the catalogue section.

MR. R. DOERN: Does MTS promote them in its advertising? I don't recall seeing MTS ads promoting them. But have there been ads promoting them?

MR. G. HOLLAND: I can't recall any advertising or media advertising of them, other than in the Phone Centres.

MR. R. DOERN: What is the cost of a cordless telephone to an average consumer, per month, and installation, etc., or do you purchase them?

MR. G. HOLLAND: They are all leased and the monthly lease is - \$7.95 a month is the most popular unit. There

is a more sophisticated unit that is over \$17.00. The lease of those units has been minimal.

MR. R. DOERN: But isn't there a transmitter or something that goes along with them? Are you telling me that a person can go into a store and get a cordless telephone for \$7.95 a month or is there a purchase price in addition to that for a transmitter, etc.?

MR. G. HOLLAND: Mr. Chairman, I'll have to defer to Mr. Deakin and see if he has that information.

MR. B.A. DEAKIN: The \$7.95 charge is for the full unit and that includes the transmitter.

MR. R. DOERN: \$7.95?

MR. B.A. DEAKIN: Per month.

MR. R. DOERN: In view of that, why hasn't there been a deluge of people buying these cordless phones?

MR. B.A. DEAKIN: In North America, there certainly has. In the high population areas it's a major problem. We're fortunate in Manitoba, in Winnipeg, that our population is spread out and the problem is just beginning, but it is a very high-growth market.

MR. R. DOERN: The other thing is, what is the range of these telephones, in terms of hundreds of feet or hundreds of yards?

MR. B.A. DEAKIN: Seven hundred and fifty feet.

MR. R. DOERN: I gather, as already mentioned, that one of the problems is that they can be listened in on very easily or tapped very easily.

MR. G. HOLLAND: Mr. Chairman, there are a limited number of frequencies available at this point in time, so that if your neighbour happens to get one with the same frequency, obviously he can listen to your conversations and there are even possibilities of using the neighbouring number for toll calls and so on.

MR. R. DOERN: Are you receiving complaints about - that's inference coming into those sets - are you receiving complaints that those sets are, say, interfering with television reception or that you're getting voices going through somebody's TV set, etc.?

MR. G. HOLLAND: Mr. Chairman, I'm not aware of any significant number of complaints, really, of that sort. There have been probably more maintenance requirements than were expected.

MR. R. DOERN: I have also heard that people who have car telephones - and I guess the Ministers might be familiar with this - can hear other conversations on their car telephones. Now I don't mean deliberately, but I'm told that people can be driving along and I don't know if they have their equipment set a certain way, but they hear other conversations, both ends thereon. Is that the case?

MR. G. HOLLAND: Mr. Chairman, absolutely. They are party lines, in effect. In Winnipeg, we do offer the ACT service which is private. The customer dials his own calls and it is private, but the other system, including that outside of Winnipeg, is a party line system.

MR. R. DOERN: So you have two systems, one in which you cannot overhear conversations and vice versa and one in which, as someone else is speaking and someone else is answering, you can hear that automatically on your set?

MR. G. HOLLAND: Yes, Mr. Chairman. If you tune in to the channel that he's on, you can hear.

MR. R. DOERN: Tune in and pick up the headset and listen or just have your . . . You'd have to pick up the telephone as well, put it to your ear, or you just hear it over your set?

MR. G. HOLLAND: Yes, you would have to use the channel that he is using and then listen in on your receiver.

MR. R. DOERN: What is the cost comparison of those two types of sets, two types of services in a car telephone?

MR. G. HOLLAND: Mr. Chairman, again I would have to refer to Mr. Deakin, to see if he has the details here.

MR. B.A. DEAKIN: Sorry, Mr. Chairman, I do not have that answer.

MR. R. DOERN: I mean, for example, is one twice as much or three times as much or are they comparable prices?

MR. B.A. DEAKIN: Sorry, I can't answer the question.

MR. R. DOERN: In other words, if someone says I have just bought a car telephone and I'm using it and I'm hearing conversations, people are probably listening to mine; then you can say to them that we can in all places provide you with the other type of system which is private?

MR. B. DEAKIN: The private system is only available in the City of Winnipeg. It's a dial system and it's only available in Winnipeg. Yes, it can be offered as an alternative in Winnipeg.

MR. R. DOERN: Thank you very much, Mr. Chairman.

MR. CHAIRMAN: Mr. Banman.

MR. R. BANMAN: Thank you, Mr. Chairman. I want to raise two concerns and I guess the one is sort of an ongoing one which I've had with MTS for awhile. I know the MTS has written me back and has answered my letters, I guess, promptly and I guess not to my total satisfaction, otherwise I wouldn't be here today. But I want to raise two areas of concern.

No. 1 is the amalgamation of La Broquerie into the dialing area of Steinbach. In other words amalgamating

the La Broquerie exchange with the Steinbach exchange so there wouldn't be any toll charge or you wouldn't have to go through the expense as well as the time and effort which I acknowledge is minimal to dial into the Steinbach area - the La Broquerie exchange is a relatively small one - and I guess the difficulty that I am having right now is that back in '81-82 there was some information passed on to me by the Manitoba Telephone System that there was an application before the Public Utilities Board and part of that application included the amalgamation of the La Broquerie and Steinbach exchanges.

This of course I passed on to my constituents in La Broquerie who are anxious to see this thing happen and of course it puts me, and I guess MTS, in a position now of having raised their expectations and now we are looking at a date further down to '85-86 possibly, is the last letter I had. So I would say to the Chairman as well as the Chief Executive Officer of MTS, that this is one area of concern that I do have is that we are spending - and I think my colleague from Pembina alluded to this before - we are spending substantial amounts of money, millions of dollars, on new projects and a lot of people out there find it hard then to understand why their services, the telephone system which basically was conceived to provide telephone service - how MTS can spend millions of dollars on other projects and then some of these other projects which the people really want and are willing to pay a few cents extra for, aren't happening.

So I point that out that is something that officials and the Minister in charge of MTS should take into consideration. There is that question, how come you are spending millions of dollars on other things when we're not doing the things which we want to see happen? So I throw that out and I would strongly ask the government to consider things like the La Broquerie amalgamation with the Steinbach exchange, as one of the priority items when you are looking at capital expenditures. I would just ask whether or not there isn't something that can be done in the very near future to see those two exchanges melded.

MR. G. HOLLAND: Mr. Chairman, information was provided to the member in '81-82 and as Mr. Banman will recall we had some very severe economic stress at MTS commencing in mid-1982. One of the programs that was deferred was the then EAS program so that in 1983 the only activity was Benito-Swan River and Cowan-Swan River which were completed late last year.

La Broquerie-Steinbach is on our schedule for I believe late 1986 and the timing of that is that there will be a new electronic switch installed in Steinbach preceding that which reduces the cost of, including EAS for La Broquerie, so we've combined those two projects.

MR. R. BANMAN: Well, I'm pleased to see that we're looking at a date when this will be accomplished. I guess my concern and my appeal to the powers that be is, that this be accomplished as soon as possible. As I indicated earlier, the residents of the La Broquerie and Marchand area are keenly interested in seeing this happen because there is a natural tie with Steinbach on that and I would urge the government, as well as the MTS, to move on that as soon as possible.

The other question I have is a general one. There are certain exchanges and I know Steinbach is one where, when dialing a number outside of your area - in other words a long-distance number - the equipment is not in place which allows you to dial the 0, the 1 and your number. In other words you've still got to go through the operator and I'm wondering whether or not the new equipment that was referred to earlier as being installed in 1986 will also allow that exchange to take advantage of that new technology.

MR. G. HOLLAND: Mr. Chairman, this is in Steinbach itself?

MR. R. BANMAN: That's right.

MR. G. HOLLAND: I would have to ask Mr. Gordon if he can comment on this. We do not have any in Steinbach, I take it?

MR. R. BANMAN: I don't know if I am explaining myself right, Mr. Chairman, but I think you can go up to Flin Flon or Snow Lake or one of these areas and you dial 0, for instance, if you want to reverse the charges, or charge it to your other number, and you just dial the 0 the area code and then your number if your phoning out of the province and then the operator comes on and you just say, I would like to bill this to my business number so and so or to a credit card. In Steinbach we still have to dial the 0 and then say we're making a collect call or we're billing it to another number and then have to go through the operator that way.

What's happening now - and I guess it's not a big thing but you'll find in the city now - I was up in Snow Lake - and I used that system and the operators get kind of excited at you. They say, listen you're supposed to dial the 0 and then dial your number, that's the way it's done. Then I explain, up North we haven't got those wonderful things down south and then of course they back off a little bit. So I guess what I'm asking is, when is this new innovation which the North has going to hit Steinbach and surrounding area?

MR. G. HOLLAND: 0-plus, Mr. Chairman, has not yet been extended to Steinbach and subject to Mr. Gordon's confirmation, will be with the new switching facilities in '86.

MR. R. BANMAN: One last observation, Mr. Chairman. We usually get the North complaining - and I know the Chairman will be interested in this - we usually get the North complaining that they're behind us and here's one of the instances where they're ahead of us on certain things. So next time they say they're far behind us, we'll have to use this as an example I guess.

HON. S. USKIW: I just wondered whether the Member for Steinbach is going to be ahead of the Minister of the Telephone System, the provision of that service. I just wonder where the priorities are.

MR. CHAIRMAN: The Member for Pembina, Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, one more question on the employment opportunities in Manitoba Telephone

System. Are most of the MTS facilities able to accommodate handicapped employees?

MR. G. HOLLAND: Mr. Chairman, yes, there has been an ongoing program for a number of years and all of our major buildings are now accessible, with the possible exception of Fort Rouge. I believe Corydon Avenue is accessible but in a very difficult fashion and we're hoping to improve that.

MR. D. ORCHARD: Thank you. Mr. Chairman, Mr. Holland mentioned in his opening remarks a rather intriguing sort of an announcement here under Page 12, Significant Events, a contract with General Instrument Corporation of New York for the rights to Omnitel broadband distribution technology developed for MTS in its Project IDA. Now the details provided in Mr. Holland's opening statement was that MTS received an initial payment of \$250,000.00. I remember it as being Omnitel 2 technology. Is that the same technology?

MR. G. HOLLAND: Mr. Chairman, I think Omnitel 1 was the coaxial cable technology and the Omnitel 2 was fibre optics, paired wire.

MR. D. ORCHARD: But we're talking about the same technology.

MR. G. HOLLAND: Yes.

MR. D. ORCHARD: Now, the sale involves, if I follow correctly here, a royalty of up to \$5 million. What's the royalty rate on that agreement with General Instrument?

MR. G. HOLLAND: Mr. Chairman, it is a percentage of gross sales and I will have to check that. We believe 2 percent, but I'll have to check that and confirm it.

MR. D. ORCHARD: Now, let me just follow this now and let's confirm the 2 percent later on. But if we're going to get to the maximum \$5 million, then General Instruments is going to have to sell \$250 million dollars worth - that's a ball park figure. Now the consulting contract that MTX has taken up in conjunction, I presume, with this technology sale, does that involve employees working in New York?

MR. G. HOLLAND: Mr. Chairman, it involves employees working with the company in New Jersey, I believe, and work in Winnipeg and also certain travelling with them, I believe they have worked in England and France.

MR. D. ORCHARD: That sounds like a pretty fair career path. Mr. Chairman, I'd just like to go back to the 1982 Auditor's Report. It was reported in here that in 1982 . . . Well, I suppose, the upshot of the Auditor's Report was the agreement between MTS and ISL, Interdiscom Systems Limited, the developer of Omnitel 2 and the owner of the rights, basically went into default on its debenture and the Telephone System picked up the technology and cancelled some \$684,000 worth of advances that have been made to ISL over the development period. One of the other stipulations on MTS's acquiring of this technology was that MTS had

to enter into an agreement with Nabu Manufacturing Corporation respecting the use of Omnitel 2. That kind of an agreement was entered into on July 5, 1982 and MTS entered into an agreement with Nabu authorizing the use of Omnitel 2 system, and Nabu agreed to grant MTS a purchase credit of up to 5 percent on certain equipment purchased from Nabu, and to pay a 1 percent royalty on equipment manufactured by Nabu using the Omnitel 2 system, together with an unspecified royalty on new equipment developed jointly by MTS and Nabu. This agreement is in effect for 10 years or until the purchase credits accumulate to 685,000, whichever occurs first, etc. Now, the technology of Omnitel 2 system that was basically farmed out to Nabu, is that the same technology that's now being sold to General Instrument?

MR. G. HOLLAND: Mr. Chairman, yes, it is a non-exclusive granting of rights.

MR. D. ORCHARD: Could you explain that to me, the non-exclusive granting of rights?

MR. G. HOLLAND: Well, the agreement with General Instruments recognizes the rights that were previously granted to Nabu.

MR. D. ORCHARD: In recognizing those rights, does General Instrument have to pay Nabu any royalties or any initial payments now that MTS has entered into this agreement?

MR. G. HOLLAND: Mr. Chairman, no, the arrangements are between GI and MTS.

MR. D. ORCHARD: Okay. Now, in the agreement that you've entered into with Nabu, you've got the ability to establish up to 5 percent purchase credits up to 685,000 at a rate of 5 percent, has there been any equipment purchased from Nabu to partake of that 5 percent purchase credit?

MR. G. HOLLAND: Mr. Chairman, not to my knowledge. The Nabu systems are really just coming out at this moment and I believe we're just getting systems for testing. May I ask Mr. Anderson to comment on that, Mr. Chairman.

MR. S. ANDERSON: Mr. Chairman, we do purchase Nabu terminals for use on our paired network and part of the agreement was to get a credit or a saving through the purchase of those terminals.

MR. D. ORCHARD: So then there has been some purchasing, not necessarily up anywhere close to retiring the 685,000?

MR. S. ANDERSON: No, not very much.

MR. D. ORCHARD: Now, it also mentioned in here that you had an unspecified royalty agreement with Nabu on new equipment developed jointly by MTS and Nabu, has the Telephone System put any funds into joint RND Projects with Nabu?

MR. S. ANDERSON: No, Mr. Chairman.

MR. D. ORCHARD: The General Instrument agreement involves a second farmout - am I safe in using those terms - a second farmout of the Omnitel technology, the first one to Nabu, the second one to General Instrument. If the technology is developed, are any of those farmouts contingent on getting manufacturing capacity in Manitoba?

MR. S. ANDERSON: No, Mr. Chairman.

MR. D. ORCHARD: Okay. Obviously - or is it obviously? - now that a corporation like General Instrument is interested in the technology, it would seem as if it might be going somewhere. Would that be a fair assessment?

MR. S. ANDERSON: That's possible, Mr. Chairman.

MR. D. ORCHARD: I suppose, in the world of electronics, \$250,000 is really not very much up-front money for technology when you're talking multimillion dollar sales. What I am trying to get at is should we be getting excited about MTS reaping \$5 million out of the technology developed in IDA?

MR. S. ANDERSON: Mr. Chairman, I don't like the word "excited." I think we negotiated an agreement with General Instrument who saw merit in the technology and a potential market for it in various parts of the world, and we negotiated what we could. IDA stood on its own rights, the money we spent on the project in Manitoba, so we felt whatever we got in addition to what we had spent to recover that, we took what we got.

MR. D. ORCHARD: Well, it certainly goes towards the \$685,000 of debenture, that's for sure. Okay, thank you, Mr. Chairman. I've got to thumb through my notes here again if you'll be patient to bear with me.

I hear, Mr. Chairman, that there may be another change in our government telephone number. I hope that's pure speculation. The speculation that I heard is that it's going from 944 to 945. Can anyone confirm or deny that?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, yes, there will be a number change for a large quantity of numbers. There will be the one-digit change.

MR. D. ORCHARD: I hope you, Mr. Minister, have built this into the deficit of the government with all the business cards, letterheads and everything that are going to have to be changed by one digit because we're now - why do we have to go to a one-digit change?

MR. G. HOLLAND: First of all, Mr. Chairman, we've been working very closely with the Department of Government Services for some time and making sure that there was at least one-year advance notice. It will be coincident with the June directories and blue pages, and we're hoping a minimum of inconvenience. The reason for the change was to assure sufficient capacity for the province's needs on the new DMS Centrex equipment.

MR. D. ORCHARD: Well, we've just seen the government go through a phase of acute, protracted reprioritization, Mr. Holland, where there are fewer staff. Now we're going to change our exchange number again, the second time in about two or three - I understand the rationality on the first one. We brought the Provincial Government telephone system under Centrex, if my memory serves me correctly, but at that time I thought the 944 was going to be something that would be government number ad infinitum. There was no technical way of expanding the 944; we had to go to a number change?

MR. G. HOLLAND: Mr. Chairman, this is an example of a very good expense management because there are substantial savings to the province in this conversion. I would have to ask Mr. Deakin if he has any more technical information as to the reasons, but it was simply that. It was to assure capacity on the DMS switch to serve the province city-wide and, I believe, to add the potential of four-digit dialing outside of Winnipeg, that is to all of the provincial offices throughout the province. The advantages and disadvantages were weighed very carefully and it was decided that the change should be made.

MR. D. ORCHARD: Thank you, Mr. Holland. The Telephone System has been concerned about fraudulent third-number billing and have implemented a system of checks on that third number billing. It's my understanding, come June 1st, that there will be no third number billing unless the billed number can confirm the legitimacy of that request for third number billing. Is that correct?

MR. G. HOLLAND: Yes, Mr. Chairman. It is not only MTS; it is all of the Canadian telephone companies that are concerned and they're taking similar action.

MR. D. ORCHARD: Okay, then, would a system that has been suggested such as the credit card - I'm asking from a personal standpoint and this would be to the Minister. I use that third number billing quite often and it's often in the evening when, of course, my legislative number is not able to be confirmed. Will we be following up with credit cards to MLAs to bill to their office numbers, Mr. Minister?

MR. CHAIRMAN: Mr. Uskiw.

HON. S. USKIW: Mr. Chairman, I am not aware of what we are doing in that respect. I presume it presents some problem, but I'm not sure what the solution is.

MR. G. HOLLAND: Mr. Chairman, we're certainly advocating the use of calling cards. We will be checking with the Department of Government Services on the arrangements there for MLAs.

MR. D. ORCHARD: Okay, I appreciate that. Now, under credit cards, is there fraudulent use of the credit card?

MR. G. HOLLAND: Mr. Chairman, yes, there have been extensive examples of fraudulent use. Early this year, a new accounting system with personal identification

systems was built in and then the cards were all reissued in Canada and the U.S. That will permit much closer credit verification.

MR. D. ORCHARD: What was the Manitoba Telephone System's loss under fraudulent credit card use?

MR. G. HOLLAND: Mr. Chairman, I will have to undertake to try and get some estimates of that. The impact, of course, on Telecom Canada revenue would also impact MTS and I'm not certain whether we have that calculation. I'll check and get that information back.

Mr. Chairman, the other thing that I should have mentioned is that the third-party calling curtailment on June 1st applies only to coin telephones.

MR. D. ORCHARD: So if I used third-party billing from some place in Morden, as long as it's a private telephone, I should be all right?

MR. G. HOLLAND: Yes.

MR. D. ORCHARD: 24 hours a day?

A MEMBER: It's only the pay phones.

MR. D. ORCHARD: That's encouraging. We might not need those credit cards, Mr. Minister.

Now, this is a complaint that has come to my attention from a number of constituents. In rural telephones, we don't have the automatic number identification or the operator intercept that Snow Lake and Flin Flon has. When we dial long distance we have to wait for an operator to come on and ask for the number that we're dialing from.

I have had phone calls from quite disgusted constituents who have waited through 76 rings of, I assume, the number which calls the operator to come on to take their own phone number to allow the call to go through. I know I've had it happen to me on a number of occasions where - I've never got up to 76 - but I have been less than gentle with my telephone in putting it down and giving up in disgust and trying again in another few minutes and then you'll maybe round somebody up.

Has there been a reduction in operator staffing that are responsible for that long distance intercept?

MR. G. HOLLAND: The answer to that is no, Mr. Chairman. The staffing in the traffic department is rather automatic, according to the call volumes that are projected. That should be a very unusual situation.

MR. D. ORCHARD: Well, should be in reality sometimes are divergent in that case, because over the last year, I have to say that I've received a number of phone calls on that and, in my own use of the telephone, it may be my imagination because one tends to get paranoid with a change of government that everything goes to hell and maybe you're just looking at things from a different perspective.

HON. S. USKIW: We know what happened in '77.

MR. D. ORCHARD: No, no, the service improved in 1977. At any rate, the problem looks like it's getting

worse. I never had phone calls except in the last year, and Mr. Holland assures me that the staff is not down. Is it that the volume of long-distance calling is up substantially in rural Manitoba and the demand for . . . Would that have anything to do with the lack of intercept capacity?

MR. G. HOLLAND: Mr. Chairman, statistically, our advertised . . . very very closely. There can be times of day when there's a surge in calls that are not expected. Certainly, calling within Manitoba is increasing at a fairly steady rate, but that is included in the projections of calling volumes and staffing.

I will, if Mr. Orchard will identify the exchanges where the complaints have arisen, I can give you, the last six months, the statistics on answer times and compare those with other centres in the province.

MR. D. ORCHARD: It's from the 242 exchange that the majority of the calls came from and I think, 744 as well, that's Somerset and Manitou.

To put a question to you then, Mr. Holland, if a customer runs into that kind of a circumstance, what should he do other than phoning me? Should that telephone customer get a hold of the Zenith operator or someone else and report the complaint, to see if he can get a reply immediately?

MR. G. HOLLAND: It should be reported immediately to Eastern Region Management, Mr. Axford, and I believe you would have his direct number. He would be very interested in that happening.

MR. D. ORCHARD: Okay, I shall pass his phone number on.

Mr. Holland, when new subdivisions are going in and underground services are being installed for telephone and for hydro, does MTS and Manitoba Hydro get together and use the same trench for both services and eliminate the servicing costs to subdivisions?

MR. G. HOLLAND: Mr. Chairman, in all underground conduits and ducts and planning and so on, there is an inter-utility committee of Hydro, Telephones and the Gas Companies. I would say that their planning is very well-known to each other and co-operatively done. Does that answer Mr. Orchard's question?

MR. D. ORCHARD: Does that mean they do particularly Hydro and Telephone - because of course with the Gas Company, that's not a Crown corporation per se - but does Telephone and Hydro make an effort to plough down the same cable? Is that a normal practice that we can expect?

MR. G. HOLLAND: Mr. Chairman, they certainly know each other's plans and do co-operate extremely well. My only hesitancy is that we are becoming more and more reluctant to combine . . . distribution equipment next to electrical distribution because of the interference problems, so we would not always be ploughing cable together.

MR. D. ORCHARD: Maybe it's technically not possible to do and if that's the case, well so be it. But there is

a new subdivision going in, in Morden and the developer has pointed out to me a problem that he's experiencing between the Telephone System and Hydro in that Telephone, of course, wants to be in the back - where the back lane would ordinarily be, there's no back lane - and then service houses from both directions. Hydro wants to be up front and they're not getting together and then, quite frankly, I think Telephone's position is the wise one, but Hydro's got this problem with having to have transformers or something.

At any rate, they've been scrapping with each other for a little bit of time and what it's going to end up as is, that if they don't agree or they can't agree, between the installation of these services in one trench, then the costs are going to almost double for the service. The person that's affected is not Hydro or Telephone or the developer, it's the family that buys the lot and builds the house; it's going to be built into the price of the lot.

So I guess, as a suggestion to Mr. Uskiw, that might be something that the two Ministers responsible for the Crown corps. might get together and try to resolve because it looks like the engineering staff of the two corps. are having a bit of trouble getting along and agreeing to a common purpose on that. I think it would be a common purpose, barring technical difficulties, that would be economic to the consumer of serviced lots in Manitoba.

MR. G. HOLLAND: Mr. Chairman, certainly there are years and years of effective co-operation between the utilities in this planning and, certainly in the new subdivisions, normally there is common cable burial. You've heightened our interest in the situation in Morden and we'll look into that and let you know the situation.

MR. D. ORCHARD: I appreciate that. Thank you.

MR. CHAIRMAN: Mr. Malinowski.

MR. D. MALINOWSKI: I would like to ask, Mr. Chairman, what will the procedure be right now rather what will the procedure be with respect to charging that third party? I'm talking about long distance. Suppose if I'm calling from one party and I would like to call collect to my office. The third party, what is the procedure now?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, if you're using a coin telephone and asking that your call be charged to a third number - that is you're not using cash and you're not using a credit card at the coin telephone - the operator will check with that third party to whom you wish to bill the account and if they authorize it your call will be put through. If it is not authorized, or if they can't raise someone at that number, the call will not be processed after June 1.

MR. D. MALINOWSKI: How might it happen to get authorization if I am not in my office and I am charging it to my office; who will authorize that?

MR. G. HOLLAND: Well if you're using other than a pay telephone or a coin telephone, there's no change

there in the handling. Otherwise, you should have an MTS calling card and give the operator your calling card number and then it will be charged to that number.

MR. D. MALINOWSKI: So it means if I would be calling from a private line it's okay, but not from a public line. I see. Okay, thank you.

MR. D. ORCHARD: Mr. Chairman, when the Telephone System undertakes construction programs they invite tenders from private sector contractors to undertake different functions for the corporations, such as, trenching, etc., etc. I would like to ask Mr. Holland if, in deciding the contractor, and I'm not getting into the 5 percent Manitoba business preferential that you've exercised in past years, but dealing simply with contractors within Manitoba, is price then the only consideration providing that each contractor is providing the required equipment and the required service? In this case I'm referring to trenching, backhoe services where apparently the Telephone System has a 750 hour guarantee to backhoe or trenching operators and you've got a number of them working for you. Is the only consideration price on this?

MR. G. HOLLAND: Mr. Chairman, this would be contracting for equipment and manpower for the construction program. The only consideration there would be price, unless there's a record of non-performance or inadequate performance in the past; it would be price.

MR. D. ORCHARD: Okay. In deciding who is awarded the tender, does the purchasing department - and I am making an assumption that purchasing would be the one's that would look at the various bids and decide which are the lowest and going to be accepted - do they have any co-ordination, liaison with the construction crew people, particularly the foremen in the field who have worked with these contractors. Do they consult with them to recommendations as to ability of the contractor, etc.?

MR. G. HOLLAND: Mr. Chairman, it is handled through the purchasing department as far as obtaining tenders and quotations, but the review and acceptance of the contracts is checked very carefully with our operations management. Whether it would go to the level of management out in the field or whether it be senior departmental management, I can't answer, but certainly they are very involved in the review of the tenders.

MR. D. ORCHARD: Well, I'm posing this question because, once again, I had a phone call. The fellow wasn't bitter or anything, but he was bidding on a 750-hour backhoe contract. I'll lay his story out for you and I'll give his name afterwards so you can check it out with him, I don't want to make him a public figure.

He indicates to me that he's been working with MTS for 16 years on this similar kind of contracting and has been a successful operator. This spring - the contracts were awarded about two or three months ago - he bid \$40 per hour on this 750-hour contract and it was awarded to another contractor at \$39.90. Apparently this contractor who had got the award was brand new

to the business or not in it very long, he didn't have the experience record that this chap had and the foreman of the crew - I'm only repeating this because this is what the chap told me - said that they were disappointed he didn't get it because they can lose the \$75 - the 10 cents an hour in the first day the guy operates if he happens to smack a cable or maybe not work as quickly, they can drop that \$75 in two hours. The suggestion I was making is that when we're talking only \$75, I think this fellow - unless his story is not correct, and I am assuming it is - probably would have got the nod from the construction foreman that he was worth 10 cents an hour more or \$75 over the length of the contract more.

I would just ask if, and I'll leave the chaps name with Mr. Holland afterwards so he can check the details, that in future years, if there is that very small margin of difference between competing contractors, that maybe some liaison should formerly be established with the field foreman who will possibly make different decisions than the straight economic ones that the Finance Department must make?

MR. G. HOLLAND: Well, Mr. Chairman, I would certainly believe that situation could occur because the experienced contractor would have been working with our staff and experienced and would be quite affected. These tenders are very very competitive. In fairness in our tendering process, we would have to signal if other than price is going to be taken into account. Obviously we would have the severe difficulty of explaining to the low bidder in this case why he didn't get the work. So, I believe, our inclination has been without very good reason to always take the low tender.

MR. D. ORCHARD: Mr. Chairman, not that I want to disagree with the general manager, but I think your tenders all read the lowest or any bid not necessarily accepted, No. 1. I think, originally when I started questioning you on this, you indicated that you did check to see the performance - whether performance was inferior etc., etc. I believe that you've probably got your methods of going beyond the simple acceptance of low bidder and in fact are doing it now, as board policy where you allow a 5 percent differential for a Manitoba supplier over an out-of-province supplier.

So I offer those observations and I'll speak to Mr. Holland afterwards and leave the gentleman's name.

Mr. Chairman, in going directly to the financial report or financial statement of the corporation. In taking a

look between 1982 and 1983, we will find under Operating Expenses that, in general, most of them aren't increasing beyond a given range. Maintenance is up 6.4 percent; depreciation is 10.2, which is solely reflective of the investment that you make each year; traffic is up 5.7 percent. The exception is in the commercial and marketing where it's up 13.4 percent.

Is commercial and marketing primarily the salaried cost of the staff involved in promoting? Is that why there is an almost double, yes, indeed double the cost there over such things as maintenance and traffic, double the increase in expense?

MR. G. HOLLAND: Mr. Chairman, those costs would be primarily personnel costs. Again, I would have to get an analysis of that increase. We have purchased a new software package in commercial department and I'm not sure whether it's in this figure or not. I would have to do an analysis of the budget and explain that.

MR. D. ORCHARD: Now the increase for rates that you're making, that's before the Public Utility Board right now, what's the general percentage of increase that you expect in that? Is 2 percent correct?

MR. G. HOLLAND: Mr. Chairman, we expect to get an increase of some \$6.4 million, and our annual revenues are now over \$300 million. So on that basis it would be about 2 percent.

MR. CHAIRMAN: Order please. The hour is 12:30, the normal hour of adjournment. What's the will of the committee?

Mr. Uskiw.

HON. S. USKIW: Mr. Chairman, I presume we reconvene at the call of the Chair.

MR. D. ORCHARD: I think maybe we might need to go for at least another hour or so at another day, and what I would like to get into is the operations of MTX the next time we meet. That would be about the only topic of major interest I'd have to cover at that time.

MR. CHAIRMAN: Very well, then, the next meeting of this committee will be announced by the House Leader in the House, the time and place.

In the meantime, committee rise.

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