

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES
Tuesday, 7 May, 1985

TIME - 10:00 a.m.

LOCATION - Winnipeg, Manitoba

CHAIRMAN - Mr. C. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Mackling
Messrs. Enns, Fox, Ms. Phillips, Messrs. Santos,
Scott

APPEARING: Mr. Gordon W. Holland, General Manager
and Chief Executive Officer
Mr. Barry Deakin, Director - Marketing
Mr. Barry Gordon, Director - Engineering and
Corporate Information Systems
Mr. Maurice J. Provencher, Director - Finance

MATTERS UNDER DISCUSSION:

1983-84 Annual Report of the Manitoba
Telephone System

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MR. CHAIRMAN: Committee, please come to order. We are considering the Report of the Manitoba Telephone System. We have agreed to consider the report in its entirety, asking general questions and then passing the whole report in its entirety.

The Member for Virden.

MR. H. GRAHAM: Thank you, Mr. Chairman.

Last week when we last met, just before the committee rose, I brought before the committee a Christmas promotion of the Manitoba Telephone System urging all Manitobans who have telephone bills to take part in a Christmas sweepstake which would be the lucky winner - and I presume that we'll have the answer now - won a sweepstake, an all-expense trip to California for up to 10 members of the family. They also received \$5,000 in cash in U.S. funds. The General Manager of Manitoba Telephone promised to bring us the name of the winner this morning.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, the Family Reunion Sweepstakes was sponsored by Telecom Canada and offered two prizes, each consisting of \$5,000 U.S. in travellers cheques, plus Air Canada flights for up to 10 people to Los Angeles, California.

One of the prizes was won by Mr. Don Nimetz of Winnipeg and the other prize went to Mrs. Patsy MacLean of St. Albert, Alberta.

Telecom Canada's share of costs was \$125,000, all of which was devoted to advertising and the MTS share

was \$5,625.00. Kodak participated in the promotion by purchasing long distance gift certificates awarded with each sale of a specified camera and a contest entry form was also handed out. The purpose of the promotion was to encourage optional residential long distance calling and, of course, the sale of Kodak products.

MR. H. GRAHAM: Can we get a copy of all the promotional material that was put forward on that program?

MR. CHAIRMAN: Mr. Minister.

HON. A. MACKLING: I'm sure that there are probably copies of that material available and would certainly supply it, but it is all materials in the public domain and I'm wondering whether you want to put the corporation to the expense of getting all that and sending it to you. Is it really necessary?

MR. H. GRAHAM: Well, Mr. Chairman, the only part that was brought to my attention was an envelope in which you paid your monthly telephone bill and it had on the back the promotion of the sweepstakes, and there was no indication at that time on that particular piece which indicated it was anything other than the Manitoba Telephone System promotion. I was unaware of Kodak being involved in it or anything of that nature.

So perhaps it might be worthwhile to look at the advertising to see if what I thought was purely an MTS promotion, in fact, turned out to be much more than just MTS.

MR. G. HOLLAND: Mr. Chairman, I'm sure we can obtain copies of the print material that was used which would describe the terms and conditions for the contest and I'm sure that would be available.

MR. CHAIRMAN: The Member for Pembina.

MR. D. ORCHARD: Thank you, Mr. Chairman. Mr. Holland undertook to provide a breakdown of the employee complement in MTS, permanent versus term, and/or contract. Is that information available this morning?

MR. G. HOLLAND: Mr. Chairman, as at April 26, 1985, the MTS staff complement was broken down as regular full-time, 4,146; term, 208; part-time, 368; and contract, 17. The total was 4,739.

MR. D. ORCHARD: Mr. Chairman, is there any particular waiting within the system of the term and the contract employees; i.e., are there more term and contract employees in what would be called management levels at MTS, or are they spread throughout the system in a rough equivalency to the type of employee throughout the system, in other words, management versus other categories of staff?

MR. G. HOLLAND: Mr. Chairman, the contract employees would be primarily in the management, supervisory and specialist categories. Contracts are used for a specific undertaking for a specific period normally.

MR. D. ORCHARD: Mr. Chairman, are some of the contract people involved with MTX and related operations?

MR. G. HOLLAND: These are MTS employees only.

MR. D. ORCHARD: And not people on contract who would be seconded to MTX then?

MR. G. HOLLAND: I would have to check to make certain that all or part of the contract people are totally MTS, but I will undertake to check that. My belief at the moment is that these are all MTS contract employees.

MR. D. ORCHARD: I appreciate that, although MTS does have various agreements in terms of supplying staff and management expertise to MTX and its affiliated companies. The answer I am looking for is whether any of these contract employees are on contract with MTS and have been seconded or placed with MTX and its related affiliate operations.

MR. G. HOLLAND: Mr. Chairman, I'm informed that only regular full-time MTS employees are under contract to MTX, although MTX itself has two contract employees.

MR. D. ORCHARD: Mr. Chairman, does the same apply to the term employee category?

HON. A. MACKLING: In other words, are they involved with MTX?

MR. D. ORCHARD: No, no, are they primarily in management, or are they spread in roughly equivalent numbers throughout the system as your employee categories are?

MR. G. HOLLAND: Mr. Chairman, Maurice Provencher is more familiar with the MTX procedures than I.

HON. A. MACKLING: I took it that the Member for Pembina's question was relating to the distribution of the term employees, nothing to do with MTX, the distribution within MTS. Are they primarily management or distributed throughout the corporation?

MR. CHAIRMAN: Is that what the Member for Pembina was asking?
Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, I think that I would have to get an analysis to answer that accurately.

MR. D. ORCHARD: That's fine, Mr. Chairman, that will do. Provide it at a later date, that will be just fine.

Mr. Chairman, the Minister undertook to check out the details of a tender by Energy and Mines which

specified Midland Radios. The indication I made was that Midland Radios were under the exclusive distribution in Manitoba by MTS. Does the Minister have any further information in that regard?

HON. A. MACKLING: The answer is, no; I haven't received that information.

MR. D. ORCHARD: Mr. Chairman, the MTS recently through product development, circulated to at least some businesses - I don't know how wide the circulation was - but basically the questionnaire was asking for customer profiles.

I'll read the letter into the record. "The Manitoba Telephone System is in the process of developing a data base of our small business customers. The purpose of this data base is to provide immediate access to your company profile when speaking with you over the telephone or in person at our business centre. To ensure that we have accurate information about your company please complete the enclosed questionnaire and return to our office at your earliest convenience.

"Thanking you in advance for your co-operation, Bill Scurfield, Product Development."

That letter went out December 18, 1984. Could the general manager indicate how wide a circulation the letter had? Did that letter go to every small business telephone customer in Manitoba, or was it by a certain select group? What was the circulation of the letter?

MR. G. HOLLAND: Mr. Chairman, perhaps Barry Deakin could comment on that.

MR. CHAIRMAN: Mr. Deakin.

MR. B. DEAKIN: Thank you, Mr. Chairman. That was sent out to 8,000 medium-sized businesses that were going to be serviced through the Business Centre, and that would allow us to service these customers better by being more familiar with their needs.

MR. D. ORCHARD: Mr. Chairman, of the 8,000 that went out, how many returns to date has the system received?

MR. B. DEAKIN: I do not have that information; we could obtain it, though.

MR. D. ORCHARD: That would be appreciated. Mr. Chairman, I guess I have to reiterate some of my traditional concerns here, that in the competitive retailing business - and I presume this is where some of these customer profiles will be of interest - that once again the telephone system is able, from its monopolistic position, if replied to on a voluntary basis, to develop an information file on the small business community in Manitoba, which is an information file which is not available to any other competitive supplier of retail services in the province.

As a matter of fact, I am not so certain that the government might be concerned about the nature and the use of information so collected if it was collected by someone in the private sector. They might have some concerns as to what the nature of the request was.

But, Mr. Chairman, I am not as much concerned about that as to what the system may well use this kind of

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customer profile for, because we have discussed this issue, not only in this committee consideration, but previously, as to the impact and the extent of competition that the Manitoba Telephone System now represents to the private sector who are offering similar retail product services and communication services to the business community.

This seems to me to be one more instance where MTS is attempting to make sure that it has a dominant position and a superior competitive position to those small business customers, and an advantage that they themselves could not muster.

I suppose that, once again, this whole customer survey, no doubt, cost the system some money to undertake, to compile and to put into a data base. Once again, the question is quite relevant as to whether the costs of this customer survey are included as an expense charged toward the enterprise accounting system whereby we determine whether the system is indeed contributing net revenue through their competitive retailing services.

I wonder if the general manager might be able to answer whether the costs of this survey are accounted to the various retailing sectors that are in competition with private suppliers.

MR. G. HOLLAND: Mr. Chairman, first of all, all of our business customers are identified in the various directories that MTS publishes, including the yellow pages. This project is intended to enhance communications with the thousands of medium sized and smaller business customers.

What we are attempting to do is to enhance our ability to respond quickly and with accurate information at hand and also to provide those customers with individuals within MTS who are charged with prompt management of their service requests.

MR. D. ORCHARD: That's exactly the concern I had. Now would the cost be accounted towards the competitive retailing sector? Presumably, with this being a Crown corporation and theoretically government, would that information compiled on the customer base be available to one of your competitors who might be offering competing services?

MR. G. HOLLAND: Mr. Chairman, again, this has to do with our basic telecommunications services to the customers, so the expenses would be charged against our general expenses, particularly our commercial and marketing departments.

The business centre has been operative since September of '84 and we are reviewing the results of those first few months of operations. We will be establishing guidelines and business procedures for the business centre, but that has not been done to this point.

MR. D. ORCHARD: Mr. Chairman, to move on to another topic. The fibre optic trunk to Brandon that the general manager made reference to in his opening statement, is it fair to assume that all the circuits that are currently in place, the microwave, land lines, including the coaxial cable, are at or approaching capacity, and necessitated the fibre optic connection to increase capacity between Brandon and Winnipeg?

MR. G. HOLLAND: Mr. Chairman, may I ask Barry Gordon, director of engineering, to respond to those questions?

MR. CHAIRMAN: Mr. Gordon.

MR. B. GORDON: Well, Mr. Chairman, the fibre optic system that was referred to in the general manager's opening remarks is primarily to replace an aging microwave system that has become very difficult to maintain, very expensive, and is incapable of growing to meet the traffic demands for primarily intra-provincial traffic. So the prove-in of that fibre system was done on the basis of the replacement of an existing microwave system. It does, however, accommodate a substantial amount of growth due to the nature of the fibre optic's technology.

MR. D. ORCHARD: And rather than me searching through the Minister's remarks, I wonder if Mr. Gordon might be able to indicate the estimated capital cost of the installation.

MR. B. GORDON: Mr. Chairman, the total estimated capital cost is approximately \$11 million; I believe it's \$10.8 million.

MR. D. ORCHARD: I found the reference in the general manager's opening remarks. Now you expect to have that completed in this calendar year, '85-'86?

MR. B. GORDON: Mr. Chairman, yes, that's correct. We plan to complete that this calendar year.

MR. D. ORCHARD: Mr. Chairman, a question to the general manager. Is the system still contracting out to private contractors by bid and tendering process various capital construction and other works of the telephone system with possible inclusion, even of the fibre optic cable installation between Brandon and Winnipeg?

MR. G. HOLLAND: Yes.

MR. D. ORCHARD: Mr. Chairman, is there any out-of-province award of tenders in the construction field by MTS primarily, for instance, to Saskatchewan contractors?

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

MR. D. ORCHARD: Mr. Chairman, could the general manager indicate whether there has been any increase in the competitive ability of, for instance, Saskatchewan contractors to be the lowest bid and receive approval to go ahead with some of these contract awards? Has there been an increase in the number of successful Saskatchewan bids over the last year or 18 months?

MR. G. HOLLAND: Mr. Chairman, subject to correction by Barry Gordon, the situation at the moment is that SaskTel has undertaken major fibre optic installations, and certain contractors have gained a good deal of experience as part of that construction; whereas, the MTS projects have been limited so that our Manitoba-

base contractors have limited experience up to this point.

MR. D. ORCHARD: So then is the general manager indicating then that Saskatchewan contractors, because of experience in Saskatchewan, are able to bid lower than Manitoba contractors for particularly fibre optic contracts?

MR. G. HOLLAND: Mr. Chairman, on the Winnipeg to Brandon fibre optic project, price and demonstrated experience and other factors were taken into account in the awarding of the contract.

MR. D. ORCHARD: Was that contract awarded to a Saskatchewan firm?

MR. G. HOLLAND: Yes.

MR. D. ORCHARD: Mr. Chairman, when the general manager indicates price and demonstrated ability, was the Saskatchewan bidder the lowest tender of all those bidding?

MR. G. HOLLAND: No, not to my recollection.

MR. D. ORCHARD: So, Mr. Chairman, then is it fair to make the assumption that this \$11 million contract which, given that I think the System is going to spend somewhere in the neighbourhood of \$120 million on capital this year, this contract represents slightly less than 10 percent of that? Is it fair for me to conclude from the general manager's answers that this major contract went out-of-province and was not the lowest tender in the ones submitted to the System? Could the Minister indicate how much of a premium the Saskatchewan contractor charged the System to undertake this installation?

MR. G. HOLLAND: Mr. Chairman, we'll undertake to provide that. Mr. Anderson or Mr. Gordon may have that information.

MR. B. GORDON: Mr. Chairman, I believe the question is with respect to the difference in factors that led us to choose the contractor that we did. The successful contractor for the Brandon-Winnipeg FOSS job was a Saskatchewan-based contractor who was not the lowest tenderer, within a few percentage points of being the lowest tenderer. However, the lowest tenderers were both from Alberta, and were given a rather poor report card by AGT. One of them had no direct experience in jobs of this nature, and the other one was not highly thought of, from a performance point of view, by AGT.

I think it's important to point out that, out of the \$11 million, this contract represents in the order of \$630,000.00. The remainder of that contract is for equipment and for the cable itself, the cable itself, for example, being supplied by Canada Wire via their local facility here in Winnipeg.

MR. D. ORCHARD: Mr. Chairman, then there were two lower bidders from Alberta; were there no Manitoba contractors bidding on this work?

MR. B. GORDON: Mr. Chairman, yes there were. There were several contracting consortia of Manitoba-based

contractors. The lowest priced Manitoba-based contractor was 35 percent higher on a cost per meter installed basis than the successful contractor.

MR. D. ORCHARD: Mr. Chairman, is one to assume that the Saskatchewan contractor has had experience in laying fibre optics?

MR. B. GORDON: Mr. Chairman, yes. This contractor has had experience with SaskTel, and substantial experience in laying fibre optic cable in SaskTel territory.

MR. D. ORCHARD: Mr. Chairman, 35 percent is significant difference between a Manitoba contractor and the chosen Saskatchewan contractor. Does that indicate - and this question I'll put to the Minister as he is responsible for government policy, not per se in awarding of this contract. But, Mr. Chairman, we have made the point on a number of occasions to the government that their policies, their taxation regime, their labour laws have driven the cost of doing business up in Manitoba to the extent that Manitoba companies can no longer compete. Here we have an example where, if the Manitoba Telephone System is going to embark upon the future wave of telecommunication: they're going to be using fibre optics, and here we have a circumstance where a Manitoba consortium of companies were unable to bid competitively, partly which may well have been their lack of experience and the unknown of working with fibre optic cables.

But to be 35 percent higher seems to demonstrate that some of the allegations that we have made on the government and its record in encouraging the private sector to compete in Manitoba are true, in that now we see a Saskatchewan firm can come in and operate in Manitoba at a substantially lower bid price than what our own Manitoba contractors can do. The Minister must surely be somewhat concerned, and must surely want to determine why it is that a Manitoba contractor is going to lose this kind of work but, more importantly, the circumstance seems that it may well be that we will be contracting out all of our fibre optic installation to Saskatchewan contractors, given this regime's, the government's anti-business taxation, labour laws and other myriad of regulation that they impose on the private sector.

Are we relegated now that the high technology wave is going to by-pass our contractors in Manitoba and go to Saskatchewan, because of this government's policies?

MR. CHAIRMAN: Will the Minister address the point

HON. A. MACKLING: I will call upon Mr. Gordon to add to the specifics of the answer that I make, but the Member for Pembina is generalizing and philosophizing in a very improper way. I just want to point out that the only difference that I think he alludes to is the Education and Health Levy which is 1.5 percent of employment, and that in no way would affect any kind of bidding in this instance. To the contrary, Saskatchewan contracts have been won by Manitoba employers in a good many instances.

What we have to be concerned about is not having a balkanization of this country, and providing for open

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ending and mobility of people that are in the contracting business, because both provinces benefit by having a healthy competitive industry.

In respect to these contracts, I understand that the MTS bought two ploughs to facilitate and enable Manitoba contractors to be involved in bidding. They certainly have encouraged Manitoba contractors in respect to the bidding, but when there is a margin of 15 percent, I don't think it is reasonable for the honourable member to be suggesting that something is wrong with our not awarding the contract to a Manitoba contractor. He implies that by suggesting that somehow our system has failed in not permitting that Manitoba-based contractor to succeed. As I point out to the contrary, there has been encouragement given to those contractors and the differences that he would like to suggest exist do not exist, because Manitoba contractors have been enabled to compete effectively elsewhere.

I would ask Mr. Gordon to comment any further in respect to any other specifics to the question that was asked.

MR. B. GORDON: Mr. Chairman, I might add that there were several other factors, in addition to the economics and in addition to the experience. This fibre cable is going at a depth of five feet and that's in response to one of the perceived vulnerabilities of fibre cable, and that is, the vulnerability to interruption through being hit with a gas company backhoe or whatever. We've never ploughed anything to five feet, and indeed these ploughs that we purchased to try and make it easier for a Manitoba-based contracting firm to be competitive are very much larger than anything we've had. The Saskatchewan-based contractor, the successful one, has had experience at those depths, so that was also a factor in it.

MR. D. ORCHARD: Mr. Chairman, I appreciate Mr. Gordon's answer, and I am not faulting the Manitoba Telephone System for choosing this contractor when he's 35 percent below the closest bid by a Manitoba based contractor. It seems even harder to justify how a Manitoba contractor could be that much higher when the telephone system themselves presumably owned the plows and the Saskatchewan contractor will be using the Manitoba Telephone System plowing equipment.

Mr. Chairman, I guess I revert back to the Minister, and I don't want the Minister to leave the impression on the record that we were recommending MTS award the contract at 35 percent premium to a Manitoba contractor. What I was pointing out to the Minister and he will attempt to avoid it because his government and himself are obviously embarrassed by the fact that Manitoba contractors can't compete. Mr. Chairman, it's not simply payroll tax; it's the heavy construction wage schedules; it's the sales tax in Manitoba; it's the corporate tax in Manitoba; it's the cost of doing business in Manitoba; property tax in Manitoba, all of which have gone sky high in the last 3.5 years with this government at the helm.

SOME HONOURABLE MEMBERS: Oh, oh!

MR. CHAIRMAN: The members will have their chance when they signify they want to speak.

MR. D. ORCHARD: Thank you, Mr. Chairman.

The Minister's argument that Manitoba contractors can compete in Saskatchewan totally reinforces what I am saying. When they no longer are shackled by this incompetent administration and its additional costs, then they can go to Saskatchewan and compete one on one in a terrain where their costs of doing business are less. Manitoba contractors can and will survive if this government, this incompetent gang, gets off their backs and that's the problem with this government.

We've pointed it out to them over three-and-a-half years and now we're starting to see the evidence of it right now in the terms that Manitoba contractors have to charge or bid 35 percent higher for comparable work that is provided by Saskatchewan contractors.

I'm not faulting the telephone system for getting the most economical contract bid. I'm faulting this government and this Minister who has been part of a regime that have driven the costs of doing business up in Manitoba so that Manitoba contractors can't even compete in their own province.

HON. A. MACKLING: Mr. Chairman, and colleagues, I think we have to resign ourselves to hearing this philosophical diatribe on a regular basis because the honourable member is taxed with a philosophy that seems to undermine his thinking on every occasion. He is not able to recognize what the Conference Board of Canada and others have said about the degree of confidence that private business has in respect to the operations of this government as it affects this economy. This province has the highest anticipated investment ratio of all provinces. Now that gives specific concrete rebuttal to all that nonsense that the honourable member splurges verbally on every occasion.

MR. CHAIRMAN: The Member for Wolseley.

MS. M. PHILLIPS: Mr. Chairperson, I'd just like to add that by pulling one specific contract out and trying to make generalities out of it, I think is distorting the issue. Every single contract that we look at, at the board level, we review for Manitoba content and time and time again Manitoba companies have been awarded the contract.

In this particular case, it was felt the Saskatchewan company had the expertise; that they had also suggested they would be hiring part of their staff to lay the fibre optic cable from Manitoba; that they wouldn't be bringing all the employees in from Saskatchewan; so we felt that we would not only be getting a very good job done, and I presume that the Member for Pembina wants to make sure, and in fact has made reference to the fact that we make wise, economic decisions.

Time and time again, he has been asking that we act in a "responsible businesslike manner." I think in this particular case we've done that as well as ensuring that some Manitobans get jobs from this particular contract. If he did an analysis of the number of contracts that we've let over the last year and the number that are to Manitoba firms, I think we would compare quite favourably and his argument that the Government of Manitoba is chasing business out of the province or not assisting Manitoba business would be revealed for the fallacious argument that it is.

MR. D. ORCHARD: Mr. Chairman, I'd appreciate receiving at a later date, that very analysis that the Member for Wolseley has just referred to. It could go back over several years to see whether the trend in successful Saskatchewan bidders is increasing.

Mr. Chairman, the Minister mentioned something about tax, that I think I've taxed the committee with my peculiar philosophical rhetoric. The only thing that's taxed in this province is the business and private sector, and that's why they can't compete any more, and that's what we're talking about this morning and, Mr. Chairman, the Minister further says that anticipated investment is to be higher in Manitoba.

We're talking about a real investment here, a real investment that has to be undertaken by a Saskatchewan contractor because Manitoba contractors for reasons I've mentioned, are unable to compete.

Now, Mr. Chairman, unless the Minister has anything further to add, I've got another couple of questions.

MR. CHAIRMAN: Let's have the other questions, unless the Minister wants to argue the point.

HON. A. MACKLING: Mr. Chairman, I accept that we have to put up with a degree of philosophic nonsense from the member and I'm resigned to that.

MR. CHAIRMAN: The Member for Pembina may proceed to other points.

MR. D. ORCHARD: Thank you. The philosophical nonsense is in the Cabinet room of this government. This credit-card Cabinet is driving business out of this province.

Now, Mr. Chairman, can the general manager indicate what the net revenue to the Telephone System is anticipated for this year and was last year from provision of cable television service?

Let me rephrase that, because I can hear the general manager thinking on this. What I'd like to know is there are two systems, the Winnipeg Cable Television System is leased back to two cable companies, can the general manager indicate the net revenue expected from that contractual arrangement?

Then secondly, can the general manager provide me with an instance of the net revenues to the system from the other agreements in the province, Westman, Thompson presumably, and the coax cable system that the MTS owns and leases, or has a contractual arrangement with Westman and other cable television providers? Can he provide me with those kinds of net revenues?

And thirdly, I believe that MTS now owns, or has owned for several years, the Valley Cablevision System in its entirety.

Could the general manager provide me with the net revenue contribution that the Valley Cable Vision system is providing to MTS?

MR. G. HOLLAND: Mr. Chairman, I had made note of Mr. Orchard's question as being the revenue projections from the recent Winnipeg agreements, and I have that information available.

For basic services the revenues, 1983-84, were \$690,000; for 1984-85, \$713,000; and projected 1985-86, \$877,000.00.

MR. D. ORCHARD: And those are net revenue figures Mr. Holland?

MR. G. HOLLAND: Mr. Chairman, there would be certain administrative costs by MTS in administering the arrangements, but those would be quite nominal.

MR. D. ORCHARD: Okay. So then we are talking about close to net revenue figures, and that's from the Winnipeg agreement.

Does the general manager have similar figures for the other out of Winnipeg cable television services which are under similar contractual arrangements to the Interlake Cable Television service, the Portage la Prairie one, the Westman Region, Thompson, and then as well as a separate, because I believe the Valley Cable Vision is on a different scope than the previous two I have mentioned, in that the Telephone System owns Valley Cable Vision as a 100 percent entity?

Do you have those kinds of net revenue contributions as well?

MR. G. HOLLAND: Mr. Chairman, we have economic analyses overall of the systems outside of Winnipeg I believe they are not done by individual licensee or operator. Would that be helpful in responding?

MR. D. ORCHARD: It would be a good starting point.

MR. G. HOLLAND: We shall undertake to provide those analyses.

MR. D. ORCHARD: Okay. I thought maybe we were going to get into them this morning.

Then could the general manager separate out the Valley Cable Vision? If my understanding is correct that is somewhat different than the ordinary licensee arrangement. Could he separate out Valley Cable Vision and provide the revenue picture for Valley Cable Vision as well, as a separate entity to the rural operators?

MR. G. HOLLAND: Mr. Chairman, yes, we will undertake to try and separate out the local distribution systems portion of the Valley Cable Vision franchise territory.

MR. D. ORCHARD: Mr. Chairman, I would like to deal now with MTS and the Saudi Arabian operations that the System has been involved in, in the last two-and-a-half to three years.

First of all, I would like to establish sort of a flow chart, if you will, to make sure that I understand the relationship of MTS with MTX and etc., etc.

Now I have drawn a rough flow chart, and I have MTS starting out as the parent company, and they own 100 percent of MTX as a wholly-owned subsidiary. From MTX, I have MTX as being a 50 percent shareholder in Saudi Arabia Datacom Ltd.

I believe in the financial notes - and I'll just have this confirmed now so we don't have to go back to it - in the financial notes of MTX Telecom Services Inc., Note 2, Investment, indicates that the investment of \$794,053 recorded at cost represents MTX's 50-percent ownership in (a) Saudi Arabia Limited Liability Company; and then in brackets afterwards, (SADL). We are talking one and the same company. In other words, Saud

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abia Datacom Ltd. is the limited liability Saudi Arabia company?

R. G. HOLLAND: Yes.

R. D. ORCHARD: Okay. Now the other 50-percent partner in Saudi Arabia Datacom Ltd., SADL, if you will, owned by Sheik Abdullah Al Bassan, I believe, and that is correct?

R. G. HOLLAND: Mr. Chairman, Al Bassan International is the name of the organization, I believe.

R. D. ORCHARD: And Al Bassan International is a wholly-owned company of Sheik Al Bassan, is my understanding?

R. G. HOLLAND: Mr. Chairman, I think I will ask Maurice Provencher if he has information along that line. I am not sure that we do.

R. CHAIRMAN: Mr. Provencher.

R. M. PROVENCHER: Al Bassan International is owned 100 percent by Sheik Abdullah Al Bassan.

R. D. ORCHARD: Sheik Abdullah Al Bassan owns 100 percent of Al Bassan International, which is a 50-percent partner in Saudi Arabia Datacom Ltd. The same individual also owns at least one other company, Al Bassan International, and I understand that he is a 100-percent owner of Al Bassan International. Is that also correct?

R. M. PROVENCHER: That's correct, that it's a 100-percent Saudi-owned company.

R. D. ORCHARD: That sort of establishes the flow patterns here.

Now, Mr. Chairman, some questions. MTX sells services and equipment to Saudi Arabia Datacom Ltd. The question is: does MTX sell directly to some of the 100-percent companies owned by Sheik Abdullah Al Bassan such as Al Bassan International?

R. M. PROVENCHER: All equipment sold by MTX in Saudi Arabia is sold to Al Bassan International; either Al Bassan Telecom or to Al Bassan Datacom.

R. D. ORCHARD: Okay. Mr. Provencher has mentioned two companies - Al Bassan Telecom, Al Bassan Datacom. Now those are distinct and separate companies from Saudi Arabia Datacom Ltd.?

R. M. PROVENCHER: Yes, they are.

R. D. ORCHARD: And MTX sells directly to Al Bassan Telecom, Al Bassan Datacom?

R. M. PROVENCHER: Yes.

R. D. ORCHARD: Does MTX also sell to SADL?

R. M. PROVENCHER: MTX does not sell telecommunications or data communications equipment

to Saudi Arabia Datacom Ltd., because only a 100 percent Saudi-owned company can import equipment into the Kingdom of Saudi Arabia.

MR. D. ORCHARD: Okay. Now, does Saudi Arabia Datacom Ltd., the 50-50 company, sell any equipment and/or services to Al Bassan International, Al Bassan Telecom, Al Bassan Datacom?

MR. M. PROVENCHER: SADL has a management contract whereby they provide insulation, commissioning and engineering services for Al Bassan Datacom.

MR. D. ORCHARD: And, as such, then does not sell them any equipment, only basically services for presumably the installation of equipment.

MR. M. PROVENCHER: That is correct.

MR. D. ORCHARD: Okay. Now there is another group of relationships within MTS, MTX, SADL and then the 100-percent-owned companies of Sheik Abdullah Al Bassan, and those are the management contracts that Mr. Provencher has just mentioned. I would like to follow the flow of those through to make sure I've got it correctly.

In the first day of consideration, a week ago today when we first considered the Annual Report of MTS, it was indicated, I believe, that MTS is providing a number of employees directly to SADL in Saudi Arabia. So that is a management and personnel arrangement that MTS, as a parent company, has directly with the 50-percent-owned company of the 100-percent-owned subsidiary, MTX. Is that correct?

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: As well, does MTX provide similar management services directly to their 50-percent-owned company SADL?

MR. M. PROVENCHER: MTX provides contract employees to SADL.

MR. D. ORCHARD: Okay. Can Mr. Provencher indicate how many contract employees MTX is providing to SADL?

MR. M. PROVENCHER: 11 at the present time.

MR. D. ORCHARD: Can Mr. Provencher indicate how many personnel that MTS is providing directly to SADL?

MR. M. PROVENCHER: These would be all MTS employees on contract to MTX, on contract to SADL.

MR. D. ORCHARD: So what we have then is not necessarily what I first described; we don't have MTS providing employees direct to SADL. Any employees that end up at SADL are channelled first through MTX and then to SADL.

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: And those are, in total, 11, so that we don't have any additional employees direct from MTS to SADL; all the 11, that's the total complement, No. 1; and No. 2, they're all provided from MTS to MTX and then to SADL.

MR. M. PROVENCHER: That's correct, but I would like to identify during the current fiscal year, 1983-84, there were only four employees under contract. The growth to 11 has just occurred within the last three or four months.

MR. D. ORCHARD: Now it's further my understanding that those - okay, I won't say those employees because I'm not sure - but it is further my understanding that SADL has entered into a - I want to find the description here, here it is - that currently SADL has an agreement in place whereby they provide management services, it's described as ". . . that certain management fees representing various administrative and other related services be charged by SADL to a division of the 50-percent-Saudi-Arabian shareholder."

Now could Mr. Provencher indicate the flow of presumably these 11 employees, or a portion of them, that are working with SADL? Can Mr. Provencher provide the company with whom they are providing these management fees and administrative services?

MR. M. PROVENCHER: All 11 employees would be in SADL but, under the terms of the contract arrangements with Datacom, seven of those employees would be on that contract to provide those management services to Al Bassan International Datacom.

MR. D. ORCHARD: And then are there any other management contracts undertaken, either by the seven that are working with Al Bassan International Datacom, or by the other four contract employees that SADL has on their staff?

MR. M. PROVENCHER: Not that I'm aware.

MR. D. ORCHARD: So then the \$746,000 of management fees charged, and that, I believe, was - it's a little difficult to follow from the notes - but management fees charged from the data of incorporation to March 31, 1984, approximated \$746,000, have been reflected in the accounts of SADL as at March 31, 1984. Now did that represent the services of seven employees at that period of time?

MR. M. PROVENCHER: Approximately four employees at that time.

MR. D. ORCHARD: Mr. Chairman, just refresh my memory for a moment. The Al Bassan International Datacom is the Saudi Arabia company which provides the AL-MURSIL service, in other words, the electronic mail service.

MR. M. PROVENCHER: Al Bassan International markets AL-MURSIL for SADL.

MR. D. ORCHARD: Is all of the investment in equipment to provide that service owned by Al Bassan International Datacom?

MR. M. PROVENCHER: No, the equipment for the electronic messaging service is in the joint venture, SADL.

MR. D. ORCHARD: Okay, Mr. Chairman, now the equipment to provide AL-MURSIL, the electronic mail service, is owned by the 50-50 company, SADL, and presumably then they would undertake a leasing service or whatever to Al Bassan International Datacom as the licensed provider of the service in Saudi Arabia?

MR. M. PROVENCHER: SADL provides the operation, maintenance and training associated with the electronic messaging service.

MR. D. ORCHARD: And wherein does the investment in that electronic mail service lie? Where is it accounted for?

MR. M. PROVENCHER: In the joint venture, SADL.

MR. D. ORCHARD: Okay. So they own the equipment and provide management services, presumably to Al Bassan International Datacom for a management fee. Is that where the management fee structure comes in?

MR. M. PROVENCHER: That's part of the management fee.

MR. D. ORCHARD: And, Mr. Chairman, could Mr. Provencher indicate what services are provided to make up the balance of the management fee?

MR. M. PROVENCHER: The balance of the fee is related to the engineering, design, installation, training and maintenance of computer and computer systems sold by Al Bassan International Datacom.

MR. D. ORCHARD: And presumably, going back to one of the original questions I posed, the computer equipment just mentioned for which the management contract provides engineering designs, presumably that equipment is sold by MTX directly to Al Bassan International Datacom or others of the 100-percent-owned companies of Sheik Abdullah Al Bassan.

MR. M. PROVENCHER: The electronic messaging equipment was imported by Al Bassan International Datacom and sold at landed cost to the joint venture SADL.

MR. D. ORCHARD: And was the seller of that equipment MTX?

MR. M. PROVENCHER: Yes.

MR. D. ORCHARD: So that doesn't answer the question on the computer end of it. Are we talking one and the same thing in terms of the computer engineering that you mentioned in an answer two answers ago, the engineering design, etc., for computer systems? Are we talking computers as required by AL-MURSIL?

MR. M. PROVENCHER: No, those are contracts relating to the installation maintenance of computer equipment

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systems sold to private firms in Saudi Arabia by Al
assan International Datacom.

MR. D. ORCHARD: Okay, and then are those computers
urchased from MTX?

MR. M. PROVENCHER: Most of the equipment is
asically relating to providing the network for computer
ommunications. The multiplexers and modems are
old by MTX to Datacom. The terminals, particularly
3M terminals, are purchased by Al Bassan International
atacom in Saudi Arabia from the IBM supplier.

MR. D. ORCHARD: Okay. So then MTX has no role
n the sale of those computers per se, only in the
ngineering and presumably the management services
nvolved in selling and installing them to Al Bassan
nternational Datacom's customers?

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: Well, Mr. Chairman, I think I'm
going to have to draw a new flow chart here. The
ands of time are ticking away.

Mr. Chairman, Mr. Provencher has indicated that -
vell, I should go back to Square One, I guess. It would
e the easiest thing to do. On February 7th, I posed
a series of questions to Mr. Holland to which he offered
a reply March 1, 1985, and provided further answers
a later date. But, as of March 1, 1985, Mr. Holland,
ou indicated that MTX had a permanent staff of two,
he president and an accountant, recently hired, and
hat there are seven additional staff on part-time
secondment to MTX from MTS's Marketing Division.
These staff support MTX business plan thrusts. Other
staff are seconded to MTX on a project-by-project basis.
Mr. Holland, you indicated the names and previous
system experience of those nine individuals.

On April 30th, when we first met on the committee,
the indication was given that there are 14 employees
involved with MTX or SADL in the System and you
indicated at that time that there would be three or four
and you were going to check to see whether it was
three or four who were providing services directly to
MTX and you indicated at a later time that 11 were
charged directly to the joint venture in Saudi Arabia.
Now that would seem to indicate that there was three
in MTX. Is it fair to say that since your letter of March
1, 1985, the MTX staff is increased by one and the
MTS staff seconded to SADL has increased from seven
to 11?

MR. M. PROVENCHER: The current complement in
MTX are four, Mr. Chairman. Since the date of that
letter, the business manager has been added as an
MTX employee and so has a clerk who is on contract.
Also, I think there is a little mixup here. The names
identified in Point 3 of the letter are providing services
in Winnipeg to MTX Telecom Services. Part of those
employees are involved in the shipping duties of
equipment to Saudi Arabia. The 11 mentioned
previously are totally seconded to Saudi Arabia and
don't reflect in the MTX statements as salaries. They
are billed back to the joint venture and are reflected
in sales, cost of sales.

MR. D. ORCHARD: Now, let me just understand what's
going on here then. In the March 1st letter, the total
of nine employees, would their salaries all be charged
then to MTX?

MR. M. PROVENCHER: Yes.

MR. D. ORCHARD: And the 11 employees that we
identified who were seconded directly to SADL, their
salary benefit package, etc., etc., would be charged
directly to SADL, the 50-50 company?

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: So then we have a total of 18
employees currently working with MTX or the 50-
percent wholly-owned company?

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: So then, on April 30th, when Mr.
Holland indicated in response to my question of
basically how many employees would have their salaries
assigned to the operations of MTX and its related
companies in Saudi Arabia, Mr. Holland's answer was
14. That should have been 18 then?

MR. M. PROVENCHER: That would be 20.

MR. D. ORCHARD: How did we get the extra two in
there then, Mr. Chairman?

MR. M. PROVENCHER: There are nine and .3 to the
letter dated March 1, 1985, plus 11 on contract to
Datacom.

MR. D. ORCHARD: I think I've got it straight now. In
the reply of March 1st that identified nine employees,
Mr. Plunkett has indicated that since that period of time
a business manager and a clerk have been added to
bring that total MTX permanent staff up to four. Then
there are in addition seven additional staff on part-
time secondment to MTX to make the total nine. It's
not working out.

MR. CHAIRMAN: Mr. Provencher may clarify.

MR. M. PROVENCHER: Maybe I can identify that. The
employee complement is the same as in Point 3 to the
letter, except the mix has changed.

MR. D. ORCHARD: Okay.

MR. M. PROVENCHER: There are four employees
directly allocated to MTX. There are five seconded.

MR. D. ORCHARD: Ah, okay. That clarifies it, Mr.
Chairman. So now we have 20 employees from the
System that are either working with MTX directly, nine
of which are doing so, plus an additional 11 that are
working and seconded to and charged to SADL for a
total of 20, and not the 14 that was identified last
Tuesday.

MR. M. PROVENCHER: That's correct. In addition to
that there are three employees that are charged to Al

Bassan International Telecom which are not related to the joint venture.

MR. D. ORCHARD: And, Mr. Chairman, presumably are not part of the management contract that was identified to March 31, 1984, in the \$746,000.00? That would be in addition to the \$746,000.00?

MR. M. PROVENCHER: These employees are billed directly to Al Bassan International Telecom by MTX, and paid for by Al Bassan International Telecom; and that firm is not related to the joint venture.

MR. D. ORCHARD: Those three employees are not part of the nine employee complement that we've identified as being seconded to MTX?

MR. M. PROVENCHER: No. Let me reiterate that. They're in addition to the nine and in addition to the 11, for a total of 23.

MR. D. ORCHARD: Now is this the final, final figure on staff that are working MTX, SADL, Al Bassan International Telecom, 23 is the final, final total?

MR. M. PROVENCHER: That's correct, with the exception of 10 that are on contract to Bell Canada International, but they are billed by MTS.

MR. D. ORCHARD: Yes, okay. That was identified last week, Tuesday.

Now I realize that some of the figures I'm going to have here are probably going to be dated, because at the time Mr. Holland responded to my questions and provided the information it was March 31, 1984, information that was provided. Now just recently, last Thursday, additional information was provided which dealt with MTX Telecom Services Incorporated - Preliminary, Subject to Audit, Statement of Income and Expenses for the 10 months ended January 31, 1985.

Now the information that Mr. Holland provided, and it could have been an error, my copy of information has a Statement of Income and Expenses, but does not have any additional information such as was provided for the end of fiscal year, 1984, i.e., the balance sheet of MTX and the statements of change in financial position for the year. What I've got in the information package that Mr. Holland gave to me last Thursday was two copies of the Statement of Income and Expenses for the 10-month period ended January 31, 1985.

Now was that in error? Are the other two statements available, unaudited and preliminary?

MR. M. PROVENCHER: We do have the balance sheet available, Mr. Chairman, but the statement of change is only prepared for year-end reports. It is not prepared on a monthly basis.

MR. D. ORCHARD: Fair enough. So you've got the balance sheet numbers, preliminary? Am I at liberty to circle certain items on this one? Okay.

Dealing first off with the Statement of Income and Retained Earnings that I received on Thursday last, a couple of things come to note right off the bat. Possibly

I shouldn't get into this statement until I could get from Mr. Provencher an idea of the - and I appreciate he may have to give me approximations - but what I would appreciate receiving is the salary costs in each category i.e., the nine that are seconded from MTS to MTX, the salary and benefit package, the cost to Saudi Arabia: Datacom of the 11, and then further the charges by MTX of the additional three System employees who are charged directly to Al Bassan International Telecom outside of the management agreement. Are those figures in approximation available?

MR. M. PROVENCHER: That would require a lot of analysis. The majority of the salaries are in cost of sales, because they're billed directly to joint venture. Some are in deferred development, and some are in salaries.

MR. D. ORCHARD: That indeed presents a bit of a problem for an analysis, all right. Okay, I'll accept that those are difficult to pull out.

Mr. Provencher, can you indicate who is on the SADI board, the 50-50 company board?

MR. M. PROVENCHER: The MTX representatives are Mr. Anderson who is the Vice-Chairman, Mr. Gordon myself. From our Saudi partner, it's Sheik Abdullah A Bassan who is the Chairman of the Board, Tariq A Bassan, and there is currently one vacancy from our Saudi partner on the board.

MR. D. ORCHARD: Does the Sheik as chairman of the board not have a vote unless it's a tie, which would be impossible with only five members on the board?

MR. M. PROVENCHER: Five members on the board is just a recent development. A further shareholder's agreement, the chairman has a casting vote in case of a tie.

MR. D. ORCHARD: The interesting thing is, if the entire board is there it would be made up of three regular voting members representing MTS-MTX, Anderson Gordon, Provencher, and only two theoretically representing the Sheik's 50-50 interest. At any given time, presumably MTS could carry the sway on the board or MTX, and the chairman would not even get into the necessity of exercising a tie-breaking vote.

MR. M. PROVENCHER: That's correct, but I think you could split the vote down the middle just by voting and then he would have the casting vote to decide which way the vote would go.

MR. D. ORCHARD: Well now, that presents an interesting scenario. Am I to assume that the chairman has regular voting privileges on all things? On all matters that come before the board, he has a vote on the regular matters, and then has the additional vote as chairman to cast any tie-breaking vote?

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: Instead of having MTS with theoretically almost the guaranteed vote to carry their

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on the board, it would appear as if the Saudis, when they fill the vacancy, would have that ability then push came to shove.

M. PROVENCHER: That's correct, and that's in accordance with Saudi law. Their Articles of Association have been structured such that they conform with Saudi companies law.

D. ORCHARD: So then the 50-50 partnership is valid and entirely workable until you get into a agreement wherein there may be a split between 50% interest and MTX interest and the Saudi partner's control, in which case the Saudi partner does have control over any decision, or could have control over decision.

M. PROVENCHER: There are other safeguards in the Articles of Association and Shareholders Agreement. Any sale of capital requires 75 percent of shares outstanding in order to carry that type of option.

D. ORCHARD: Mr. Chairman, one of the questions posed to Mr. Holland was the reimbursement of travel expenses. On April 11th the general manager provided with that information for the period of time from April 1, 1984 to December 31, 1984.

Now I can see where I was possibly in error in not asking for all board expenses, if you will, because the question was specific as to the MTX board of directors' direct expenses, and I would like to ask either Mr. Provencher or Mr. Holland if those expenses detailed the nine-month period include board expenses in relation to their duties as board members of SADL and MTX.

M. PROVENCHER: Those expenses are in relation to board duties with SADL.

D. ORCHARD: SADL, as well as MTX?

M. PROVENCHER: There would be no travel expenses in relation to their board duties with MTX. Also, Mr. Gordon is not a member of the MTX Board of Directors.

D. ORCHARD: Mr. Chairman, I've just got to read out my question was here.

What are the travel expenses which have been reimbursed to staff and board members for costs incurred in carrying out duties and responsibilities on behalf of MTX for each of the fiscal years to December 31, 1984? The answer was provided, "MTX Board of Directors' Saudi expenses."

Now unless I misunderstood Mr. Provencher's answer, the information provided on April 11th by Mr. Holland is only expenses incurred on behalf of board duties Saudi Arabia Datacom operations and not MTX?

M. PROVENCHER: The expenses in the letter are MTX nominations to the SADL board, and involved travelling expenses to attend board meetings in Aqaba, Saudi Arabia.

MR. D. ORCHARD: To carry out board duties in relationship to SADL only?

MR. M. PROVENCHER: Yes.

MR. D. ORCHARD: Then are you saying, Mr. Provencher, that there are no additional expenses incurred by board and staff members in undertaking their duties and responsibilities to MTX? That those meetings are all held in Winnipeg presumably and there are no travel costs. Is that the proper conclusion?

MR. M. PROVENCHER: The MTX board meets in Winnipeg, and there are no travelling expenses related to MTX board duties.

MR. D. ORCHARD: Okay. Now, Mr. Chairman, the general manager provided a partial answer to the question. I wonder when he might be able to provide the additional information of the travel expenses on Saudi related business. The expenses provided were for a nine-month period ending December 31, 1984.

MR. M. PROVENCHER: That analysis is drawing towards completion and I would say, within the next seven to 10 days.

MR. D. ORCHARD: Mr. Chairman, in terms of the comparison - and I realize it may not be a valid comparison because there are two more months in the unaudited, preliminary statement of MTX to get us to a comparable year-to-year comparison ending March 31, 1985. But in the preliminary figures, there are some trends appearing which I would like to ask Mr. Provencher if he anticipates they will be rectified in the last two months of accounting?

First of all, sales for the first 10 months of fiscal year '84-'85 amount to roughly \$6.8 million, an increase of some \$239,000; cost of sales, however, for that same 10 month period are \$6.6 million, roughly, an increase of \$647,000, which has contributed to the loss position that MTX is preliminarily showing for the first 10 months of operation.

Does Mr. Provencher expect that the last two months will show a return to a profitable position, or a continuation of the figures for the first 10 months, in that expenses, costs of sales, are up significantly compared to the value of sales?

MR. M. PROVENCHER: We are estimating a projected loss of \$50,000 for the fiscal year, but that does not include taking the profit associated with the work and progress on contracts with the percentage completed to the end of March. If we did that, we would have a profit.

MR. D. ORCHARD: Mr. Chairman, under the expenses of MTX Telecom, it shows for 1984 some \$56,000 in administrative salaries; this year it shows a figure, to date, for 10 months, of \$52,000.00. Presumably that will end up at somewhere in the neighbourhood of \$62,000.00.

Now, going back to our employee staff complements, \$62,000 - if I am allowed the licence to extrapolate two extra months onto the \$52,000 unaudited and

preliminary figure - that would seem to me to be slightly understated, in view of the fact that there are 9 MTS staff seconded to MTX.

Is my assumption wrong in some way, or are the staff costs allocated somewhere else within the expense structure of MTX?

MR. M. PROVENCHER: The \$52,000 just represents the president's salary. Other salaries are in cost of sales, deferred development, and work in progress.

MR. D. ORCHARD: Where does work in progress appear on the financial statements?

MR. M. PROVENCHER: It would appear on the balance sheet under Current Assets.

MR. D. ORCHARD: As accounts receivable?

MR. M. PROVENCHER: \$315,000.00.

MR. D. ORCHARD: Now, amortization of deferred development costs, I believe deferred development costs, as of March 31, 1984, were \$184,000.00. Are the deferred development costs shown in here? That's up significantly to \$404,000 and, presumably, may be higher.

Now, the question becomes, if I read the note on deferred development costs, if I can find it in the notes, deferred development cost in Note 1, MTX defers development cost to the extent that their recovery is reasonably assured, deferred development costs are amortized over the period in which revenues will be earned. Now maybe it's semantics, but MTX defers development costs to the extent that their recovery is reasonably assured.

Does that statement indicate that the \$404,000 is the total deferred development cost, or were they higher and some of them are not deemed to be recoverable, or that there is not a reasonable assurance that they will be recoverable?

MR. M. PROVENCHER: That's a net figure, Mr. Chairman. It's net of amortization of the deferred development, and that's shown in the operating expenses under Authorization of Deferred Development. For the 10 months ending January 31, 1985, that amounted to \$27,000, and for the fiscal year ending March 31, 1984, was \$40,318.00. Generally, these costs had been written off over a period of three years.

MR. D. ORCHARD: Mr. Chairman, they are the total costs. The reason I posed the question is that in the explanatory note, it says, "MTX defers development cost to the extent that the recovery is reasonably assured." So the \$404,000 represents a net of reasonably assured recoverable development costs.

My question was: Are there development costs that were undertaken which the system, MTX, viewed as not reasonably recoverable; hence, not accounted for under that line?

MR. M. PROVENCHER: No, the costs for projects that we bid on that we weren't successful would flow through the income statement as an expense or a cost of sale in the current year.

MR. D. ORCHARD: Mr. Chairman, can I ask Mr. Provencher to whom the sales of MTX are primarily made? We got into that slightly but, I can assure you I can't follow my flow chart anymore this morning. Could Mr. Provencher indicate to whom the sales, which are projected to be \$6.8 million, as of January 31, 1985 to whom are those sales made?

MR. M. PROVENCHER: Primarily to Al Bassar International, with some sales in North America for consulting projects and contracts. The sales to Saud Arabia would amount to about \$6.1 million of the total of \$6.8 million.

MR. D. ORCHARD: Now I must go back and search out my flow chart. Where in the world I put the doggone thing. Here we are. That's Al Bassar International Datacom?

MR. M. PROVENCHER: The sales to Al Bassar International Datacom were \$5.3 million of the total and to Al Bassar International Telecom \$800,000; for the total of \$6.1 million out of the \$6.8 million total sales.

MR. D. ORCHARD: So Al Bassar International Datacom was \$5.3 million of sales; \$800,000 was to Al Bassar International. Did I get that right?

MR. M. PROVENCHER: Al Bassar International Telecom.

MR. D. ORCHARD: Telecom, okay.

Now could Mr. Provencher indicate why the cost of sales are up significantly according to the preliminary statements?

MR. M. PROVENCHER: Primarily because our margin on sales to Datacom is 3 percent, and it's hardly enough to cover our administrative costs associated with shipping and administration of the purchase order function.

MR. D. ORCHARD: Is that a non-negotiable fixed markup that the System can't exceed?

MR. M. PROVENCHER: Yes, it's set in agreements. I might identify that our sales to Al Bassar International Telecom last year were in excess of 2 million and the margins were considerably higher. Those sales have decreased to 800,000 in the current year, thereby dropping down our total gross margin for the year.

MR. D. ORCHARD: Are the margins for Telecom sales likewise fixed by contract?

MR. M. PROVENCHER: No, it's a competitive environment and we're free to charge the markup that we deem appropriate in order to win that business.

MR. D. ORCHARD: What was the reason for establishing a fixed markup with Datacom which barely covers your administrative costs; that doesn't seem like a prudent business arrangement.

MR. M. PROVENCHER: The reason it was done is that the equipment was supplied to the joint venture and either partner wanted to make a profit on sales to the joint venture. The distribution comes through dividends at a later date on a 50-50 basis between Al Bassan International and MTX when the board declares dividend.

MR. D. ORCHARD: Can I make an assumption though that it is in circumstances like this that the future benefits are split, but the present costs are pretty one way? In other words, MTS is shouldering substantial portions of the upfront costs and in return receives a 50-percent share, presumably of future profits. That's very risky picture for MTX operations in that they are providing, basically, service at cost. I applaud that mandate in terms of telephone service in Manitoba; I'm not so sure I can applaud it for Saudi Arabian business people.

MR. M. PROVENCHER: I'd like to identify that the Al Bassan International Datacom that SADL is managing, you take the two enterprises together, SADL and Datacom, there are 47 employees, which means that Al Bassan International, who are presently financing 16 of those employees. Also they're providing the lines of credit for the purchasing of equipment bought in Saudi Arabia, such as, IBM p.c.'s.

MR. A. MACKLING: I just want to ask one question while Mr. Provencher is dealing with that item. Where were these purchases made? Where is the equipment purchased from, if he'd give us a breakdown on that?

MR. M. PROVENCHER: The equipment for the MTX sales to Datacom and Telecom come from MTX Telecom Services. MTX Telecom Services purchases those materials in Manitoba, Canada, and some U.S. suppliers. The equipment coming from Al Bassan International Datacom are primarily through Saudi sources of supply and through some exclusive purchase agreements which they have with some U.K. suppliers.

MR. A. MACKLING: Just one further question in respect to the MTX Telecom purchases in Canada. How much of those would be made in Manitoba?

MR. M. PROVENCHER: I don't have the figure for the current year, but since the incorporation of MTX it has been \$4 million.

MR. D. ORCHARD: Mr. Chairman, I don't want to pursue the other point too much more, I think my statement still stands in terms of economic provision. But Mr. Provencher indicated that 36 out of 47 employees' salaries are paid by Datacom, by Sheik Abdullah Al Bassan. The other 11 employees, I understood, were on contract and reimbursed as well; the MTS employees were on contract and reimbursed as well.

MR. M. PROVENCHER: That's correct, but MTX is providing the interim financing until such time as that payment is received from Saudi Arabia.

MR. D. ORCHARD: So, Mr. Chairman, the 11 people, their services, management, expertise, expenses, etc., etc., are charged to Al Bassan Datacom and will eventually be paid by Al Bassan Datacom, but currently are being covered by MTX and represent, presumably, an account receivable?

MR. M. PROVENCHER: The current portion would represent an accounts receivable, the remainder would mainly be drawn down through notes, either under the Bank of Nova Scotia line of credit or through the Royal Bank line of credit.

MR. D. ORCHARD: Now that gets us right into the accounts receivable picture. MTX currently has accounts receivable as of January 31, 1985, of \$5.8 million. Sales indicate that to date there was \$6.8 million. Are those accounts receivable all as a result of the 10 month sales of \$6.8 million?

MR. M. PROVENCHER: \$5.5 million of those accounts receivable are from Saudi Arabia, either from Datacom or Telecom. Most of them represent current year sales and will be drawn down in notes within the next 60 days.

MR. D. ORCHARD: Mr. Chairman, going to the notes which were provided with the financial statements for year end March 31, 1984, Page 3, Contingencies and Commitments, where it indicates that the company collects accounts receivable due from its Saudi Arabia major customers through the issue of bank drafts. Now these customers are responsible for repayment of the draft plus interest. At maturity terms of the draft may vary up to a period of 24 months. In the event of default these customers, the banks, have the following collateral and guarantees, first off, inventory and accounts receivable of MTX.

If I understand what's happening here, the accounts receivable of MTX are covered by bank drafts. Hence, the bank drafts once exercised represent presumably the accounts receivable that appear in the statements of MTX. That would seem to me that if the accounts receivable which are now bank drafts become uncollectible, that the security in the account receivable of MTX would not exist. So that's really not a great deal of security.

MR. M. PROVENCHER: The security basically is the net worth of Sheik Abdullah, if Sheik Abdullah accepts and guarantees the notes for payment on due date.

MR. D. ORCHARD: The Sheik has a personal guarantee to the notes? It's not through one of his companies? It's his personal guarantee on the notes?

MR. M. PROVENCHER: It's not a personal guarantee, but he has accepted them under the banking system in Saudi Arabia for payment on due date.

MR. D. ORCHARD: Okay, that's a normal business arrangement in Canada. I don't know whether Saudi Arabia is different, but I suppose there has been countless instances where a company has guaranteed the payment of a note through bank drafts or other

instruments, and the principal of that company may be an independently wealthy individual, but through circumstances the company itself could virtually have no asset value. Hence, the accounts receivable guaranteed by that company also have no value.

In Canadian law, quite often what is exercised is a personal guarantee by the independently wealthy principal shareholder of the company. That assures security of the credit extended. Does the Saudi Arabia banking system differ from that? Of course, we don't know the financial strength of Al Bassan Telecom or Al Bassan Datacom but presumably the \$5.-some million in accounts receivable secured by notes drawn on those companies or signed by those companies could, in effect, be worthless if the company doesn't have the assets to back it up. The question is whether Sheik Al Bassan personally is responsible in some manner in accordance with Saudi Arabian law for those accounts receivable.

MR. M. PROVENCHER: Basically there is no financial guarantee. It's just per the Moslem religion. Sheik Abdullah is personally responsible. Now that doesn't give us any assurance that those notes will be paid. I think what we have to do is see that there's collateral in the Al Bassan International Datacom Company that we're managing is sufficient that we can liquidate that collateral in order to pay off the obligations or there'd be a default. That primarily relates to the inventory and the resalable value of the inventory under those conditions.

MR. D. ORCHARD: That means then that MTX and hence MTS, hence Manitobans, would end up, if there was sufficient equity in Saudi Arabia Datacom - and I want to make sure I've got this right - the answer basically says that we should make sure that Saudi Arabia Datacom, the 50-percent-owned company, has sufficient resources that they could cover the default of 100-percent-owned company by Sheik Abdullah Al Bassan.

In other words, he would only end up picking up 50 percent of wholly-owned corporate losses, given sufficient resource base in the joint owned company. Is that an understanding of the answer that you gave me, Mr. Provencher?

MR. M. PROVENCHER: No, because the SADL is currently undercapitalized. That's the reason we need the level of notes that are there.

My reference primarily referred to Al Bassan International Datacom, whether or not the banks could get that inventory under the security and whether or not they could sell it anywhere near book value.

MR. D. ORCHARD: But we do have a portion. Presumably for the fiscal year, 1983-84, the management contract of \$746,000 which is employee fee, employee salaries, etc., etc., that are charged to the Saudi Arabia Datacom, that's a straight out and out non-recoverable, because right now MTS and MTX, the combination of the two, are covering that and it's on a note. So presumably, that wouldn't be recoverable at least.

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: Mr. Chairman, it boils down from the contingencies and commitments that if the accounts receivable are uncollectible, I believe they would not be security as indicated in the contingencies and commitments, that leaves a guarantee by the Province of Manitoba up to \$4 million, and I believe that's the guarantee exercised through MDC and the Bank of Nova Scotia. It also indicates that there is a guarantee by MTX of up to \$3 million.

Mr. Provencher, could you indicate by whom the guarantee is provided to MTX? What are the arrangements that MTX is able to provide the guarantee of \$3 million?

MR. M. PROVENCHER: MTS has provided the bank with a Letter of Comfort to guarantee the MTX guarantee to the Royal Bank at \$3 million.

MR. D. ORCHARD: So we've got the Province of Manitoba through MDC, with a potential exposure of \$4 million, and we have the parent company, MTS, with a potential exposure through MTX, of \$3 million.

Mr. Chairman, further in the contingencies and commitments, it indicates that the company has bank drafts outstanding including interest of \$5.559 million as of March 31, 1984.

Could Mr. Provencher indicate if that series of bank drafts plus accumulated interest have been retired, or is a portion of that still outstanding as of today?

MR. M. PROVENCHER: The notes are generally on six-month basis with the exception of three notes. The current balance on the notes as of April 30th was 4.1 million. There is only one note that exceeds September 30th. All other notes are due between now and September but during that time will also draw down more notes. So the cumulative balance should stay somewhere around the 5 million.

MR. D. ORCHARD: And the one note that was drawn out prior to September 30, 1984 is valued at how much?

MR. M. PROVENCHER: That note extends to March 1986, and it's \$421,633.64 U.S.

MR. D. ORCHARD: Mr. Chairman, in terms of going back to our employee numbers, we've got I believe 11 people who, if I recall the personnel flow, if you will are seconded from MTS to MTX and end up at Saudi Arabia Datacom. Is that correct? Okay.

Now, in the Saudi Arabian Datacom balance sheet we've got a management fee of \$1,132,000 as a revenue item, presumably. Is that correct?

MR. M. PROVENCHER: That is correct.

MR. D. ORCHARD: To whom are they providing the management services that Saudi Arabia Datacom has it appear as a revenue? They're providing that to Al Bassan Datacom presumably?

MR. M. PROVENCHER: They're providing those management services to Al Bassan International Datacom.

MR. D. ORCHARD: Mr. Chairman, is it fair to assume that the management fees of \$1,132,000 are inclusive

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of the salaries and benefits which appear as an expense of \$825,000.00?

MR. M. PROVENCHER: The \$825,000 will be part of the support services in order to earn that fee.

MR. D. ORCHARD: Okay. Then we've got part of it there, would another portion of it come under product administration expenses?

MR. M. PROVENCHER: No, that's primarily the depreciation on the electronic messaging service.

MR. D. ORCHARD: Well, what I'm trying to find is where the salaries of 11 MTS employees appears in the Saudi Arabian Datacom Ltd. income and expense statement, and which line would show the charging of those salaries?

MR. M. PROVENCHER: I believe there would only be four employees charged. The remainder of the employees then are billed to Al Bassan International Datacom and those costs would be in cost to sales.

MR. D. ORCHARD: Cost of sales as it applies to MTX?

MR. M. PROVENCHER: No, as it applies to SADL. Cost of sales are not identified in the income statement. We just show net sales, not to identify our gross margins.

MR. D. ORCHARD: Okay. Let me make sure I've got it right. That represents only four salaries charged on net sales, or 11?

MR. M. PROVENCHER: The four employees' salaries would be in salaries and benefits in the \$825,000.00. There are other employee costs, other than the four employees in that \$825,000.00.

MR. D. ORCHARD: I guess that begs the question, if the salaries and benefits of four employees comes out at \$825,000, what are the other benefit costs and other costs in there that drive four salaries up to \$825,000.00?

MR. M. PROVENCHER: It's more than four salaries. There are also Al Bassan employees in the joint venture. So the number is not four; it's much greater than four.

MR. D. ORCHARD: Mr. Chairman, that's quite an interesting diagram and flow of interaction between companies, wholly-owned, partly-owned, etc., etc., in the employee services, and I'm going to have to read this Hansard to see whether I can establish it clearly in my mind. So I would ask a couple of general questions. Is Mr. Provencher satisfied that the - if I can find the accounts receivable of MTX - no, I can't find them. — (Interjection) — That's the one I was looking for, but where is it? The accounts receivable of \$5.8 million, Mr. Provencher doesn't expect any default on those accounts receivable to MTX Telecom?

MR. M. PROVENCHER: At this present time, that's right, but it's based on current business conditions; also, the peaceful conditions that currently are in Saudi Arabia.

MR. D. ORCHARD: Then, as a business investor, which you are, what percentage of risk would you assign to those accounts receivable at this stage of the game?

MR. M. PROVENCHER: That's a difficult question to answer. I think that is based on our view of what the potential business is for the remainder of the fiscal year and for the next fiscal year and whether or not that the sales levels can be leveraged much higher than they currently are today.

MR. D. ORCHARD: When does MTX Telecom expect to pay the accounts due to MTS of \$5.773 million? Is that as they recoup their accounts receivable?

MR. M. PROVENCHER: As the notes are drawn down in order to recover the accounts receivable.

I should also mention that the level of receivables will also remain at level if our sales plans and other plans increase in Saudi Arabia, because basically what we're doing is financing about six months of accounts receivable which is the time period necessary to order the goods, ship the goods, sell the goods to the customer and collect a receivable. So the amounts due are most probably a six-month sell cycle equivalent to. I would also mention that MTX pays interest at the full current rate plus one-half of a percent to MTS. For the current year, MTS has billed MTX interest of \$471,000.00. Most of that is passed on to the Saudi Arabian operations and MTX just shows interest in its accounts just related to its other projects.

MR. D. ORCHARD: Mr. Chairman, in terms of Saudi Arabian Datacom Ltd. balance sheet, preliminary to December 31, 1984, accounts receivable trade, accounts receivable Datacom, which Datacom are we talking about, Al Bassan International Datacom?

MR. M. PROVENCHER: That's Al Bassan International Datacom, and most of that relates to the management fee that was set up at the end of the year.

MR. D. ORCHARD: In accounts payable under Current Liabilities for Saudia Arabia Datacom Ltd., accounts payable of 1.6 and notes payable of 1.9, to whom are each of those liabilities owed?

MR. M. PROVENCHER: The accounts payable is \$171,000 of that which is trade, and there is \$1,434,000 which is owing to Al Bassan Datacom, and that's for the purchase of inventory for value-added projects.

MR. D. ORCHARD: The purchase from Datacom, the 100-percent-owned Saudi Arabian company, is selling to the 50-percent-owned Saudi Arabia Datacom Ltd. \$1,300,000 worth of services?

MR. M. PROVENCHER: No, it's \$1,434,000 and that relates to value-added projects, mainly network projects whereby the joint venture, SADL, has the engineering, the commissioning, the designing, the installation and the customer training.

MR. D. ORCHARD: I have to tell you that I am a little confused because I thought that Saudi Arabia Datacom

Ltd. billed Al Bassan Datacom for those kind of services, not vice versa.

MR. M. PROVENCHER: I think it's a two-way street. The joint venture, SADL, bills Al Bassan Datacom for the value of the work done on the projects. Al Bassan Datacom bills the joint venture for the equipment that is used on those projects. The two net out.

MR. D. ORCHARD: And if I can follow through recollections in this morning's discussions, that those equipment purchases which are billed back under this particular line may or may not have been equipment purchased by Al Bassan Datacom directly from MTX. It could have been from some of their direct supplier purchases?

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: Under the notes payable, Mr. Chairman, to whom and for what services?

MR. M. PROVENCHER: Those notes are payable to MTX Telecom Services and that's primarily for the electronic messaging system, furniture, and for Series I machines that are on inventory.

MR. D. ORCHARD: Mr. Chairman, then, a final question on this topic. Is Mr. Provencher confident that the current loss situation will be turned around in Saudi Arabia and make Saudi Arabia Datacom Ltd. a profitable company; hence contributing revenues to MTX; hence contributing revenues to MTS?

MR. M. PROVENCHER: I believe that the Board of Directors of SADL are hopeful that can be accomplished, but I think that will take an accumulated period of about two years.

MR. D. ORCHARD: So then we may well be back here next year looking at a loss next year as well?

MR. M. PROVENCHER: Not a loss in SADL. If there is any loss, it's in the 100-percent Saudi-owned company.

MR. D. ORCHARD: Which wouldn't impact upon SADL unless they defaulted on the payment of some of their notes?

MR. M. PROVENCHER: That's correct.

MR. D. ORCHARD: Thank you, Mr. Chairman.

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, I wonder if I could enter into a few questions with either the Minister or the general manager with respect to a piece of information that was contained in the recent telephone bill, not the one with the Minister's picture.

Well, Mr. Chairman, I have stated in the House last week that I thought it would have been better to have the photograph of the general manager of MTS. He is

a much better looking individual, but — (Interjection) — that's right.

This, Mr. Chairman, as I understand it, was in each of the bills that went out this past month, or perhaps it could be clarified. Was this distributed in each bill that went out? It's an advertisement for what appears to be a telephone answering device.

MR. G. HOLLAND: Mr. Chairman, the Minister's release went out on a billing cycle, or 10 working days over which the billings are issued, and it was . . .

HON. A. MACKLING: Mr. Chairman, the Leader of the Opposition is referring to a promotional leaflet in connection with an answering service device. I am wondering, maybe one of the staff can answer that.

MR. G. HOLLAND: I am sorry, Mr. Chairman. What was the question?

MS. M. PHILLIPS: Did this go out in every bill?

MR. G. FILMON: Did this go out in each bill throughout the province this past month?

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

MR. G. FILMON: Yes, and what was the cost of sending that out, Mr. Chairman?

MR. G. HOLLAND: Mr. Chairman, I don't have that information here. I would have to obtain it and provide it to Mr. Filmon.

MR. G. FILMON: How many bills would there have been and, hence, how many of these leaflets would have gone out?

MR. G. HOLLAND: Mr. Chairman, Mr. Provencher estimates close to 600,000.

MR. G. FILMON: Is there no indication as to what that cost would have been for that distribution?

MR. G. HOLLAND: Mr. Chairman, I am sorry, we do not have that information here. We can get it quickly.

MR. G. FILMON: Who would have paid for that distribution?

MR. G. HOLLAND: I will have to ask our director of marketing if he has any information on that. I presume that MTS would pay.

MR. B. DEAKIN: Yes, the Manitoba Telephone System paid for the cost of that insert into the bill.

MR. G. FILMON: In other words, the ratepayers paid for that?

MR. G. HOLLAND: Mr. Chairman, the MTS customer, through their revenues, would have paid for this, yes.

MR. G. FILMON: Mr. Chairman, I wonder if that distribution was paid for, and I presume that the reason

that it's being sent out is that the Telephone System wants to promote the sale of this equipment. Is that the reason?

MR. G. HOLLAND: Mr. Chairman, yes, we promote vigorously terminals of great variety.

MR. G. FILMON: Could a private sector distributor who has similar equipment for sale also be allowed the opportunity to send it out with the telephone bills?

HON. A. MACKLING: I don't know why, if we at the Telephone Company are in the business of providing products to its customers, why we would want to encourage other people to provide competitive products to the products we are supplying. I think that would be bad business for the people of Manitoba.

MR. CHAIRMAN: Mr. Holland has something to add.

MR. G. HOLLAND: Mr. Chairman, I should add that this is leased equipment as well.

MR. G. FILMON: Is the Minister suggesting, therefore, that he'd like to put out of business everybody else who is distributing products in Manitoba, and provide only one source of that equipment?

HON. A. MACKLING: No, Mr. Chairman. I know there are private corporations who are marketing devices and one can buy a telephone set now and use that. But I don't think, given the fact that we are in the business of selling equipment, that we would want to advertise or facilitate others who are competing against us. That doesn't seem like it's good business.

MR. G. FILMON: Mr. Chairman, is there not sufficient competition in the distribution of this equipment in the province?

HON. A. MACKLING: That remains to be seen. I think the corporation has an obligation to provide services to its customers. If there is a service and a facility that the corporation can offer at an attractive rate, I think it should provide its customers with that service.

MR. G. FILMON: Does the Telephone System compare or allocate the costs of promotion, sales, advertising to the distribution of this equipment, so we know for certain that the Telephone System isn't in fact subsidizing the ratepayer paying for a telephone - that one black telephone - who doesn't utilize or want this equipment isn't subsidizing it by virtue of their rates by paying for the advertising and distribution, and then having that raise their rates so that somebody else can get this equipment at a more favourable rate.

HON. A. MACKLING: It's hard to precisely allocate the costs or the revenues involved in these things. That line of questioning I think, was very seriously pursued by the Member for Pembina. I think the general manager and this Minister appreciated that there was a concern that the corporation shouldn't be unduly preventing competition in some areas.

However, in respect to allocation of revenues, if the corporation is successful at having more people use

the telephone, then that adds to their general telephone revenues. That has to be offset against the costs of sales of this kind of equipment. So the same kind of questioning was asked by the Member for Pembina and, quite frankly, it was indicated it is difficult to allocate precisely to a set line of services because of the blending effect of revenues.

MR. G. FILMON: Do the people who work on marketing and sales of this equipment also have other responsibilities in the Telephone System?

MR. G. HOLLAND: Mr. Chairman, yes. The product managers, for instance, have a portfolio of products that they oversee.

MR. G. FILMON: Is it not possible to prorate their time to each of the product lines?

MR. G. HOLLAND: Mr. Chairman, we do keep costs, certainly direct and incremental costs against product promotions, and include advertising, so we do follow the success of our different products. But getting into overhead allocations and other allocated costs is very very difficult.

MR. G. FILMON: Mr. Chairman, since there appears to be a great deal of competition in the field and these products are available from many different sources, would the Telephone System not be concerned to ensure that they're not just simply duplicating services that are available and not recovering any costs, to indicate that this is a net benefit to the ratepayer of the Telephone System?

MR. CHAIRMAN: The Vice-Chairman.

MR. G. FILMON: I'm not finished my questioning, Mr. Chairman.

MR. CHAIRMAN: She's going to answer the question.

MR. G. FILMON: Oh, she's going to answer? I thought she was holding her hand up to leave the room. I'm sorry.

HON. A. MACKLING: Now that, Mr. Chairman, is out of order.

MR. CHAIRMAN: It's not even gentlemanly. The Member for Wolseley.

MS. M. PHILLIPS: I would just like to comment that the Telephone System full recognizes that there are other suppliers and people who offer both the sale of equipment as well as the rental of equipment in the private sector.

I think, when one analyzes . . .

SOME HONOURABLE MEMBERS: Oh, oh!

MS. M. PHILLIPS: Order, Mr. Chair. When one analyzes the fact that in the environment today, if the Telephone System is going to survive against the competition in spite of the competition from people who sell

telephones, who sell answering machines, etc., etc., it's only logical that we have to offer a competitive package. Where some people like one plain black telephone, other people may like a Touchtone in the latest colour. Other people might like to rent an answering machine rather than purchase it, because also in that rental rate is the coverage for the upkeep and repair of that equipment. Some people find that much more convenient than going out in the market and buying one.

I think the people of Manitoba deserve to have the choice between those two options. If we can offer them a reasonable choice, I would think that the Leader of the Opposition would approve of having reasonable choices for consumers in this province, at reasonable rates.

MR. G. FILMON: Mr. Chairman, that's precisely what I'm speaking about, that nobody, not the Minister, not the chairman, not the general manager has said that they don't believe there already isn't a reasonable choice in the market from many many sources, from many many suppliers, from many many distribution outlets.

The question becomes, if they can't satisfy themselves that there isn't sufficient distribution, then why are we into it? Why are we into it in a form in which we're not even sure of whether or not it is being subsidized by the person who doesn't want the service, who only wants one black telephone in their house somewhere in this province?

MR. D. ORCHARD: That's entirely the point.

MR. G. FILMON: It is potentially driving up the rates, and you have no way of recognizing that or accounting for it, how can you justify it?

MS. M. PHILLIPS: He said it was accounted for.

MR. G. FILMON: It's not accounted for. It can't give me the figures and you can't give me the numbers. If you can, then we'll evaluate them. We'll be glad to evaluate them. — (Interjection) — aw, come on, you don't know what you're talking about.

SOME HONOURABLE MEMBERS: Oh, oh!

MR. CHAIRMAN: Order please, order please. The member who wants to speak can do so in the proper and orderly way.

The Member for Inkster.

HON. A. MACKLING: No, no, I was recognized. I'm sorry.

MR. CHAIRMAN: I'm sorry. The Minister wants the floor.

HON. A. MACKLING: I think that . . .

MR. D. ORCHARD: Mr. Chairman, if I was talking, you'd call it 12:30. Right?

HON. A. MACKLING: I think that, Mr. Chairman, if I can just conclude, it's widely recognized by North

American, at least, merchandising standards that direct mail is very successful. Large corporations like Shell and others, certainly many large corporations, use direct mail advertising for promotion of their product; it's both reasonable and productive. I admit that in many instances invitations go to people who are uninterested but, by and large, the success of merchandising of goods in North America believe that kind of promotional use is highly beneficial to the corporation that is involved and that's the answer. All the MTS is going to do its best to provide service to customers, to make profitable margins where that is necessary to ensure that rates are held at a reasonable cost to all Manitobans.

MR. CHAIRMAN: The Chair wants to know if we are in this position to complete and wind up, or do you want another meeting, because there is no point prolonging this if you are not completing your questioning?

MR. G. FILMON: I'd like to pursue this particular point. I'm not sure whether or not my colleague from Pembina has other matters.

HON. A. MACKLING: How much longer would you be because I've indicated, Mr. Chairman, that the general manager will not be available on Thursday?

MR. D. ORCHARD: I believe that if we wish to continue for another few minutes that there is every likelihood we could pass the report.

MR. CHAIRMAN: The Chair would be satisfied and can stay as long as we need to.

HON. A. MACKLING: Another few minutes, if that is the case.

MR. CHAIRMAN: Well, that's what I mean. The Leader of the Opposition.

MR. G. FILMON: I think this may take 10 minutes, Mr. Chairman.

MR. CHAIRMAN: That's good; that's fine.

MR. G. FILMON: In that case then, the point that the Minister misses, Mr. Chairman, is not that I'm arguing against direct mail advertising, I'm a great advocate of direct mail advertising. What I'm suggesting is that if the telephone system is utilizing this method of promotion, then it should be shown to offset against the revenues that come from it and that it should be allocated, including the cost of sales and marketing the cost of the people who have to distribute the products, to find out whether or not it's in anybody's interest in this telephone system to market the products; or if, in fact, it ends up being a detriment to the interests of the ratepayer because their rates go up in order for the telephone system to be in the field in which they have no legitimate reason to be other than as a service.

If it's a service, they can have the product there if somebody wants it they can use it; but, if they

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going to spend a lot of money promoting it, and marketing it, and everything else, then they'd better be in a position to recover the costs for it, to ensure that the public knows they are not subsidizing some exercise in marketing that's not in anybody's interest because there is plenty of competition in the field and it's available through all sorts of distribution sources. That's the point that I'm making that's failed to be recognized by either the Chairman of the Board, or the Member for Inkster, or the Minister, or anybody else who has spoken thus far.

The second thing is that, if the Minister agrees that it's good to allow for distribution and to allow for direct mail advertising, then would he invite private sector people who want to similarly advertise their products that can be compatible with the telephone system and can be allowed to send it out with the telephone bill. Can they send it out with a telephone bill? Can they send it with a telephone bill, to the Member for Thompson? You don't recognize that there is a certain captive market mentality, that it comes out with the telephone bill to a potential customer. You don't have to send it out to a million people for the potential of having it end up in the hands of a particular customer, and there is a difference.

I know the Member for Thompson doesn't understand that, but perhaps he can read a text book on marketing that will explain it to him. — (Interjection) — Fine, then will they allow for the distribution through the telephone bill system to other people who want to market their products to telephone users?

HON. A. MACKLING: I would like to point out that what the telephone system is doing is not novel. For many years telephone companies, both private and public, have merchandised equipment, and they do that in any number of ways. Direct mail is one of them, and that's a very successful way of merchandising. If the Honourable Leader of the Opposition can give me evidence of the fact that Bell, for example, does allow its direct mail billings to be used by competitive equipment manufacturers, I'd be very interested in that, we'd certainly want to have a look at it. I doubt that they do. I doubt that any competing service does that.

In addition to that, the Public Utility Board has traditionally looked at the operations of utility companies, including the telephone system, and have reviewed such things as their merchandising policy in respect to the services and equipment that is offered by the corporation. I think traditionally the Public Utility Board has recognized that it's in the interests of the subscribers of the system to have successful marketing of equipment that the telephone system can offer to utilize that service.

MR. G. FILMON: Mr. Chairman, that's all I'm asking for, is for the Minister to give us some concrete evidence and proof of what the costs are of doing all of these things and the marketing arm of this equipment; that's the first thing. Now the second thing, Mr. Chairman, I wonder if the general manager of the telephone system could indicate whether or not similar competitive products are able to be attached to the telephone system to do the telephone answering that these products are advertised to do.

HON. A. MACKLING: Well, Mr. Chairman, I'm sure that we can establish, by way of some statistical breakout, that these promotional activities and these sales are not at a loss, that there is a gain to the subscribers; otherwise, we shouldn't be doing it. In respect to whether or not other systems can interconnect, the honourable member knows that if they pay an appropriate fee for hookup, I believe, that other equipment can be attached.

MR. G. FILMON: I'm sorry, I want to hear the answer to that. Is what the Minister says true? Do they have to pay an appropriate fee and that's it?

HON. A. MACKLING: Mr. Deakin, I think, can give more detail on that.

MR. B. DEAKIN: Mr. Chairman, in the residence market, as we have residence terminal interconnect, and a resident customer can connect that. In the business market there is an allowance for answer and record and I'm not sure if there is a coupler device or something required. So we'd have to answer more clearly later on the business market, but in the residence it's full interconnect.

MR. G. FILMON: Just for my clarification, Mr. Chairman, what is being said by Mr. Deakin is that I could go to Radio Shack and get a similar piece of equipment to this and connect it into the system without any restriction?

HON. A. MACKLING: For residential purposes.

MR. G. FILMON: Is that the case?

MR. B. DEAKIN: That's correct for a residence.

MR. G. FILMON: But not for business, and why the difference?

MR. B. DEAKIN: Presently, the regulations are that there is only residence interconnect, and there is some interconnect in the business market, and this is where I would have to get clarification. It is on answer and record devices, and I'm not sure on the coupler requirements. I'd have to answer that later.

MR. G. FILMON: My further question to the Minister is, is he aware of how many people are employed in the telephone answering business in Manitoba, and what effect promotion of devices of this nature has on the potential for additional employment in that field?

HON. A. MACKLING: I don't know the numbers, I know I've used a telephone answering service for professional reasons and found them to be quite satisfactory. I don't know the numbers, I know they provide a very useful service, particularly in the commercial sector.

The promotional advertising that is referred to, I think, is in connection with home use primarily.

MR. G. FILMON: Is this device that's being advertised not able to be used in business?

MR. B. DEAKIN: Yes, it can be used in business.

MR. G. FILMON: Would it require any special approval, such as, the regulations that Mr. Deakin was referring to?

MR. B. DEAKIN: If it's provided by the Manitoba Telephone System there is no special approval.

MR. G. FILMON: So, in effect, this is a bit of a gun to the head of the business that they can get this from the telephone system without approval, but they can't get almost an identical device from some other distributor without approval.

MR. CHAIRMAN: Mr. Deakin would like to finish his answer.

MR. B. DEAKIN: I would like to quote from the MTS policy guide. It states, under Business Voice Equipment: "An answer and recorder device for business . . . ; and the condition is the device must not be connected if it harms the network. Cords must be equipped with spade-tipped terminals and, under the arrangement, hard-wired to MTS terminal blocks."

HON. A. MACKLING: I want to add that I know, in my consideration of answering devices, I was aware of the fact, as many businessmen are, that there are devices that you can rent to answer calls. What you have to weigh against that is the impersonality of that kind of mechanism. I know that I found that the answering service with a human voice answering and being able to reflect in the messaging a much more personal concern and service, to me, was much more an effective factor. I think that, regardless of the kind of mechanical answering devices that may be put on the market by the telephone system or anyone else, it will not supplant the personal service of the answering service that is out there.

MR. G. FILMON: Mr. Chairman, I would differ with the Minister, and I would say I see that there is a difference, and I agree that there would be a differentiation on the part of some people, but others might simply be persuaded and convinced that we might as well go with this; whereas, if this kind of promotion were not there, then they would look at telephone answering services with individuals to answer the phone.

I might say to the Minister that there are 350 people, approximately, employed in that field in Manitoba, to my knowledge. This sort of thing, in competition with these people, could in fact reduce the number of people employed substantially in Manitoba as a result of this kind of promotion. I would think that those are things that ought to be a concern to this Minister and anybody else in government, particularly when you're dealing with a monopoly telephone system that's owned by the people of Manitoba and paid for by the people of Manitoba, that those considerations ought to be given by any government that administers the telephone system in this province.

MS. M. PHILLIPS: Thank you, Mr. Chairperson. I recognize the Leader of the Opposition's philosophy

on this, and I think we discussed this earlier, if he care to read Hansard in that he is implying that employe in the private sector is much better than employe in the public sector and, of course, we will never con to terms with . . .

MR. G. FILMON: That's not what I said. You don't off an answering service in the telephone system : individuals.

MS. M. PHILLIPS: We will never come to terms wi that particular division.

MR. G. FILMON: You've got your blinders on.

MS. M. PHILLIPS: This particular brochure indicate very clearly that there are rates for residential customers, as well as rates for business customers. I think he should give the general public a bit more cred in being able to determine whether they want a answering machine, and whether they want to rent or from the Manitoba Telephone System, which include the service, or whether they'd like to go out an purchase one.

If he is trying to say that there shouldn't be answerir machines at all because it hurts the private market fr personal telephone answering, I think that's absolute ludicrous. I mean, that means that Radio Shack shouldn't be able to sell answering machines, because it is hurting the 350 employees in the personal telephor answering business.

I think the final, bottom line issue is that there room for variety; there is room for those people t choose the personal service; there is room for those people to choose to buy an answering machine from a particular company down on Portage Avenue (wherever, and there is room for people who would wis to rent it from Manitoba Telephone Systems. All we'r saying is that, if you wish to rent it, here are our rate both for residential and for business.

Also if you look carefully at the brochure, they'r advertising two different kinds of products which near the System has bought those products from some wholesaler, from some supplier, and it's providin employment in those particular industries, in th manufacturing industries.

MR. G. FILMON: Outside of Manitoba.

MS. M. PHILLIPS: I think there is plenty of room fr all those kind of options for the people of Manitob: and nobody is saying you must buy your rente answering machine, and only rented answerin machines, from MTS and not use the private person: service.

MR. G. FILMON: Mr. Chairman, those telephon machines, answering machines, that the Member fr Wolseley is speaking about would be purchased from manufacturers largely outside of the province. So if sh is promoting employment in other provinces, that's different view to what most governments have abou employment and it's very unfortunate.

At the same time, Mr. Chairman, she is also indicatin that, if it's okay for Radio Shack and other distributor

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to distribute it, then the telephone system should jump in and add another avenue of promotion and development of that. The fact of the matter is the telephone system is owned by the people of Manitoba, and again, the telephone system and the Government of Manitoba ought to be concerned about employment in Manitoba. That's what my indication is as to whether or not they're concerned about taking away jobs from telephone answering services . . .

MS. M. PHILLIPS: We have a wholesale and marketing branch, that's employment.

MR. G. FILMON: . . . because they're getting into it at a time when they're adding another avenue to people and they have a different view, or at least as a government should have a different view, about employment in Manitoba.

MR. D. ORCHARD: Mr. Chairman, to cap off the line of questioning here, I think it might be appropriate to once again mention that, in terms of the fast alarm system, which was designed to subsidize the black telephone, the reverse has happened to date.

Now, Mr. Chairman, we've discussed this many times. Philosophically we will disagree with the New Democratic Party who believe and support this venture into private sector competition. Now to have a better understanding as to whether this is contributing net revenues to the System so that it indeed achieves the subsidization of the black telephone, I think we need to have an expansion of two pieces of information from the annual statement.

First of all, in terms of Page 15 of the Annual Report, Note 2, Miscellaneous Operating Revenues, if the general manager could break out the rentals and attachments and the other in terms of operating revenue, and attempt to provide for us - not simply the cost - what I am looking for is a net figure out of those two lines.

Then going to Note No. 4, Other Revenues within Page 15 of the Financial Statement, Miscellaneous Net. Now it's my understanding, and correct me if I am wrong, that includes all of the revenues from the supply of cable television services, all the competitive retail services, the telephone stores, etc., etc.

It would be interesting to have a breakdown as on an enterprise accounted or a profit centre accounting basis of the net revenues of \$2,103,000 to show where they're coming from, and to determine whether in those miscellaneous categories we have some items such as the cable television system that are indeed providing revenues and others that are not and that will provide us with information that will be useful to this government and to future governments, to determine where Manitobans are being offered, through product offerings in competition with the private sector, the ability to

have their black telephone subsidized; and conversely, areas in those miscellaneous revenue categories which are mainly in competition with the private sector where, indeed, the opposite occurs when people renting a black telephone are subsidizing those entries into the commercial and competitive field.

So if the general manager could provide that information over the next several weeks, that would probably provide us with a base of information in which we can debate this further with the Minister.

HON. A. MACKLING: I think we can undertake over time to develop the kind of detailed a breakout that the honourable member seeks. I just want to indicate that I can appreciate we have to be vigilant as to how we spend our money, where we spend it as a corporation, as a society.

But I also want to indicate that the Honourable Member for Pembina, when he was Minister responsible for the Telephone System, indicated that when the FAST system was being developed - it was during his tenure as Minister responsible for the Telephone System - and the System was, if you can use the expression, "sold to him," or he was persuaded that it would be a profit sector, it would assist in subsidizing the black telephone service, so it was intended that it would be a profitable operation. I am sure at that time it was clear that there may be a private sector involvement as well.

So I can respect that we have to be vigilant about our investments, that we are getting a good return on our investments; but I don't think we should get so philosophically hung up about this corporation using its expertise to the advantage of all of its subscribers.

MR. G. HOLLAND: Mr. Chairman, we will do our best to provide the information as requested.

MR. D. ORCHARD: Mr. Chairman, the Minister is almost agreeing with me. That's exactly what we want to make sure is that those kinds of outside services and competitive services are in the best interests of the telephone customer and not resulting in enterprises in which the black telephone customer, the basic telephone customer of MTS, is providing cross-subsidization in order that the System may compete in the private sector. That's exactly what we want to assure.


MR. CHAIRMAN: Can we now pass the report? Report—pass.

What is the pleasure of the committee?

A MEMBER: Committee rise.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 12:55 p.m.

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