

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

**Thursday, 10 July, 1986**

**TIME — 10:00 a.m.**

**LOCATION — Winnipeg, Manitoba**

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

**ATTENDANCE — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Cowan and Mackling

Messrs. Brown, Maloway, Manness, Orchard,  
Santos, Scott and Smith (Ellice)

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

Mr. S.G. (Glover) Anderson, Assistant General  
Manager, Manitoba Telephone System

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

Mr. K. Beatty, Corporate Secretary, Manitoba  
Telephone System

Mr. Maurice J. Provencher, Director of  
Finance, Manitoba Telephone System

**MATTERS UNDER DISCUSSION:**

Annual Report - Manitoba Telephone System

\* \* \* \*

**MR. CHAIRMAN:** The Committee on Public Utilities  
and Natural Resources, there is now a quorum and  
may come to order.

We shall hear from the Minister.

**HON. A. MACKLING:** Thank you very much, Mr.  
Chairman.

I'm very pleased to again have the privilege of being  
the Minister responsible for the Manitoba Telephone  
System and therefore being in a position to introduce  
the chairman, chairperson of the board — my apologies.  
From time to time we slip.

The chairperson of the board, the chief executive  
officer, and I won't begin to name all of the women —  
I should say woman — and gentlemen on my left who  
are all staff of the corporation. But let me begin by  
indicating how pleased I am that at this meeting of the  
committee, the new chairperson of the board is present,  
Jean Edmonds, who was appointed July 12, 1985,  
almost one year ago, replacing Saul Miller.

Jean Edmonds has a long and very successful  
background in public affairs and I very, very much  
appreciate the knowledge, the experience and the  
dedication that she brings to the board. Her efforts  
have already been noted with extreme pleasure by  
myself and my colleagues in the work of the board.

In addition to the chairperson, there have been two  
other changes in the board. Myrna Smith, the MLA for  
Wolseley — I've said Myrna Smith — Myrna Phillips,  
the MLA for Wolseley — we have so many Smiths and  
seeing Harvey here this morning, I guess threw me off  
— has been replaced by the MLA for Inkster, Don  
Scott, who is vice-chair and you can have my full  
assurance that I have every confidence in Mr. Scott as  
vice-chair to ensure that the meetings are lively and  
productive.

Also we have had one other change on the board,  
Alan Scramstad, who is now somewhere, I think, in  
New Guinea or New Borneo on a — pardon me? Papua,  
New Guinea, working for underdeveloped people. His  
successor is Bidhu Jha, who is a very successful and  
enterprising small businessman in Winnipeg.

Let me also just indicate that the Telephone System  
has embarked on a very significant and worthwhile set-  
up of developments in respect to the renewal of capital  
equipment and expansion of services. The system also  
is placing not only the challenge of the changing  
technological scene, but the fact that government itself,  
we have put fresh challenges forward to the Telephone  
System and perhaps we'll be alluding to them later on  
during the course of the review.

Also, the board made an application to the Public  
Utilities Board and I'm sure there will be questions and  
comments about that.

Let me say by way of these brief introductory remarks  
that I'm very pleased with the performance, not only  
of the Chair, but of the chief executive officer. This will  
be his 13th appearance — and 13 is good luck,  
obviously — before this committee; also, to indicate  
my pleasure not only at the continued excellence of  
the working of the corporation and its management  
staff, but also the continued cooperative spirit and good  
will that seems to now exist.

I'm not saying that it didn't exist before, but any  
large corporation with many thousands of employees  
have times when there are stresses and concerns within  
staff. This very large corporation has faced those  
challenges and there is a good attitude on the part of  
both workers and management and a recognition that  
the corporation must work very effectively, efficiently  
and productively to meet the challenges that lie ahead.  
I have every confidence that challenge will be met  
successfully.

I now call upon the Chief Executive Officer, Gordon  
Holland, to present the report.

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

**MR. G. HOLLAND:** Thank you, Mr. Minister, for those  
opening remarks.

Perhaps it would be in order, Mr. Chairman, if I  
introduced those MTS officers who are here with me  
this morning: Kathy Miller from my office; Glover

Anderson, the Executive Vice-President; Bob Lindstrom, from our Rates and Tariff shop; Maurice Provencher, Vice-President, Finance; Barry Gordon, Vice-President, Network Development and Operations; Dennis Wardrop, Vice-President, Corporate Marketing and Development; Ken Beatty, Vice-President, General Counsel and Corporate Secretary; Brian McCallum, Vice-President, Business Communications; and Don Plunkett, the President of MTX.

If it would be in order, Mr. Chairman, we intended to follow past practice and make a few comments on the '84-85 year under review and then bring that up to date and attempt to answer any questions that the Committee might have.

**MR. CHAIRMAN:** That will be proper, I guess.

**MR. G. HOLLAND:** The 1984-85 Annual Report was mailed to all members in April, 1986 and tabled by the Minister in the Legislature in May, 1986. A brief examination of the financial statistics in the report shows that total revenues from all sources increased by 10.3 percent to reach \$341,613,000.00. Total expenses increased by 6.1 percent, amounting to \$326,421,000. Net revenue for the year was \$15,192,000, compared with a net revenue of \$2,127,000 for the previous year and net revenues of over \$3 million in the 1982-83 fiscal year. Capital expenditures during the year amounted \$112,721,000.00.

By the end of the year, the System had a total of 487,440 main telephones in service, an increase of 15,549 during the year. The total investment in telecommunications plant reached \$1,132,271,000 at the end of March, 1985, representing an average investment of \$2,320 per main telephone, up from \$1,814 four years ago.

Notable events during the year included the installation of new digital telephone switches in MacGregor, Stonewall, Teulon, Virden and Woodlands, providing modern custom calling services along with the introduction of overall improvement in the quality of service to those communities. During 1984-85, MTS introduced free calling between the communities of Camperville and Winnipegosis, as part of the System's Extended Area Service or (EAS) program.

It has been customary to supplement information contained in the Annual Report with comments concerning recent and current activities. May I therefore comment on the System's major programs and activities for the period from April 1, 1985, to the present.

MTS filed an application requesting rate increases for most services with the Public Utilities Board of Manitoba on November 5, 1985. The Public Utilities Board approved rate changes effective March 27, 1986, which were projected to generate an additional \$6 million in revenue during 1986-87.

Even with those rate changes, MTS monthly telephone rates remain among the lowest in North America and we will provide to the Committee illustrations of the current residential and business exchange rates with other comparable towns and cities, as well as a comparison of the intra-Manitoba toll schedule which also compares very, very favourably with other jurisdictions.

The following preliminary figures for the 1985-86 fiscal year are subject to final review and audit. MTS expects

that operating revenues will be \$349 million, a growth of 7 percent over the previous year. Other revenues will be \$17.5 million producing total revenues of \$366,500,000.00. Operating expenses, including depreciation and taxes, are estimated to increase by 6.5 percent to \$283 million. Debt charges and foreign exchange amortization are estimated at \$84 million compared to \$60,978,000 in the previous year. Net revenues are expected to be in a deficit position by about \$500,000 in comparison to positive net revenues of \$15,192,000 for 1984-85.

As a result of the deficiency in net revenues, it is estimated that MTS' debt ratio at March 31, 1986 will be approximately 84.2, compared to 82.0 at March 31, 1985. In order to improve its financial flexibility, MTS has had for some time, a target of reducing its debt ratio by one percent a year through net earnings.

Notwithstanding the projected deficiency in net earnings for 1985-86, MTS has made real progress in strengthening its financial position over the last decade through a series of initiatives to provide for retirement of debt issues denominated in foreign currencies and to ensure that our depreciation practices are appropriate and consistent with industry norms. Most recently, MTS has taken steps to provide partially for its unrecorded pension liability. These steps have received the endorsement of the Public Utilities Board of Manitoba.

The Manitoba Public Utilities Board, in approving recent rate changes, recommended an independent review of the MTS rate structure as it has evolved in Manitoba against the increasingly competitive background of the Canadian telecommunications industry. It is MTS' intention to have such a review completed in the near future.

MTS Series 10E, along with a portion of Government Advance, 10J were retired. New Government Advances AN and UFH1 were taken while MTS Series 1Q was replaced by 1V.

In building its plant and extending facilities, as well as establishing its rates, MTS is sensitive to the fact that it must balance the needs and demands of numerous users and groups of customers. It endeavours to respond with fairness and equity to urban as well as rural customers, voice users as well as data users, business customers as well as residential customers. At the same time, MTS must address growth in overall demand for service.

Following on the heels of a very active 1984-85 year in which MTS processed the largest volume of work orders on record, the Manitoba economy continued its steady growth, creating increased demand for MTS products and services.

In 1985-86, MTS provided the cable and installation work necessary to bring service to almost 3,000 new single family residences in Winnipeg, almost as many new installations as in the previous two years combined.

Manitoba's business community was also growing and updating its telecommunications equipment during the year. MTS installed a record number of new business communications systems during the year, some 657 in total. These included some extremely large private systems. For example, the University of Manitoba had MTS install the largest SL-1 PBX in the province, a new switch catering to some 2,500 telephone lines that required almost eight kilometres of new telephone cable

to be installed at the Fort Garry campus. The university now has a modern telecommunications facility capable of meeting the voice and data communications needs of this major educational institution.

Recognizing the unique importance of the capital city to the economy of the province, MTS has embarked on a 10-year program called Action Winnipeg. It is a major undertaking in upgrading and updating the telecommunications network and services of our largest city. By 1995, the City of Winnipeg will be served entirely by digital central offices interconnected by high capacity optical fibre cables. This, combined with accelerated rehabilitation of aerial distribution cable, will improve reliability, reduce and enhance maintenance and offer customers new and better services. The cost of this 10-year program is estimated at \$142 million.

The maintenance and modernization of Manitoba's billion dollar telecommunications network calls for a significant capital investment by MTS each year. In 1985-86, MTS' capital spending amounted to some \$148 million to maintain high quality service and to meet increased customer demand.

MTS in recent years has taken significant steps to reduce the number of its customers on multi-party service. Completed in 1981 and costing \$34 million, this program has reduced the average number of customers on a multi-party line from 7.3 to 2.8. It has benefitted some 45,200 customers, and it has added an additional 13,400 customers to single-party service.

Since the completion of this program in 1981, the number of multi-party customers has been further reduced by 5 percent, while the total number of MTS customers has grown by 12.5 percent. Also, an additional 1,380 customers have received single-party service at a further cost of some \$8 million as their communities reached the density criteria established by MTS.

During 1985-86, MTS placed in service six new digital switches, in Altona, Rivers, Selkirk and three in Winnipeg. MTS is gradually converting all of its mechanical and electro-mechanical switching equipment to digital operation so that, by the year 2000, Manitoba's network will operate completely in a digital mode. A total of 16 digital switches, serving some 216,000 customer lines and costing \$137 million, have been placed in service in Manitoba since 1981. Digital technology offers improved reliability and cost efficiencies while allowing for the provision of new services. This long-range plan is in accordance with other North American telephone companies that are creating a network to transmit computer communications as quickly and easily as voice communications are handled today.

In February, 1986, MTS activated its largest single fibre optic system, an \$11 million, 330 kilometre fibre optic system between Winnipeg and Brandon. The system replaces a microwave network that carried cross-Canada and intra-Manitoba long distance traffic. The cable system contains 12 fibres capable of carrying more than 30,000 conversations at one time.

During the year, the members of Telecom Canada announced plans to build a coast-to-coast fibre optics network. Manitoba's portion of this joint undertaking will require the placement of some 700 kilometres of cable, with work to begin on the project in 1987.

The new facility will accommodate the growing demand for long distance calling, voice, data and other

services using the newer, more cost-effective technology of fibre optics.

During 1985-86, MTS added equipment in 18 communities to enable customers to make their long distance calls without having to give their numbers to an operator. Automatic Number Identification equipment is now serving customers in Birtle, Cormorant, Cranberry Portage, Deloraine, Eddystone, Emerson, Gladstone, Grandview, Glenboro, Hartney, Langruth, Nelson House, Oak Lake, Pilot Mound, Pukatawagan, Rosssburn, St. Theresa Point, and Wawanesa. ANI makes long distance calling more convenient for our customers and results in fewer billing errors. Since 1981, ANI equipment has been added in 53 Manitoba communities at a cost of \$2.3 million. More than 90 percent of the province's telephones are now served by ANI equipment.

Normally customers who place calls between one telephone exchange and another pay long distance charges. Extended Area Service permits customers in one exchange to call customers in another without incurring toll charges. Customers served from an exchange which has extended area service (EAS) with another exchange, pay the normal flat-rated monthly tariff for service in the rate group which represents the total main telephone stations which they can call without incurring a toll charge. The linking of two such exchanges creates what is called an EAS cross-section. There are now 121 exchanges enjoying EAS in Manitoba.

In 1981, MTS embarked upon a program to extend EAS to a number of additional smaller communities, enabling them to enjoy toll-free calling to larger, neighbouring communities. Over the next few years, when combined with plan modernization projects, this program will provide an additional 32 exchanges with EAS for a cost of \$2.6 million.

Extended Area Service was introduced to five pairs of communities during 1985-86, as part of the current program. EAS now allows free calling between nearby communities of Eddystone-Ste. Rose; Kelwood-Neepawa; Crystal City-Pilot Mound; Ashern-Steeprock; Fisher River-Fisher Branch. The criteria for selection in this program include the size of the telephone exchange, the objective of providing basic services without having to call long distance, and the high amount of calling to and from a nearby community.

In 1983, installation of satellite facilities were completed to bring reliable long-distance service to Brochet, Lac Brochet, Tadoule Lake, and Shamattawa. Since that time, MTS has changed the system to a new \$3.5 million Spacenet satellite service that has allowed the addition of extra channels to serve those communities.

In 1984, MTS completed a program to bring regular exchange and long-distance service to 10 Northern communities at a cost of \$33.6 million. The communities of Anama Bay, God's River, Jackhead, Little Black River, Matheson Island, Paungassi, Pine Dock, Sherridon, Split Lake and York Landing were previously served by toll pay stations.

Under an agreement with the licensed cable television operator, Valley Cable Vision Ltd., MTS installed Local Broadband Networks in six communities during the year. Residents of Manitou, Morris, Niverville, St. Pierre, Ste. Anne and Treherne are now enjoying a greater

variety of television programming through cable television service. Some 82 percent of Manitoba's households are now passed by coaxial cable facilities, with some 249,000 subscribers.

In an effort to maximize the use of Manitoba's telecommunication network facilities, MTS is continuing to introduce new services and to expand existing network uses.

In March, 1986, MTS inaugurated a special audio-visual link between the Brandon Mental Health Centre, and the Health Sciences Centre in Winnipeg. Using the MTS Inter-City Broadband Network, a coaxial cable being used to distribute cable television signals to a number of provincial locations, the two-way link enables patients at the Brandon Centre to have direct contact with psychiatrists at the Health Sciences Centre. This facility will allow the psychiatrists to reach and assist more patients through the technique of teleconferencing.

Another network service provided by MTS found wide acceptance among Manitoba communities during the year. MTS' Fire Reporting and Emergency Dispatch, or FRED, system, was adopted by 16 additional communities in 1985-86, bringing to 38 the numbers of towns and municipalities now relying on the FRED network to convey fire reports to volunteer fire fighters. FRED uses existing network components and MTS operators located in regional centres to accept fire reports and to contact volunteers through a paging system. FRED is designed to be the first phase of a provincial-wide 911 emergency call system, a service currently offered only in Brandon and Winnipeg.

In response to the needs of customers who make a large number of long distance calls within Manitoba, MTS received approval from the Public Utilities Board early in 1986 to begin offering a long distance package called Between Friends. With this package, Manitobans can purchase 30 minutes of long distance calling, during off-peak hours, for \$6 per month. Between Friends is a convenient means of budgeting for long distance service and can save money for those customers calling longer distances on a frequent basis. Customers are being advised to assess their monthly long distance calling patterns to see if the Between Friends plan would be to their advantage.

Early in 1986, the province requested that MTS develop programs to achieve larger free-calling areas in the province by grouping local exchanges into a smaller number of regional calling areas and to accelerate progress towards the elimination of multi-party lines in Manitoba. MTS has been studying the means and costs of achieving both of these objectives and will be reporting on its studies in this regard in the near future.

In February, 1986, MTS announced a reorganization of its administrative structure, establishing seven units within the company, each headed by a vice-president. The new structure brings together related functions within MTS to streamline operations and to improve service delivery to the customer.

As well, a corporate effectiveness program has been undertaken to examine existing work systems and processes to ensure that the necessary infrastructure is in place at MTS to provide excellent service to our customers.

MTX Telecom Services Inc. is a wholly-owned subsidiary of the Manitoba Telephone System,

incorporated on January 15, 1982. MTX is a participant in a joint venture in Saudi Arabia, Saudi Arabian Datacom Co. Ltd. and, in addition, undertakes contract work in North America and other locations.

MTX is anticipating a loss of approximately \$90,000 for the year ended March 31, 1986. Although there was an operating profit of \$180,000 for the year, a write-down of some \$270,000 was required in regard to software associated with the Saudi joint venture electronic mail system. The downturn in the Saudi economy due to falling world oil prices has caused SADL (Datacom) to downsize its operations in Saudi Arabia. By reducing its expenses and focusing its energies on selected market segments, Datacom plans to ride out the current economic difficulties and preserve its ability to pursue potential market opportunities in the future.

MTX has also been active in exploring opportunities in other areas, for example: a contract with New Zealand Post and Telephone for a network management study; and secondly, the establishment of Canadian Communications International (CCI), a consortium of MTX, SaskTel and BCTel, to offer telecommunications products and services in China.

MTX, in cooperation with Microtel Ltd. of Vancouver and Digital Equipment Corporation (U.S.), has also recently signed a large contract to install MTS Total Network Management (TNM) system in the United States for a major American long distance carrier. TNM is a telecommunications network monitoring system developed by MTS that has been operating in the System's Provincial Services Control Centre in Winnipeg for the last three years. It's portrayed on the front of the annual report that you're studying.

While MTX showed a loss in its operations during the 1985-86 fiscal year, it continues to make a positive contribution to MTS and Manitoba. For example, the return to MTS on its investment in MTX in 1984-85 was more than \$1 million, made up of reductions to MTS expenses resulting from personnel loaned to MTX; administration fees charged to MTX for rent, accounting and administrative services; and through sales by MTS to MTX of surplus equipment and application software.

MTX is an extension of activities undertaken outside of Manitoba that began in 1978 when MTS joined Bell Canada International in a major contract to serve Saudi Arabia. Through MTX involvement in external contracts, these are some of the benefits that have accrued: over 100 person-years of employment; \$8.8 million in orders placed with companies in Manitoba since the incorporation of MTX; offset to MTS expenses through the loan of its employees to MTX; and maintenance of employment for MTS employees, as well as the career experiences and challenges that our people have enjoyed.

Mr. Chairman, I hope that's an adequate summary of recent events to bring the committee relatively up-to-date.

**MR. CHAIRMAN:** Thank you, Mr. Holland.

In the consideration of the annual report of the Manitoba Telephone System, I wish the guidance of the committee members. Do we want to consider the report page-by-page, or consider the report in its entirety?

**HON. A. MACKLING:** I would defer to the critic. Mr. Orchard, would you . . .

**MR. D. ORCHARD:** Mr. Chairman, in the past we've . . .

**HON. A. MACKLING:** Covered the entire report.

**MR. D. ORCHARD:** . . . allowed a free-ranging debate.

**MR. CHAIRMAN:** For consideration as a whole.

**HON. A. MACKLING:** Yes, agreeable.  
The Member for Pembina.

**MR. D. ORCHARD:** Mr. Chairman, are we receiving a report from the Chief Executive Officer and President now, rather than General Manager?

**MR. G. HOLLAND:** What was the question again, Member for Pembina?

**MR. CHAIRMAN:** He's just starting.  
The Member for Pembina.

**MR. G. MACKLING:** You were asking a question, I'm sorry.

**MR. D. ORCHARD:** I already got the answer to the question. We are talking to the Chief Executive Officer and President of MTS now.

**MR. G. HOLLAND:** Yes.

**MR. D. ORCHARD:** When did the change in title take place?

**MR. G. HOLLAND:** In March of this year, Mr. Chairman.

**MR. D. ORCHARD:** Mr. Chairman, there are a number of areas to move into and request further information on. I'm almost at a loss to determine where we should go first, but I guess one of the areas that I'd like to discuss first-off is the Extended Area Service Program.

Mr. Holland described the program that was initiated in 1981. He indicated five more communities that were completed last year. Presumably, that would be 1985-86 year. I recall quite vividly the Extended Area Program announcement, and it was the intention at the time of the announcement in 1981 that the communities would be interconnected on the Extended Area Service by 1984-85. It would appear as if we've got some delay in that initial target.

**MR. G. HOLLAND:** Yes, Mr. Chairman. The program was spread over an additional two years in the light of the economic downturn that occurred in the 1981-82 period in our revenues. It was one of the many adjustments that we made to correspond to those economic conditions.

**MR. D. ORCHARD:** Mr. Chairman, of course this Extended Area Services and the whole area of private lines and the extension of private-line service to all Manitobans is always an area that has been discussed

on a regular basis. Along with the 1981 proposal for some Extended Area Service, there was a discussion with MTS at that time of what appears to be resurfacing again, of a regional calling area concept to achieve toll-free calling for much larger exchange areas.

At the time, one of the concepts I know that was bounced around was toll-free areas equivalent to roughly the Department of Highway district boundaries, which I think there are about a dozen outside of Winnipeg. Is that the target in this mention of regional calling areas that appears at the top of Page 7? What is the concept there that you're studying?

**MR. G. HOLLAND:** Mr. Chairman, we have studied a number of different regions developed by different groups in the province. The fact is that the current exchange patterns are well established, and that business and personal telephone calling can follow quite different patterns than, say, the parks planning trends or the highways planning or the economic development regions and so on.

As part of the current review that's under way, the Minister has asked us to make certain that we do consult very closely with the communities in order to detect their calling preferences. Mr. Orchard probably will recall a fairly detailed study that we did called "Meaningful Exchange Boundaries." The whole premise of that study was to try to include in the basic exchange fixed monthly charge assured access to basic services, that would be health, the implement dealers, auto dealers, hairdressers and schools to try and make sure that our exchange boundary definition included those basic services without toll, so we have that study as well.

**MR. D. ORCHARD:** So do I take from Mr. Holland's answer that there really is no criterion that was given by the government, just a request that you study it?

**MR. G. HOLLAND:** I think, Mr. Chairman, it quite clearly is the expectation of the Minister that there would be a significant reduction in the number of exchange boundaries at the moment; that is, that the free calling areas generally would be enlarged and particularly for the small exchanges.

We have some very large EAS areas at the moment; Portage la Prairie is typical, it covers a very large area. But I believe the Minister is looking for patterns of that sort where there is quite a broad calling area.

I might mention as well that where facilities are available, MTS has offered over the last couple of years, individual line service at a premium charge. That has been extremely popular with many of our customers, hundreds and hundreds have taken that offering, which I believe is \$515 a single charge and then \$3.10 monthly premium charge. But that has helped to serve the large farmers and many of our customers who rely very heavily on telecommunications.

**MR. D. ORCHARD:** Well, Mr. Chairman, I don't suppose we are going to get any more clear answer as to whether there is a target for size of areas and I won't pursue it any further, but is the assumption correct that with the installation of digital switching equipment that the Extended Area Services is much more easily

accommodated and that it is a direct benefit of digital switching that you've been improving throughout the province?

**MR. G. HOLLAND:** In regard to the first comment, we're looking at a great variety of options at the moment.

As Mr. Orchard knows, the expansion of free calling areas loses us toll revenue and also requires capital investment. That loss in revenue has to be gained from some other source and that requires very, very careful consideration.

The second part of the question is that EAS is much less costly if it follows on the digital switch program.

**MR. D. ORCHARD:** Is there a time frame set to come up with some proposals and from there, initiate the program so that within a five-year period you would have a significant reduction in the number of separate toll areas?

**MR. G. HOLLAND:** Well, Mr. Chairman, we are continuing the established EAS program. We'll complete that while these studies are ongoing.

The Minister has indicated soon, and I think that the board hopes to have some options and alternatives by the end of September.

**MR. D. ORCHARD:** That is a laudable goal and I appreciate the System's problem in terms of larger dialing areas reducing some of the interprovincial long distance revenues and those revenues, of course, have to be balanced off.

I guess the position made by many in rural Manitoba, as Mr. Holland is well aware, is that they've paid significant dollars to the System over the last number of years and I guess like everybody else, they start to think it's their turn for some improvements in service.

We've conscientiously, through several governments, made sure that residents in Northern Manitoba and some of our Native communities have access to reliable telephone service. I can recall the approval of the Lac Brochet-Tadoule Lake-Shamattawa satellite connection, which was a very expensive connection for very minimal revenue returns. It's, quite frankly, a system that is never going to pay for itself and I don't know what the economics are on the \$33.6 million program which completed the provision of service to 10 Northern communities, but it's a significant investment and once again, probably over the long haul is a public service provision rather than an economic provision of service.

I would think that, without knowing — and then possibly Mr. Holland could answer the question — those communities that were listed under that program, are they on party line service with that program or are they on private line service?

**MR. G. HOLLAND:** Mr. Chairman, I believe that they're all on private line service. These are fairly densely populated areas but I'll make sure of that and inform Mr. Orchard.

**MR. D. ORCHARD:** Then I guess that further adds weight to the argument that many in the rural Manitoba areas indicate that if private line service is available in

Anama Bay or other communities — once again they make a point it's their turn — and I don't believe there was \$515 installation charges to establish that private line service in those communities, either, such as being offered as an interim step to heavy users in rural Manitoba.

So I would certainly encourage Mr. Holland and his planners in the system to proceed posthaste with the study and the recommendation to government of Extended Area Services for toll free calling as a first step, because that's a goal that is shared on both sides of the House, I think, and would be one that would be met with a great deal of support on our side of the House; and in fact, as you've indicated for several years now, is a program that was recognized as needed in 1981 and the Extended Area Service program was initiated then.

Mr. Chairman, Mr. Holland made a note of page 6, the extension of service through Valley Cablevision Ltd. to a number of other communities within that licensed area. Can Mr. Holland indicate the number of customer penetrations in those communities. Are we approaching 50 percent, are we approaching 60 percent, 30 percent of customer sign-up to cable television in those areas?

**MR. G. HOLLAND:** Mr. Chairman, I have a figure, I'll try and put my hands on it. Overall, 82 percent of households passed and I have a percentage of that which customers have taken up. Is that the figure Mr. Orchard is seeking?

**MR. D. ORCHARD:** Mr. Chairman, I think that might not give us the reasonable idea of how many people in smaller communities are availing themselves of the service of cable television, because I believe your 249,000 subscriber number includes the City of Winnipeg and cities of Brandon and other major centres, where the sign-up is considerably higher than what it is in rural Manitoba, where I think the monthly fees are approaching \$12 or \$14 per month. For instance, I was more interested in knowing what the sign-up under the Valley Cablevision was; and, of course, the bottom line being whether the systems arrangement with Valley Cablevision is a profitable one, where it's returning net revenues to the Manitoba Telephone System.

**MR. G. HOLLAND:** As I mentioned earlier, 82 percent of Manitoba households are now passed by cable television services and 81 percent of houses passed have taken cable television services.

Of the Northern systems, penetration runs from 64 to 87 percent, except for The Pas which I think is the lower figure, if that illustrates the kind of penetration that has occurred. I might say there are 50 Manitoba towns now with cable; 16 are under construction and we've quoted on a further 14, so there is a good deal of activity in this area.

**MR. D. ORCHARD:** In terms of the arrangements you have with Valley Cablevision Limited, is that generating net revenues for the Telephone System?

**MR. G. HOLLAND:** Mr. Chairman, the local distribution systems are rated individually and rated to provide MTS with a return.

**MR. D. ORCHARD:** So then could Mr. Holland tell me what the net return is from Valley Cablevision?

**MR. G. HOLLAND:** Mr. Chairman, I'll undertake to get that information. I would also like to confer with our customer to make sure they have no objections to the release of the information.

**MR. D. ORCHARD:** Mr. Chairman, I'm not after Valley Cablevision's net position. I'm wanting to determine if Manitoba Telephone System's involvement and investment there is producing a net revenue for the Telephone System. I'm not interested in Valley Cablevision's financial fortunes. We're dealing with MTS here and its financial involvement that I'm interested in, to know whether you're making a net return from that investment.

**MR. G. HOLLAND:** We'll undertake to get that information for Mr. Orchard.

**MR. CHAIRMAN:** They will undertake to get the information.

**MR. D. ORCHARD:** Thank you.

**MR. E. CONNERY:** Yes, Mr. Holland, has the subscriber penetration been higher than what MTS originally estimated when they were putting in their rates?

**HON. A. MACKLING:** On cable?

**MR. E. CONNERY:** Yes, on cable.

**MR. G. HOLLAND:** Mr. Chairman, the rates were designed, as I recall, to provide a return to MTS after 30 percent penetration, so I believe in all cases that has been exceeded.

**MR. E. CONNERY:** Then I assume that MTS has done quite well with the cable system in terms of net revenue?

**MR. G. HOLLAND:** I think I would have to make a number of assumptions to answer that question. It depends what assumptions, what periods you study, over what period the contracts are fixed, and so on. Generally, the economics of the cable television service are profitable to MTS; again, if Mr. Connery would like, I could undertake to try and illustrate the overall economics of MTS activity in that area.

**MR. E. CONNERY:** Go ahead. You were going to illustrate them, what were you going to tell us?

**MR. CHAIRMAN:** Does the member wish the illustration?

**MR. E. CONNERY:** At some point in time, we're going to get that, is that what you're saying?

**MR. G. HOLLAND:** I indicated that if Mr. Connery would like an indication of the economics of that sector, we can undertake to provide that. I don't have the information with me.

**MR. CHAIRMAN:** It'll be undertaken.

**MR. E. CONNERY:** Has MTS resolved its disputes with the Winnipeg cablevision companies?

**MR. G. HOLLAND:** Mr. Chairman, we have ongoing negotiations and consultations with all of our customers in this area; sorting out which are disputes and which are negotiations and which are discussions is difficult. In the case of the Winnipeg customers, in both cases we have signed long-term extensions of the basic principles agreement of the late Sixties.

In the case of one of those customers, we're in intensive discussions at the moment as to the economics, timing, technology, etc., of expanding the capacity of their plant. That has not been finally resolved but we're very hopeful that the current set of discussions will be finalized soon.

**MR. E. CONNERY:** Is the Minister not concerned over the length of time it takes to resolve some of these negotiations or disputes when they're ongoing, year in and year out? Where is the logjam?

**HON. A. MACKLING:** I don't think that anyone can afford to be indifferent about the time taken for resolution of disputes, but we have taken the position — as I think administrations before have — that it is much preferable for the corporation to resolve the areas of concern by direct negotiation with the major customer involved rather than government intervention, that is a last resort; and we have indicated every support to the corporation, as the corporation indicated they wanted government presence.

**MR. E. CONNERY:** My feeling is that in the area of cablevision and also the other services that can be supplied through the cable system, is that MTS wants to be the retailer rather than just carrying the main line, and I think this is part of the area that I have a concern that MTS should be providing the basic service and that enterprise should be doing the rest.

**MR. G. HOLLAND:** Mr. Chairman, I think that has been policy since the days of the Canada-Manitoba Agreement of 1976, or thereabouts, where the provincial interest was defined as the network and the infrastructure and the licensure content, programming, retail regulation were all matters for the federal jurisdiction.

**MR. E. CONNERY:** If that's the case why was MTS so concerned over having to drop ownership?

**MR. G. HOLLAND:** I believe, Mr. Chairman, we regarded that as part of the network infrastructure and hence a provincial matter.

**MR. E. CONNERY:** It was a method of controlling other services that could be put down the cable and MTS should be only the cable and once it's taken off there then private enterprise should be doing the marketing.

**MR. G. HOLLAND:** Well again, Mr. Chairman, the interest was in getting to the terminal in the residence

or business, and of course the drop was an important part of that as is inside wiring. But all of the entertainment services are marketed by our customers. MTS does not retail or market the entertainment services.

**MR. E. CONNERY:** In the past there has been in MTS pass-through or charges of increase in service charges. Some of the problems in the past have been that notice to the customers has not been far enough in advance that they could then apply to CRTC for approval, and in many cases cable customers had to absorb that cost because they didn't get approval from CRTC to pass it on to the customers. What is the position now with MTS vis-a-vis giving adequate notice?

**MR. G. HOLLAND:** I recall one incident where that did in fact happen and I believe we made special accommodations for the customers recognizing the time that they required to make adjustments, and I don't think there's been a repetition of that problem since then.

**MR. E. CONNERY:** You said there was an accommodation, in what form?

**MR. G. HOLLAND:** I'll have to validate my recollection, but I believe that we did negotiate with each of the customers and either adjust the request that we had made or delay the implementation, but I will have to go back and get that information.

**MR. E. CONNERY:** Well I can tell Mr. Holland that in all cases that wasn't true; that there are instances where the charges were collected and the customer was not able to pass them on because of inadequate notice to then apply to CRTC for approval.

**MR. G. HOLLAND:** I can only say, Mr. Chairman, that MTS does recognize that particular problem. We have tried to be very reasonable with each of our customers, and if that isn't the case we'll have to go back and discuss it further.

**MR. E. CONNERY:** I know the one instance in Portage, Mr. Holland, where the charges were put through and we objected to your personnel, that we didn't have adequate time. We immediately applied to the CRTC and of course they were saying, well the CRTC should be able to do it in that length of time. As you know, the CRTC can operate in wierd and wonderful ways sometimes and are very slow. And we objected or . . . No, the request was there to delay the implementation of the charges until CRTC approval had been achieved and were turned down. So we know for sure then, and I'm sure if was in one case that it has been in other cases.

**MR. G. HOLLAND:** Mr. Chairman, again my recollection was that we had negotiated reasonable arrangements with Portage Cablevision and I'll go back and ask for a report and send a copy of that to our customer.

**MR. E. CONNERY:** I'll appreciate that.

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

**MR. J. DOWNEY:** Thank you, Mr. Chairman. My first comment is to thank the Manitoba Telephone System for action they took to check out the interference of a constituent of mine dealing with a microwave tower. We're very active in trying to resolve the problem. I haven't checked with the resident recently but I am quite satisfied with the effort that was put forward to try to resolve the difficulty.

The area that I want to deal a little bit more with, and that's the Extended Area Service which I'm not clear on, and on Page 5 of Mr. Holland's opening remarks, that is the Extended Area Service, and in one paragraph he's indicated that there are 121 exchanges now enjoying the EAS in Manitoba, in which are included the towns which I am concerned about, of Deloraine, Hartney and Oak Lake, and Wawanesa. Then we go to a paragraph further down and there are only five pairs of communities. Was that the ones that were brought on in 1985-86, if that's what he's saying, that's an additional amount of areas?

**MR. G. HOLLAND:** Yes, Mr. Chairman, there's some 220-odd exchanges and 121 of those are in some form of EAS. We added five in the year just ended.

**MR. J. DOWNEY:** To be clear on it, I know that the Town of Deloraine for many years has been requesting an upgrading so that they can call, for example, to Goodlands and back and forth through the Melita exchange. Is that now available to that town and that area? Are they now able to make those kinds calls without incurring toll charges?

**MR. G. HOLLAND:** Mr. Chairman, Deloraine has not been added to this program to this point, primarily because it is quite a self-sufficient town and area. They do have the basic services and we are giving priority to the very small exchanges which incur toll charges when they call the dealer and other basic services. So as I say, Deloraine is quite self-sufficient.

The other aspect regarding Deloraine is that Melita on one side already has a very large exchange and Boissevain already has a very large exchange, and it isn't too clear yet as to what areas should be added to which exchange. I have discussed this with their municipal authorities.

**MR. J. DOWNEY:** It's been a long-term problem with that community dealing particularly with towns such as Goodlands and Medora, to some degree trade quite extensively with Waskada; and they find the long-distance toll between those two communities somewhat annoying. They have been continually asking for some consideration in that regard. I would hope that the Telephone System would be aggressively trying to resolve that problem because it isn't a new one. It's been on the agenda of that community for a long time and I hope that it hasn't been forgotten.

**MR. G. HOLLAND:** Mr. Chairman, it certainly has not been forgotten about. They've made their representations very strongly. As I say, it does represent a rather unusual situation, in that it's not quite clear which is the major trade centre and which communities wish to be added to which exchange; so it is a somewhat unusual area.



**MR. J. DOWNEY:** Another area of concern, and I just have a letter prepared to go to the chairman of Manitoba Telephone System and that is dealing with the private line.

As I understood the policy — and you could help my recollection — the policy of the Manitoba Telephone System is that the maximum charge, particularly in rural ridings or rural areas, would be \$500 per installation for any individual requesting a private line. Is that not a policy that has been in place for two or three years?

**MR. G. HOLLAND:** Mr. Chairman, if facilities are available — and I should underline that — on every occasion, we will offer individual line circuits to customers at what was \$500, a one-time charge. That increased to \$515 with our recent tariff adjustment and the addition of a \$3.10 monthly ongoing premium charge.

**MR. J. DOWNEY:** Mr. Chairman, there is a constituent of mine, in the case in which he has presented to me, that does not fit this policy guideline. I think initially the service was available and the information was not provided to him in this manner. Subsequent to his initial request, when there was service available or accommodation available, he went to make application or discuss it with them and found out, at that time, there wasn't any connection available and it would cost him a more considerable amount of money.

So I'll be providing the chairman with a specific case and a specific individual, because it appears at this point that there has been some unfair treatment for a farm resident probably over an oil company. I think the importance of a viable farm operation is no less than that of a viable oil company. I think this telephone service should be made available equally to them with the same policy application.

So I will be providing the information to him and would appreciate the matter being looked into, so fair application could be applied to those individuals. Thank you.

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

**MR. H. SMITH:** First I'd like to say that I am very pleased with the telephone service as a whole. I think the rates have been very reasonable and the service is tremendous. I don't want to give you the wrong idea. I think it's very very good. But I am sort of concerned about an individual who requires repair; something has interrupted their telephone service. Do you have a priority list of how you respond as a company to repairs? Do you, in effect, have different categories where you respond faster to some than to others?

**MR. G. HOLLAND:** Mr. Chairman, we have a very well-trained, sensitive group who respond to the 611 situations. They are encouraged to make judgments on the urgent and emergent situations and give them priority, according to the staff resources that we have available. They normally do a very good job in that area, if the customer makes known the situation.

I must say that we are very much prone to peak loads. A customer moves at the beginning of the month, and particularly at the beginning of the spring months,

or when there has been a downfall and we have water in the distribution networks; that adds tremendously to the load.

**MR. H. SMITH:** Do you give preference, for example, to a business over a residential consumer in responding to a repair problem?

**MR. G. HOLLAND:** Mr. Chairman, I don't believe it's a matter of giving preference. Under our new structure, what we have tried to do is to get our marketing, sales, installation, repair crews together; and we have done that for our large business customers who depend very very heavily on telecommunications these days. So what we're trying to do is to develop specialized crafts people who are familiar with the very sophisticated data networks of the banks or the retail stores and who can respond very very quickly to outages in those areas. Similarly, we have congregated our resources for small business and residential, and they are specializing with that group of customers.

**MR. H. SMITH:** Mr. Chairman, we live in a democracy and I think elected members, either provincially, federally or civically; if their phone is out of order for a considerable length of time — and I know personally I have phoned you and you have responded — but I really think it should be a policy to give priority; because I think when people phone an elected member and the phone is out of service, I think it interferes with the democratic process. It's not a question that I would like my own personal phone — I'd like all telephones of elected members having some priority over, for example, an ordinary resident because most of the phone calls are to deal with business of government. Would you consider that point of view?

**MR. CHAIRMAN:** Before I call on Mr. Holland, may I remind all members that there is no longer privilege to smoke within the Committee Room.

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

**A MEMBER:** When I'm the only smoker in this big huge room, I thought you'd be tolerant of the rules.

**MR. G. HOLLAND:** Mr. Chairman, elected officials are one of the priority groups with our 611 service, I hope Mr. Smith has experienced that.

**MR. H. SMITH:** No, I haven't. I'm saying that if I phone you at your office, it's ratified right away. In fact, I remember one time I just went up to 7-11 two blocks away and phoned. By the time I walked back, there was a truck, which was phenomenal.

That's what I'm saying, that when I phone in for the repair service, — (Interjection) — Well, I get a little excited at the moment but I'm not excited now, but I'm just saying it's a thing I think we should consider because I think democracy is important, I think people having a problem or concern, if they leave it be for a few hours to get back to you or a couple of days to get back to you, it may not be as much a concern than right at the moment. The most concern is when it affects them immediately and they're upset and they want to reach their elected representative.

I think it's not good to have a situation where they cannot reach you. I get very few personal calls, as my friends across the way talk about my having very few friends, but I do get business calls and I do appreciate having them be able to reach me. You wouldn't consider that?

**MR. CHAIRMAN:** If I may make an observation, if democracy is important, every citizen should be treated equally under the law.

**MR. D. ORCHARD:** Mr. Chairman, I don't normally agree with you interjecting comments, but I have to say that that one is an appropriate comment.

**MR. CHAIRMAN:** I asked permission from the members of the committee before I made the comment.

**MR. D. ORCHARD:** Did you?

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

**MR. A. DRIEDGER:** Thank you, Mr. Chairman.

I have a few remarks and questions I'd like to raise. I had the privilege of attending a meeting in the Ile des Chenes area with Mr. Holland and found it very informative and I want to first of all compliment Mr. Holland and his staff that did come out to an area like that and meet with the people. I think it does a lot for the P.R. aspect of it.

I'm wondering at this stage of the game if Mr. Holland could indicate, in view of the meeting that was held there, what the situation is at with the request from the people in the Ile des Chenes area, I think they had a sort of a various option program. What they were really hoping for is either get a bigger district where they could phone from. They're caught in a very unique situation out there and I think the chairman knows that. I'm just wondering if he could indicate whether there's been any further development in that area.

**MR. G. HOLLAND:** Mr. Chairman, I think that is another special situation and that is the Winnipeg periphery.

The Ile des Chenes customers at the moment have access to quite a large calling area, but the fact is that most of them are transplanted Winnipeg people and they want free calling to Winnipeg. They work and they commute and so on.

This puts MTS in an extremely difficult position because we really then, in making our recommendations to the board, we have to decide whether or not their need is of higher priority than the other 220 exchanges and Winnipeg is such a drawing card in this province. It's a very unique situation that everyone really shops in Winnipeg at one time or another and, of course, the rates for the Ile des Chenes residents are absolutely modest and minimal, compared with the resident of Pine Falls or Vita or Ste. Rose, who also probably calls Winnipeg fairly often.

So we're going through the process at the moment of trying to prioritize those needs and fit it into the broader study that the Minister has requested. We undertook to do that with the residents of Ile des Chenes.

**MR. A. DRIEDGER:** I think Mr. Holland agreed that it is sort of a unique situation. What happens when you

have these bedroom communities, for example — Ile des Chenes is what I at least classify that — most of those people are working in the city. They phone across the street and it's already long distance. Well, I shouldn't say across the street, but virtually.

We have people on the Winnipeg line, three miles west of Ile des Chenes, and we have them, I think, and I don't know how far it goes, on the east side, I'm not that well acquainted with it. But they have a real, genuine desire, and I certainly support it very much. To me it makes sense. If you have just a little block in there, that basically the district south that they're on, which I think is the Lorette exchange, goes all the way to heaven knows where, out to the east, but that is not their concern. I don't think they'd mind at all if they had to phone long distance to everyone of those places to the east of them. Their concern is this way.

As I indicated before, they're almost boxed in, Mr. Holland, you do have the petition there, I believe. There's a lot of genuine concern there and I'm just wondering what can be done to further influence the decision of the Manitoba Telephone System to consider getting them connected to the Winnipeg directory.

**MR. G. HOLLAND:** Mr. Chairman, in our report to the committee this morning we've done comparisons of the inter-toll rates; and I think that Mr. Driedger will see that the Ile des Chenes residents are getting a comparatively very good buy in their toll charges.

I should also point out that the Winnipeg exchange covers a very large territory at the moment. But having said that we're preparing a response to the Ile des Chenes residents at the moment. The obvious answer is that if that is not considered reasonable, we will have to meet again and discuss it further until we come to some sensible conclusion.

**MR. A. DRIEDGER:** A further question then. If a response is being drafted at the present time, are there changes that are being looked at that are going to be taking place or is it just a clarification that's going to be sent to them?

**MR. G. HOLLAND:** The response generally will make two points, and one is that the Minister has called for an overall review of the situation and, pending that review with the Minister, we can't really say definitely what the ultimate position will be.

The other point of it is a very sincere effort on our part to try to illustrate that MTS is being extremely equitable and fair with the present arrangements.

**MR. A. DRIEDGER:** When you make reference to the direction that the Minister is giving you, in terms of looking at and reviewing the whole situation before any changes take place, what time frame are we looking at in terms of — what is this, a three-year review, a five-year review, a six-month review before some definite conclusions will be drawn?

**MR. G. HOLLAND:** I mentioned earlier, the Minister has said "soon" and we are hoping to get some proposals and alternatives to the MTS board by the end of September.

**MR. A. DRIEDGER:** I appreciate that, because I have more confidence in that kind of statement than the

Minister saying "soon." We've had those kind of things and that's quite open-ended.

I have just one further comment. This total review, that includes all the directories across Manitoba. For example, the rural areas and making reference to the Town of Emerson which has their own dialing area and then you have Dominion City or the R.M. of Franklin area. Would these all be looked at in terms of maybe expanding some of the phoning areas that they can get without long distance? Because we have, for example, I'm in one of the more fortunate situations where I'm affiliated with the Steinbach district and I can phone all over the place, and I have a big range that I can cover that is not long distance; whereas you have places like . . . may be the big distances when we talk of the Vita exchange, we talk of the smaller exchanges out in that area, we talk of Dominion City and the Emerson area. Would these be areas that would be looked at as well in terms of possibly expanding the calling range?

**MR. G. HOLLAND:** Mr. Chairman, definitely. I think I've indicated that that's one of the complexities of this particular topic, and that is the necessity for MTS to be equitable and fair to all of the exchanges.

**MR. A. DRIEDGER:** I just have a question and this is more on an information basis. When you amalgamate two exchanges, what is the cost involved? I know there's revenue lost but what is the cost involved in terms of when you amalgamate two calling districts, for example? Is it a major thing? You don't have to run new lines or anything like that. Is it just a matter of within your buildings that you have that you make adjustments in there, or is there a major cost involved?

**MR. G. HOLLAND:** There are a number of elements. One, of course, is the loss of toll revenue is a cost

**MR. A. DRIEDGER:** It always makes me nervous.

**MR. G. HOLLAND:** The second one is that it does require re-engineering to configure the exchange to handle the revised manner of handling the calls.

And the third one, of course, is straight capacity because when toll charges are removed, the incidence of calling and the holding times increase substantially which means more switching capacity and probably more circuits and so on. So there are a number of costs involved in it.

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

**MR. E. CONNERY:** Yes, on your mobile phones. I put one in this spring. It's a private line that you dial through the Portage — well, not through an operator, it's not a mobile, no; you just dial it through — but it only is good while you're within range or 30 miles of the Portage station. So when I'm in Winnipeg from Elie on, basically I can't use it. Are you looking to extend that so that it also connects in with Winnipeg?

**MR. G. HOLLAND:** I would have to find out what service Mr. Connery has. There are three broad classes of service and one is the automatic service in Winnipeg

which you dial yourself and it is a completely confidential private line service.

The other one is the public mobile telephone system which is, in effect, a party line. You have the customers all using one circuit and the operator places the call for you.

And the third one is really a private system used frequently on the farms to interconnect from the farmhouse to the barn, to the tractor, and there is provision now for interconnection services on that.

So, if I may, I'll check and see what service Mr. Connery has and describe the options.

**MR. E. CONNERY:** It's the first one you described. It's one you dial yourself and it's a private conversation, but it's only good when I'm within range of Portage. So, half of the use or the time, in say coming into Winnipeg, if I want to talk to the Member for Pembina on our plans to defeat the government I don't want anybody else listening in.

The phone is not a cheap phone and it would make much more sense for people from the outlying areas to come in and once they get beyond their local to be able then to connect into Winnipeg.

**MR. G. HOLLAND:** Mr. Chairman, he has the TRAX service so-called and Glover Anderson may have some helpful comments on it.

**MR. CHAIRMAN:** Mr. Anderson.

**MR. G. ANDERSON:** Mr. Chairman, I think Mr. Holland is right. He's talking about TRAX-80 service which operates on a different frequency band than the automatic system that's employed in Winnipeg. We'd have to add a station in Winnipeg to provide that service.

Presently, we're contemplating another type service called Cellular for Winnipeg. So right now, the two aren't inter-connectible.

**MR. E. CONNERY:** I am concerned over the cost of that particular service and how it is not going to be readily available to a lot of people because of the cost. I'm told by people who have been down in the States that they can buy a similar system at a fraction of the cost. What does that particular piece of equipment cost MTS?

**MR. G. ANDERSON:** Mr. Chairman, the service that you have presently I am not familiar with the cost, but it is probably more expensive than the service you're talking about in the United States. The mobile costs are a little more expensive.

**MR. E. CONNERY:** My information is that there's a high mark-up in this particular TRAX system. If you're using a very high mark-up because you're paying a monthly fee of \$17 for the monthly use of it, but at that sort of rate it precludes a lot of people from making use of it. I think if it was more of a reasonable cost that more people would make use of it. Could that information be passed on to me at some point in time?

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

**MR. G. HOLLAND:** I think, Mr. Chairman, we can give a background to the TRAX service which was done,

as I mentioned earlier, as a convenience to the farming community, largely, to permit interconnection in that area and we can describe the general rating policy that's followed on it, which I think is quite reasonable.

**MR. E. CONNERY:** It was the financial rating I was looking at.

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

**MR. A. BROWN:** Thank you, Mr. Chairman.

My question is regarding some of these small exchanges and certainly Emerson is one of those which is a relatively small exchange. There are no major farm dealers in Emerson, and some of the fellows who belong to that exchange say that at least 90 percent of all their telephone calls that they are making are long distance, because they do not have the type of service within the Town of Emerson which they require and therefore they have to phone other towns and, of course, in through other exchanges.

Now, I have asked this question before and I wonder, is anything being planned as far as Emerson is concerned to put them into a larger area? And if you are planning them, how soon could we expect some changes being made over there?

**MR. G. HOLLAND:** Mr. Chairman, I believe we've had representations in the past regarding Emerson, and I stated earlier, we will be looking at all exchanges trying to insure that we proceed in a manner that is fair and equitable to all of them.

**MR. A. BROWN:** Well, I can sympathize with the people in that particular area, because Emerson really is a fairly small centre itself and for every call that you make, or almost every call that you make, that you have to go into a long distance charge, then it is inconvenient. So I would appreciate it if the Manitoba Telephone System would take Emerson into consideration and possibly help those people out.

It's a very densely populated area, by the way, to a farming community, especially and they do need this tie-in. They would like to be tied in with Altona, if this were possible.

**MR. G. HOLLAND:** Mr. Chairman, we will take Emerson into account in our review.

**MR. D. ORCHARD:** Mr. Chairman, a couple questions on the most recent discussion, the TRAX system that's in Portage, as I understand it, is not compatible with the private air system that's in Winnipeg.

**MR. G. HOLLAND:** The automatic system in Winnipeg serves only Winnipeg and is not compatible; it's on a different frequency.

**MR. D. ORCHARD:** Mr. Chairman, I guess that begs the question as to why the planning by the System wouldn't have attempted to put a compatible system in place, so you could attempt the type of mobile communication that Mr. Connery is referring to. Why would you have gone with two different systems?

**MR. G. HOLLAND:** I think I should defer to Mr. Anderson again.

**MR. G. ANDERSON:** Mr. Chairman, the system in Portage is a low-capacity, relatively low-cost system, intended to serve our customers until we get our cellular system in service and expand it throughout the province. We can't expand the existing automatic system in Winnipeg. It's at full capacity.

**MR. D. ORCHARD:** Mr. Chairman, in the Annual Report that we're dealing with, there's a mention on Page 7 of: "Individual line service continues to be popular in the Province as well, and MTS provided it to 545 multi-party subscribers who qualified for the service under MTS' density criteria." What are those density criteria?

**MR. G. HOLLAND:** Fifteen customers per route mile is the density criteria for our program.

**MR. D. WARDROP:** That is correct. My recollection is, I believe it's 15 customers per mile would be our criteria to move from a multi-party offering to a single-party offering.

**MR. D. ORCHARD:** 15?

**MR. D. WARDROP:** 15, I believe.

**MR. D. ORCHARD:** The next line mentions: "Total multi-party customers decreased by 349 through 1984-85." How many are still on multi-party in the province? How many telephone customers?

**MR. D. WARDROP:** There are approximately 49,000 customers still on multi-party service in the province.

**MR. D. ORCHARD:** Mr. Chairman, can Mr. Holland indicate in rough dollar figures, what the Telephone System's expense is of presenting requests for a rate increase to the Public Utilities Board with the documentation that they require and the time it takes, etc.? Have you got a rough figure on the cost of that to the System?

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

**MR. G. HOLLAND:** Mr. Chairman, I can ask Mr. Beatty if he has any estimate. Again, it depends on the assumptions here. With one exception, MTS has managed the application process entirely with our permanent staff. We have not retained consultants. So would Mr. Orchard be including an allocation of our staff time to that cost, or just the costs of the proceedings and the witnesses and so on?

**MR. D. ORCHARD:** Mr. Chairman, surely the Telephone System must have an idea of what it costs them to go to the Public Utilities Board because, if you're not going for a rate increase, your staff presumably is employed in their regular duties of planning the future of the Telephone System. There must be, I would think, an assignment of their staff costs, etc., for the specific duty of appearing before the Public Utilities Board for a rate increase. So whatever the approximation of that would be is what I'm seeking.

**MR. G. HOLLAND:** Mr. Chairman, I'll ask Mr. Beatty if he can make a rough estimate. Again, it's somewhat

difficult, because I believe it's only in the last rate case that we are being taxed with the costs of interveners and their expenses, so it is changing as well.

**MR. CHAIRMAN:** Mr. Beatty.

**MR. K. BEATTY:** Mr. Chairman, I'm sorry, I can't provide Mr. Orchard with any exact figures. The out-of-pocket expenses for the System, in the sense of Public Utilities Board costs, etc., the interveners' costs in the last rate case is approximately about \$100,000.00.

**MR. D. ORCHARD:** Mr. Chairman, that would be out-of-pocket costs. Then certainly if we were to do something akin to enterprise accounting, as the System does, there would certainly be additional staff costs which — if I could hazard a guess — might easily double that because we've got our senior people in the Telephone System highly involved in any application for rate change.

Mr. Chairman, I'd like to ask the Minister if, in November I believe when the rate increase was first proposed, November of 1985; was the Minister approached as to the System's intent to apply to the Public Utilities Board for a rate increase?

**HON. A. MACKLING:** Yes.

**MR. D. ORCHARD:** Mr. Chairman, was there a request made for a certain level of increase by MTS in that initial discussion with the Minister?

**HON. A. MACKLING:** Yes, I believe a percentage increase was indicated; it would be the board's intent.

**MR. D. ORCHARD:** Mr. Chairman, is the Minister saying that his initial knowledge of the requested rate increase was the same one as was filed?

**HON. A. MACKLING:** No, I don't think that we need to spar about this. I don't deny the fact that the Telephone System board felt that a larger rate increase was warranted. Government was involved in concerns about sending messages throughout the province in respect to levels of expectation, in respect to not only service demands but wage demands and we wanted a message of a very reasonable rate increase. So the board did agree to a 3 percent application.

**MR. D. ORCHARD:** Whose wage demand was the Minister and his government concerned about?

**HON. A. MACKLING:** I don't recall precisely which, if any, specific group was a matter of concern, because as the honourable member knows, it was realized by this government that we were facing extremely high demands for increases in services, a continuation of growth in demand for a great range of social services; whereas we're facing a very sharp reduction in revenue, a large part of which we received from the Federal Government. Given the fiscal constraints that the province was looking at, we wanted to send a message of caution and reasonableness throughout Manitoba and that kind of message was given throughout the system.

**MR. D. ORCHARD:** Mr. Chairman, I just want to correct the Minister on one of the statements about reduced federal funding. That is not the case and he knows it. It can't be used for an excuse here.

Mr. Chairman, long ago, and quite frankly, this is an area that I have raised with the Manitoba Telephone System over the last several sittings of this committee. We pride ourselves on having the lowest telephone rates in Canada and, once again, an attachment to the president's report illustrates that. But I have pointed out on previous sittings of this committee, that we are able to achieve that because we have one of the highest debt equity ratios. I think the system recognized that debt equity ratio was a problem, particularly in terms of a changing telecommunication world, where you have to be flexible in terms of retirement of old outdated, outmoded technologies, and flexible in your ability to borrow to bring in new technologies and the capital investment that's required to bring in those new technologies.

On January 25, 1985, in the Echo, Mr. Roger Ballance is indicating that we also have to deal with our high debt ratio. The substance of his article indicates a desire to reduce by 1 percent per year, the debt equity ratio in the corporation. He uses a comparison of B.C. Tel and Bell Canada enjoy debt equity ratios of 50 percent, while MTS's is 84.2 percent.

Now I've submitted all along that's one of the reasons why we have a low telephone rate in the Province of Manitoba; because had we achieved the 50 percent debt equity ratio. Our rates would have had to have been somewhat higher and probably substantially higher, but that's a decision that's made to keep rates low and debt equity high.

Now Mr. Ballance goes on to say that a high debt ratio might be acceptable in a low risk environment but is removed to a more competitive climate and with inherent business risks, we need more financial flexibility.

Mr. Minister, when the first news of the increase came up, you indicated — whether you were correctly quoted or not, because this is the Free Press, and I know how they have been plagiarizing you people with misquotes and misinformation — but the newspaper of November 7, 1985, indicates Al Mackling, Minister responsible for MTS, said that the utility has to take steps to balance a debt to equity ratio, which is not as favourable as other Canadian utilities. Yet at the hearing, Mr. Provencher, under presenting of evidence, indicates that the current application for a 3 percent increase does not allow MTS to meet its financial goals for debt ratio reduction and return on invested capital.

Mr. Chairman, the Minister clearly intervened on behalf of MTS and the reasons the Minister gave to intervene may have been part of the picture, may have been part of the concern, but he can't on the one hand say that the debt equity ratio is a major concern and then impose a rate increase which, as has been indicated in this Financial Report, Page 2, that as a result of the deficiency, net revenues estimated that MTS's debt equity ratio March 31, 1986, will be approximately 84.2 compared to 82 at March 31, 1985, a 2.2 percent increase. That isn't considering this coming year where the rate increase that was imposed by the Minister will result in a \$500,000 deficit by the Manitoba Telephone System, so that debt equity ratio

may well climb further; yet the Minister says they need a rate increase because they've got to reduce their debt equity ratio.

Mr. Chairman, the reason why I submit the Minister and the government intervene with the Telephone System was yet another area where they wanted to hide the reality from the people of Manitoba of what has happened in the Manitoba Telephone System and other Crown corporations and other areas of government under their administration prior to an election.

I think we have to recall the Cabinet document that said you do nothing controversial for the next two years. At an 11 percent rate increase, which was deemed sufficient by at least Manitoba Telephone senior management — whether the board concurred or not, I can't say — but an 11 percent increase just prior to an election would certainly not have been a non-controversial incident to put before the people of Manitoba prior to a general election. So what we've seen is the interference of this government in this Crown corporation, yet another Crown corporation that they're interfering indirectly.

What is troublesome about it is that there are some significant costs going before the Public Utilities Board; \$100,000 in direct costs that would not have been there had we not gone, because that's the cost of paying interveners, etc., etc., in preparing for the Public Utilities Board, outside of taking up some very valuable staff time, preparing for that rate application which was going to produce a \$500,000 loss.

Now I hardly think that fits with this image of careful stewardship that the NDP are trying to tell the people of Manitoba that they are capable of doing. That is wrong-headed interference and it's going to lead to higher debt equity ratios in the corporation, something that they recognize as a danger signal. It doesn't give the correct message to the people of Manitoba. It leaves them under a false security, but I have to give the Minister credit. The false security worked because there was no controversy over the telephone rates prior to an election; but I submit it was political interference for a political purpose and none other.

Now the system is going to, no doubt, in the next number of months, be preparing once again an application, at which we will be before the Public Utilities Board, at which the users of Manitoba Telephone System will be paying for the costs of the interveners, a new cost they haven't had to bear in the past. Senior staff of Manitoba Telephone System will be dedicating their time to preparing an estimate, instead of dealing with some of the day-to-day problems in the Telephone System. I suggest that's interference that is going to cost the people of Manitoba a significant amount of money over the long term, and it was another one of the short-sighted political decisions made by this government in building up to an election.

**HON. A. MACKLING:** Mr. Chairman, I'm certainly not going to engage the member in a debate as to what his political antenna suggests might have been some other motivation for the Minister or this government. He can speculate what he will. I would draw to his attention that there have been relatively more frequent applications to the Public Utilities Board for rate base

changes because of the demands on the system to keep abreast of technological change, and the introduction of the improvements to the network involve costs. We make no apology for the fact that we may be faced, for some time, with a need to be going back reviewing our rate structure much more frequently.

I would point out that the honourable member knows that during the period prior to the application, we were faced by the challenge of the CNCP application which we knew, if granted, would seriously affect the rate structure of the MTS. While we succeeded, as part of the opposition to the CNCP application to the CRTC, the CRTC decision has telegraphed a message — I shouldn't use that word telegraph — has clearly indicated in its decision that there will have to be rate rebalancing. It is their opinion that the long distance rates are too high compared to local rates. Therefore, we were looking forward, not with pleasure, but we recognized, as a government, that we were going to have to face a review of our rates in accordance with the concerns that the CRTC had presented. The decision of the Public Utilities Board gives us that opportunity to make a more comprehensive review of our rates utilizing outside consultants so that there will be a very careful assessment as to a rate structure.

In addition to that, Mr. Chairman, I would remind the Honourable Member for Pembina that this Minister had already concluded that there were demands on the system, expectations on the system throughout Manitoba, that would involve extra costing to the system. We talked earlier this morning about expansion of the calling areas and a reduction, if not an elimination, of the multi-line service. These issues have been out there for some time, but this Minister and this government sensed that demands were expected of the system that we have to answer. Given all of those factors, we would have to go back to the Public Utilities Board with a proposal in respect to rate restructuring when we make changes to our exchange boundaries, or when we make significant changes to our system affecting individual lines.

We are going to go through a period of change where we're going to have to look at significant consideration of individual rates, business rates, personal rates, long distance rates, in Manitoba.

I make no apology for the fact that the rate application that was heard by the Public Utilities Board was a relatively simple focussed one at this time asking for an overall increase. We knew the challenge we were facing at taking a more intensive look at our whole rate system. That now is ongoing, the corporation has hired a consultant and that process now is in place.

We will have to be looking again, as I indicated, at our rate structuring when we consider the options that we're looking at because you don't change the system without it affecting the revenue requirements of the corporation.

**MR. D. ORCHARD:** Well, you know, the Minister really told us, twice now in his last two answers, how silly his interference was in the Telephone System because he's indicating that there are extra costs on the system, challenges to be met in the future which are going to require dollars and revenues to do it. He recognizes that those extra costs are there and those challenges

must be met in the future, but yet he made a political decision to deny the System of the revenues to do it; a political decision directed at one area, only, and that was the re-election of this government and not the provision of extra services; not the financial health of the Manitoba Telephone System, but purely the political health of the New Democratic Party. He said it twice now.

Mr. Chairman, can the Minister indicate whether he has had any indication from the Board as to whether they will be approaching the Public Utilities Board for another rate increase within the next six months and whether he has had any indication from the Board as to what the magnitude of that rate increase might be?

**HON. A. MACKLING:** The honourable member will recall the decision of the Public Utilities Board that the corporation is to file with the Board a study on rates, so that the question is ongoing, it's not a question of whether there will be a new application. The Public Utilities Board has asked for a study to be made which certainly is expected to mean that, at that time, the Public Utilities Board may be recommending some changes in rates.

**MR. D. ORCHARD:** Mr. Chairman, let's pursue the consulting study on the rate structure of the Manitoba Telephone System.

I understand, from answers by the minister, that it's currently ongoing. Who is undertaking this — I understand that it's a consultant from the Minister's answer. Who is undertaking it; what's the consulting firm's name; where are they from; and what is the cost of this internal rate study?

**MR. G. HOLLAND:** Mr. Chairman, the review is just starting. I think they hope to be here next week. The consultants are from Bell Canada and the estimated cost is \$132,000 maximum.

**MR. D. ORCHARD:** And I presume they are from Central Canada, from Ontario?

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

**MR. D. ORCHARD:** Mr. Chairman, there was no one with that expertise available within the province presumably?

**MR. G. HOLLAND:** Mr. Chairman, we have had seven or eight rate applications to the Public Utilities Board, with one exception, by MTS staff. Obviously we have some very proficient knowledgeable people in tariff and rates policies.

The purpose of this particular study, however, is to relate the MTS accumulated decisions over the years to trends in other jurisdictions. Our view was that we did consult two different groups to obtain proposals, but the final conclusion was that the expertise was very definitely with the Bell Canada personnel.

**MR. D. ORCHARD:** I take it that this was not necessarily a contract awarded to the lowest bidder on a tendered proposal.

**MR. G. HOLLAND:** Mr. Chairman, we provided two entities with a fairly detailed description of what our

Public Utilities Board had requested; how we thought that should be rolled out and studied, the major elements of the study; and provided the same information to two entities. Obviously, there are many factors to consider when you're choosing consultants, and cost is not the only one. In this particular case, we did take the lowest cost option.

**MR. D. ORCHARD:** Bell Canada was the lowest cost option, as you've indicated, and what is their time frame for completing that study?

**MR. G. HOLLAND:** Mr. Chairman, barring unforeseen difficulties or difficulties in collecting the data that's required, we expect it will be finished by late September. There may be some aspects going on beyond that, but the basic review and study should be finished by that time.

**MR. D. ORCHARD:** Moving on to another area dealing with the debt structure of the corporation.

Page 6, debt charges were 60,978, etc., reflecting more favourable interest rates due to use of short-term borrowings. Now, that was for '84-85. Was that at the advice of the Finance Department, or how does MTS go about the decision of whether to go short, long, when to go to the market? Is that on the advice of the Finance Department of the Province of Manitoba?

**MR. G. HOLLAND:** Mr. Chairman, our Treasurer and Vice-president of Finance consult very closely with personnel of the Finance Ministry, and MTS is also considering context with the broader provincial cash flow requirements, financing requirements, but we normally agree on the best financial policies to follow.

**MR. D. ORCHARD:** So, Mr. Chairman, does that mean that you rely on the advice of the Manitoba Department of Finance personnel?

**MR. G. HOLLAND:** Mr. Chairman, they have some very experienced personnel in this area and so do we. We urge our staff to provide their own independent advice to the MTS board, but really there is general agreement on those policies. The only significant difference I can think of is off-shore borrowing, and MTS has suggested that we not do that, simply because of the difficulty of MTS managing unexpected risks from that source. Our capital cycles and our regulatory cycles and our financial cycles are lengthy. It's very difficult to respond quickly, so we've suggested that, and Finance has agreed, that generally we should borrow in Canadian funds.

**MR. D. ORCHARD:** Well, I think that's probably a financially sound decision, but I would suggest that probably if MTS gets the first cut of money out of the Canadian market then Manitoba Hydro and other Crown corporations will be placed on the foreign exchange market because our borrowing requirements are so massive in the next several years that MTS will be the winner by having their financial experts persuade the financial experts in the Finance Department to let you have the good money.

Mr. Chairman, is the Telephone System still in the short-term market, or have you gone into the longer-

term market since this observation in the '84-85 Annual Report?

**MR. G. HOLLAND:** Mr. Chairman, perhaps I could ask Maurice Provencher to comment on that.

**MR. M. PROVENCHER:** Mr. Chairman, subsequent to this Annual Report, we've had two long-term debt issues.

**MR. D. ORCHARD:** Mr. Provencher, were they offshore or were they Canadian?

**MR. M. PROVENCHER:** One was Canadian and one was U.S.

**MR. D. ORCHARD:** Is U.S. considered to be all right by that corporation?

**MR. M. PROVENCHER:** Yes, the interest rate was very effective and, if you consider the current exchange rate for the Canadian and U.S. dollars, we feel it would be a very effective issue.

**MR. D. ORCHARD:** So then is it fair to assume that you're avoiding the short-term market now and have a preference return to the longer-term market?

**MR. M. PROVENCHER:** Mr. Chairman, there are corporate needs between long-term debt issues and appropriate timing for placement of those issues by the province where we do have need for short-term financing. We are currently being provided with short-term financing by the province, but it's anticipated that this would be rolled over into a longer-term financing within the next quarter.

**MR. D. ORCHARD:** The reason I posed that question, Mr. Chairman, is that if we take a look at the debt charges on Page 14 of the '84-85 report where debt charges were down, there was about an 18.7 percent reduction as a result of — if my figures are right and my percentage might be out slightly. I think it has to be out because that's only a 3.5 million on 60 million.

At any rate, if I followed Mr. Holland's statement, you're projecting, for the fiscal year that is just finished, foreign exchange debt charges of \$84 million, compared to \$61 million in round terms, and that's about a 37 percent, 38 percent increase over the year of the report we're studying to what they are now. Certainly, that cannot be attributed to simply a decision to be in the short-term market versus the long-term market. There must be other factors that have caused the fairly dramatic rise in debt charges and foreign exchange amortization that Mr. Holland shared with us this morning for the fiscal year '85-86. Was that retirement of some offshore borrowings?

**MR. M. PROVENCHER:** In '84-85, the exchange rates for the Japanese yen and the Swiss franc were extremely favourable. As such our foreign exchange amortization for that year amounted to \$93,000.00. Subsequent to that for fiscal year '85-86, the value of the yen has increased by 40 percent. The value of the Swiss franc has increased by 35 percent and this has

caused our foreign exchange to increase to about 17 million for fiscal 1985-86. The prime reason for the increase is because of the 10J Japanese issue. It matures in February of 1987 and we have a very short period of time to amortize that additional increase in the foreign exchange premium.

**MR. D. ORCHARD:** Mr. Chairman, referring to series 10J, on Page 6 of the report, you've already placed aside a portion of what you anticipate to be the foreign exchange loss on 10J, \$1,529,000, 1984-85; then the substantial portion of the increase that was mentioned this morning, from 61 million to 84 million in debt charges, is also a further set aside, I presume, to retire the 10J?

**MR. M. PROVENCHER:** Mr. Chairman, not totally. What's being set aside is the equivalent to the foreign exchange amortization. It's been set aside in our investment fund in order to pay the premiums on those offshore redemptions. There are enough securities in our current investment fund to ensure that we can pay the premiums on the 10J on retirement.

**MR. D. ORCHARD:** Is it fair to assume that when you retire the Series 10J, you won't be going into the market to refinance the original principle?

**MR. M. PROVENCHER:** Mr. Chairman, we'll have to refinance the original principle, but not the exchange premium associated with that principle.

**MR. D. ORCHARD:** So we're going to be rolling it over and we've made provisions for the exchange loss basically?

**MR. M. PROVENCHER:** That's correct, Mr. Chairman.

**MR. D. ORCHARD:** When we get into Page 17 of the Long Term Debt Report, Note 8, I believe it is. I have always been troubled when I get to the last two columns of figures where it says: "Outstanding at rates prevailing when debt incurred" and then you have the same pronouncement: "Outstanding at rates prevailing when debt incurred," but yet you end up with two different figures in Series 10E and 10J. Now if those figures truly reflect the outstanding rates prevailed when the debt incurred, why would they vary?

**MR. M. PROVENCHER:** Mr. Chairman, that's because of a partial redemption during the year. There was 1 billion yen retired during the year for 10J and I believe there was 100,000 units of account retired during that year. There were partial redemptions of those two bond issues.

**MR. D. ORCHARD:** Am I following it correctly though, when I go through that Series 10E, that that turned out to be quite a good borrowing in terms of the currency devaluating the other way. Is that a fair assumption from what's on the financial note there?

**MR. M. PROVENCHER:** Mr. Chairman, that's correct. That was an excellent borrowing vehicle.

**MR. D. ORCHARD:** Mr. Chairman, I think that deals with the debt aspect adequately. Has the Telephone



System got any concerns in terms of the long term and how quickly you should be going to the market, given the credit watch the province is currently under? Has that accelerated any of your borrowing decisions?

**MR. G. HOLLAND:** Mr. Chairman, I think the MTS borrowing authority is relatively small in the overall scheme of things. Our planning has been to ensure that our MTS financial state is extremely strong, and it is. I think that would be the responsibility of MTS.

**MR. D. ORCHARD:** Mr. Chairman, I always delight in Mr. Holland's answers because they take a number of different directions, but it didn't really answer whether you're advancing your borrowing decisions, which was the question.

In terms of the financial health, I don't know whether you can really say that with all confidence because you've had a Minister impose a rate increase on you that's going to have a \$500 million loss for this year that we're in right now. I'm not sure the financial health of the corporation is as good as the president just indicated in terms of going to the market.

If the Manitoba Telephone System does not consider the credit watch that Standard and Poor's have put on the province to have any implication on them at all; that's fine, I'll accept that. But if they are concerned, I'd like to know what they're doing to alleviate that concern.

**MR. G. HOLLAND:** Mr. Chairman, as I indicated earlier, the MTS flexibility is to do all that it can to ensure that it is very strong financially and I would submit that it has been kept in a strong financial state. Certainly successive Ministers and successive boards have been concerned about the debt ratio and the need over a fairly long period of time to see that drop, and it has dropped down as low as 82.0, in a period of very rapid growth, very heavy investment. But in the long term, the commitment today is just as strong as it has been, that that needs to go down over the longer term.

I should point out that MTS depreciation policies have been watched very very closely because rapid technological change and the change out of equipment requires that your depreciation policies follow that. Our depreciation allowances this fiscal year will be \$105.8 million which, of course, is applied towards our overall capital program and keeps our borrowing under management. We're generating a good proportion of our capital revenue requirements internally; so that process is in place.

I should mention that the pension liabilities of MTS are under management and are gradually being funded so that is being digested. Mr. Orchard pointed out earlier that we have amortized the unrealized debt on foreign borrowings, such that we are in a position to manage that premium cost without any sudden trauma or shock.

**MR. D. ORCHARD:** Mr. Holland, would you have a speculation as to what the system anticipates its debt equity ratio will be? You've indicated in your remarks this morning that it's increased by 2.2 percent, from 82 to 84.2 as of March 31, 1986. What's your anticipation of it at March 31, 1987?

**MR. G. HOLLAND:** Our current projections are that we will experience a \$9.7 million deficit overall this fiscal

year and that without intervention and having made provisions for the factors that I mentioned earlier, the foreign exchange, pension, depreciation, and so on, that would produce a debt ratio of 86.3.

**MR. D. ORCHARD:** Well that's two significant rises in two years.

Now, Mr. Chairman, can I ask Mr. Holland what the financial implication is? MTS is hooked into your revenue sharing on long distance in quite a complex formula. Under that formula, it's my understanding that the net income position of Manitoba Telephone System influences the amount of revenue sharing we get. In the ratio that if you have a high net income, you tend to share a greater percentage of interprovincial long distance.

Now given that the government has imposed on you a 3 percent increase which, this year, is going to lead to a half-million dollar deficit, has the system got an estimate on how much of the interprovincial long distance revenue sharing we would lose as a result of showing a deficit for this year instead of a profit, as would have been the case had your rate increase not been interfered with by the government?

**MR. G. HOLLAND:** Mr. Chairman, Mr. Orchard is quite right that the revenue sharing plan of Telecom Canada takes full recognition of financial expense before interest in taxes. It does recognize the need for bottom-line performance and the ability of the private members to reward their shareholders appropriately and to raise money in the marketplace. There has been an impact there; I don't have complete data here.

As Mr. Orchard also pointed out, it's very complex in that it's affected by the performance of each other member company and where they go. But I could likely develop some illustrative information.

Again I'd like to emphasize that MTS has taken some very strong financial steps which have been strongly endorsed by the Public Utilities Board, that we're right in the midst of review with the assistance of an outside consultant, the benefit of which will be made available to the Public Utilities Board. So I think all aspects will be considered in the next few short weeks.

**MR. D. ORCHARD:** But my proposition is certainly correct that, by having a government interfere with the rate application and causing a deficit position in the telephone system, has cost revenues, not only internally in Manitoba but has cost us revenues from our long distance revenue-sharing formula. It might be difficult to put a number on it; it might be politically unwise to put a number on it for the telephone system because I'm sure the Minister responsible wouldn't want the people of Manitoba to know that his decision may have cost them a fair bit of money.

But what I'm trying to point out to the Minister is the lack of wisdom in the short term — lack of wisdom — in terms of their political interference with Crown corporations. There's a point to be made that if they want to run the telephone system, do it like you do in Manitoba Hydro right now and put people in that are going to do your very best and will; but if you're expecting the Manitoba Telephone System to keep on providing improved services, you should at least have

the ability to rely on them to make decisions most of the time.

I won't give them 100 percent credit because I believe they've made some mistakes in the past. But generally when they come for a rate increase, it's often needed and political interference on the short term, as we've seen demonstrated on this last rate increase, has cost us in more ways than one in the telephone system.

**HON. A. MACKLING:** I had indicated earlier that the honourable member, of course, can make the kind of partisan observations that he makes and ignore the comments I made earlier, that the system is faced with challenge. We know that there are going to be more trips to the well to determine the balancing we have to do within our rates; satisfy the competitive demands;

the views of the CRTC; the expansion that people expect of the service.

In fact, he can say what he wishes but the matter is still before the PUB. The whole question of rates, therefore, is still before the board and he can speculate as to results but the Public Utilities Board quite rightly has said, let's have a look at the entire rating structure. We're doing that. We fully expect that there will be some further changes to rates as a result of that review.

**MR. CHAIRMAN:** The next meeting of this Committee will be on Tuesday, July 15, 1986 at 10:00 a.m. What's the pleasure of the committee? Committee rise.

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