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PUBLIC ACCOUNTS COMMITTEE

Legislative Assembly

April 12, 1978
10 a.m.

Chairman: Mr. Taylor

MR. CHAIRMAN: Will the Public Accounts Committee come to order, please.
The minutes of the last meeting have been circulated. What's your pleasure?

MR. McCRAE: Mr. Chairman, could I make a few comments on the meetings, if I might. One is to clarify what would happen a week from today. I notice on page two of the minutes that we -- by the second paragraph -- had agreed Disaster Services might be scheduled for that meeting. Then, back on page six, I believe it is, just before adjournment, we agreed we would have Mr. Rogers back to go through the public accounts books. I would presume the latter decision displaces the first decision?

MR. CHAIRMAN: The hon. Mr. McCrae and members, the latter one on page six is what we are following. It came afterwards and so we really changed what we had said at the beginning.

MR. McCRAE: Disaster Services would come at some later date.
The other comment, Mr. Chairman, has to do with paragraph three of page two, and it refers to comments I had made to the committee about litigation involving AGT. The statement in the minutes is that:

Mr. McCrae advised that certain areas of AGT were presently involved in Utility Board hearings and in light of this, questioned whether it would be appropriate to examine these accounts at this time.
Mr. Chairman, I didn't really question whether or not the accounts should be examined at this time, or before this committee. What I simply did was -- and if we would check the transcripts -- I think it's quite clear there that I just advised the committee of the litigation and suggested members would want to ask questions which would neither prejudice the litigation or the Utilities Board hearing. There is some little difference there.

MR. CHAIRMAN: Thank you. Does the committee agree that the minutes be so amended?
Any other changes on the minutes? Mr. Young.

MR. YOUNG: One very slight one, Mr. Chairman. Under ordinary circumstances I would pass it by, but the way it appears here, I don't know that I should. On page four, I'm quoted as using the expression "investigation in connection with our surplus funds". What I really wanted to deal with was the investing procedure and not the investigation of procedure. They have some significant difference in meaning.

MR. CLARK: I'm not sure about that.

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MR. CHAIRMAN: Thank you. We will make that correction. Agreed? Any other changes in the minutes?

Then a motion to adopt the minutes as amended would be in order. Is there a mover? Mr. Thompson. All in favor? Against if any? The motion is carried.

This morning we have with us the hon. Dr. Allan Warrack, Minister of Telephones and Utilities. He has brought the following people from the department with him: Mr. R.G. Ades, the President; C.L. Keatley, Vice-President, Administration; J.A. Barnes, Vice-President, Operations; Mr. J.C.D. Mallet-Paret, Vice-President, Corporate Planning and Development; Mr. A.J. Halhead, Vice-President, Finance; and Mr. H.J. Childs, Vice-President, Engineering and Construction. We'd like to welcome you, Dr. Warrack and your personnel, here today.

We will start the meeting today by asking the Provincial Acting Auditor General to outline the sections involved in the study today. Mr. Rogers, please.

MR. ROGERS: Thank you, Mr. Chairman. Volume two of Public Accounts, page 383, there is the Auditor's Report; on page 384, the Statement of Income; page 385, the Statement of Financial Position; 386, Statement of Retained Earnings and Statement of Financial Position; and 387, the Notes to the Financial Statements. I'm afraid we discovered yesterday that there was a printer's error and a line seems to have been dropped down or out of place, rather, in the section for notes payable. I can have the correct statement of that little section of about half a dozen lines at the bottom of page 388 for next week. These carry on, of course, over onto page 389. Mr. Chairman, those are the relative portions of Public Accounts.

MR. CHAIRMAN: Thank you, Mr. Rogers. Are there any questions to the Auditor in connection with these statements in volume two? If not, thank you Mr. Rogers.

I will now ask then, the hon. Dr. Allan Warrack, Minister of Telephones and Utilities, to give us an opening statement, after which the members will be able to ask questions. The hon. Dr. Warrack, please.

DR. WARRACK: Thank you, Mr. Chairman. Mr. Auditor, lady -- one -- and gentlemen. Let me say at the outset how very pleased I am and how very pleased my colleagues -- if I can take the prerogative of saying it that way -- within AGT are to have this place in the sun at this committee today. We believe in the people who work within AGT, right from the oldest to the newest, through all of the people who are involved in the important responsibilities that they not only have a job, but more important than that, a service to provide to the people of Alberta. I'm just delighted at this time to, in a sense, reiterate your introduction of Mr. President, Mr. Ades; Mr. Barnes; and Mr. Keatley, on my right; Mr. Mallet-Paret; Mr. Halhead, who is our newest vice-president in the area of finance; and Mr. Childs, who makes all those constructed ideas and constructive ideas somehow happen with his engineering magic. All of us are very pleased to have this opportunity to be before the committee, to have the opportunity to ask questions, to in fact hear comments in the continuing consultation with the public that I think is a necessary process for any who serve the public as AGT does, and we welcome this opportunity at this time.

By way of opening comment, Mr. Chairman, I would like to be brief, but I think there are some things that I should highlight. First of all, that the telephone operations of our modern era -- telecommunication if you like -- is a very rapidly changing technology and I

thought I would highlight the fact that there are two major possibilities that are on the forefront today and may be things members would be interested in and wish to ask questions about. For example, the digital technology that's gone from mechanical quite rapidly to electronic, now to digital technology; and the opportunity that AGT has had to take advantage of new technologies, partly because of the growth and expansion capacity we have in Alberta and it makes it much more easy to adjust and take advantage of technological changes that are possible.

Another that's just extremely exciting, is the whole area of fibre optics that we're developing at the present time and may soon be committing to an urban-metropolitan entry system. I am, as a matter of fact, so excited about it, I carry one around in my wallet to show people. It's also grey in color and that matches what else is happening to me, so that's another reminder.

We're certainly proud of the fact that AGT serves the city of Calgary, as its largest market by far. The significant presence of AGT and its determination to serve the people of Calgary is especially reflected now with the building that will be developed in the city of Calgary as a major element of the core of that city's viability, enterprise, and future.

I mention also the extended flat rate call system -- sometimes called "toll-free" -- but while it's toll-free, we take every opportunity, and I do so now, to remind people that there is an increase in the flat exchange rate that comes with it. But nonetheless, a very widely accepted program and one that if we're in a position to afford to do so by way of the rate case that's been on now for what, two and a half years, if it ever gets concluded so we have the financial capacity to do so, we would very much like to extend that kind of service improvement in rural and remote areas of Alberta, even further.

I'd also like to just draw members' attention to the item that was specifically mentioned in this year's throne speech in the Legislature, having to do with the very significant upgrading of telephone service to the people in northern communities in Alberta.

I have to reiterate, and it follows from the minutes of the previous meeting and the references therein from the committee meeting on April 6, referred to the alleged cross-subsidization situation in two or three dimensions. I want all members of the committee to know that this is an area that has been examined by the Public Utilities Board. There is an allegation of bias that's before the courts at the present time. It's a matter of some real interest, I know from newspaper accounts of a political leader's comments, in Alberta, and even today in the presence of persons within this entire chamber, there is some particular interest shown in that subject. I would like to be sure to draw to all members' attention the fact that this is an area that is before the courts and it's the committee's pleasure as to how that might be handled. As I understand the minutes from the last meeting, the feeling is that matters before the courts are not ones the committee wishes to deal with; however, that's a committee decision rather than mine or one of AGT. But certainly, I would want to be saying at the outset that should any inadvertent comment or statement relate in any way to matters before the courts, it would in fact be inadvertent and I think it would be important to have the understanding that those be without prejudice.

I'd like, then, just to move briefly to the area of financial review -- which of course is the primary undertaking of the Public Accounts committee -- to assure the people of Alberta that the policies set forth and budgeted are in fact carried out, and carried out in the way they reflected in public accounts results. The Acting Auditor General has

referred to the correction and we discussed that earlier, and I can confirm that that's the case and I think requires no further comment at this time.

The bulk of the 1976-77 time frame examined by the committee today is largely covered by the 1976 annual report, which of course was tabled roughly a year ago in the Legislature. I did endeavor, and succeeded yesterday -- when I learned of the committee's interest in AGT review -- to bring forward as much as possible the publication of the 1977 AGT annual report, and did succeed in getting that made available as early as yesterday. I think all members will have had by now an opportunity to have it. Even though its time frame is not included in what I understand the committee's time frame of review to be at this meeting, it's nonetheless, I think, an important and useful perspective by way of the committee's review.

I would just say to those who have had an opportunity to review the most recent 10 years' financial results, that they do so with some caution in at least three areas. One is that while the results show a \$3.86 million net revenue or net income position for AGT for 1977 -- which was more than the previous year -- I draw your attention that that is on a base of \$367.8 million, so it's in the area of 1 per cent. That's the first observation. Secondly, that there was an interim rate adjustment that took place on August 1, 1977, so these results involve five months -- nearly half a year -- of increased rates, and despite that a relatively nominal financial result for the year.

I'd need to point out, moreover -- as is shown under the heading Imbedded Cost of Debt -- that the cost of capital and the cost of debt continues to increase up to 8.21 per cent, which is more than a 2 per cent increase from 10 years ago, and that's a foreboding kind of picture for the future unless we in this country are able to control the inflation that largely triggers that sort of increase in imbedded cost of debt. There is a financial picture in the future that needs to be of concern to us.

In relation to that also, the very recent deterioration in the Canadian dollar relative to the U.S. -- and as all members will know, in addition the deterioration of the U.S. debt in the relation to the German mark and the Japanese yen -- is of very serious concern, and AGT presently holds about \$225 million of U.S. debt. My understanding is that the short period of time deterioration in 1977 in the value of the Canadian dollar did net out to be an additional cost of about \$1.5 million for AGT, and will be much, much more in the coming year.

Finally and lastly, Mr. Chairman -- and I hope I've not been too long in introductory comments -- this financial comment. The debt/equity ratio of AGT at the end of 1977 is an almost unheard of high of 94.5 per cent debt. That's a dramatic increase in the last five years, and I'd like to say that I'm very concerned about that. It's a picture of going from about 90 in 1973 -- five years ago -- to 94.5 per cent now, and the advice that we have from the Public Utilities Board is that we ought to be working towards no less than 90/10, preferably 80/20. So it's a major dimension that's before us, and I thought might be of interest to the committee as we dealt with the matter of financial review at this time.

Mr. Chairman, those are my opening comments. We are very pleased to have questions, and I will try to do the best I can to farm out the hard ones and try to deal with the easy ones myself.

MR. CHAIRMAN: Thank you, Dr. Warrack. Mr. Clark.

MR. CLARK: Mr. Chairman, thank you. Dr. Warrack, I recognize that the question of interveners' costs, and the question of the chairman of the Public Utilities Board as to whether he should be hearing rate cases or not, are before the courts, and so it's my intention not to become involved in those areas as far as questioning is concerned.

I'd like to start, Dr. Warrack, by referring as you did to the 1977 annual report, and I think it says that there are some 10,357 employees. I'd like two bits of information if I could, Mr. Minister. First of all, give us some general breakdown as to the location of those employees. Now I don't expect whether there's seven or eight in Olds, but a general breakdown as to how many there are in Edmonton, how many there are in Calgary; then your people can get back to the committee with some regional stuff following that.

Secondly, I'd like a breakdown also of the various facets of AGT's operation that they are associated with. For example, how many operators would there be? How many repair people? That kind of thing. How many would be involved with Altel Data, and the AGT's operation on that side, also? So if you could give us some ball park figures to start with perhaps, Mr. Minister, and then I can appreciate that perhaps the next time we get together you could have more detailed breakdown for us.

If I could make that the first question, Mr. Chairman.

MR. CHAIRMAN: Thank you. Dr. Warrack.

DR. WARRACK: I'll of course seek some assistance with respect to the extent of that sort of detailed information we are able to provide at that time. There's something in excess of 10,000 employees in total, and something less than 10,000 of those are permanent -- I think in the 9,800 range, although I'll seek assistance for a more detailed number to give you on that.

I thought I would mention to the committee through you, Mr. Chairman, that we have undertaken very recently -- in 1977 -- to have regionalization of the management process within Alberta Government Telephones around the province. We had initiated it on a pilot basis in the Red Deer region, and felt that sufficient experience and success was achieved that it would be a reasonable thing to do and to have that sort of decentralization -- not only of people but of authority -- into the field and into the regions, and that has taken place.

I think probably the questioner in the numbers desired would like to have that reflected, and I'm not sure at this point whether all of those regional numbers are settled at this point in relation to the location question or not. I'll seek some additional assistance by way of that sort of detail, and how much information we can provide right now at this time, and it may very well be that it would be necessary to follow up with additional information on an ensuing basis.

So, Mr. President, perhaps you have a comment and/or in turn you may want to seek some assistance.

MR. ADES: Well, Mr. Chairman, I believe having a breakdown of our employees by the actual numbers -- I think it would be very difficult at this stage of the game, but we could certainly get the information for you. I don't have the figures in front of me now, of course, but we can do that for you, sir.

MR. CHAIRMAN: Thank you. Mr. Clark, first supplementary.

MR. CLARK: Mr. Chairman, just before I get to the first supplementary, if I could ask Dr. Warrack and Mr. Ades: I think an important part of the question, gentlemen, also was the function or the role that they play within AGT. I think that's okay.

If I could move on then, Mr. Chairman, to the first supplementary, and rather ask the minister: what's the present policy of the Department of Utilities and Telephones regarding the use throughout public utilities in Alberta of internal rate averaging? Well, what's the policy of the minister and the department on the question of internal rate averaging from the standpoint of utilities?

DR. WARRACK: I guess I would be confining my response to AGT, although the principle is the same across utilities. But, as members will know, an extensive component of the utility service provided to people living in Alberta is provided by private companies, and the extent of rate averaging -- or utility pooling, if you like -- is determined by way of Public Utilities Board hearing, analysis, intervention and input in their process.

But I can certainly say this in relation to utilities generally and in relation to Alberta Government Telephones, that rate averaging -- or utility pooling, if you like -- is certainly viewed to be a proper policy in order to provide a solid level of lifeline service to people to the extent practical wherever they may be. In the case of telecommunications -- in the case of Alberta Government Telephones operations -- there is a significant financial pooling or rate averaging that takes place with the long distance revenues supporting in a very major way the costs of providing solid exchange service in the rural areas of constituencies such as mine, for example, and many of the others' that are in the room. I view as a policy matter that as being a solid, realistic, and I think clearly publicly accepted way to handle the rating process.

Now that's a qualitative observation as to whether rate averaging or utility pooling should take place and whether that's a proper policy. That having been concluded, then the quantification of this -- how much rate averaging, and from where -- is a clearly complex and technical kind of judgment that's performed by the quasi-judicial function of the Public Utilities Board, that members will know administratively reports to the Attorney General and as a matter of fact, as I recall, was reviewed at last year's Public Accounts legislative committee.

But my point is that rate averaging or utility pooling is a policy direction of this government, as was the case with the previous government -- and really virtually all governments so far as I am aware -- and that the quantification of this is a judgment made on analysis, hearings, and interventions in a process that we're all familiar with by the Public Utilities Board of Alberta. The magnitudes are judged by them.

MR. CHAIRMAN: Mr. Clark, second supplementary.

MR. CLARK: Mr. Chairman, thanks to the minister. My second supplementary, Mr. Chairman, to the minister: what is the present policy -- this is departmental policy -- with regard to the question of cross-subsidization within utility companies?

DR. WARRACK: Mr. Chairman, I'm not sure what's meant by the department policy. Perhaps I should explain how the departmental responsibility is organized. I have responsibility for the Department of Utilities and Telephones, which I take it the questioner is referring to. This deals with electricity -- both its generation and its distribution

under the Hydro and Electric Energy Act, to which the responsibilities of the Energy Resources Conservation Board relates.

Secondly, in the area of gas utilities -- not in the area of their exploration and development, which is my colleague the Minister of Energy and Natural Resources, but rather in terms of their distribution by gas utilities, by rural gas co-ops, by the financial support system that we have in place in order to assist them, and by way of the Natural Gas Price Protection Plan that as all members will know is a major and important element in these times of rising utility prices. That's electricity and gas.

I also have responsibility in the area of communications that is separate from telephones and separate from AGT. That's the week before last the reason that I was in Charlottetown, Prince Edward Island, on a number of matters such as cable, the possibilities of pay TV, and so forth.

I'd like to also point out, in that regard, that I view myself as having a significant responsibility for telephones generally in Alberta, not just AGT, because we do have the very important job that Edmonton Telephones has in the province of Alberta. So that again is a kind of responsibility for Alberta that's separate from AGT.

Now everything I've said so far is unrelated to AGT, and presumably what the member is referring to in referring to the department. Within AGT, the functions and reporting to the people -- such as the meeting today -- is the Alberta Government Telephones Commission, and as the Minister of Utilities and Telephones I am chairman of that commission.

The commission is a kind of, if you like, hybrid -- and they've got hybrid vigor sometimes, as a matter of fact -- of the normal management functions within a corporation and the board of directors. These are mixed within a commission and that kind of a hybrid process -- which I think works very well -- and all of the people before you are members of that commission, plus Mrs. Ruby Holmes -- who was unable to be with us today -- who is the sixth vice-president. In addition, there are the following outside members: the MLA from Calgary Bow, the Deputy Minister of Utilities and Telephones, and the Deputy Provincial Treasurer.

Now, department position on cross-subsidization. In the terms of what I had just described in earlier remarks of rate averaging and utility pooling, certainly I think that there's no doubt -- if one wants to apply the terminology of cross-subsidization to that -- that that's all fine and consistent with the policy I earlier expressed.

Now, if we're kind of shoe-horning around towards an alleged cross-subsidization -- that there's dispute about whether it exists or not -- that's obviously a judgment that the Public Utilities Board would make. And in the situation that the hon. member pretty clearly is referring to, that is a situation the Public Utilities Board has made a judgment about, and I think the date was February 1976 -- in that area of time frame in any case. Then there has subsequently been a court action initiated alleging bias on the part of the chairman, and some members, and some staff of the Public Utilities Board.

I'd leave that particular matter as a matter before the courts on a status of alleged cross-subsidization, and if I've said anything that in any way, shape, or form might conceivably bias the court process, I would remind committee members of my initial intent to have all comments by me -- and hopefully by all members of the committee -- be expressly understood to be without prejudice.

MR. CHAIRMAN: Mr. Clark, third supplementary.

MR. CLARK: Mr. Chairman, that was quite an answer. My comment or question to the minister was really this, Mr. Minister, and perhaps I didn't make the point clearly. The question was simply this: is it the policy of your department to either endorse the concept of cross-subsidization within utilities in Alberta, or not? It's clearly a policy issue, and I raise the question in light of some of the comments that have been made by senior officials of AGT before the Public Utilities Board.

Mr. Minister, the point I'm trying to get at: does your office, sir, have a position as far as cross-subsidization is concerned, or not? You know, is it a policy that it isn't taking place? Is it an ambivalent thing that you kind of don't want to come down any place, which I kind of got that impression from you, with great respect. Or is it something that is a policy that your office supports? That's what we want to know, Mr. Minister, and that's why I raised the question. If you're totally opposed to cross-subsidization within utilities, then say so. And if you're in favor of it, say so. And if you don't know what's going on, say so.

DR. WARRACK: Well, Mr. Chairman, I would be very pleased to repeat again my answer, which I already did. I'm not referring to cross-subsidization as a term on purpose, and I'm not going to be, you know, tricked into that.

MR. CLARK: Who's tricking anybody?

DR. WARRACK: That's right, you won't. And that's why I've used the term .#.#.

AN HON. MEMBER: Order, order.

DR. WARRACK: .#.#. "alleged" cross-subsidization, because who knows what some lawyer might construe as that term meaning. I did use the term "rate averaging", I did use the term "utility pooling", which are consistently understood within the examination and handling of utility matters across Canada, and I guess elsewhere as well -- certainly in Alberta. And I did say -- did I not -- that yes, the utility pooling, rate averaging concept -- is that's what the member is referring to when he says "cross-subsidization", and I think that's almost exactly my words, and I hope the member is now listening.

Those were the things that I did say that were clearly consistent with the policy of my department, myself, and our government. And I did moreover say -- by way of explanation -- that, for instance, the support with long distance revenues of solid, reliable -- as I described them -- lifeline utility services in, for example telephones in rural and remote areas of Alberta, is a good and proper policy. Now I think that answer is yes, and that is what I said.

So in fact, if the kind of terminology that the hon. member is using from wherever he gets it -- whether it's people that might presently be in the gallery, or from legal sources, or employees of AGT, or dreaming about it overnight; in any case the terms rate averaging, utility pooling are clearly understood within utilities, whether that understanding is shared by all members of the Chamber or not, and those are clearly concepts that are consistent with the utility policy of this government, of myself, and are followed by Alberta Government Telephones.

MR. CHAIRMAN: Mr. Thompson.

MR. THOMPSON: Thank you, Mr. Chairman. The people down in my part of the country are really interested in this extended flat rate question. Several years ago -- I believe it would be about eight years or something like that -- there was some kind of a referendum or a poll held down in our area on extended flat rates, and nothing happened. It was turned down.

I was wondering if AGT would be in favor of holding a poll every two or three years just to get the feeling of the general public towards extended flat rates, and if they are really in favor of this concept at the present time.

DR. WARRACK: Mr. Chairman, that's certainly an important question and I'll ask our Vice-President of Operations, Mr. Barnes, to add to the brief comments I can make on that matter.

It's quite true that across the province, and probably some in everyone's constituency -- and certainly in my own -- the balloting opportunity was provided for EFRC -- if I can just shorten the terminology to that -- and was turned down in some cases and approved in others. The approved cases have been constructed, and there are many who feel they can reasonably expect another shot at it -- another opportunity to vote or decide.

We've been wrestling with that question, and are in this position at the present time. Part of the presentation of the rate case to the Public Utilities Board includes relaxing some of the pretty rigid constraints on what can be done in the area of EFRC. So if we're in a position that the rate case can get finalized, two things happen. We would have relaxed constraints in terms of the rules we have to follow as laid down by the Public Utilities Board in providing those additional service improvements in the rural area; and secondly, have the money to do it. So that's one comment.

Secondly, I've had the proposition that the hon. member puts to me, made by a number of members kind of along the basis that whether you vote in an election or whatever you do, surely your decision is one that's reviewable after some reasonable period of time. Most of these ballots I think were taken in about 1973, so we're approaching five years since that last ballot was taken, and I'm very strongly persuaded to the view that it's a reasonable proposition that people have the next opportunity to reconsider the ballot that was put. We're hopeful that in the second half of 1978 we'll be able to take action along those lines in a large number of situations around the province that have been brought to my attention in the slightly more than three years that I've held the responsibility that I have.

Those are my general comments in response. I'd invite Mr. Jim Barnes, Vice-President of Operations, to add any other dimensions, because there could very well be some that I haven't thought of.

MR. CHAIRMAN: Mr. Barnes, Vice-President of Operations.

MR. BARNES: Mr. Chairman, to follow up on what the hon. minister has said, we hope to have reviewed by the end of this month the financial impact if we were to extend the program to certain locations. Hopefully, once this is reviewed we will be able to come up with some sort of a program, and once again ballot different locations to see if the customers really desire the EFRC program, as we call it.

The main problem with getting acceptance of this type of a program is it's the large centres that are required to vote as well as the small ones, and while the small centres usually are in favor of it, the larger centres are not always prone to having their rates

increased. While we do go with the rate averaging approach, it would seem that some of the customers notice it, and don't want it extended any more than it is now. But hopefully it is a responsible social service, and it will be extended in the future.

MR. CHAIRMAN: Mr. Thompson, first supplementary.

MR. THOMPSON: Mr. Chairman, I'm satisfied with the answer.

MR. CHAIRMAN: Mr. Little.

MR. LITTLE: Thanks very much, Mr. Chairman. If you'll just permit me before I ask the question to say hello to an old high school chum of mine, Mr. Jim Barnes.

I have two questions. The first one has to do with zero-plus dialing. Recently I made a phone call on the highway from Olds, Alberta, and I find that Olds has it and Calgary hasn't. When is Calgary going to get it?

DR. WARRACK: I want to pass that one on as fast as I can. If I could just get someone to volunteer. Mr. Childs, would you?

MR. CHAIRMAN: Mr. Childs.

MR. CHILDS: Mr. Chairman, zero-plus dialing was introduced into Edmonton last year -- 1978 -- and also into Red Deer and the CDOs of Red Deer. The zero-plus dialing is about to be introduced come this Saturday in Lethbridge, and in August of this year it will be commenced to be introduced in Calgary and the surrounding district of Calgary. be

MR. CHAIRMAN: Mr. Little, first supplementary.

MR. LITTLE: I have a second question, not a supplementary, Mr. Chairman.

MR. CHAIRMAN: Well, if you can't use it as a supplementary, I guess we'll have to pass on and give you your next turn later. Mr. Stromberg.

MR. SHABEN: Mr. Chairman, could I ask a supplementary on this subject, about zero-plus .#.#.

MR. CHAIRMAN: (inaudible) .#.#. supplementary.

MR. SHABEN: Fine, thanks very much. Mr. Chairman, on zero-plus dialing for northern Alberta, what's the timetable for zero-plus dialing being available in Grande Prairie, Peace River, High Prairie, et cetera.

MR. CHAIRMAN: Mr. Childs.

MR. CHILDS: Mr. Chairman, the zero-plus dialing will be extended to other areas, particularly to Stettler in 1949, and its depending offices, and to Medicine Hat. With respect to Grande Prairie and Peace River, Edson and Camrose, the time frame will be later, and there is no set program established. We have some difficulty in that the

equipment required for the toll centres in those locations is not really practical or feasible. It certainly isn't economical for those size of locations. We have plans under way and we expect to be able to extend the zero-plus dialing throughout the province within three or four years. We do not have any set program at the present time.

MR. CHAIRMAN: Mr. Stromberg.

MR. STROMBERG: Yes, Mr. Chairman, to the minister. With the increase in revenue from long distance dialing, and with the expansion of toll-free services continuously going out throughout Alberta, has consideration been given to eventually -- or do you foresee the day that eventually Alberta would become one toll-free service -- like suppose the north half and then the south half -- and if that idea has any merit?

DR. WARRACK: At the present time, at least, I do not foresee that happening, Mr. Chairman. It's for this reason that -- as a matter of fact, I recall the Member for Banff-Cochrane making that point so well recently in the Legislature in regard to a telephone matter -- it would certainly be technically possible to do what the hon. member is suggesting, but if you did not have the long distance revenue, you would then of course have to get the make-up revenue based on the level of exchange cost.

Now there are a lot of people who make long distance calls only rarely to areas more than 30 or, say 50, miles from home, and if their exchange rate -- you know, their basic monthly bill -- had to go up dramatically so they could call free to somewhere they're unlikely to call, I would anticipate that the public would find that that would be unacceptable in terms of the distribution of rates or charges as compared with the benefits that they would have.

So with the dramatic increase in costs that would be necessary, I suspect that this would involve a rate level to the ordinary citizen on a basic monthly bill basis, that they would find would be too high, and that they would reject, and would in preference prefer to call a relatively limited geographic area without long distance, and have a lower exchange bill, and kind of take their chances on long distance charges in the instances where they have to make long distance calls to areas that are geographically remote from where they live.

MR. CHAIRMAN: Mr. Stromberg, first supplementary.

MR. STROMBERG: Yes, to the minister. As a compromise, perhaps we could limit the first minute and a half or two minutes toll-free, and then from thereon tack it on fairly heavy. And I think we would encourage our people, perhaps, to make better use of our phones, and perhaps show a saving in the expenditures of your department in the expansion.

DR. WARRACK: Mr. Chairman, there is an excellent point the hon. member is making. That is to devise a system where you can make that short phone call -- if you can convince your wife to do that -- and be able to get it done, if not free, at least on a relatively inexpensive basis. As a matter of fact, the phase 2 rate proposal of AGT to the Public Utilities Board does include the concept of a one minute minimum, rather than the old three minute minimum. So that if you are able to get what you've got to say said quickly, then you can in fact have considerable saving on your phone bill and considerable saving

for the telephone system. Because when you're on the phone and off, then the system is immediately available for other use.

As a matter of fact, if people kind of get organized and get their discussions nailed down to what really needs to be said, even with the rate increases that have been granted on an interim basis so far by the Public Utilities Board, with a one minute minimum call arrangement a person can nonetheless save money. But there's an excellent thread of argument that the member has on that point.

MR. CHAIRMAN: Mr. Stromberg, second supplementary. The hon. Mr. Johnston.

MR. JOHNSTON: Mr. Chairman, I wanted to just pick up on the comments made by the minister with respect to the cost of capital, the amount of debt that the AGT has incurred. But to put it perhaps in a three-way question dealing first of all with the .#.#. I'd like the minister to outline for me some of the strategies and some of the long-range planning tools that are being used by AGT to bring to the people of Alberta the needed services. Those would be ways in which the expansion of the services of AGT, the necessity to bring in new technology -- those kinds of arguments -- to show the attitude of AGT in terms of the long-range planning, because I have two other questions I wanted to lock to that.

DR. WARRACK: I appreciate the opportunity to do just that, and I might try to respond and do so as briefly as I can in three different areas, one of which I touched on with respect to the technological developments and advances that AGT is undertaking to keep abreast with. There's a risk in this, of course, in that you can get into a technological development that doesn't work out well, and have some losses in the process. The difficult balance judgment is how far to go, and how quickly to go in digital operation for example, and how far to go in the fibre optic direction of technological advance to meet the long-term horizon for technological opportunities.

I think it's fair to say that it's been a major benefit that the kind of growth -- and for that matter diversification of that growth both by sector and geography -- in Alberta that has provided additional opportunities to not only keep up but to move towards the frontier of technological advances that are available within the telecommunications system itself.

With respect to service improvements, we would like to think there have been some very major advances made. DDD was provided by AGT I suppose as early as almost anyone, and soon DOD, which is the direct overseas dialing, will be made available. I do believe the degree of extended flat rate call, in some sense the compromise that the hon. Member for Camrose was referring to, is being provided at least as extensively in Alberta as has been the case elsewhere and would seem like a reasonable bench mark of comparison. So that the service improvements, I think, are very helpful. There is some possibility in rural areas it will be possible through a device I don't understand at all to make it possible for there to be private conversations on party lines. Perhaps some comment from one of the gentlemen present would be helpful in that regard by way of the question of whether AGT is staying on the forefront of technological and service improvement planning for the future. We certainly hope that we are and we invite, as a matter of fact, all comment and this sort of consultation with members of the Legislature if you will. As a matter of fact we regard the Public Utilities Board rate process as an opportunity to consult with the public in an extensive and valuable way as to the directions we can be going, have been,

how well they're accepted, what directions we should go, and of course how to afford to go in the various directions that are suggested.

Having commented just briefly on the technological front, the services improvement front, and thirdly if I might on the financial picture because I am concerned about the longer term financial picture of Alberta Government Telephones partly by way of the question -- and I would appreciate advice of the members on this -- the question of how reliant should the borrowing of AGT be on direct government debt, what level of debt -- am I the only one concerned about a 94.5 per cent debt/equity ratio -- where should we be going in that regard. Also, the question of what does a financial market or a capital market tell you when you go to it. AGT really hasn't been in the conventional financial market for some period of time now. I wonder what they would tell us if we went to them; what rating we would have, what interest rate would be provided. Certainly on a guarantee basis there is no question you would be free from the capital rationing and help on interest rate, but I really wonder as a functioning, financially whole Crown corporation whether there isn't real merit in it being financially whole on its own. I'm inclined to the view -- but persuadable as always by other views of members of the Legislature -- that there is some wisdom in looking at at least a barometric amount of future borrowing by AGT from conventional capital markets, in some sense as an ongoing test of where we're at. I'm sure that in about 1974 they would have relied almost solely on the provincial guarantee to lend AGT money, looking at the financial picture that we were in at that time.

MR. CHAIRMAN: The hon. Mr. Johnston, first supplementary.

MR. JOHNSTON: The minister anticipated the next area I wanted to move into with the understanding or the explanation given to us of the kinds of dynamic changes facing AGT and providing services and keeping updated with the technology. I then wanted to move to the impact of the capital borrowings and the need for financing to support these kinds of changes and these kinds of long-range planning; particularly since the member alluded to the need for debt first of all, the ratio of equity to debt. If you do just a very quick calculation, subject to checking, I find that in 1976 and in 1977 an alarming portion of income is committed to debt retirement. In fact in 1977 roughly 52 per cent of the cost of servicing debt, notwithstanding the amount capitalized, has been allocated to the debenture retirement and debt interest. Surely I wanted also to ask the minister and I think he did in part answer the question, whether or not this is really if you like an extension of the AGT monopoly, first of all, which gives us the right to move into the area unfettered except by PUB checks and also the indications that some people have given us that in fact AGT is expanding its services; that is, its capital is much larger than needed at the present time -- over-expansion, over-capacity built in which is being, unnecessarily financed by consumers today. And whether or not it seems reasonable that this level of debt can continue given that it is the only competitor in the market in Alberta, notwithstanding Edmonton Telephones, and the long-term directions of these costs on the rate adjustments through the next five-year period.

DR. WARRACK: Mr. Chairman, I'd like to respond I think just briefly there and perhaps I think call on Vice-President of Finance, Mr. Halhead, to supplement observations with respect to the financial point that is made. I guess I really should have done that on the initial question relative to the planning for the future and of course the financial

strategy that is involved there to afford it, to ask Vice-President of Finance of Corporate Development and Planning, Mr. Mallet-Paret, to respond as well.

I share the concern of the hon. member frankly on the financial grounds. But I would like to say this: at the time that the decision was made to place a rate application before the Public Utilities Board, in addition to the observation that there was a desire to not be facing the citizens with rate increases sooner than was clearly necessary, and therefore had less frequent rate increases but of course the magnitude would be larger. We felt and -- I shouldn't say we made the management decision but -- the management of AGT that's before you with the exception of one vice-president made the decision that if you're going to be asking the citizen for an increase in rates, it's at the same time necessary to leave as few stones unturned as possible by way of cost effectiveness and trimming in terms of the capital absorption capacity of the system, and in fact to implement additional measures of cost control. Now part of that of course is the level of service. You could theoretically have enough staff and trucks and what not that you could respond within a couple of hours of any phone call for trouble or service or change of any kind -- and part of handling that sort of process is the idea of the phone centres -- but in any case all you really need to do is increase your costs enough to do that. If you have say a five- or seven-day turnaround on a call that's made asking for service, it would be much, much cheaper not only because of the less frequent trips but because of the batched job process that's possible if you had a 10- or 15-day waiting period to provide that service. It may just be that there is some point in re-evaluating whether the level of service, the quality of service if you like as long as it's not emergency and not in circumstances where people would be more than slightly inconvenienced. It may very well be that we've reached the level of service and cost that goes with it that's beyond what the public might in fact expect. However, I would ask Mr. Halhead to comment on the question of where we might feel we are in relation to the capital financing position and any response to the concerns expressed by the member, and also in terms of the future kind of planning of AGT in a variety of these areas, if Mr. Mallet-Paret might wish to add as well.

MR. CHAIRMAN: Mr. Halhead, Vice-President of Finance please.

MR. HALHEAD: Thank you, Mr. Chairman. It would be very difficult to try and forecast the future too strongly. I would however like to maybe put it a little in the retrospective and that is look back at what it was and what it has arrived to. I think perhaps the greatest impact has been on the last five years.

In relation to construction expenditures, the growth has occurred the greatest since 1974. Before addressing that I would like to just mention the capital structure because I believe that is what the gentleman was directing his question to.

AGT has a capital structure of retained earnings and debt capital. Retained earnings are those earnings that have been retained from the earned surpluses or the profits of the company. The other portion of the capital structure has been purely debt, that is outside financing. During the course of the last five years in order to meet the requirements, we've had expenditures in construction that were in 1974 -- 1973 if I may direct it back to that line -- of \$102 million. In that period of time we had retained earnings in gross of \$59 million, and we had debt cost making up the difference with the exception of internal financing from depreciation. The past growth then from that point on was that construction expenditures of \$163.8 million: 1975 -- 1976, I'm sorry, 1975 was \$255 million

-- 1976: \$244 million; and 1977, the past year, was \$246 million. Now the amount of financing that came from internal sources to meet that demand was a deficit in 1976 -- \$2.6 million -- so we had no retained earnings; in 1976 -- \$1.75 million, in 1977 -- \$3.8. The balance to finance that construction program with the exception of internally generated funds through depreciation came from debt capital.

Now the future; I think it difficult to project further but we're looking at construction expenditures I've been given to understand in the \$250 million-plus figure. The profits that may be generated from AGT will be very small in relation to that. There will be some internal funds of course realized through depreciation; there will also be refinancing of debt issues that mature. But if AGT is to continue to provide for the demand for service, it's going to have to have and continue to have external financing of a very high magnitude. That debt/equity ratio will correspondingly stay at the level it is or diminish. I don't know whether that answered the question sufficiently.

MR. CHAIRMAN: Thank you, Mr. Halhead. Mr. J.C.D. Mallet-Paret, Vice-President of Corporate Planning and Development, did you want to add?

MR. MALLET-PARET: Thank you, Mr. Chairman. I just had one or two comments to add with respect to Dr. Warrack's remarks on planning.

AGT takes its directive I guess with respect to the services it provides from the Alberta Government Telephones Act. I'd just like to refer very briefly to one quick section of it. "The commission may purchase, construct, extend, maintain, operate and lease to and from other persons, a system or systems in the province including private communications systems". Two important points with respect to that directive in the legislation is that a system means a telecommunications system, and includes all lands, buildings, properties, supplies, buildings works, rights, franchises, easements, assets and property of every kind owned, held, required or used for the purpose of or in connection with or for the operation thereof. I think the other important question with respect to where we are in the communications business is the definition of telecommunications itself. This telecommunications definition reads: "means the transmission, emission or reception of signs, signals, writings, images, sounds, or intelligence of any nature. . . wire, radio, visual, or other electro-magnetic systems". This gives us a fairly broad mandate with respect to providing telecommunication services in the province of Alberta. And it is within that context we try to do our planning and provide services.

I might just add one other aspect that should be considered in our planning processes and that is that Alberta Government Telephones is a small part of a very large integrated system of telecommunications in North America. We probably are about -- well, we're the third largest company of course in Canada, and very closely third to British Columbia Telephones system. We work very closely in our planning with the Trans-Canada system with respect to new services and certainly with respect to providing the network that provides those services. And that is a very important aspect of our planning in the future and it requires -- and Mr. Childs can probably tell you -- a considerable amount of commitment to the Trans-Canada system with respect to providing facilities that are going to extend on a nation-wide basis. I just want to make that point: that our planning is not isolated to within the province of Alberta.

Our planning is further driven by probably two areas and those are technical advancements in equipment. Equipment is being developed very rapidly by the major

suppliers today, particularly now that we have gone from mechanical to electronic types of systems to allow us to provide many, many services that we could not provide in the very short past, call-forwarding and various types of services. The switching systems are becoming more like computers, and we can just simply program them and provide a variety of services. We are cognizant of that and therefore we are driven to provide services that technology will allow us to provide, all with the cost in mind of course. Being able to provide these services does not necessarily mean that the public want them, and that is the second area that drives our planning with respect to what does the public want with respect to telecommunication services. To obtain some kind of a guidance in that area what we attempt to do is we have a market planning group who does, from time to time -- and I notice sometimes if we have public surveys as to what customers want we often get phone calls as to who sent this long survey out, well it is my group and it is an attempt -- and I think it is universally carried out in most businesses -- to find out just what it is the customer wants and wishes to have. So we attempt to plan our services in that manner and respond to what is required by the general public.

And finally my comments with respect to planning, perhaps hearken back to a few minutes ago, where there was a certain amount of discussion with respect to the possible ways to providing rate planning, shall we say. Rate planning is historically a fairly complex issue within the telecommunications industry, and there again I would like to remind the body here that in rate planning AGT is also not alone. We require rate systems and rating procedures that are compatible because many of our services go well beyond the province of Alberta. And I think those are the areas that we are concerned with in planning, and of course knowing those we then are faced with the dollars to provide the facilities to provide the services that we can for the public needs. And it's that area that of course we have spent considerable time before the Public Utilities Board in trying to advise them of our methods of costing and our procedures in trying to determine how we would, for example, decide to carry out an engineering cost study to determine that we should replace all existing step offices and replace them for example with electronic offices so these new services can be provided. And unless these engineering economic studies are done in the proper manner of course -- and that is the responsibility of the Public Utilities Board to see that they are -- we then, of course, shouldn't go into the service. But all these things are scrutinized and most of the engineering studies, of course, are done through Mr. Childs' area, and we have approval from the Public Utilities Board as to our methods and how to go about planning on an economic basis as well as from a service point of view.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Mallet-Paret? Mr. Johnston, second supplementary.

MR. JOHNSTON: I think it's the third, Mr. Chairman, but this is my final supplementary.

I appreciated the comments from the minister and the two other vice-presidents and I think from that I can extract some information with respect to the long-term strategies both in the terms of the service requirements, the planning for services and technology change in the financing, although I would have, perhaps, appreciated a longer term indication that you are aware of the debt commitment in the next five-year period, and you are taking some specific processes to adjust that.

Nonetheless, I will just finally, Mr. Chairman, ask the minister because of course it is such a large organization, and companies and utilities of this type are suggested to be

very difficult to determine what their costs are, and how effective they really are in terms of the rate utility adjustment. I would ask them if internally, Mr. Chairman, they are conducting any specific measures to measure their own quality of service, not expansion of service but quality of service, and the productivity of that utility itself.

MR. CHAIRMAN: Dr. Warrack.

DR. WARRACK: Mr. Chairman, those are certainly important questions. I would just make this comment -- before asking Mr. Mallet-Paret, and perhaps Mr. Barnes, to answer the question in a more detailed way -- that it is really very true that it's a highly complex, highly technical area of examination in terms of the costing-out process. And I guess that's why in the evolution of time by most governments in most places and certainly the history of record in Alberta that this has become a specialized area of review, and I would think probably was a major consideration in the minds of the previous government when it reached the conclusion that even though AGT was a Crown corporation it should be subject to final rate determination by the Public Utilities Board, which incidentally is not typical of Crown corporations that are in the utilities service area. But it is a highly complex area. I believe that it's an area that has to be specialized and highly able people are necessary in order to make those determinations and moreover that it's appropriate that AGT rate review be done by the Public Utilities Board even though AGT, as distinct from certain other utilities in the province, is a Crown corporation. We might ask Mr. Mallet-Paret to add further if he feels that he would like to, and perhaps others as well.

MR. CHAIRMAN: Mr. J.C.D. Mallet-Paret.

MR. MALLET-PARET: Thank you, Mr. Chairman. I think the question was directed primarily to measurement of the quality of service and productivity. With respect to productivity, I think I'll leave the quality of service to Mr. Barnes since he's in operations. With respect to productivity, we again are responsible for the Public Utilities Board to account to them for the proper use of capital and labor in the provision of our services. We have done that in our recent hearing and we did get into considerable discussion with respect to the processes of measuring productivity. One can use as a base -- and I'm certainly not an expert in this although I have people in my department that are -- we can use as a base the number of telephones, the number of messages, or a number of different bases on which to show whether we are using our capital dollars and labor dollars effectively.

Currently there is a process, and as I say I'm not that completely familiar with it, which is being introduced into most telephone companies called total factor productivity. And it deals primarily with trying to associate labor costs and capital costs in such a manner that you can see the productivity of the company on a total basis with respect to both those areas. I'm sorry I can't give you the details on it. I wish that I had my economist here that could talk to you for quite some length of time on that issue. But we have done studies with respect to AGT. The first study of this kind I might add was done by Dr. Polley who is with the University of Saskatchewan and he did a study for Bell Canada. One of the people in our areas has replicated that study for AGT and I'm happy to say that the results, as best we could do them at the time, show AGT to be certainly as good as and in some areas better than Bell Canada which is often considered as one of the

more progressive and better companies in Canada. And, therefore, I think that we have a lot of work to do in the development of total factor productivity concept within the industry. We need a lot of data that we don't have or we have but it's not in a pure enough form to give proper indications of productivity. But I think that you can be assured that from that point of view we are on top of that subject.

Now with respect to measurement of services, I don't know of any other organization or industry that's so self-measured as is the telephone industry. We have a number of measures -- Mr. Barnes I don't know whether you'd like to comment on those or let me -- but certainly over the years I've been involved with a number of measures in measuring the effective transmission, measuring the effective operator answering, and things of that nature and I think perhaps it would be better if I left some comments for Mr. Barnes to make in that area with respect to trying to determine whether or not we're providing services on a basis comparable to industry.

I might add that as part of my duties I deal very closely with the Trans-Canada Telephone System, and many of these measures are done on a trans-Canada basis and there is continual rivalry between the Trans-Canada system companies to be the best in the industry. And I think we are as good as -- sometimes worse than, sometimes better in that regard. But I think that perhaps Mr. Barnes could give a little more detail on that.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. J.A. Barnes, Vice-President Operations, please.

MR. BARNES: Mr. Chairman, in the telephone industry, as Mr. Mallet-Paret says, we have measurement plans for a multitude of things but I think the most important one is the one that we're presently trying to develop and that's not how we measure ourselves but how the customer sees us. And it doesn't matter how excellent our results are on all our internal measurements, if your phone doesn't work today you're not really very impressed if I have a 96 per cent index.

So we're presently well on our way down this path, and hopefully we'll have a measurement scheme and I would hope that it would eliminate some of the others. We don't need too many more measurements but we would like one that told us exactly how the customer sees us. And having travelled around North America a fair bit this last four weeks -- and I used the telephone service extensively -- the results I encountered indicate that Alberta doesn't take a back seat to anywhere.

MR. CHAIRMAN: Mr. Speaker.

MR. R. SPEAKER: Mr. Chairman, to the minister. In the reports and in some of the comments there's use of the terms basic services and non-basic services. I notice in the report such items as self-serve telephone stores, page call, mobile telephone service, Datapack, and there is also Altel Data, and so on. I was wondering if the minister could define for me the difference between basic service and non-basic and maybe could give me -- I'd like a complete list of what is a non-basic service in that definition. If it can't be provided right now we can get that later.

DR. WARRACK: I should probably start this way, Mr. Chairman. The filing for Public Utilities Board rate review took place by AGT on September 15, 1975. In the kind of preliminary consideration that comes about in a major rate review case like this,

particularly one like AGT which have not experienced a change in rates since 1967, so that was some eight years, one of the initial concerns that was discussed was exactly the basic/non-basic case: what should be regulated, what should not, and by who and so forth. So that the Public Utilities Board had an initial hearing on just that question and reached a determination in Public Utilities Board decision No. E76090, dated July 8, 1976 and supplied to the Leader of the Opposition's office on Friday, where there those matters were considered in full order and a decision rendered. Now that decision had had some intervention, and as a matter of fact, as I understand it, would have had an inclusion, correct me if I'm wrong, in the court case that alleges, or apprehension of bias, whatever the difference is, as a lawyer can tell me I guess. Anyway, the result of that hearing, and the decision number I mentioned that the hon. Leader of the Opposition has I know because I supplied it, and the elements that are included are in that document if members have an opportunity to review it, but it in fact is part of the court challenge that's before us, and the member in posing the question may not have been aware of it. But in any case, I understand that the listing out of that information in a more detailed way than what's possible in an annual report that the hon. member was referring to is available in that document that has been provided to the Leader of Opposition's office.

MR. CHAIRMAN: Mr. Speaker, first supplementary.

MR. R. SPEAKER: To the minister. I was not aware of that list and for clarification, in the list that is available what is classed as a non-basic service by AGT are listed in the material that was made available to us? Is that correct?

DR. WARRACK: It is my understanding. In addition that listing that we emphasized is by way of Public Utilities Board decision so that that listing is in fact the Public Utilities Board listing and decision after hearings, analysis, and intervention in the quasi-judicial responsibility that they have. But I repeat again, in order to not have any dispute in an inadvertent prejudice position because of this decision by the Public Utilities Board being included in what's now challenged before the courts. I point that out and be sure that all comments that I have made here are ones that are purely intended and understood by members of the committee to be without prejudice.

MR. CHAIRMAN: I think we'll consider that a clarification, so this will be the first supplementary, Mr. Speaker.

MR. R. SPEAKER: Mr. Chairman, I'm not quite clear yet. Could the minister then just list, for example, in this report what is considered possibly as non-basic type services. Let's take Altel Data for example. The financial statement doesn't refer specifically to Altel Data in the report, and I'm wondering do each one of the items which are considered -- and I understand I will have a complete list -- as non-basic services -- have each one of those services a financial statement of their own that can be made available to the members of the Legislature?

DR. WARRACK: First of all, Mr. Chairman, I can certainly give some examples that are not necessarily exhausted as to what's included in the annual report the hon. member is

referring to. For example, the flat rate calling or EFRC. Well I guess the flat rate calling is EAS. That's a basic service. Yes.

MR. CLARK: We're asking for non-basic.

DR. WARRACK: Yes, I'm coming to that. Okay. And you're certainly welcome to read the information I've provided to you as well. The EAS, the EFRC, toll calling, rural four-party service, basic, classified as basic complementary, PBX, key extensions and premium sets, rural individual line service, and basic special assemblies, as an example non-standard PBX offerings by special company request. And non-basic includes the public mobile and radio terminal equipment, data services, private line services, and non-basic special assemblies such as private mobile radio systems that are from time to time requested. Now these are example AGT service offerings in the basic services and non-basic services and some categorizations beneath them. But it's my understanding that in the document that I mentioned a couple of times having provided namely Public Utilities Board decision No. E76090 that a more extensive and detailed listing is provided there and that information is available to the non-member. And again I repeat my concern that the so-called basic versus non-basic services issue is that that's within the sphere of what's presently before court action.

MR. CHAIRMAN: Mr. Speaker, second supplementary.

MR. R. SPEAKER: Mr. Chairman, to the minister. In the financial statement that is before us, the non-basic and the basic as listed are all grouped together in the financial statement and that's part of the first question. And secondly, is there a financial statement available, or can be made available to the members of the Legislature with regard to each one of the non-basic areas? For example, Altel Data has its own financial data, and others, and could we be provided with that information?

DR. WARRACK: The necessity of financial groupings and so forth is part of what of course is normally and was considered by the Public Utilities Board in that area of operation, and it's my understanding that each individual operation does not constitute a separate financial report, although it's financial information that's available for consideration by the Public Utilities Board in its review and rate determination in these matters.

I think it's essential, Mr. Chairman, to have some recognition of the fact that there's a great deal of common costing of facilities that's involved in various services. Certainly for simple accounting purposes one could duplicate equipment for each function, and then everything is very clear but also very expensive. There is a tremendous amount of common cost both in equipment provisioning, in use of equipment in these highly technical areas, and for that matter in the marketing effort that's involved. So that while it has a nice simple sound to it, and I suppose in the simple days of relatively limited telecommunication services to the people of Alberta it would be because of sheer simplicity have been easy to have breakdowns of this, that and the other thing. That is really no longer the case because of the extensive common costing that's involved, part of the complexity that the Member for Lethbridge East was referring to when he asked the questions on the financing of services in the telephone area.

It's also essential I think to recognize, Mr. Chairman, that there's the provisioning of services that are often provided at request by individual businesses usually in areas such

as we're discussing now, and they can't necessarily be taken on as a small job situation and serve that request economically but need to be undertaken as an organized function and certainly for a period of time there's a buildup period. For that matter, (inaudible) that everyone familiar with any level of technology, including farming, would be very, very familiar with. So that a snapshot picture at a given moment of time can be very misleading indeed, particularly on small individual functions where the question of costing out on common facilities and common marketing effort and so forth can become a bigger factor than the magnitude of a comparison in itself.

Now, having said all that, that is why in fact you have to have something like this done by not the political process -- even though that may to some in the room be the desirable way to do it -- not by a political process but by an assured, professional, competent kind of process just as we would expect in the kind of auditive function that we had the benefit here and now. It must be based on highly competent professional analysis and advice, and the Public Utilities Board is set up to that very difficult and complicated job. But I might say that for my part I've considerable admiration for the kind of performance that I have felt I've seen in the three years that I've been more closely related to utilities. And the reason I take a moment of the committee's time to say that is that a week ago last night, if today is Wednesday, I had the honor to be the dinner speaker at the Canadian Association of Public Utility Tribunal's meeting which this year happened to be held in Edmonton. And all aside from courtesies, I really felt it was clear that there was a great deal of esteem and admiration expressed for the capabilities of the members and staff of the Alberta Public Utilities Board. Now that's all aside from any individual dispute about facts, or judgment, or whatever but certainly to recognize that this kind of esteem is clearly held across Canada for the people involved in this very difficult area of judgment, and it is a difficult, technical, complex one that has to be done by people who have (inaudible) that capacity and that specialization, and the opportunity for the support staff and hearings that are necessary to make the results ones on which we can all rely.

MR. CHAIRMAN: We've gone past the adjournment time but perhaps we could finish Mr. Speaker's third supplementary.

MR. R. SPEAKER: I've two short supplementaries from what the minister said with regard to non-basic and basic and the accounting procedures. Would the minister then confirm that, and this is the statement of your deputy minister Mr. Ads, that non-basic services should contribute to basic services? Is that the overall philosophy, or direction, or policy position of the minister and the government?

DR. WARRACK: Mr. Chairman, let me clarify. First of all, it's not Mr. Ads, it's Mr. Ades and he's not deputy minister, he's the president of the Alberta Government Telephones. That's the department confusion that I thought I explained. The department deals with electrici . . . I tell you if you promise to listen, I promise to talk. But I did go through the distinction to assist the hon. member earlier. I don't recall the president making that statement today. Perhaps the hon. member would like to refer to the item in question, and I think I heard him say before the Public Utilities Board, which may very well all be fine, and that's what I thought the member was going to say because that does bring us into the question of whether we want to review the content and the decision of the Public Utilities Board and for that matter the court action pursuant to that.

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However, I'd invite the president of Alberta Government Telephones, Mr. R.G. Ades, to comment.

MR. CHAIRMAN: Mr. R. Gordon Ades, president, please.

MR. ADES: Well, Mr. Chairman, I would like to say that the answer to the question I believe is yes, the non-basic services do supplement the basic services. I don't know whether I have anything more or not.

MR. CLARK: Those are the kinds of answers we need.

MR. CHAIRMAN: Mr. Speaker.

MR. SPEAKER: Well if we could have had that we could have been out of here at 11 o'clock today. Well it's nice to hear you talk but it's nice to have substance too. A supplementary, Mr. Chairman. I was wondering, in light of Mr. Ades' answer, Altel Data in its financial statement for the first quarter of 1977 indicates a loss of \$219,000; in the fourth quarter of 1976 a loss of \$473,000, and it was an increase of around 53 per cent. I was wondering where Altel Data receives the money for that loss and how does it relate to the principle we just supported a few moments ago.

DR. WARRACK: I believe that's the information attached to a letter provided to the Leader of the Opposition by a Mr. Dreen and an attachment thereto, which was also dated December 15, 1977, and provided to my office on January 26, 1978, which also asked that AGT not be made aware that this was happening, and until this morning I in fact respected that request on behalf of Mr. Dreen. However, with respect to the financial considerations that might be involved and in light of the comments that I did make with respect to the groupings of services and the commonality of costing of equipment and marketing effort and so forth, as well as the start-up gear-up time to reach projected economic results, I'd ask the vice president of operations, Mr. Barnes, to respond.

MR. CHAIRMAN: Mr. Barnes, please.

MR. BARNES: Mr. Chairman, I would make one observation that Mr. Ades answered. That we do expect non-basic services to contribute to basic services is correct, but it's not necessary that at the outset in all the non-basic services that they will all be profitable. However, in aggregate as long as they are profitable we can suffer the start-up. I would comment also on the report in question, which strangely enough I had the opinion was an internal document, and it was a first approach at attempting to define the costs as well as the revenues from one individual service which our accounting system does not lend itself to. It involves a considerable amount of judgment and up to now we haven't had enough experience with this to be certain that there's any validity in the figures. However, they are an internal document and we are progressing further with this, and we anticipate that the figures will improve as we progress.

MR. CHAIRMAN: Thank you, Mr. Barnes. We still have seven speakers so I would suggest that AGT study be continued on Wednesday, April 26, two weeks from today. Mr. Clark.

MR. CLARK: Mr. Chairman, I'm certainly agreeable but might I also say that as far as we're concerned we have a rather extensive list we haven't been able to get around to. I'd like to indicate to you, sir, and to the members of AGT that I'm sure we won't get finished in one more week; it may take two or three more sessions.

MR. CHAIRMAN: Okay. Next week . . . The hon. Dr. Warrack.

DR. WARRACK: Mr. Chairman, I'd just like to say we're very pleased to be at the availability and disposal of this committee. We think this is a very important process and it is a very important opportunity for we who are involved in AGT to have this place in the sun, if you like, before the Legislature, the people's representative in Alberta, and we would be very pleased to continue to whatever extent it was necessary in order to deal with the input, comments, questions, and concerns that any member of the committee might have. We'd be very pleased to do that and certainly will be on board for April 26 at 10 a.m.

MR. CHAIRMAN: Okay, Dr. Warrack, Mr. Ades, and the five vice presidents, we will expect you back on April 26 then at 10 a.m. The next meeting, on April 19, will be a continuation of the overview by the Auditor General.
Any further business by members of the committee? The meeting stands adjourned and thank you very much.

(The meeting adjourned at 11:45 a.m.)