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Canada. Parl. H. of C. Standing  
Comm. on Railways, Canals  
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Minutes of 103  
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Canada. Parl. H. of C. Standing  
Comm. on Railways, Canals and  
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STANDING COMMITTEE

ON

RAILWAYS, CANALS AND  
TELEGRAPH LINES

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MINUTES OF PROCEEDINGS AND EVIDENCE  
INCLUDING SECOND AND THIRD REPORTS TO HOUSE

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BILL No. 8  
AN ACT RESPECTING  
THE BELL TELEPHONE COMPANY OF CANADA

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WITNESSES:

Mr. Frederick Johnson, Robert V. Macaulay, N. A. Munnoch, K.C.,  
President, Vice-President and General Counsel of The Bell Telephone  
Company of Canada.





## ORDERS OF REFERENCE

HOUSE OF COMMONS,  
Monday, February 2, 1948.

*Resolved*—That the following members do compose the Standing Committee on Railways, Canals and Telegraph Lines:

### Messrs.

Archibald	Gagnon	Michaud
Ashby	Gauthier ( <i>Portneuf</i> )	Miller
Aylesworth	Gauthier ( <i>Nipissing</i> )	Mullins
Beaudoin	Gourd ( <i>Chapleau</i> )	Pearkes
Beaudry	Hartt	Picard
Bentley	Hatfield	Pouliot
Bertrand ( <i>Terrebonne</i> )	Herridge	Robinson ( <i>Simcoe East</i> )
Black ( <i>Cumberland</i> )	Hodgson	Robinson ( <i>Bruce</i> )
Blair	Irvine	Ross ( <i>Hamilton East</i> )
Bonnier	Johnston	Shaw
Bourget	Jutras	Smith ( <i>York North</i> )
Breithaupt	Lafontaine	Stephenson
Brooks	Lennard	Stuart ( <i>Charlotte</i> )
Campbell	Lesage	Timmins
Chevrier	Little	Townley-Smith
Church	Maybank	Viau
Douglas	Mayhew	White ( <i>Hastings-</i> <i>Peterborough</i> )
Drope	McIvor	White ( <i>Middlesex East</i> )
Eudes	McCulloch ( <i>Pictou</i> )	Whitman
Farquhar	McKay	Winters

*Ordered*.—That the Standing Committee on Railways, Canals and Telegraph Lines be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

FRIDAY, April 30, 1948

*Ordered*.—That the following Bills be referred to the said Committee:—

Bill No. 205 (Letter Q-5 of the Senate), intituled: "An Act respecting Canadian Marconi Company."

Bill No. 8 (Letter C of the Senate), intituled: "An Act respecting The Bell Telephone Company of Canada."

MONDAY, May 10, 1948.

*Ordered.*—That the name of Mr. Jaenicke be substituted for that of Mr. Bentley, and that the name of Mr. Knight be substituted for that of Mr. McKay on the said Committee.

TUESDAY, May 11, 1948.

*Ordered.*—That the name of Mr. Marier be substituted for that of Mr. Lesage on the said Committee.

*Attest*

ARTHUR BEAUCHESNE,  
*Clerk of the House.*



## REPORT TO THE HOUSE

THURSDAY, May 6, 1948.

The Standing Committee on Railways, Canals and Telegraph Lines begs leave to present the following as its

## SECOND REPORT

Your Committee recommends:

1. That it be empowered to print from day to day 1,000 copies in English and 250 in French of its minutes of proceedings and evidence taken respecting Bill No. 8 (Letter C of the Senate), An Act respecting The Bell Telephone Company of Canada, and that Standing Order 64 be suspended in relation thereto.
2. That its quorum be reduced from 20 to 12 and that Section 1 (b) of Standing Order 63 be suspended in relation thereto.
3. That it be given permission to sit while the House is sitting.

All of which is respectfully submitted.

L. R. BEAUDOIN,  
*Vice-Chairman.*

NOTE: Concurred in this day.

WEDNESDAY, May 12, 1948.

The Standing Committee on Railways, Canals and Telegraph Lines begs leave to present the following as its

## THIRD REPORT

Your committee has considered Bill No. 8 (Letter C of the Senate), intituled: "An Act respecting The Bell Telephone Company of Canada", and has agreed to report same without amendment.

A printed copy of the minutes of proceedings and evidence taken respecting the said Bill No. 8 is appended.

All of which is respectfully submitted.

L. O. BREITHAUPT,  
*Chairman.*





## MINUTES OF PROCEEDINGS

THURSDAY, May 6, 1948.

The Standing Committee on Railways, Canals and Telegraph Lines met at 2.00 p.m. this day.

*Members present:* Messrs. Archibald, Ashby, Aylesworth, Beaudoin, Bentley, Black (*Cumberland*), Blair, Bonnier, Bourget, Campbell, Church, Douglas, Gagnon, Gauthier (*Portneuf*), Gourd (*Chapleau*), Hatfield, Irvine, Lennard, Lesage, McCulloch (*Pictou*), McKay, Pouliot, Stephenson, Stuart (*Charlotte*), Townley-Smith, White (*Middlesex-East*), Whitman.

*In attendance:* D. K. MacTavish, K.C., Parliamentary Agent; N. A. Munnoch, K.C., General Counsel for the Bell Telephone Company of Canada; Charles de Lotbinière Harwood, District Manager, Ottawa.

In the unavoidable absence of Mr. Breithaupt, the Chairman, and on motion of Mr. McCulloch (*Pictou*), Mr. Beaudoin was elected Vice-Chairman. He took the chair.

(The committee considered and disposed of Bill No. 205 (Letter Q-5 of the Senate), An Act respecting Canadian Marconi Company.)

The committee decided that, at the next meeting, consideration would be commenced of Bill No. 8 (Letter C of the Senate), An Act respecting The Bell Telephone Company of Canada. In relation to the said Bill No. 8, Mr. D. K. MacTavish, the parliamentary agent, stated that the president, the general counsel, and other officials of The Bell Telephone Company would, with himself, be at the disposal of the committee.

He filed for immediate distribution copies of a brief on behalf of The Bell Telephone Company and suggested that a copy be printed into the record.

On motion of Mr. Bentley, this brief was ordered printed. (See Appendix "A" to minutes of evidence).

On motion of Mr. Bentley,—

*Resolved*,—That permission be sought to print from day to day 1,000 copies in English and 250 copies in French of the minutes of proceedings and evidence to be taken relating to Bill No. 8 (C of the Senate), an Act respecting The Bell Telephone Company of Canada.

After discussion and on motion of Mr. McCulloch,—

*Resolved*,—That a recommendation be made to reduce the quorum from 20 to 12.

On motion of Mr. Lennard,—

*Resolved*,—That the Committee ask leave to sit while the House is sitting.

The Committee discussed the matter of its future immediate meetings.

On motion of Mr. Pouliot, the committee adjourned at 2.30 p.m. to the call of the Chair.



TUESDAY, May 11, 1948.

The Standing Committee on Railways, Canals and Telegraph Lines met at 4.00 o'clock. Mr. Breithaupt, the Chairman, presided.

*Members present:* Messrs. Ashby, Black (*Cumberland*), Bonnier, Bourget, Breithaupt, Campbell, Church, Gauthier (*Portneuf*), Gourd (*Chapleau*), Hartt, Hatfield, Herridge, Hodgson, Jaenicke, Jutras, Knight, Lafontaine, Lennard, Marier, McIvor, McCulloch (*Pictou*), Michaud, Miller, Mullins, Pouliot, Robinson (*Bruce*), Ross (*Hamilton East*), Stephenson, Stuart (*Charlotte*), Timmins, Townley-Smith, Whitman.

*In attendance:* Messrs. Frederick Johnson, Robert V. Macaulay, N. A. Munnoch, K.C., respectively president, vice-president and general counsel of The Bell Telephone Company of Canada; Mr. D. K. MacTavish, K.C., Parliamentary Agent, and Mr. Edouard Rinfret, M.P., sponsor of the Bill.

The Committee began the consideration of Bill No. 8 (Letter C of the Senate), An Act respecting The Bell Telephone Company of Canada.

Messrs. Johnson, Macaulay and Munnoch were called and jointly examined.

A discussion arose as to the advisability of reading the brief previously distributed and examining the witnesses thereon, as well as on the financial operations of the Company seeking to amend its act of incorporation.

Copies of the Annual Report (1947) of The Bell Telephone Company of Canada were tabled and distributed.

On motion of Mr. Miller, it was resolved to proceed forthwith with the consideration of the Bill before the Committee.

In the course of the examination, Mr. Pouliot requested the following information:

- (a) A list showing telephone companies in which The Bell Telephone Company of Canada holds controlling interests;
- (b) A list showing telephone companies in which The Bell Telephone Company of Canada has no controlling interests;
- (c) A list showing companies in which The Bell Telephone Company of Canada has no interests.

Mr. Pouliot agreed to drop his question marked (c) above.

Mr. Munnoch supplied forthwith the information asked in (a) and (b) above.

The preamble was adopted.

At adjournment, the Committee was considering Clause 1, sub-clause 1.

At 6.00, the Committee adjourned until 8.30 this evening.

#### EVENING SESSION

The Committee resumed at 8.30 o'clock its consideration of Bill No. 8, An Act respecting The Bell Telephone Company of Canada. Mr. Breithaupt, the Chairman, presided.

*Members present:* Messrs. Archibald, Black (*Cumberland*), Bonnier, Bourget, Breithaupt, Campbell, Church, Douglas, Gagnon, Gauthier (*Portneuf*), Gourd (*Chapleau*), Hartt, Hatfield, Hodgson, Irvine, Jaenicke, Knight, Lafontaine, Lennard, Little, Marier, McIvor, McCulloch (*Pictou*), Michaud, Mullins, Pouliot, Robinson (*Bruce*), Stephenson, Timmins, Townley-Smith, Whitman, Winters.



*In attendance:* Same as at the afternoon sitting.

Messrs. Johnson, Macaulay and Munnoch were recalled and jointly examined.

Clauses 1 and 2 were adopted.

Mr. Irvine moved that clause 2 be deleted. The motion was negatived.  
Yeas: 7, Nays: 16.

Clause 4 was adopted.

Mr. Church moved that clause 5 be deleted. The motion was negatived.  
Yeas: 6, Nays: 16.

Clauses 5 and 6, and the title of the Bill were adopted.

*Ordered,* That the Chairman report the Bill to the House without amendment.

Permission was granted to Mr. Hartt to delete part of his remarks made earlier in the proceedings.

At 11.00 o'clock the Committee adjourned to the call of the Chair.

ANTONIO PLOUFFE,  
*Clerk of the Committee*





## MINUTES OF EVIDENCE

HOUSE OF COMMONS,

MAY 11, 1948.

The Standing Committee on Railways, Canals and Telegraph Lines met this day at 4.00 p.m. The Chairman, Mr. L. O. Breithaupt, presided.

The CHAIRMAN: Gentlemen, since we have a quorum and the hour of meeting has been passed by a few minutes, I think we may as well commence. Mr. MacTavish, the parliamentary agent for The Bell Telephone Company filed a brief, copies of which have been distributed to the members and which will be printed in due course.

We shall now consider bill No. 8, formerly bill "C" of The Senate. Shall the preamble to this bill carry?

Mr. HERRIDGE: Before we proceed with consideration of the bill, I understood from the member who was piloting the bill in the House we would be able to go through this brief and have an opportunity of asking questions on the brief before we considered the bill. Would that be in order?

The CHAIRMAN: I am in the hands of the committee with regard to that.

Mr. ROSS: We have had ample opportunity of going through the brief.

Mr. CAMPBELL: Well, there is a lot of information in the brief, but there is also a lot of information we should have which is not in the brief.

Mr. HARTT: I think the preamble is clear and definite. It sets forth the purposes of the bill and the conditions under which the application is made. If there is any information we require, we can always get it when we are considering the various sections of the bill. I believe the preamble should be adopted. We shall discuss the subject matter when we come to the consideration of the various sections.

The CHAIRMAN: Is that the pleasure of the committee?

Carried.

Then, we shall discuss the bill clause by clause.

Clause 1, power to increase the capital.

Shall this clause carry?

Mr. CAMPBELL: No, Mr. Chairman, we desire some information on a lot of different things. The company has given a list of the things for which it is going to use this money. This is a tremendous amount of money. I think whoever is representing the company should give us the reasons why the company is going to spend so much money. For what is the money going to be expended?

Mr. LENNARD: It is all in the brief.

Mr. CHURCH: Mr. Chairman, may I refer to the first clause of this bill? The principle of the bill is involved in the whole bill, the marginal notes, headlines and everything else. I am dealing with section 1. When this company was placed under the jurisdiction of the Board of Railway Commissioners for Canada, the board was given full power to deal with the 100,000 customers the company had. If a person complained of not being able to get a telephone, it is the function of the railway board, itself, of its own volition, to check up on this company, its rights and privileges.

There was an investigation into this company, the railway companies and the express companies, by what was known as the Drayton commission. That



commission made a report to parliament and it was concurred in. I believe that report stated that any application for increased capital by this company should, first of all, be reported upon by the Board of Railway Commissioners for Canada.

Now, regarding the section relating to the power to increase capital. The company is asking altogether too much. If granted, it would mean fastening a monopoly on the provinces of Ontario and Quebec forever. I remember when such a bill as this to increase the capitalization of the company to \$150,000,000 came up about 1928. At that time, the same objections were raised. There was a Hydro movement at that time to bring cheap power into northern Ontario. It was proposed that the same pole which brought the cheap power into northern Ontario would carry the telephone wires, so as to rescue northern Ontario from the grasp of these companies.

Reference is made in the brief to Alexander Graham Bell. I agree with what was said about him in the House. This company has given excellent service. It is a well-conducted company, but it is asking, in my opinion, too much money. As I said before, I would vote for a 100 per cent increase. The increased capital for which the company is asking will tie up future generations of these two provinces for twenty-five years. Why this parliament should do that, I do not know.

Another aspect of this whole problem was reported upon by the Drayton-Ackworth commission. I shall only be three or four minutes in dealing with this first section. Discoveries in the field of natural resources such as oil, coal and falling water have been only made during the last 90 years and used for the benefit of the people. I think modern history shows that. I think it may be said that all the discoveries in the last ninety years which have been made in the fields of science, physics, chemistry, medicine and many other fields, have been turned over to the common good of the people of this country.

For instance, consider Pasteur and Banting and Best on Insulin for a moment. Pasteur made his discoveries available to the common people. Both these men gave their inventions for the benefit of the average citizen of the country. I think we would be going too far altogether if we tied up the provinces of Ontario and Quebec to a monopoly for all time in the manner of the passing of this bill would make necessary. Ontario for many years and now Quebec under public ownership have found the joy of cheap power and cheap light. For example, commercial lighting for industry, barns and farms, has been reduced in Ontario and has been cut in four in some places and in five in other places. So far as domestic lighting homes is concerned, the average light bill in Ontario used to be about 92 cents a month.

If anyone asked me, I would say I think the company is asking too much. I believe the committee can do a useful work in revising the bill and cutting it down. I believe if the company were limited to 100 per cent of its capitalization, that would be all the company would require for a few years to come.

Mr. LENNARD: Might I suggest that the members of the committee stand when they address the chair?

The CHAIRMAN: It is up to the committee.

Mr. LENNARD: If you do not do that, you will have confusion. You will have two or three members talking at the same time. I am not referring to the present speaker, but I think that should be the procedure.

The CHAIRMAN: Agreed?

Agreed.

Mr. KNIGHT: I am asking that you do not make that a rule, for personal reasons.



The CHAIRMAN: I have an open mind on the matter. I do not think it matters one way or the other, so long as we avoid confusion. There should be only one member of the committee speaking at any time. If that is not the case, I am sure you will not mind if I indicate the member who has the floor.

Mr. MICHAUD: May I suggest, if a member of the committee wishes to address the committee, he stand. If he wishes to be excused from that, he can ask to be excused.

The CHAIRMAN: I do not think we will hold it against anyone, Mr. Knight, if he does not stand up.

Shall subsection (1) of clause 1 carry?

Mr. HERRIDGE: I should like to ask a question or two concerning page 2 of the brief presented by the sponsor of the bill. It reads:

At no time did the company ever operate in British Columbia. Having in mind the remarks made by Mr. Church to the effect this company has a virtual monopoly in Quebec and Ontario, I should like to ask whether this company is associated with or interested in the British Columbia Telephone Company and, if so, to what extent.

The CHAIRMAN: Would Mr. Johnson, the President of the Bell Telephone Company, care to answer that question?

Mr. JOHNSON (President, Bell Telephone Company): The Bell Telephone Company has never operated in British Columbia. It has never had any interest in the telephone companies in that province and it has no interest in the British Columbia Telephone Company today, either directly or indirectly.

Mr. CAMPBELL: I believe when the last increase in capitalization was requested in the House of Commons, Mr. Reid was the sponsor of the bill. At that time, he gave a promise that the rates would not be increased. Would the representative of the company care to make a statement in that connection?

The CHAIRMAN: That had to do with the British Columbia Telephone Company when it came before parliament last year. I do not think that has any application here. It is an entirely different matter.

Mr. CAMPBELL: Could Mr. Johnson tell us whether there is any chance of the rate being increased in the near future? It seems to me when the company is going to spend so much of its increased capitalization in the building of lines, it may be necessary to raise the rates. What is the idea?

Mr. LENNARD: I do not consider that is a fair question. I am a manufacturer, but I do not know what I will have to charge for my goods five years from now. It might be more or it might be less.

Mr. CAMPBELL: I have asked a question and I should like an answer.

Mr. LENNARD: I have a right to make comments, too.

The CHAIRMAN: I think Mr. Campbell, having asked the question, if the company cares to answer it I think it is quite in order. If the company cannot answer it, it is all right.

Mr. HARTT: It is an impossible question, Mr. Chairman. I do not want to doubt Mr. Campbell's attitude, but it is commonsense that no company can foretell what is going to happen tomorrow. Supposing a storm comes and the poles keep falling down all along the line. An unforeseen capital expenditure is made necessary. We could not hold Mr. Johnson to a statement his company is not going to increase the rates in the face of such a disaster.

Supposing some new discovery is made. The telephone company says to the public, "You want it, but it will cost you more." Will Mr. Johnson's statement be binding? Mr. Campbell would want a true and honest answer and, judging from the past performance of this company, I believe he would get it.



The Bell Telephone Company has given every service for what it receives. I have no interest in The Bell Telephone Company. We, in Montreal, feel that The Bell Telephone Company is a company which should be lauded for the service it gives to the people. The company has never spent money lavishly or ill-advisedly. They are very careful people.

You could bring the whole city of Montreal here. We know of the telephone shortage. We know the company, with the best will in the world, cannot supply a service. I know of no public utility in the Dominion of Canada that can compare with The Bell Telephone Company with regard to service, public relations, attention to clients, and so on. Consequently, I believe that, granted the best intentions, the president of the company could not bind the company in the future with a statement as to what is going to happen. He would have to be a prophet to answer that question.

Mr. HATFIELD: I should like to ask the witness how much interest his company has in the New Brunswick Telephone Company? Has it a controlling interest?

Mr. JOHNSON: No, we have a minority interest in that company. It is a very substantial minority interest.

Mr. HATFIELD: How many bonds do you have outstanding?

Mr. JOHNSON: Bell Telephone Company?

Mr. HATFIELD: Yes.

Mr. JOHNSON: \$102,000,000.

Mr. HATFIELD: Why do you not get some of this money from bonds at 2½ per cent or 3 per cent? Why do you charge the users of the telephone 8 per cent?

Mr. JOHNSON: We raised \$35,000,000 by bond issue in February of this year. This has taken our debt ratio up to 42 per cent of our total capital. Last year we raised, through the issue of common stock at \$140 to the shareholders, new equity money at a cost of 5½ per cent. In January or March of 1947, we raised \$35,000,000 in bonds at a cost to the company of 2·9 per cent. In 1946, we issued capital stock to the shareholders at \$145 per share at a cost to the company of something under 5½ per cent. There are certain limits to which you can carry your debt if you have to keep the credit of the company sweet.

My own opinion is that, today, we are approaching, perhaps, the limit of what is safe for the credit of the company in the way of mortgaging the company's property. We have mortgaged it today to the extent of about 42 per cent. We have no leeway at the present time in issuing further equity capital which, in my opinion, is essential for the benefit of the telephone users of Ontario and Quebec and for the industry generally.

Mr. HATFIELD: I am absolutely opposed to the telephone company coming here and cutting a melon for the present stockholders. They are making a present of thousands of dollars to the present stockholders. We are giving them the right to do that at the expense of the users of the telephone. I know they need money. I know their service is rotten. Mr. Hartt says the service is good in Montreal, but it is not good in Ottawa. I use the telephone as much as any man in this room or more and I know what the telephone service is like. You are asking this committee to give you power to pay to your present stockholders thousands and thousands of dollars in the way of one share of stock for ten when your stock is worth \$162 or \$163 on the market today. You are paying dividends on that stock from 5 per cent to 8 per cent, at the expense of the users of the telephone when you could go out and sell bonds for half of this money. You could sell bonds for half of it and I would be agreeable but I am absolutely opposed to your giving stock and dividends to your shareholders.



Mr. CAMPBELL: I asked a question a little while ago and it was not answered and my purpose in asking the question was this. The company is going to spend \$1,000,000 on right of way, land and buildings \$42,000,000, central office equipment \$97,000,000, station equipment \$95,000,000, exchange lines \$86,000,000, toll lines \$26,000,000, general equipment \$15,000,000, or a total of \$362,000,000. Can you make that expenditure and hold your present toll rate at the present figure?

Mr. MUNNOCH: Mr. Chairman, if I may be allowed to answer I would say the total amount of the capital we seek will not be issued all at once. It will be issued from time to time as it is needed for creating new telephone plants of the type which the honourable gentleman has referred to in the list. As that new telephone plant is created it will be put into production, that is into earning revenue. It is impossible to say what will happen to telephone rates, but I can say that at the present time the company has filed no application with the railway board for an increase in rates and has made no preparation for filing such an application. We have carried on through the war period and by reason of economies and technological improvements in telephony we have been able to maintain our present rate structure since it was established in 1926. Now as to the future, as long as by economies and technological development we can maintain our rates, we intend to do so, but if the economic conditions under which the company has to operate compel us to seek higher rates then the company will seek them. That is the position, as far as we can make a statement, at the present time.

Mr. KNIGHT: May I suggest these arguments for the company can be brought out if the brief were read item by item. In my experience in committees if the witness is presenting a brief he reads it. As a matter of fact, however, some members have had opportunity to make a study of the brief.

The CHAIRMAN: The brief was presented at the last meeting for perusal by the members and, although I have not ruled that it should not be read here, I understood the feeling of the meeting was that it was not necessary to have it read.

Some Hon. MEMBERS: Hear, hear.

Mr. KNIGHT: My feeling is the brief is short and there is considerable amount of information which I for one would like to elicit. We could bring questions out when we come to the particular parts of the brief on which we desire further information. There is no statement here with regard to the assets of the company, the liabilities of the company to the public, and such things as the amount of dividends paid to the shareholders since 1880. Those are points of interest which we like to have. I know they are matters of record but they should be here.

Mr. HARTT: I submit the brief is an explanation of the bill before the committee. The brief does not constitute the law which we are considering. If any honourable gentleman feels the information is not sufficient he has a right to elicit that information from the representatives of the company. I cannot imagine why we should sit down, read, argue over, and discuss thirty-one pages as against a page and a half. If we are not satisfied with the information we can ask the representatives of the company but if we study the brief we will be studying something to which we cannot give legal effect.

Mr. KNIGHT: The brief has a bearing on the bill.

Mr. HARTT: It is the bill which will become law and that is what we have to study. I think the honourable gentleman is in error in suggesting that we study the brief instead of the bill.

Mr. LENNARD: My experience in committees of this House has been that where a brief is presented and read there are no interruptions until the reading



of the brief has been completed. At that time, if there are questions to ask the members have that privilege. That has been the custom in any committee in which I have served in the last two years.

Mr. TOWNLEY-SMITH: The brief generally has been read.

Mr. LENNARD: If you had not read the brief before today you should have read it. You have had it a week.

Mr. KNIGHT: I do not think it is proper for one committee member to tell another committee member what he should or should not have done. I am asking that the brief be read. May I have it read?

Mr. HATFIELD: I want to ask the witness if it is company procedure to issue one share to the old stockholders for every ten shares they held at par?

Mr. MUNNOCH: I cannot answer any such question. Whatever price future stock will be issued at must be determined by the Board of Transport Commissioners under subsection 2 of section 1. The board sets the price at which the stock will be issued.

Mr. HATFIELD: Have you made application?

Mr. MUNNOCH: There is no application pending.

Mr. HATFIELD: Why is it before the committee?

Mr. MUNNOCH: Because the company is left with a balance of unissued capital to the extent of \$13,000,000 which is not enough to carry on the construction program for any length of time.

Mr. HATFIELD: You are making application to increase the stock by \$350,000,000. Why do you propose to issue that stock? You have always issued it in the past one share for every ten held.

Mr. MUNNOCH: No, sir.

Mr. HATFIELD: In what way have you issued it?

Mr. MUNNOCH: Sometimes one in five, one in four, and since 1929 and for some time prior to that we have always issued it at a price above par.

Mr. HATFIELD: Why do you issue it that way?

Mr. MUNNOCH: The reason for that is that here you have an industry which had been built up over a number of years by the money its shareholders put into it. Our experience shows that when we are seeking new equity capital that our existing shareholder body is the greatest source from which we can get new capital.

Mr. HATFIELD: There is no trouble in getting capital at 8 per cent these days? Talk about giving melons to your shareholders—

Mr. MUNNOCH: It is only 8 per cent at par and that is not what the shareholders get today. The last issue was at \$140 and the share previous went at \$145.

Mr. TOWNLEY-SMITH: That is what everybody paid.

Mr. KNIGHT: Is it not true—

The CHAIRMAN: Order. To dispose of Mr. Knight's question as to whether the brief should be discussed in detail, Mr. Munnoch, the solicitor for the Bell Telephone Company is here. He prepared the brief for the company and I believe he is prepared to answer all questions. I think such action would obviate the necessity of going through the formality of reading the entire thirty-one pages and therefore I think we will proceed in that manner. If any members wish to ask Mr. Munnoch questions they may do so.

Mr. CHURCH: I would like to have an explanation of page 6 of the brief at which is set out the functions of the Board of Transport Commissioners. I am not a socialist and I have never been a socialist, other than perhaps a christian socialist, and I believe they have made a great success of the light



heat and power business in Ontario. I notice that under the Railway Act the Board of Transport Commissioners has power and jurisdiction over all the operations under the company's special acts, to enforce agreements into which the company enters, to make inquiries into the company's operations and to inspect the company's works. Those powers are to be exercised of the board's own volition and as I understand it any one of the hundred thousand customers could have written to the Railway Transport Commissioners and an inspector would have made any desired inspection. On page 7 it is set out that the board regulates the construction of the company's works, may order the company to make repairs, may regulate the company's tolls and traffic, may regulate joint tariffs, has power over contracts limiting liability, has power over the construction of lines upon or across highways, over the construction of lines across other lines, and so on. This matter of lines crossing highways is important and they are assessing municipalities today. I will admit that the Bell Telephone Company has been co-operating in having underground lines but for years they had power to swing up any pole on any street they wished. Back in 1918 we had a clause inserted in the Railway Act and the Board of Railway Commissioners found they had no jurisdiction over poles and street widenings. I contend the Railway Act should be revised every ten years just like the Banking Act and that matter should be covered. This company can put poles in, or along, over and under a highway but they cannot do it without the consent of the municipality, and that is very good legislation. I want to ask the chairman, why, since it is involved, the Board of Transport Commissioners has not been consulted first about this present application to increase the capitalization?

Mr. MUNNOCH: They were not consulted but as a matter of course they were informed that we were making application.

Mr. CHURCH: As a matter of fact I have some correspondence with the Board of Transport Commissioners and probably I had better ask a question. I will be through in just a minute or two but I might say as I see it, the powers of the board impose a duty on the board to make inquiries of its own volition, and to prepare the way for this application to the high court of parliament. The board did not do it. This is not a court, fortunately, but I have been dealing with lawyers for over a generation and I have found them all alike. Your company has now come to parliament. What for? The powers of the Board of Railway Commissioners have not been exercised; Mr. Hatfield pointed out that the interest rate on bonds would be only  $2\frac{1}{2}$  per cent. Your stock, I think, today is \$162.25. I can recall this same thing occurring with a company where the stock was \$17.50. When approval was given for the same type of proposal, where did the stock go? I think it is about \$37.25 now and that is the way your stock is bound to go. If parliament passes this application it will involve immediately an increase in rates for Ontario and Quebec. The stock in my opinion will go from \$162 to \$200 and they will split from 8 to 1. That is what happened in 1928 when they increased the stock from \$75,000,000 to \$150,000,000. It is the duty and the function of the Board of Transport Commissioners to get out and investigate the operations of this company of their own volition. The board has failed to do so. I think the way this company is conducting its affairs would indicate that a 100 per cent increase in the capital stock would be sufficient but to go as far as is contemplated here would be going too far. It is certainly going to be a huge melon. I am out to help the consumer and as I say, I am not a socialist but far from it. I believe in fair play to the consumers but we are not getting it from this company. The company is, however, magnificent in the way in which it treats its employees and I do not want to be unfair. I do not want to see the company hindered if they are going to give service but I think it is out of reason to push this application sky high, and it means a monopoly forever in the province of Ontario. This great heritage of ours was not given to us to be



treated so lightly. We are holding it in trust for the future, but immediately we pass this bill it means an increase in the rates and I can tell you that there will not be any better service.

Mr. MUNNOCH: I will endeavour to answer some of Mr. Church's questions but I do not know that I clearly understand all he said.

Mr. HARTT: You will be a genius if you do.

Mr. MUNNOCH: I was going to say—

Mr. CHURCH: This is no laughing matter for the consumer.

The CHAIRMAN: Order.

Mr. MUNNOCH: I submit that the company was created by act of parliament of Canada and the parliament of Canada has not given the Board of Transport Commissioners any power to amend that which parliament itself passes. Therefore, since we are seeking an amendment to a law passed by this parliament we must come back to the source of our incorporation, to the body which created the corporation. We cannot do otherwise. With respect to the assertion by Mr. Church that this increase in capital will immediately mean an increase in rates I endeavoured to answer the question of an honourable gentleman who asked that a little while ago. The answer, as nearly as I can recall it, was that if the company gets this capital which it is seeking, and which we contend we need, as construction requirements call for \$30,000,000 or \$40,000,000 of it we will be able to put our program under way. We have to go to the Board of Transport Commissioners for Canada and satisfy the board that we are justified in issuing \$30,000,000 or \$40,000,000 or whatever it may be, and the board settles the price and conditions upon which that capital is issued. After that, we have the authority to go out, observing the blue sky laws and the other laws, to seek money from the people of Canada who have faith in the Bell Telephone Company. Mr. Church spoke of splits of 8 to 1. I remarked a few moments ago that the company had not made a split of 10 for 1 and it has not made anything I would consider a stock split or a cut of the melon, for every dollar or every one hundred dollars of capital authorized, capital stock that had been issued from 1880 down to today. The Bell Telephone Company has got \$119 in its coffers. And if you take a more recent period, back from 1929, it has got \$133 and a fraction; whereas the company has been getting a premium, there has been no split; the shareholder has not got anything except his shares he buys and pays for and the dividends he gets on his stock.

Mr. HATFIELD: What do you get on a split of one to five?

Mr. MUNNOCH: Whatever price is fixed by the Board of Transport Commissioners.

Mr. HATFIELD: And if they ask it of the board—

Mr. MUNNOCH: That means the best price it could get them for.

Mr. HATFIELD: Have they not always fixed that price below the market?

Mr. MUNNOCH: Yes, otherwise you could not sell them.

Mr. HATFIELD: What do you call a melon?

Mr. MUNNOCH: I do not understand what is meant by a melon unless it means something coming out of a company's coffers and into the shareholders' pockets; but nothing like that has happened here.

Mr. HATFIELD: It is coming out of the users' pockets of the telephone.

Mr. MUNNOCH: Well, we cannot help that.

Mr. HERRIDGE: In what country is the maximum of shares held, and the majority of the bonds?

Mr. MUNNOCH: In Canada, sir.

Mr. JAENICKE: I think we ought to arrive at some order of business in this matter. I do not think we should be jumping all over the place, or jumping from one place to another in the brief. I have made several marginal notes on which



I wish to ask questions and invite explanation, but it seems to me that the objection in the House to the bill was principally with respect to the large amount of increased capital which the company was asking for; and, in order for us to make any decision on that point, I think we ought to have the financial statement and the statement with respect to profit and loss account, and the amount paid on dividends since the inception of the company.

We have a very fine history of the company on the first page, running from page 1 to page 10 or 11, which gives the growth of the company by way of service; but I think we ought to have the same sort of history as far as their financial operations were concerned, because then we would be in a better position to judge whether or not the company is asking for more than they should get at this time.

I think that is the chief point and that we should confine ourselves, at first, to a consideration principally, of the financial situation. Perhaps the company now has figures which they might submit to the committee at this time. As to whether or not we can cross-examine on this question, it would be, of course, rather difficult to do so until we first see our printed minutes. But let us get a little more order into this cross-examination by taking one step at a time; and I suggest that the financial aspects and the history of the company, as far as its financial aspects are concerned, should be our first consideration.

The CHAIRMAN: Mr. Jaenicke, clause 1, subsection 1, is now being considered; and it has been said in this meeting that the brief be not read; what do you suggest? What do you wish to have, the financial statement or to consult them?

Mr. KNIGHT: I asked that very question a moment ago; I asked for the amount of assets.

Mr. JAENICKE: I think we should confine our cross-examination to the financial aspects of the company first.

The CHAIRMAN: Well, the representatives of the company are here and I understand they are quite willing to be cross-examined.

Mr. MUNNOCH: I have here the annual report for 1947. I have not prepared them all back to 1880. I have one volume here which contains the reports back to 1880; but that volume is one of the company's records. There are a few of these that I could distribute, though.

Mr. JAENICKE: Have you got enough for each member of the committee?

Mr. MUNNOCH: I have about twenty-five, and if I have not got enough to go around, I could get them for the next session and they would be here tomorrow.

The CHAIRMAN: Could you distribute them now? Gentlemen, what is your wish in connection with procedure? If you are ready to consider the financial end, as I have said before—

Mr. McCULLOCH: I think we had better start with something.

Mr. ROSS: I think we had better start with the bill.

The CHAIRMAN: We are considering clause 1, subsection 1. Are there any questions to be asked with respect to that?

Mr. McCULLOCH: I move that section 1 carry.

Mr. TOWNLEY-SMITH: Oh, no; that is all there is in the bill, and that is where the objection came.

Mr. MILLER: Is it the wish of the committee that we delve into all the financial ramifications of the Bell Telephone Company? As far as I am concerned, I do not think it has a great deal to do with what we are talking about today. Otherwise, we might be here far into the night, if we delve into the financial affairs of the company. It does not affect us in Manitoba, because we have a different situation altogether; but if the members of the committee want to do it, then we will do it. But if the majority do not want to do it, why then are we doing it?



The CHAIRMAN: It is up to the committee. Have you a motion? There is no motion.

Mr. MILLER: I move we proceed with the bill and that we do not go into the details of the financial standing of the Bell Telephone Company.

Mr. ROSS: Agreed.

The CHAIRMAN: The motion is that we proceed with the bill and do not delve into the details of the financial statement at this time.

Mr. JAENICKE: I object very much, because I have not had an opportunity to look at this statement. I understand there is a large amount of reserve held by the company which could very well be used in connection with their expansion. I think we ought to know about that in respect to these matters, and I submit they have a bearing on this question.

I am not prepared at this moment to cross-examine on the statement because I have just got it and I have not even glanced at it; but there are a few matters here I would like to ask the officers of the company about, in respect to their brief, if I may proceed, Mr. Chairman?

The CHAIRMAN: Well, there is a motion before the chair.

Mr. JUTRAS: Does it not follow that most of the above questions can be actually on the bill, under the various sections of the bill?

Mr. JAENICKE: Section 1 constitutes the whole thing.

The CHAIRMAN: Gentlemen, one at a time, please.

Mr. BOURGET: In the brief presented by the company we have all the details, and if we thought we had not we could ask questions of the representatives of the company. Otherwise, I think if we go into the bill, we will be discussing it for weeks and weeks and we will make no headway.

I have read a part of the brief and I feel it is very clear. And I think the suggestion made by Mr. Knight a few minutes ago that we should go on with the brief is the best suggestion. I think that will be the best way to go about our work; otherwise, I do not think we will make any headway. So I think we should go on with the brief and read it page by page.

Mr. JUTRAS: We cannot adopt a decision then change it and adopt another decision and then change it. We have discussed this point before. We have agreed not to read the brief, the whole brief. We did agree to let some questions be asked on the brief, and then we agreed to take up the bill. Now, we are supposed to be addressing ourselves to the bill. Let us talk to the bill.

The CHAIRMAN: Mr. Miller has made a motion.

Mr. HARTT: Mr. Jaenicke prefaced his remarks by saying: let us get somewhere, and then he immediately proceeded to propose how to drag this thing out for the next six years, in order to get somewhere. I submit that we should address ourselves to the bill which is before us, because that is what we are competent to deal with, clause by clause. We can say: now, why do you want this? We can ask questions and have those questions answered by the officers of the company; and if they cannot answer, then we can object and say: you must let us have that information.

But if we are to travel all over. This statement which has no value so far as parliament is concerned, we will be granting a bill on the merits of another document because when the bill is granted, you have no record other than the act itself.

If the honourable members are serious, and I think they are, they want the information, they can study the brief for themselves and deal with them as they arise. Clause 1 deals with the power of the company to increase its capital and with respect to the procedure of how to get it.



All we can ask is: did you call your shareholders? Did your directors approve of it? Why do you need the \$362,000,000 additional? Otherwise we are running around in circles.

The CHAIRMAN: No, I would take exception to that. We are dealing with clause 1, section 1 which has to do with the broad question of finances, and I think that all the question up to date have been quite in order; and I think that the members of the committee can confine their remarks to the broad question of an increase in capitalization, which is in subsection 1. We will deal with Mr. Miller's motion Now. All those in favour of it?

Mr. TOWNLEY-SMITH: Will you not let us hear the motion again?

The CHAIRMAN: Will you state your motion again, Mr. Miller?

Mr. MILLER: I simply moved that we proceed with a discussion of the bill and do not go into the financial ramifications of the Bell Telephone Company.

Mr. TOWNLEY-SMITH: No, that motion is no good at all.

Mr. HERRIDGE: We are dealing with a clause in connection with the finances of the company and I submit that every member of this committee has the right to ask questions and to get answers to those questions which are put here this afternoon.

The CHAIRMAN: I suggest that you change your motion, Mr. Miller: to proceed with the bill; because the rest of it is negative and would not be in order.

Mr. MILLER: So far as I am concerned, I just wanted this question to be decided. If you decide against it, it is quite all right with me. But it seems to that a lot of the argument raised here today should be raised when the company goes before the Board of Transport Commissioners for leave to issue stock. That is the time when a lot of these questions ought to be asked. I had that thought in mind when I made my motion.

The CHAIRMAN: That we proceed with the bill; all those in favour of the motion?

Carried.

Now, questions of a financial nature are quite in order under clause 1, subsection 1.

Mr. JAENICKE: Mr. Munnoch, on page 16 of the brief you said that 329,000 additional telephones have been put into service since 1945; 329,000.

Mr. MUNNOCH: Yes, sir.

Mr. JAENICKE: And at the top of page—or rather at the bottom of page 15, it says that it cost \$104,495,000. Does that cost include all the items of cost that go into furnishing a further telephone service, such as are outlined at the bottom of page 17?

Mr. MUNNOCH. The answer to your question is: Yes, sir.

Mr. JAENICKE: So, I figure out the cost at about \$317.60 to instal one telephone, according to these things, since 1945. Is that correct?

Mr. MUNNOCH: That means, incidentally, with equipment to make it operate.

Mr. JAENICKE: Yes, it includes all these items?

Mr. MUNNOCH: That is to operate the telephone.

Mr. JAENICKE: That is an operating telephone, and it would include right of way, land and buildings, central office equipment, station equipment, exchange lines, toll lines and all those things that are included?

Mr. MUNNOCH: Yes, sir.

Mr. JAENICKE: I figure that it would cost \$317.60. You can check me on that.



You also have some figures with respect to rural telephones on page 4, and you say that you provided for 30,952 additional rural services with an expenditure of some \$6,738,000 of capital funds for the extension of pole lines and wires alone. That would figure out about \$217 without the other items. What would you say would be the cost of installing a rural telephone with the other items, that is, with all the other items?

Mr. MUNNOCH: Mr. Macaulay might answer that question.

Mr. MACAULAY: Perhaps, if I go back to the previous reference there, sir, that three million odd dollar figure mentioned is abnormally low because at the end of the war in many cases we had facilities, wires and buildings and switch-board equipment that only required minor additions, and in some cases merely an instrument. So, we were able to give a very large number of services with the minimum of equipment. But now we have reached the stage where today our services require buildings and additional commodities; and the same thing applies with respect to the rural exchange. In the last couple of years we have been able to increase 60 per cent of the number of rural telephones or approximately 30,000 rural telephones at a relatively low cost. A large percentage of those additional rural telephones were added to lines already existing.

We regret to say that, generally speaking, we have now too many parties on each line. We are coming into the period where we have to build additional lines to serve not only the new customers but to relieve the overloading of existing lines. At the present time, the rural lines we are building are running in the order of \$500 a station.

Mr. JAENICKE: What do you mean by "\$500 a station"?

Mr. MACAULAY: That is the cost of the average lines we are building now for rural service. They are costing \$500 a station.

Mr. TOWNLEY-SMITH: Per telephone?

Mr. MACAULAY: Per telephone.

Mr. JAENICKE: What does the urban or city service cost now? You say there has been an increase in the price and you say the \$317 I suggested is not fair?

Mr. MACAULAY: I might put it this way; this year we are spending something in the order of \$80,000,000. We expect to increase the number of operative telephones by some 140 odd thousand, so that is around \$550 per telephone.

Mr. JAENICKE: Have you got a breakdown of that budget for this year, this \$80,000,000?

Mr. MACAULAY: We have it in the same detailed form as it is here.

Mr. JAENICKE: I mean page 17 covers the whole five-year total. Have you a breakdown of that for this year?

Mr. MACAULAY: Yes, sir, Mr. Munnoch has it.

Mr. JAENICKE: Would you read that?

Mr. MUNNOCH: Right of way \$233,000; land and buildings, \$11,060,000; central office equipment, \$20,135,000; station equipment, \$18,107,000; exchange lines, \$15,318,000; toll lines, \$4,504,000; general equipment, \$3,480,000.

Mr. KNIGHT: For what year is that?

Mr. MUNNOCH: For the year 1948.

Mr. JAENICKE: Land and buildings, \$11,000,000, did you say?

Mr. MUNNOCH: Yes.

Mr. JAENICKE: What land and buildings would you require to that amount to extend service to 95,000 phones?

Mr. MACAULAY: At the present time, we have some 200 buildings and, in nearly all cases, they are completely filled up and crowded. This year alone we require to start 50 building jobs. We have now some two hundred



buildings and with the expansion which is going forward today, not only to take care of the 95,000 delayed orders outstanding, but the current new demand on top of that, requires new buildings in many cases. In other cases, it requires the enlargement of present exchange buildings. This increase involves the completion of approximately 50 buildings which are already underway and the commencement of about the same number of buildings as will be completed this year being completed in later years.

Mr. JAENICKE: How many buildings have you now, altogether?

Mr. MACAULAY: About 200.

Mr. JAENICKE: What is this right-of-way?

Mr. MACAULAY: The right-of-way shown there is mostly for long distance lines. You may know that in earlier years all long distance telephone lines, generally speaking, were built along the highway. Presently we are constructing a good many cable lines for long distance circuits and we find it beneficial to buy a right-of-way across the country. This saves tree trimming and the expense which comes about through highway widening. We buy easements across the country to economize on the construction.

Mr. JAENICKE: What is the difference between central office equipment and station equipment?

Mr. MACAULAY: Central office equipment is the equipment located in the company building. Station equipment is located on the customer's premises and includes the telephone, switchboard, wiring plans, protectors, wire and so forth.

Mr. JAENICKE: On page 19, you give the facts and figures available in connection with the additional telephones installed during the years 1919 to 1928 and 1945 to 1947. Were there no installations during the 1930's and up to 1945?

Mr. MUNNOCH: That is an attempt to compare the period immediately following the first war with the present period immediately following the second world war; that is the purpose of the table on page 19.

Mr. JAENICKE: How do you arrive at this figure of 455,000 additional telephones in the next five years?

Mr. MUNNOCH: That is a long and complicated process, sir. We have our commercial department making continuous surveys of population movements, telephone construction projects, immigration and so on. It is a matter of experienced judgment, so far as you can make a judgment for five years ahead. We say that is what we foresee in the next five years.

Mr. JAENICKE: It is not based on the past five years?

Mr. MUNNOCH: No, sir.

Mr. JAENICKE: There would be very little expansion during the 1930's?

Mr. MUNNOCH: The 30's—that takes us into the depression period.

Mr. JAENICKE: There would be very little expansion at that time, would there not?

Mr. MUNNOCH: I imagine there would be comparatively little expansion.

Mr. MACAULAY: There were about three years in the early 1930's when we actually sustained a net reduction in the number of telephones. Other than those years we have always had a growth. It has always been growing.

Now, this figure of 455,000 telephones in the next five years: we now have about 95,000 orders which we have not been able to fulfil. The current new demand is presently running at 140,000 telephones per year. Therefore, the 455,000 estimate for five years is substantially lower than the going rate of demand.



Mr. JAENICKE: On page 19, you speak of capital obligations of the company. What are those capital obligations now? It may be in this book and I would not ask that question if I had had an opportunity of looking at this book.

Mr. MUNNOCH: On page 23, as of December 31, 1947, the common stock was \$126,420,900. Capital stock instalments, that is our last stock issued could be paid for in instalments which mature in June next, the final instalment, there is \$170,810. Our bonded debt is shown below that figure, and it amounts to \$81,065,104.43. We have since issued \$35,000,000 more of bonds.

Mr. JAENICKE: Your bonded indebtedness is \$81,000,000?

Mr. MUNNOCH: \$81,000,000 plus \$35,000,000.

Mr. JAENICKE: Where is the \$35,000,000 shown?

Mr. MUNNOCH: That is in this current year, after this statement was issued.

Mr. JAENICKE: Have you taken out more debentures?

Mr. MUNNOCH: Yes, \$35,000,000.

Mr. JAENICKE: What is your reserve at the present time? Where are your reserves shown?

Mr. MUNNOCH: The reserves are shown at the bottom of the page. The depreciation reserve amounts to \$108,691,477.88.

Mr. JAENICKE: Where is that shown?

Mr. MUNNOCH: Under depreciation reserve, about three-quarters of the way towards the bottom of the page.

Mr. JAENICKE: Near the bottom of page 20 of the brief, after stating that this vast amount of money, \$700,000,000 will be expended over the next decade, you say:

A substantial portion of it will, it is expected, be obtained from borrowings and other available sources to the company such as depreciation credit.

What other sources would there be besides depreciation credit?

Mr. MUNNOCH: There is undistributed profits, premiums on capital stock and so on.

Mr. JAENICKE: You apply undistributed profits?

Mr. MUNNOCH: Undistributed profits go back into the plant.

Mr. JAENICKE: Have you, in past years, applied much of these profits on the capital?

Mr. JOHNSON: The total surplus of the company is shown as \$12,214,921, which represents accumulated undistributed profits over the last seventy years. It has always been invested in the fixed assets of the company.

Mr. JAENICKE: \$12,000,000?

Mr. JOHNSON: That is the total shown under "Surplus".

Mr. JAENICKE: Now, going back to page 17 of the brief, you show an estimate for the expenses in the next five years. Would any of these items include any experiments or work in connection with the transmission of radio or television?

Mr. MACAULEY: Yes, sir, we already have some radio services under way. We have a number of prospective applicants. It is not an extremely active field, relatively. I do not just know how to discuss the experimental feature. It is experimental, perhaps, in that it is relatively new and the development has not stabilized; to that extent, it may be experimental. We have some three or four projects under way at the present time.

Mr. JAENICKE: I understand that about 20 per cent of the stock is held outside Canada?



Mr. MUNNOCH: Eighteen.

Mr. JAENICKE: Eighty some odd per cent of the stock is held in Canada?

Mr. MUNNOCH: Yes, sir.

Mr. JAENICKE: Have you any record of who holds that stock outside Canada?

Mr. MUNNOCH: At the head office we have a record of every stockholder.

Mr. JAENICKE: Is the American Telephone and Telegraph a stockholder?

Mr. MUNNOCH: That company is a shareholder.

Mr. JAENICKE: To what extent?

Mr. MUNNOCH: To 14·8 per cent.

Mr. TOWNLEY-SMITH: Out of the 18 per cent?

Mr. MUNNOCH: Out of the 18 per cent held outside Canada—it is actually 19·7 per cent held outside of Canada.

Mr. JAENICKE: Now, when you issue this new stock, your own shareholders will receive the first chance, or will it be put on the market? How will the company go about it?

Mr. MUNNOCH: Probably we will adhere to our past practice which has been very successful in disposing of stock. We offer it first to our existing shareholders.

Mr. JAENICKE: The American Telephone and Telegraph Company will, of course, be able to get its share of it?

Mr. MUNNOCH: They have not done so the last two issues. They would not take it.

Mr. JAENICKE: Now, that company has experimented successfully with television service in the United States?

Mr. MACAULAY: That is correct.

Mr. JAENICKE: Have you been in collaboration with them in connection with the experiment?

Mr. MACAULAY: What do you mean by "collaboration"?

Mr. JAENICKE: Are you working hand in hand?

Mr. MACAULAY: We are fully informed and are keeping abreast with the information. We have not specifically done anything in connection with television ourselves, but we are informed so we could proceed if required.

Mr. JAENICKE: They already have a relay station now, have they not, to transmit television waves?

Mr. MACAULAY: Yes sir.

Mr. JAENICKE: Have you heard of the recent application before the Federal Communications Commission, setting forth what that company is going to charge the broadcasters?

Mr. MACAULAY: No.

Mr. JAENICKE: This company has no influence on you in that respect at all?

Mr. MACAULAY: No, sir. So far as I can determine it, we are dealing entirely with conditions as we meet them in Canada. There are no television customers at the present time looking to us for service. If there should be, we would be in a position to go ahead, design a plant and give the service.

Mr. KNIGHT: Mr. Chairman, I should like to ask one or two questions. I shall not hold the committee very long. One of the gentlemen said that this money had been put up by the people who had faith in Canada and faith in The Bell Telephone Company. I should like to remark here that I am not sure those terms are synonymous.

I do not want to have on the record one or two things, for this reason; my objection to this bill is that I believe it hands over too great a capitalization



in one lump. I should like to ask this question, while I think of it. How soon will this company have to come back to parliament if it gets what it is after, an increase of \$350,000,000 in capitalization? How soon do the company's officers estimate the company will have to return to parliament for a medical check-up, if I may call it that?

Mr. JOHNSON: I find it rather difficult to answer that question. It rather leads us into the future, as to what future construction costs are going to be; as to what the general level of business will be and as to what the rate of our growth will be. We have tried to put down in our brief our estimates for the next five years. We feel confident that we will see those estimates exceeded. If they are exceeded, we will be back to parliament in a shorter time. If those estimates are under-run, it would take longer.

I do know that for this year, to finance our construction requirements for the year 1948, we have to have \$52,000,000 of new capital, of which \$35,000,000 was secured in February through the issue of bonds, plus about \$6,000,000 we carried over from 1947. Now, \$52,000,000 of new capital for this year would suggest to me—and let me say so far as I can see into the future our present level of construction seems to be indicated for many years ahead, but I do not want to be a seer or pose as such. I do not know what the future holds any more than my colleague knows. However, my guess is we are going to keep on this level of construction on which we are today for years into the future. It indicates that, so far as new capital is concerned, something in the order of \$52,000,000 or more per year is before us. Multiply 52 by 10 and we arrive at \$520,000,000 new capital, part of which would be secured from bonds and part from equity capital. I am afraid that is the best answer I can give you.

Mr. KNIGHT: I would suggest there is no man in Canada who can estimate it better than you. Would you not care to make a guess at the amount? You say you will be back in a shorter time?

Mr. HARTT: I do not think a guess would justify an answer to that question. I would not be influenced by a guess. I want to get the facts.

Mr. KNIGHT: Might I continue?

The CHAIRMAN: Yes, I wish you would.

Mr. KNIGHT: A gentleman suggested that those who had faith in Canada and the Bell Telephone Company had put up tremendous sums to make the building of this company possible. Would I be correct in suggesting that it was the people who used the telephone who put up this money?

Mr. HARTT: The people of Canada and the users of the telephone—it is all the same thing.

Mr. MUNNOCH: The people of Canada who use the telephone paid the cost of running it, but the shareholders put up the money to build the system.

Mr. KNIGHT: I am asking you, would I be correct in saying it was the users of the telephone who put up practically all the money shown in this balance sheet?

Mr. MUNNOCH: No, I say no to that.

Mr. KNIGHT: What proportion would you say?

Mr. MUNNOCH: \$12,000,000.

Mr. KNIGHT: I should like you to tell me just what the assets of the company amount to at the present moment or, at least, at your last balance sheet?

Mr. MUNNOCH: The total assets shown on the asset side of our balance sheet for 1947, the items being all set out there, amount to \$379,251,372.50.

Mr. KNIGHT: Does that include an amount for the assets in any subsidiary companies?



Mr. MUNNOCH: Only the stock, the amount we have paid for the stock we hold in subsidiary companies.

Mr. KNIGHT: My objection of course to this great increase of capitalization is that the company is too big now. I would like to have a comment from some of the officers of the company in that regard. I would like to ask if it is true whether or not this company has become virtually a monopoly in the provinces of Ontario and Quebec and if not, to what extent it has become a monopoly.

Mr. HARTT: By the nature of the business of the company, it must be a monopoly.

I remember we had two light, heat and power companies in Montreal and we had several transport companies by way of tramways and the people, the consumer, and the users, were the ones who paid for it.

Can it be imagined by this committee that if we had in Montreal five or six telephone companies, and for example, I wanted to call, via my telephone to a subscriber or to a person who received service from another telephone company—if that would be possible—who would pay for this multiple organizations?

The word monopoly has always been shoved in. Now, a government is a monopoly and we do not object to it, and a telephone company by the very nature of its organization it must be a monopoly. I wish this company could extend its services right across Canada, because when I go to any part of the country I get uniform service.

Mr. HATFIELD: It has.

Mr. HARTT: Not unless my honourable friend has information which I have not.

Mr. KNIGHT: I will have it when he answers your question.

Mr. HARTT: The honourable member says: the reason I object it is. In the back of his mind and he objects, whether the reasons are sound or unfounded. Is he objecting because some people had the foresight to build this company? The way I am speaking today, people would think I am the owned of the Bell Telephone Company. I wish I were; but I have not a share in the company, nor have I got the means to buy one.

Mr. KNIGHT: Could you get any, anyhow?

Mr. HARTT: If I had the money, I could go on the stock market. It is a public-owned company, and it is the first company I have seen which has offered—

Mr. HATFIELD: Election funds.

Mr. HARTT: I suppose you would refuse it.

The CHAIRMAN: Order, order.

Mr. HARTT: It is the first company I have seen that has given nearly \$1,000,000 worth of shares to its employees. Every worker in the Bell Telephone—oh, I should have said sold—it has given its employees the privilege of buying its shares and it sold them below the market price. For example, when Bell Telephone Company employees come in to repair a telephone—and they are very loyal to the company—you may question them and ask: Why are you so loyal to the company? Their answer is they are treated right and get privileges such as shares at \$95 when the shares were selling on the market at \$180 or \$195.

Mr. MUNNOCH: Not \$95 because we cannot sell below par.

Mr. HARTT: Well, at par when the market price was \$185.

Mr. KNIGHT: I was wondering if this discussion was in order, and if not, I might have a further answer from the witness.

Mr. HARTT: Well, I still have the floor. I wish my honourable friend would not talk about the company so unfairly.



Mr. TOWNLEY-SMITH: No, you are the one who is talking for the company.

Mr. HARTT: I assure you, if you can show me—

The CHAIRMAN: I would remind you that Mr. Knight has the floor. I was a little lenient with the speaker, but I would like Mr. Knight to finish his questions and then we can proceed.

Mr. KNIGHT: It is so long since I asked my question that I have almost forgotten what it was.

Mr. MUNNOCH: The honourable gentleman asked whether it was true that the Bell Telephone Company was virtually a monopoly. If you mean by monopoly that, in the territory where we happen to serve, we are the only telephone company, if that is what monopoly means, then we are. But in the territory which we, in part, undertake to serve, which is the province of Ontario and Quebec, there are 923 other telephone systems and practically all of them, except for a few out of our territory that connect with us, are long distance lines.

Mr. KNIGHT: I would like to ask you this question. You are an expert. How long—how big does a company grow before it becomes unwieldy from the point of view of management; or does it ever, in your opinion?

Mr. MUNNOCH: That is a rather difficult question to answer. We still think we can manage the Bell Telephone Company through its officers and we think we will be able to do so if we get its capital extended.

Mr. KNIGHT: The witness said, some time ago—I am not going to speak of the users of the telephone as apart from those people who have put money into it in shares from their saved up capital. Would that sum amount to \$12,000,000? The witness answered that was the amount of money which, if the company had been a co-operative one, would have been returned to the people who had initiated the company—I am not clear on that; I do not think your figure is quite right. I think it is too low, myself.

Mr. MUNNOCH: I am sorry sir, but I do not know anything about co-operative telephone companies, or how they would operate.

Mr. KNIGHT: I did not expect you would answer the question.

Mr. STEPHENSON: You insinuated that you did not think he would answer. I submit that is uncalled for.

Mr. KNIGHT: What I meant to say was that I did think that the question was within his capacity to answer.

Mr. POULIOT: Mr. Chairman, I want to know from the company if they propose to enter into the television field, that new field, before giving a good service of communication by voice?

The CHAIRMAN: I think that would come under section 4, Mr. Pouliot, later on.

Mr. HATFIELD: I would like to ask the witness if they have any connection with the Western Electric Company.

Mr. MUNNOCH: The Bell Telephone Company has no connection with the Western Electric Company.

Mr. HATFIELD: Has the Bell Telephone Company any connection with the Northern Electric?

Mr. MUNNOCH: Yes, we have the controlling interest in the Northern Electric Company.

Mr. HATFIELD: Does not Western Electric Company control Northern Electric?

Mr. MUNNOCH: No, sir, they have a minority interest in Northern Electric.

Mr. HATFIELD: As you said before, you sold \$52,000,000 of bonds last year. Did you have any trouble last year?



Mr. MUNNOCH: As to the \$35,000,000 worth of bonds which we sold last year; no, we sold them the whole lot of them.

Mr. HATFIELD: At what interest?

Mr. MUNNOCH: Three per cent.

Mr. JOHNSTON: Three per cent on last year's, and  $3\frac{1}{4}$  per cent on this year's.

Mr. HATFIELD: What dividends have you paid your shareholders, your stockholders?

Mr. MUNNOCH: We pay \$8 on each share.

Mr. HATFIELD: That is, 8 per cent.

Mr. MUNNOCH: We pay \$8 on each share, which would be 8 per cent if related to par, and as related to what the shareholders paid for the shares.

Mr. POULIOT: On the question of monopoly, I would like to know what are the ramifications of the Bell Telephone Company in Canada, and what are the telephone companies in Canada who are entirely independent of the Bell Telephone Company?

I understand that nobody can answer that question from memory, but on the other hand, I think it would only be fair to give the committee a list of the companies in which the Bell Telephone has some interest, and of the companies, the other telephone companies in which the Bell Telephone Company has no interest. That would answer fully the question put by Mr. Knight a few minutes ago.

We must have a broad view of the picture. It is impossible to have it otherwise; and we must have that list. Then we may proceed to an intelligent discussion of the whole business.

The CHAIRMAN: Could that list be supplied?

Mr. MUNNOCH: I can read a list of telephone companies in which the Bell Telephone Company has a controlling interest, but there are 903 telephone companies in the provinces of Ontario and Quebec. I have not the names of them. If the question could be answered by reading this list of those in which we only have a controlling interest, I would be glad to read the list.

Mr. POULIOT: I do not wish to impose that upon you, but I would like to have a list which may be supplied later on. It would be easy for you to telephone to Montreal and have that list tomorrow.

Mr. MUNNOCH: A list of the whole 900 odd telephone companies in which we have no interest, or just the ones in which we have an interest?

Mr. POULIOT: Two lists, one list of the companies in which the Bell Telephone Company has a controlling interest, and then another list of telephone companies in which the Bell Telephone Company has no interest whatever. If the Bell Telephone Company could provide us with a third list, a list of the companies in which the Bell Telephone Company has a certain interest; but not a controlling interest, there would be three lists. First, a controlling interest; the second, an interest that is not a controlling interest; and third, no interest at all. Then we would know where we are going.

Mr. MUNNOCH: I would like very much to be able to answer that question which Mr. Pouliot has put. I am prepared now to give two of these lists, but it is going to take a lot of research to procure the names of the other telephone systems in Canada, because there are 900 alone in Ontario and Quebec, where we operate. I do not know; we might have to go to the Bureau of Statistics or elsewhere to get the record of the others.

Mr. POULIOT: No, no. That is a thing which should have been supplied to us with the brief of the company. We are now in the fog. We do not know at all what we are discussing, and this would be the only way to have it in black and white. It is an easy thing to do and it should have been done before.



I submit that the reason which has been given; that it would take a long time, is no excuse. It has been mentioned for a long time that the committee would sit here; and the company had all the time available to prepare that list. That is an intelligent way to work.

Moreover, I did not like the remark of the witness; that we should go to the Bureau of Statistics.

Mr. MUNNOCH: I did not say you should go. I said we would go.

Mr. POULIOT: It may be the Bureau of Statistics of the company which should have done the job. We are not here as clerks, but as members of parliament, and I think the witness has said one word too much. I am not going to stand for it as a member of parliament. I submit that with a matter of this magnitude, a list giving some information which would help us in our work should be provided. It is not for us to do it. It is for those who come before us to ask for something. They must be ready.

We are in the position of judges who see barristers come before them, counsel, who have not prepared their cases well.

We have a memorandum here, but it is drafted strangely, in a strange manner, so much so that Mr. Jaenicke had to refer to the pages going forward and backward, and refer to other pages all mixed up. I want something clear.

I am not prejudiced against the company. I am open-minded, but I want the work to be well done; and I would say that, considering the amount of money involved, which is nearly as much as the Canadian National Railways, I think the Bell Telephone Company deserves some credit for the service that has been given to a certain extent, but there are black spots. I live in one of them, where we have an awful service.

There must be some improvement, and I feel shocked when I hear about millions to be spent for television when we cannot speak to each other over a distance of a few miles and understand each other well. We must start at the beginning and lay a good foundation. In that manner we will be the best of friends and the country will have the company and the company will make progress.

May I suggest to the witness that we are not rubber stamps here, but we are entitled to have full information and intelligent information and we want it to be given in an intelligent manner. The company has been so successful in many ways, we think they should have no excuse for not conducting themselves in the manner prescribed.

Mr. MICHAUD: Following those remarks, I think, perhaps we should ask the witness to let us have three lists of the things he said he has in his possession. One was the list of companies in which they have no interest at all. Now, if that is the case, I see no reason for this flurry of temper because you cannot expect the officers of this company to have the names of all the telephone companies in which they have no interest whatever.

Mr. POULIOT: Opinions are free.

Mr. TOWNLEY-SMITH: A rumour has gone around that the company intends to use some of this capital to build a line or lines south in order to by-pass the lines presently worked in the prairie provinces. That concerns the western members very, very much, and I would be happy to have one of the witnesses assure me categorically that that is not the case.

Mr. JOHNSTON: I would be glad to assure you, sir, that we have no intention of owning property at all in the United States. Our property is in Canada. We have close and amicable relations with the three prairie provinces. We must have, in order to have telephone service from Halifax to Vancouver, if it is going to be successfully carried out, as it is today. There is no intention on the part of our company to by-pass those three prairie provinces for whom we have a high regard.



Mr. POULIOT: If I might be permitted to add to what I said a moment ago: Mr. Michaud has said it would be unfair to ask the company for a list of telephone companies in which they have no interest. Well, I will drop it. I will be a good prince, a grand seigneur, and I will drop it. But I do insist upon having a list of the companies in which The Bell Telephone company has the controlling interest, and another list of companies in which it has some interest, but not the controlling interest.

The CHAIRMAN: That clears the air, gentlemen. We will have Mr. Munnoch answer the question.

Mr. MUNNOCH: First, I would like to say to Mr. Pouliot, that I am sure he must have misunderstood my remark, if he took from it that I suggested that this committee should go to the Bureau of Statistics. I thought I said, or I intended to say, that that was where the Bell Telephone Company would have to go.

I would not suggest any such thing to the committee or to any member of parliament, because I am here as a witness.

Mr. POULIOT: That is finished, sir.

Mr. MUNNOCH: But I can give you a list of the companies in which the Bell Telephone Company of Canada holds the controlling interest. There are fourteen of them.

#### 9. *Other Subsidiary Companies:*

The Bell Telephone Company of Canada owns a majority stock interest in the following other companies:

1. The Southern Ontario Telephone Co. Ltd.
2. The Woodbridge & Vaughan Tel. Co. Ltd.
3. The Eastern Townships Telephone Co.
4. The Welland County Telephone Co. Ltd.
5. La Cie de Telephone de Kamouraska.
6. Ingersoll Telephone Co. Ltd.
7. La Cie de Telephone de Charlevoix et Saguenay.
8. Farmers Telephone Co.
9. La Cie Canadienne de Telephone.
10. Urban and Rural Telephone Co.
11. La Cie de Telephone d'Yamaska Ltee.
12. Le Telephone Labelle Ltee.
13. The Chapleau Telephone System Ltd.
14. The North American Telegraph Co.

And now, the list of companies in which the Bell Telephone Company has a minority interest:

1. Maritime Telegraph & Telephone Co., Ltd.
2. Atlantic Utilities Limited. Participating dividend rights of which Bell Telephone Company owns.
3. The New Brunswick Telephone Company Limited.
4. The Bonaventure & Gaspé Telephone Company Limited.
5. The St. Martin's Telephone Company Limited.

Mr. McCULLOCH: What interest have you in the Maritime Telegraph and Telephone Company, Limited?

Mr. MUNNOCH: We have 7·4 interest.

Mr. McCULLOCH: In the Atlantic Utilities Limited?

Mr. MUNNOCH: 5·9 per cent.

Mr. MICHAUD: And what interest have you in the New Brunswick Telephone Company?

Mr. MUNNOCH: 48·5 per cent.



Mr. HARTT: Could the witness prepare a statement showing the capitalization of each company and the number of shares or part interest the Bell Telephone Company holds by in each of these companies, and in the same way show if the Bell Telephone Company of Canada have any administrative control in any of these little telephone companies? I have serious reasons in asking for this information, because the service out of Montreal is not what is it at home.

Mr. HATFIELD: I see on page 17 of your brief that you have down here \$26,000,000 for toll lines.

Mr. MUNNOCH: Long distance.

Mr. HATFIELD: Do you propose to tell this committee that you intend to spend \$26,000,000 out of \$362,000,000 on long distance lines?

Mr. MUNNOCH: Those are the figures, and they are correct.

Mr. HATFIELD: Where are you going to stop? Where are you going to spend the rest of the money?

Mr. MUNNOCH: For central office equipment, land and buildings, right of way, and so on.

Mr. HATFIELD: What service does that give to the public, to the people who use your telephones? That is the trouble with your company, your long distance lines are no good. I use the long distance telephone more than you people do and I say that is where you fall down, in your long distance telephones. You have no circuits.

Mr. HARTT: I can see that the last speaker—

Mr. HATFIELD: You want to spend a lot of money in Montreal and some other places.

Mr. HARTT: Could the witness answer this question: what is the difference between the increase in capitalization by way of bonds, debentures and common stock?

Mr. MUNNOCH: You mean, in principle, sir?

Mr. HARTT: Yes, and interest.

Mr. MUNNOCH: The principle, or the difference in the principle?

Mr. HARTT: Why is it that Bell Telephone Company prefers to increase its capital by way of common stock instead of in debentures and bonds?

Mr. MUNNOCH: Yes, sir.

Mr. HATFIELD: Because they cut a melon.

Mr. MUNNOCH: You can only borrow so much money, and then the money lenders say, "No". If you get into debt then you are not a good risk.

Now, there are two alternatives. There are two ways in which a company can finance a new development. The first is by issuing capital stock, as every company must originally do, by somebody subscribing to shares.

Then you may reach a point where you might have enough bonds that you could borrow on by way of security. And it is important that you keep those two things in something of a balance because, if you borrow too much, you cannot borrow any more, and you cannot issue any stock because nobody will put his money into your business.

But if you keep that reasonably balanced, I mean, roughly, one-third debt capital and two-thirds equity capital, then you can, if you need money in the future—you can find money in stocks or bonds and you can market them.

Mr. HARTT: Do you mean that the money lenders such as the banks and the institutions that we have throughout the Dominion would not trust the Bell Telephone Company with half a billion dollars where you ask this parliamentary committee to approve your application and you say; although the large banks



and lending institutions will not lend to us, because we would be on the danger list, we expect to come to your citizens and get that supply of money. It would be equally as big a risk as if the lenders gave it to you.

Mr. MUNNOCH: Yes, sir. If you borrow money, the day comes when you have to pay it back; and if you continue to borrow on the terms of having to pay back, then the day comes when you are faced with re-financing.

What will money conditions be like twenty years from now? If a good bond issue is made today, you do not know, but when people put their money into a company as shareholders, the company does not have to pay it back until such time as it comes to liquidation and the shareholders get what is available to reimburse them for their investment.

The CHAIRMAN: I am sorry to interrupt this interesting discussion, but it is practically six o'clock. I would like to have your reaction as to whether we should continue to discuss—

Mr. HARTT: Will I be the first one?

The CHAIRMAN: Yes; you have adjourned the debate, so shall we meet tonight.

Mr. HARTT: Yes; let us get through with this now.

The CHAIRMAN: We could meet at 8.30 if that is the wish of the committee? Carried.

The committee adjourned.

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### EVENING SESSION

The CHAIRMAN: At the adjournment, Mr. Hartt had the floor and was asking questions. We have not forgotten you, Mr. Hartt.

Mr. HARTT: Mr. Munnoch, before we adjourned, I asked you what was the objection to financing the Bell Telephone Company or any other company by way of debentures and bonds? Why do you prefer the common stock form of financing? So you will not be taken by surprise, you answered that, if you borrow money, meaning if you finance by way of debentures, you have to pay it back. It is a liability. Whereas, with common stock, you do not have to pay it back, in all events, until liquidation. In your statement of affairs, Mr. Munnoch, you assume the money which you are raising through common stock is a liability?

Mr. MUNNOCH: That is perfectly true, common stock is a liability.

Mr. HARTT: If the one is a liability and the other is, equally, a liability, what would be the objection to borrowing the money for capital investment by way of common stock they have no experiences in huge financial matters and usually invest money on the recommendation of a broker or someone else? The public has no recourse. They cannot sue the company for their shares. The company has no power to buy the shares back. Do you not think this is rather unfair to the public?

Mr. MUNNOCH: I would answer this, that there is nothing to compel any member of the public to buy any shares in The Bell Telephone Company. They buy those shares either because they think it is a good investment or because they have reasons of their own for wishing to have an interest in the company.

Now I was attempting, before adjournment, to answer your question and had partly answered you. May I complete what I was about to say then? A company has only two means open to it for raising new capital when it needs it. It issues stock and acquires, through that, members in the company who have



purchased outright an interest in the company or a share or a series of shares; that is one way of raising capital. The other way of raising capital is by issuing bonds or debentures or debt obligations.

I was trying to make a distinction between a stock investment and a bond investment. A bond investment is a debt, a debt which is made by contract and which the debtor, in this case the company, agrees to repay at a specified time together with interest at a specified rate; that is a contractual obligation which is made with every kind of bond.

Now, in stock, the stock purchaser buys an interest in the company. The only obligation of the company towards that shareholder is that it will give him his fair share of the profits in the shape of dividends and, if the company should be liquidated, he is entitled to his pro rata share of whatever assets are left after the contract creditors have been paid in full. So, you have that distinction. With the debt obligation the company has to agree to pay the principal back and to pay the interest, whereas with the stock obligation the company does not agree to pay back the investment, it agrees that the shareholder will have his pro rata proportion of all of what assets are left in the event of liquidation after the bondholders have been paid in full. There may be nothing left and, in some bankruptcies there is nothing left for the shareholder. As a matter of fact, it is rather unusual when anything is left.

Taking the ordinary basis of debtor and creditor, I think it is obvious to all of us that the lower a company's debt obligations are, the better its credit position is. I think any of us would rather lend money to someone who had assets and no debts than lend money to someone who had assets but who had charged those assets with previous debts.

Now, the importance of maintaining a credit position for a company is very well demonstrated in the position in which The Bell Telephone Company finds itself now. It hopes, if this bill is passed, to be able to raise very substantial sums of new capital. If our credit position is good, that is if we have not mortgaged everything we have to the hilt, we can get people who are interested in making an investment in the company, in purchasing a share, in the hope they will get their dividends and, eventually, participate in the operations of the company.

At the present moment, taking into account the bond issue we made late last year, the company's debt ratio, that is the relationship of its bonded debts to its total capitalization, the capital stock plus bonds, is 41.6 per cent. The Bell Telephone Company thinks that, in order to maintain its credit over a long period of time, our debt ratio ought to be about one-third of our total capital obligations. I do not mean by that that it is consistently at one-third. A bond issue tomorrow will increase the debt ratio and a stock issue will decrease it. However, over a long-time average, we think about one-third debt obligation to about two-thirds equity capital, that is the issue of stock, is the correct average.

As I have mentioned, borrowed capital has to be repaid and bonds are usually issued for—well, as long a term as you can get if you feel the interest rate is good, say twenty years. Who knows twenty years from today whether you can get bond money at the same rate you can get it today? You may have to pay 5 or 6 per cent twenty years from now, so you are taking something of a gamble as to how you are going to refund these bonds.

Then, if the debt ratio gets up too high, two things happen. You get to the point, where if you have all your money in bonds, people will not buy more bonds from the company. Not only that people will not buy shares because the claim of the bond holders has priority over the claim of the shareholders. It is a very serious thing to borrow too much money because when you get to that point you cannot borrow more and you cannot sell stock. No one will buy it. That would be a very disastrous thing for The Bell Telephone Company who is here seeking this new capital for the sole reason of carrying out its obligations to the public. If we borrow too much we cannot raise all the money, but if we borrow



only some money and get new investors to put money into the Company as shareholders, we think we can carry out this program. It is important to properly balance your debt ratio. It means another thing. The company, as market conditions indicate advantages, can borrow money or issue stock. You have the two alternatives instead of being limited to one. On the stock issue question I might remind you, sir, that we cannot make any issue of stock without getting the Board of Transport Commissioners to approve the amount, the price, and the terms or conditions. I hope that answers the question.

Mr. HARTT: That answer is theoretical. It is company financing which is of general knowledge and you have stated the truth. You have no assets at present to guarantee a new issue of \$350,000.

The CHAIRMAN: \$350,000,000.

Mr. HARTT: Yes, \$350,000,000.

Mr. MUNNOCH: We have assets over and above the amount of our bonds. Our bonds are \$102,000,000 and we have some \$200,000,000 worth of assets.

Mr. HATFIELD: \$379,000,000.

Mr. HARTT: Your total assets are \$379,250,000.

Mr. MUNNOCH: Yes sir.

Mr. HARTT: All right. You are saying to this government "we are going to your people to get \$350,000,000—this is a Canadian owned company—and we have no assets except the prospect of asking the people of Canada to give us \$350,000,000 and we will expand our company and we will then have the prospect of doing a big business; we will earn a lot of money and we may pay dividends, but we owe you nothing if we fail"—according to your own statement. The government by giving you this charter is authorizing you to go to the Canadian people who have no conception of financing, to get their money on a prospect and I say this with all due respect to your company and I think a lot of the company.

Mr. MUNNOCH: Our assets, according to the balance sheet are \$379,000,000.

Mr. HARTT: Quite.

Mr. MUNNOCH: Of those assets we have pledged to our bond holders some \$102,000,000.

Mr. JOHNSTON: If you are quoting the \$379,000,000 you must quote the other figure.

Mr. MUNNOCH: These are December 31, 1947 figures but we have pledged those assets or given those assets as security for \$81,000,000 worth of bonds so we still have assets available there to stand behind the shares. If we get this new capital what are we going to do with it? We are going to turn it into new buildings, new plants, new equipment, which again will be assets to support the investment of the shareholders.

Mr. HARTT: I noticed you are using the future tense. You have \$105,000,000 with which to guarantee the assets of your company to the bond holders.

Mr. MUNNOCH: Yes.

Mr. HARTT: But for your present shareholders you have not got enough assets in the event of liquidation to pay them back at a ratio of \$163 a share, which is today's market value.

Mr. JOHNSON: Might I point out what the shareholder has for protection is the par value of his stock in the balance sheet, plus the surplus of the company, —\$12,000,000, plus \$24,000,000 paid in as premiums by shareholders.

Mr. HARTT: How many shares have you issued altogether?

Mr. JOHNSON: 1,264,000.

Mr. HARTT: That represents how much?



Mr. JOHNSON: \$126,420,000 as of the end of last year.

Mr. HARTT: You have bonds for \$105,000,000?

Mr. MUNNOCH: According to this figure it is \$81,000,000.

Mr. JOHNSON: I could express it to you simply, sir, by saying the net worth of this balance sheet as at the end of last year in \$129 for every \$100 share outstanding. That is the net worth representing the par value of the stock as shown on the balance sheet plus what belongs to the shareholders, being \$24,000,000 approximately, which shareholders paid into the treasury of the company when they bought the stock, in addition to the \$100 par value, plus the accumulated profit over seventy years' operation.

Mr. HARTT: Well.

Mr. JOHNSON: Those figures average out to \$129 for every \$100 share outstanding.

Mr. HARTT: Would you say each share would yield \$129 at the moment of a forced sale?

Mr. JOHNSON: No, sir.

Mr. HARTT: I am just talking about the interests of the public. I may be an investor too, but you are selling these shares and I want to know, in the event of a forced sale, what the result would be? Take the International Telephone and Telegraph, when they sold their holdings in Spain they got \$14 a share and the shares were selling for \$35 on the Stock Exchange. When the company was confiscated in Rumania they got \$5 a share; in the case of South America the president ran down and sold the stock for practically nothing before there was another revolution.

Mr. JOHNSON: I hope we will not be faced with that situation here.

Mr. HARTT: You will not, with the present government.

Some hon. MEMBERS: Hear, hear.

Mr. HARTT: What I am saying, sir, is that you have the \$129 which the shareholders have invested, let us say they are widows—and you will remember what happened in connection with the Montreal Light, Heat and Power. There was an expropriation and it was called the widows' and orphans' stock. I know what happens to the people when there is an expropriation—and mark you there it was in good faith—but the shareholder had nothing. Even if he has a \$129 par value share the bonds are guaranteed, and with your assets you are saying to parliament "give us authorization for \$350,000,000. All that we have is now guaranteed by way of bonds and other assets, but if you give us that authorization we can get \$350,000,000 from the public of Canada because that is the object." You have nothing to offer them at the moment but you will take their money.

Mr. JOHNSON: That is venture capital, but I think it is the responsibility of management in this country to see that the shareholders' money is protected and I think this company has successfully done that very thing for the past seventy years, and I would expect that the management would continue to do so in the future.

Mr. HARTT: I am satisfied with that answer. You stated, or Mr. Macaulay stated this afternoon that each telephone set cost the company \$317.16 in urban centres.

Mr. JAENICKE: Those are my figures.

Mr. MACAULAY: That figure was the result of dividing the expenditure on construction over the past three years into the increased number of telephones.

Mr. HARTT: Can you break down that set of figures?

Mr. MACAULAY: It now costs \$550 per telephone set increased telephone.



Mr. HARTT: Can you break down these figures and tell us why it costs you \$550 per telephone?

Mr. MACAULAY: We can break that down by the accounts that Mr. Munnoch read. We have it allocated by major classes of plants, plants and buildings and central office equipment, and we have the line charge—that is all in the major breakdown I think Mr. Munnoch read into the record this afternoon. I think I might say with regard to Mr. Munnoch that what he read into the record this afternoon was an estimate for this year and that was made last October. It was seventy-three million seven, and the figure that I mentioned this afternoon was approximately \$80,000,000, which is higher than the forecast we made last fall and also includes a larger number of telephones than we did last fall.

Mr. HARTT: Now, another point is the cost of instruments, the cost of service, the amount the subscriber has to pay. These are things I am trying to get and that is why I am asking you to break them down. To me a telephone is a piece of wire, a central and a receiving set; and I cannot figure every time I get hold of a telephone that I am holding \$550 in my hand. That is why I would like to have it broken down.

Mr. MACAULAY: Well, sir, that is the construction cost, the gross construction cost this year, what we are putting in, the plant divided by the number of telephones that are going into the increase.

Mr. HARTT: Do you mean, sir, that you take all your capital fixed assets including buildings, including machinery and all that you require for the operation of a large number of telephones and divide into all the assets of the company including buildings and say that is what each instrument costs you?

Mr. MACAULAY: At the moment the plant we are building up—the present plant that we now have, which is the result of construction over a great number of years, mostly at price levels very much lower than the present, averages \$250 for each telephone we now have operating; so that when you take up a telephone now you actually are handling \$250 of plant behind each telephone; but the new ones that are coming in at the present levels are costing somewhat over \$500 per instrument.

Mr. HARTT: You own a building in Montreal? I do not know if you own it?

Mr. MACAULAY: We own a number of buildings.

Mr. HARTT: The building where the Bell Telephone is situated.

Mr. MACAULAY: You mean, our headquarters?

Mr. HARTT: Yes.

Mr. MACAULAY: That is right.

Mr. HARTT: Is the cost of that building divided into the number of instruments?

Mr. MACAULAY: That is the total cost, the plant.

Mr. HARTT: It is?

Mr. MACAULAY: Yes.

Mr. HARTT: So that actually that is not the cost of the instrument itself?

Mr. MACAULAY: Oh, no.

Mr. HARTT: \$550.

Mr. MACAULAY: Oh, no, no.

Mr. HARTT: All right. Now, you have an increase in the sale of 100,000 telephones the cost per instrument will go down, won't it; the cost of buildings will spread over a larger number of phones and so on?

Mr. MACAULAY: No, it is going up, because, as I explained, at the present time practically all of our building space is fully occupied and congested. We are also renting a lot of space outside, but in order to make further installation of



central office equipment we now have to expand building space and construction of buildings.

Mr. HARTT: Who makes your telephones?

Mr. MACAULAY: You mean the sets?

Mr. HARTT: Yes.

Mr. MACAULAY: Northern Electric.

Mr. HARTT: They are manufactured by yourselves because you own the control of that company?

Mr. MACAULAY: Yes.

Mr. HARTT: What do you pay the Northern Electric Company for each telephone?

Mr. MACAULAY: Well, there are various kinds of sets. The set you see down there on the desk is a dial telephone and that costs something under \$20.

Mr. HARTT: You pay them \$20?

Mr. MACAULAY: Yes, sir.

Mr. HATFIELD: What is the Western Electric? What sum does the Western Electric get out of that?

Mr. MACAULAY: None.

Mr. HATFIELD: Don't they have a price on that?

Mr. HARTT: He said there is no connection.

Mr. JOHNSTON: The Western Electric Company are partial owners, they have a minority interest and to the extent that the Northern Electric pays dividends they get their share.

Mr. HARTT: The instrument costs \$20. You take a city like Montreal where the houses are in close proximity—now, I do not know how many telephones you put on one line—but if you multiply those in a situation of that kind, surely in a situation like that in Montreal it can't cost you \$550.

Mr. MACAULAY: I am giving you the average figure for the company.

Mr. HARTT: How much do you pay per telephone for copper wire? I would like to know. I may be getting too thin, but you say it costs \$550 for a telephone. Your company, a company like the Bell Telephone Company of Canada has cost accountants and they could give me this information; because what I am trying to compare is the amount of money the subscriber pays for his service. I think I have submitted to you that the \$350,000,000 which you are going to get is by virtue of a charter that this government will grant to you, because you have no other assets except very little to guarantee the income of the company on \$350,000,000. I think I made that clear. My second point is that I wanted to get the ratio and the proportion of the cost of operation, to the cost to the subscriber. Your company is as prosperous as it is because it is well administered—and I am willing to admit it is; is that the reason, or is it because it is charging too much to the subscribers? These are the things I want to know. Now, if you put in the figure that it cost you \$550 a telephone you are entitled to ask—your present rates—I do not know what you are asking per month; but if a telephone costs you \$20, and you are getting, what is it, \$7 or \$8 per telephone per month—you are getting paid for that telephone in about two months and a half. What I am driving at is this, it is a public utility, and that is why we are allowed the privilege of asking these questions. We do that downstairs, too. What is the actual cost per instrument? Does that include, for instance, operating expenses? I do not know what salaries you pay. Do you include those in the cost of these instruments? Then, you are entitled to charge for services. The present rate. If you don't pay \$500 for each instrument, it would cost you less, why do you charge the subscriber so much?



Mr. MACAULAY: I think, sir, I should explain that in the capital account, or the plant account, we are talking about the plants required to make a telephone operate. It is not only the instrument but the wiring, the conduits, the cable, the staff, the power plant, the long distance lines and a lot of other things. There is \$250,000,000 of plant.

Mr. IRVINE: And you divide the number of telephones into that and you get your \$550, is that it?

Mr. MACAULAY: That is about \$250 at the present time with the plant overloaded and a lot of people on party lines, buildings filled up; but with the present higher price level to bring relief to these facilities it is going to cost somewhat more than double the present investment per telephone.

The CHAIRMAN: In other words, that is the unit cost, in which there are many factors of cost including the various items Mr. Hartt mentioned.

Mr. HARTT: Buildings, for instance.

The CHAIRMAN: It is not the actual telephone and the wire. It is the over-all unit cost.

Mr. HARTT: Posts, lands and the right-of-way, and so on, all the details. You include the building cost and you tell me you have got \$42,000,000 worth of buildings as part of the cost of each telephone?

Mr. MACAULAY: That is right.

Mr. HARTT: Bricks, mortar and paint are also telephones?

Mr. MACAULAY: And the automobile.

Mr. HARTT: It is a fixed asset.

Mr. MACAULAY: Yes.

Mr. HARTT: What is the average life of a telephone?

Mr. MACAULAY: Oh, they vary, say 17 years.

Mr. HARTT: Seventeen years?

Mr. MACAULAY: Yes. That is the physical life on the average. They have three life cycles in different locations.

Mr. HARTT: What do you charge the subscriber for a business telephone in cities? If you have the details I will take them.

Mr. MACAULAY: They vary by exchanges. Maybe Mr. Munnoch has that more conveniently. An individual line in Montreal is \$7.

Mr. HARTT: And if you have two lines?

Mr. MACAULAY: Two party residents—

Mr. HARTT: No, two lines to the same address.

Mr. MACAULAY: \$7 each.

Mr. HARTT: And if that is multiplied by three or four it is still \$7 each?

Mr. MUNNOCH: For an individual business line it is \$7 a month.

Mr. HARTT: Even if they have a switchboard?

Mr. MUNNOCH: A switchboard is a different basis.

Mr. HARTT: What do you charge for a switchboard with, let us say, three lines?

Mr. JOHNSON: Have you got the tariff?

Mr. HARWOOD: There would be a price on the switchboard and on the trunk. In Montreal each trunk would be \$8.75, and the switchboard would be \$11, \$12 or \$15 a month depending on the type of board and the number of extensions off it.

Mr. MACAULEY: The rate is built up by a number of different components, so much for the trunk line, so much for the switchboard, so much for each extension off the switchboard.



Mr. HARTT: How did you come to charge a figure of \$7, let us say, for a business telephone in the cities?

Mr. MACAULEY: That is Montreal.

Mr. MUNNOCH: And Toronto.

Mr. MACAULAY: That is in accordance with the tariff that was developed back in 1926 to secure revenues at that time to meet expenses and pay the return approved by the Board of Transport Commissioners.

Mr. HARTT: How did you come to decide that \$7 would be sufficient? Why was it not \$10 or \$5?

Mr. MUNNOCH: May I answer that and point out to you that in the judgment of the Board of Transport Commissioners, which was handed down near the end of 1926, and in which our present rate base was established after a long and protracted hearing, the various exchanges which the company operates were divided into groups dependent upon the number of telephones served in each exchange. Exchanges having over 100,000 telephones were put in rate group 1. Those from 20,001 telephones to 50,000 were put in rate group 3. There was no rate group 2. From 10,001 to 20,000 in rate group 4, from 5,001 to 19,000 in rate group 5; from 2,001 to 5,000 in rate group 6; from 1,001 to 2,000 in rate group 7, from 501 to 1,000 in rate group 8, and 1 to 500 in rate group 9. The rates for those groups varied according to the size of the exchange, the principle being that the larger the exchange the more valuable the service was to the subscriber because he could communicate with more people. In rate group 1, which has the largest number of telephones, the business rate for an individual line was fixed at \$7. In rate group 3 at \$5.50; in rate group 4, \$4.75. These are Montreal charges. Rate group 5, \$4.25; rate group 6, \$3.75; rate group 7, \$3.25; rate group 8, \$2.75, and rate group 9, \$2.50. In arriving at those figures the Board of Transport Commissioners for Canada had taken into account the company's operating expenses, the interest it had to pay, and all other operating costs, and set those rates divided among these different groups on a basis that would yield us enough revenue to enable us to carry on business efficiently.

Mr. HARTT: Did you ask in your petition to the Board of Transport Commissioners that these groupings be created and the charges be made accordingly, or did they come to this conclusion after your petition has asked for more money or less money?

Mr. MUNNOCH: We asked for more money than we got. The board reduced and varied a number of rates. Some of the rates we had put forward were supported. Others were changed.

Mr. HARTT: I notice here that if an instrument cost you \$550 with service and everything included, instrument, installation, operation, \$550, it takes you 73 months and you collect the cost of the telephone.

Mr. MUNNOCH: But we have to operate it as well.

Mr. HARTT: I do not say you do not. You are not operating at a loss. May I finish my question? I do not want to embarrass you, I assure you. I just want information. The subscriber pays you \$7 per month.

Mr. MACAULAY: Some of them, some \$1.50.

Mr. HARTT: Nobody pays you \$1.50.

Mr. MACAULAY: Yes, sir.

Mr. HARTT: In Montreal?

Mr. MACAULAY: Plenty.

Mr. HARTT: I am talking of Montreal. You get \$7 per month and in 73 months your instrument is paid for, including the buildings, including your operation expenses, because the Board of Transport Commissioners would not have given you an amount less than what it cost you to operate the company.



In 73 months you are paid off not only for the instrument and for the service and the running expenses, overhead, taxation, debts, liabilities, but you are paid up even for part of the building. You will notice I am correct.

Mr. MUNNOCH: I disagree with you there because if you take all your revenues and apply them to capital what are you going to pay your operating expenses with? How are we going to pay our operators, our installers, our workmen?

Mr. HARTT: I submit to you if you get \$7 a month that amount of money is supposed to represent the capital investment, interest. In any event, whether it does or does not, if a telephone costs you \$550, which is the maximum amount, not \$315, you have got it paid in 73 months. However you want to apply it, to capital or just to running expenses, you have paid for your instrument in 73 months, and people continue in perpetuity to pay you \$7 per month when you have no further outlays.

Mr. MUNNOCH: We have to maintain the lines. We have got to maintain the lines. We have got to pay the staff. We have got to have coal to heat our buildings. You are not applying any of our revenue to operating expenses. You are setting it off against capital.

Mr. MARIER: And you pay something for repairs?

Mr. MUNNOCH: We have to pay for repairs. Let us take a very simple example. If you wish to buy a house or agree to buy a house and take all your earnings and use them to pay for that house what would you live on in the meantime?

Mr. HARTT: The answer is this. I believe you don't understand me. perhaps it is my fault, but you told me that when you went to the Board of Transport Commissioners to ask for an increase in 1926 and asked for some extension they divided it into groups and categories and said, "We will let you have in certain cities, because they are getting more advantages, \$7 per month," and they scaled that down?

Mr. MUNNOCH: Yes.

Mr. HARTT: By adding up all the figures you can get an average?

Mr. MUNNOCH: Yes.

Mr. HARTT: Let us say the average is \$5 or \$4. If the average is \$4 then the instrument is paid back in 5 or 6 or 7 years because—let me finish—you say this amount was supposed to cover running expenses.

Mr. MUNNOCH: The rates are supposed to cover running expenses, not reimbursement of capital.

Mr. HARTT: I am not talking about reimbursement of capital at all. I say now what is the public getting from The Bell Telephone Company and what is The Bell Telephone Company getting from the public? What I am after is to induce you, if I can, to go to the Board of Transport Commissioners and say, "Our instrument costs us \$550. We reduce the rates by 25 per cent because the instrument pays for itself in so many years." This is what that gentleman meant by cutting melons. Is that what he meant?

Mr. JOHNSTON: The only melons the shareholders have received ever since the company has been a company has been the regular dividend that the company has declared.

Mr. HATFIELD: Now, now.

Mr. HARTT: I agree with you, Mr. Johnston.

Mr. JOHNSTON: Never at any time has a shareholder of The Bell Telephone Company received from the company in the last seventy years anything but the dividend which is declared and that dividend at no time has been above \$8 a share, and what the shareholders put into the treasury of the company has not been \$100 for each share, but an average to date of \$119.



Mr. HATFIELD: If they bought the share for \$119 and sold it for \$162—

Mr. HARTT: I have been too long in the practice of law to pay any attention to the last statement. It was not a question of cutting a melon; I was only speaking jocularly. Is there a possibility in the expanding of the company to reduce rates or service? I am trying to substantiate it by showing you that your instrument is paid for, including all your overhead, running expenses, poles, pillars, wires and everything you like, in seventy-three months. Why not the subscriber—not only the investor—get benefit?

Mr. JOHNSTON: Except that we have to send out bills each month and that costs money and we have to pay clerks to accumulate the charges and see that all these bills are collected and accounted for.

Mr. HARTT: Is not that included in your petition to the railway commission?

Mr. JOHNSTON: All our expenses are submitted to the Board of Transportation Commissioners whenever we make an application. The last one was in 1926, and the schedule of charges scaled down from \$7 for a business telephone in Montreal to, perhaps, \$2 for a small town or village. Summated and calculated it produced what the Board of Transportation Commissioners estimated to be the annual revenue our company needed to pay its traffic department employees who are the operators, its plant employees who maintain the plant, its engineering employees who devote their time to operating the company and all the clerical employees; the balance that is left being set aside for taxation, and after that balance what is left being set aside to meet the interest on the company's obligations estimated in what remained to be sufficient to pay a reasonable dividend to the shareholders. Now, those rates were developed on that theory. There should be enough money left after all expenses to meet the company's fixed charges and to give a reasonable return to the shareholders of the company.

Mr. HARTT: Correct. I agree with you, but I say that on this basis—I have taken the \$7 rate per month and I have reduced it to \$4—now, \$4, let us say, is the average—I do not know the number of telephones at \$550, you have in operation but in 110 months at \$4 per your company has received repaid for all the investments that I have enumerated—

Mr. LAFONTAINE: No, no.

Mr. RINFRET: The instrument itself has not been paid for.

Mr. HARTT: Here is your obligation: How much do you need to pay for your capital investment both in interest, dividends and repayment capital? Here is The Bell Telephone Company with its cost of administration, its insurance, management, superintendents, depreciation and the railway commission says to the Bell Telephone: "If you get paid at the rate of \$4 per month you will not continue to have as many telephones and to receive payment in each case and your company will operate successfully." That is what they say and you admit it. I take your figure and I say that \$550 is the cost of an instrument. I accept that. I scale it down from \$7 per month to \$4 and create an average and I will prove to you that \$4 divided into \$550—the cost of \$550 takes in your buildings, administration costs.

Mr. JOHNSON: That is all part of the telephone plant.

Mr. HARTT: Yes, that is all part of the telephone plant and also the administration.

Mr. JOHNSON: Oh, no.

Mr. MACAULAY: The \$4 the customer pays is consumed each month in operating expenses. There is no provision for repayment of capital.

Mr. HARTT: The capital remains permanent. You do not claim repayment of the capital when you apply to the railway commission, to establish rates?



Mr. MACAULAY: Just the interest.

Mr. HARTT: Conversely, there is deterioration in the plant and you are asking the Canadian government to authorize you to get \$350,000,000, and you say nothing about guaranteeing the repayment for that.

Mr. JOHNSON: There is depreciation. That plant is estimated to run for twenty years on a comparative depreciation rate of 5 per cent. That is part of the annual expense that is covered by the average of \$4.

Mr. HARTT: One last question. I know that from knowledge of other industries the greater the production the less the overhead and possibly the greater profits, and on this basis prices may be reduced. Under this theory is it possible that with the expansion of the Bell Telephone Company to the extent of three times its present size that service rates be reduced? And more particular since you have introduced automatic telephones you have no cost for operators—?

Mr. MACAULAY: We have more operators now than when we started.

Mr. HARTT: You have more telephones.

Mr. MACAULAY: We have more operators.

Mr. HARTT: You have more revenue, too.

Mr. MACAULAY: Yes.

Mr. HARTT: Now, if you increase your business, over and above the service that the Canadian public get at present the greater income will reduce your overhead which in turn will reduce the interest to a lower rate?

Mr. JOHNSON: That is possible, yes.

Mr. HARTT: All right. What security has the Canadian public who give you \$350,000,000 for its investment and also that the cost of its telephone service will be reduced? They have no means of checking with you or arguing with you.

Mr. MUNNOCH: They have the Board of Transport Commissioners to go to, which has jurisdiction over our rates.

Mr. HARTT: If I made a petition to the railway commission do you think they would call a board meeting to give me satisfaction?

Mr. MUNNOCH: I am certain they would deal with any application that is filed before them.

Mr. KNIGHT: I am going to ask only one question. Someone estimated the present value for telephones when you did that long sum in division, to be about \$500 at present prices. I would like to know what were the corresponding figures for the depression years, around 1930 to 1937? Could you tell me what the corresponding figure would be? You claim that the present price is \$550. What was the price from 1932 to 1937, all those years when prices were low rather than high?

Mr. MACAULAY: They are two figures that there might be confusion on. Outside of the plant investment that we now have, the average for all telephones is about \$250; in 1930 it was \$232; in 1931 it was \$247; in 1932 it was \$269; and in 1933 it was \$285.

Mr. KNIGHT: Will you give me now the lowest figure you have there which would correspond to your present high figure of \$550?

Mr. MACAULAY: I do not think we have ever had as high a figure as now.

Mr. KNIGHT: I admit that, but I want to know the lowest corresponding figure for those years when prices were lower.

Mr. MACAULAY: It has been lower all the way back. Our investment in 1911—thirty-seven years ago—was \$140.



Mr. KNIGHT: Pardon me. We got these high figures quite simply by dividing these tremendous assets by a certain number of telephones. You could do it by arithmetic for 1933 to 1937. Let me have that.

Mr. MICHAUD: He has given that.

Mr. KNIGHT: What was it?

Mr. MUNNOCH: \$230 for 1930; for 1931 it was \$247.

Mr. KNIGHT: My question is this: the amount that the company is asking is predicated on the need for a certain number of phones. Now, is that figure over the period of the next five years, whatever time this money is to last on the present high price of \$550?

Mr. MACAULAY: I would say yes, sir, that the estimates on construction we make are made on the current cost level.

Mr. KNIGHT: You are estimating, then, that this price of \$550 is going to keep up. In other words, you are estimating that the prices for each of these commodities which go into the cost of a telephone will not come down. This afternoon, no one would prophesy anything. Now, you see you are prophesying that these prices will keep up at the present high level. It would seem that the increase in your capitalization is based on that.

Mr. JOHNSON: Not prophesying so much, sir, as using the latest cost figures we have.

Mr. KNIGHT: You would be a wizard if you could keep track of a day to day prices in these times.

Mr. JOHNSON: We are using present day construction costs in pricing it out for the next five years which, I believe, is the only sound way to approach it.

Mr. KNIGHT: You are now asking for a capitalization to cover a number of telephones which you figure will cost you at the rate of \$550 per unit to put in over the period of the scheme, that is correct?

Mr. MACAULAY: Yes, or even somewhat more. I expect that the unit cost is likely to go up for several reasons which we did not bring out here. This year, we are still continuing to place an undue proportion of party line stations which means we are not putting in as much cable as we should. We are getting all the cable we can, but at the present time, with our present customers, we have 69,000 party lines for which individual line service has been requested. We will be unable to do that for several years in the future. As we do that, I expect the unit cost may increase above what it is this year.

Mr. KNIGHT: The position is this; if your cost goes down to \$230 within the next year or so, you will find yourselves, in terms of what you are asking for, in the position of having twice the amount you need, predicated on present costs?

Mr. JOHNSTON: I think we can agree with that.

Mr. KNIGHT: Which means the company would not have to come back to parliament for twice the length of time, provided the costs do not stay high.

Mr. MUNNOCH: We cannot issue any of the stock without showing the Board of Transport Commissioners that we need this money for a specific purpose.

Mr. KNIGHT: We are interested in having you come back to parliament occasionally, you see.

Mr. POULIOT: I wish to have some information which I hope to obtain in a very friendly manner. I want the whole matter to be made clear in my mind. Here, I have the balance sheet and your report. I always admire the balancing to the cent. Those accounts give me the impression of an even balance. According to that report, the company has liabilities amounting exactly to the assets. Well, this is a way of speech, of course. I do not contend that the company is not solvent but on the other hand, I find it puzzling at times



that one cent more on the liability side would mean the company would have a deficit.

The president of the company, with his sense of humour, realizes that, sometimes, people will say the company is insolvent without having one cent more liability over its assets. If I understand what has been said by the president and by Mr. Munnoch to Mr. Hartt, the amount of approximately \$70,000,000 which may be spent in the coming years each year will be spent on capital expenditures and those capital expenditures will be a guarantee for the bondholders or those who buy stock. The same is true of the \$350,000,000 which the company wants to be authorized to acquire. Therefore, when the company has received authorization to borrow \$350,000,000 more, then the assets of the company will be \$350,000,000 larger. This has to be made clear so everybody understands the whole matter. The company may buy stock, too, although I do not know what the banks will think of it. However, that is the way it will go if parliament is willing to pass this bill.

Mr. MARIER: It will add to the protection of the bondholders.

Mr. POULIOT: Surely, the capital expenditure, provided it is made wisely, affords security and a guarantee to the bondholder. That being made clear, I want to know a little more about the future expenditures of the company to serve future needs. There have been many requests for new telephones and the company envisages the possibility of granting the requests of new subscribers; that is that.

Now, there is something else I wish to say and that is that the telephone system is not in the same condition everywhere. I wonder if the company has secured accurate reports about the deficiency of the system in certain parts of the country?

Mr. JOHNSON: Do you mean of our own service, sir?

Mr. POULIOT: Yes, sir, within your system.

Mr. JOHNSON: Well, we do not profess to be perfect. We do know, in certain spots of our territory, perhaps, the service may not be as good as in others. Wherever those cases come to our notice we take, I think and I hope, prompt steps to see that the service is brought up to the grade we consider acceptable and desirable. I do not know what particular part of the country you have in mind.

Mr. POULIOT: I will tell you in due course. You see, we are here to settle our business and it is easy to do so. I will tell you that there is discrimination against the rural centres and I will give you an example which dates back to the Christmas before last. I have a brother in Mexico whom I have not seen for many years. On Christmas eve I called the long distance telephone operator in Quebec and asked to speak to my brother in Mexico and I asked to speak to him at 12 o'clock noon. I was informed that the call was placed for 12 o'clock noon and I stayed in the house until 12 o'clock midnight as did my brother in Mexico, both of us waiting for the call. We could not speak to each other and we were told that there was a large number of calls in the city of New York and that Canada came afterwards. That is one example I give because I happened to witness it. A friend of mine who lives in Ottawa, and whom Mr. MacTavish knows very well, one day was in Matane and he called his daughter somewhere in New England and he could not get her that day. Those are just a few instances of the troubles we have in the rural parts. I have not had the privilege of meeting you before, sir, and I want to bring this to your attention. I know there are some other members of parliament that will come to my rescue and support what I say.

I give you that information before asking a few questions about matters which I desire information. I want to tell you that in Riviere du Loup the system is so old-fashioned that we hear the operator repeat the number—for



instance it is 246, 246, 246, and I do not know to how many operators the message must be conveyed but the system we have is a system that probably existed before Riviere du Loup existed. I wonder if there is not the possibility of having some improvement? We hear about new telephones which are to be given to new subscribers. It would only be fair to those who contribute and who pay subscriptions to the telephone company to have a better service. I do not complain of the operators and I do not complain of the manager. The manager is a new man but he is a smart young fellow, and the operators do their very best. I understand that the board or table is quite large for only a few hundred numbers, but sometimes the operators require to pull the cable from the edge of the board to the far end. I do not know the system but I have been told it is very antiquated and that is a thing that should not continue. It is nonsense, and I am sure that the president of the company, if spending a summer down at my home—a very beautiful country—would not tolerate the system for a minute. I bring the matter to the attention of the company and I ask the president whether the money he asks for is only for the expansion of the company or if a sufficient part will serve the needs of the old subscribers who have been badly served in the past.

Mr. JOHNSON: Your first question had to do with long distance service on Christmas day from Riviere du Loup to Mexico city.

Mr. POULIOT: Yes.

Mr. JOHNSON: I can assure you that if you had been living in the city of Montreal on Christmas day you would have been very fortunate if you had been able to reach Mexico on the long distance telephone within twelve hours. My own experience on Christmas day the year before last, in trying to reach San Francisco, was comparable. There is very heavy congestion on the lines, not only our own lines but in New York and all over the United States. Everybody has the urge to call somebody on the long distance telephone on Christmas day and the biggest day in our history usually falls on Christmas day. The lines are congested not only here but in all parts of the United States and Mexico as well.

Mr. POULIOT: I will take that for granted.

Mr. JOHNSON: Your next question was about our projected expenditures. Our future program for five years does take into account the rural areas and the modernization of the rural plants as well as expansion in the large urban centres. As evidence of that intention I think I can point to the fact that in the last three years approximately 8 or 9 per cent of our total new telephones have gone in rural areas. I do not know what the amount of money would be but it would represent a substantial percentage of the total spent in the last three years.

Mr. MACAULAY: It would be at least pro rata.

Mr. JOHNSON: In answer to your question regarding modernization I do not like to boast but I think we can safely say that we have the most modern plant today, in relation to our size, of any system in Canada. 70 per cent of our telephones in service operate from the most modern dial system. It is our expectation that the 70 per cent will be increased substantially within the next five years, taking in many of the smaller centres for conversion from their present systems, which frequently consist of the turning of a handle instead of the dial service.

Mr. POULIOT: Yes, but do we have to wait four or five years more for an improvement?

Mr. JOHNSON: I do not know about the particular locality to which you may refer but I think it is part of the Kamouraska company territory.

Mr. POULIOT: Yes.



Mr. JOHNSON: At the moment I could not give you any real answer without looking up the record and seeing what the program for the company is.

Mr. POULIOT: Would you please take a note of my request and write me a letter. I hope the answer will be favourable.

Mr. JOHNSON: You will hear from me, sir.

Mr. POULIOT: There is something else, coming back to the questions put by Mr. Hartt. Is the telephone company rate uniform throughout the system?

Mr. JOHNSON: The rate charged by our company is uniform.

Mr. POULIOT: The subscription rate?

Mr. JOHNSON: The monthly rate or the monthly charge for service is uniform within the particular section to which the rate applies. As Mr. Munnoch said, our territory is divided into eight rate groups and the rate is based according to the size of the group. Within each group the rate is uniform. There is no subscriber able to have service at a lower rate than that laid down by the Board of Transport Commissioners.

Mr. POULIOT: Yes, but how do you arrive at the rate for each group? Do you put together all expenses, the capital expenditure—

Mr. JOHNSON: Not the capital expenditure.

Mr. POULIOT: The capital expenditure for the purchase of the instruments?

Mr. JOHNSON: Not in establishing the rates by each group. The last time that we appeared before the Board of Transport Commissioners we went there showing the amount of annual revenue we would have to receive in order to meet our operating expenses, our taxes, the cost of borrowed money, and the amount required to provide a balance which would represent a reasonable return to the shareholders.

Mr. POULIOT: Within the area?

Mr. JOHNSON: Within the entire company. Having arrived at that total amount, the amount was then divided out over these various groups and these rate schedules were arrived at. Eventually the result was a \$7 rate for a business telephone in Montreal a \$3 rate for a residence telephone in Montreal, reaching down to the lowest rate in the rural areas; as low as \$1.50 and \$1.75. The aggregation of those rates equal the total amount of revenue the company had to have at that particular time in order to meet its operating expenses, its depreciation on plants, its maintenance of plants; it is taxes; it is cost of borrowed capital; and the amount which was considered to be necessary as a return to the shareholders in the way of profit for that \$8 dividend.

Mr. POULIOT: Therefore, Mr. Johnson, each group is an independent and a self-supporting unit?

Mr. JOHNSON: Not necessarily.

Mr. POULIOT: I was under the impression that you were calculating the total of operating expenditures and that you were dividing it by the number of subscribers in each group.

Mr. JOHNSON: That was merely in the over-all group in order to bring out an answer to a question as to the amount of capital expenditure which was needed to cover the company expansion, the average number of telephones that were going to come in in that year.

Mr. POULIOT: And you divided your whole operating expenditure by the number of telephones?

Mr. JOHNSON: Not the operating expenditure. There are two different features; one is the amount of capital that we require in order to pay for the construction of new plants and in order to satisfy the question that was asked we divided the expected expenditures for this year by the expected increase in telephones to arrive at the average for each telephone, which worked out to \$500



to \$550. That is one side of the picture. The other side is where I was dealing with the annual revenue of the company and what it should receive in order to pay all of its expenses and leave a reasonable return.

Mr. POULIOT: Your calculations are similar to that of the grain dealers in futures, quite similar. Well now I can't understand the difference of rate between each group. What is your element of difference between the charges of various groups?

Mr. MUNNOCH: Mr. Pouliot, if I might answer that question. In determining telephone rates an attempt is made to evaluate the value of a particular service in a particular place. In cities like Montreal and Toronto, which are two of the largest exchanges, you can reach more people by telephone without paying a long distance rate than you can in any other place; therefore, the value of the service there is greater because you can reach more people by means of it for a flat monthly rate. When you get down to the smaller exchanges where you can only communicate with one hundred or two hundred or five hundred people, the service is not the same value, therefore it is rated at a lower rate by the Board of Transport Commissioners.

Mr. POULIOT: But the long distance call has nothing to do with the rate at all.

Mr. MUNNOCH: Nothing to do with the rate at all, no.

Mr. POULIOT: Therefore there is no reason for that difference in the subscriptions for local calls and long distance calls. The long distance calls are self-supporting.

Mr. MUNNOCH: Well, the point is this, that the company has treated as a whole single operating unit the places where the service is of more use to the subscribers, they are charged more than is charged in smaller places where the subscriber can make less use of it. Surely you will agree, sir, that if you have a telephone in your house and can only speak to 50 people it is not worth as much in service as though you can speak to 1,000 people or 10,000 people.

Mr. POULIOT: Now, you have given me the answer. Now, according to what Mr. Hartt has been talking about, if you divide the \$550—there is \$20 for the instrument itself—what is the balance, the \$530?

Mr. MACAULAY: I don't happen to have a breakdown accurately.

Mr. POULIOT: No, approximately. I do not want it like the balance sheet of the company, to a cent. I will be satisfied to have it in broad figures. There is the installation cost and there is the wire, and the poles and so on. I would like to have an analysis of the \$550. I know \$20 of the \$550, so there is \$530 left of that amount which has been mentioned by the company. It wasn't Mr. Hartt who discovered this cost of the company.

Mr. HARTT: No, I am not that smart.

Mr. POULIOT: You are smart.

Mr. HARTT: I knew you would not let me down.

The CHAIRMAN: Are you ready now, Mr. Macaulay?

Mr. MACAULAY: Mr. Chairman, I would ask if I might do this overnight.

The CHAIRMAN: Is that satisfactory, Mr. Pouliot?

Mr. POULIOT: Pardon me, sir?

The CHAIRMAN: He said that he would prefer to figure it out and give us the answer at our next sitting.

Mr. MACAULAY: What would you like, this year or the last five years—this year?

Mr. POULIOT: Make it the best you can and I would be satisfied with your answer, because you have a nice face.

Mr. CHURCH: Mr. Chairman, I want to call the attention of the committee to one or two things. We have been hearing from the province of Quebec pretty



nearly the whole day and we have not heard from the province of Ontario. The province of Ontario is going to be concerned with the very large percentage that Mr. Munnoch has been referring to. I want to point out some facts about it. The city of Toronto opposed the Bell Telephone Company when an application was up some years ago. We had the support of the Ontario government. I do not see them represented here today.

As one of those coming from the province of Ontario I wish to point out certain facts about this particular application. I am glad there has been a stenographic report made today. It will help to clean up a lot of misunderstandings about the company and about this bill. I do say this in all fairness to the consumer who is going to pay a large percentage of this melon cutting, that we have no mandate, I have no mandate, and I received no mandate in 1945 from my constituency to support a bill like this which creates a vaster monopoly than there has been in our province.

I wish to point out at the time this bill was before us before, the city of Toronto spent a very large sum of money examining the books of the company, which is a well conducted company, one of the finest companies from the point of view of administration under private ownership in this country.

I wish to say that at the time the Board of Railway Commissioners met here in Ottawa and decided that as a commission they had no jurisdiction over subsidiaries of this company a bill was introduced into the House of Commons when I was in the House by the member from Toronto South, Mr. Geary, giving the Board of Railway Commissioners, now the Board of Transport Commissioners, jurisdiction over subsidiaries of this company.

At the present time what have we got? We have spent a very good day getting facts. The facts have been given in the proper way instead of garbled reports in the newspapers concerning those who were opposing this bill when we rose in the House as members of parliament and asserted our rights and functions and privileges to ask questions about this particular bill. We were ridiculed by nearly the whole public press of Canada, and garbled reports were sent out which I objected to in the House of Commons at the time. I do not blame the company for it, far from it. There are a lot of very public spirited men in the company who have given splendid service. I wish we had more similarly public spirited men.

I wish to point out some facts for the benefit of the committee when jurisdiction was given over subsidiaries. The Bell Telephone Company directors have 52 per cent of the Northern Electric stock. The Telegraph and Telephone Company of New York has 47 per cent of the Northern Electric stock, and the directors of the Northern Electric have only 1 per cent of their stock. The employees have no stock in this company.

You have had a long discussion today. I do not wish to speak more than two or three minutes, but I wish to say that I have no right to bind the province of Ontario to a monopoly like this for the next fifty years. If this matter had been discussed in the 1945 elections not many of the members coming from the province of Ontario would be here today. That is what I have been objecting to about our province, that when you look over the House of Commons today you will find that members from our province do not stand together like those from British Columbia, the prairies, the maritime provinces and Quebec. A great many of the members from our province have not the courage to assert their rights and privileges as members of the House of Commons.

I want to say that so far as this bill is concerned I have no mandate from my constituents, nor has any member from the Toronto district or from the province of Ontario. I am surprised at the attitude of some of the members from the province of Ontario representing the party to which I belong. I, myself, am a reformer but I am the only true blue Conservative left in the House of Commons. I am a really true blue Conservative. Because a person calls himself progressive



does not make him progressive. I have been really progressive, but I am too modest to claim any title like that.

I remember when I came down here with Sir Adam Beck, that much beloved man who redeemed our province from Power slavery. We would never have had any street railway system in Toronto if it had not been for the fight we made against the notorious over-capitalization of the deal known as the purchase of the Toronto street railway, and the Toronto Electric Light Company for \$32,000,000, a plant that was not worth \$5,000,000 or \$6,000,000. We had to meet the same opposition then of five of the six Toronto papers.

I am objecting to over-capitalization of this company, and I say this in conclusion, that I believe that the day has not been spent in vain, that we have learned something as to the facts about this company. I notice a great change in some of the newspapers to what they used to be. They are not the same today as they used to be. I can tell you this, that this stock I predict will go to \$200 and be split eight for one, and there will be an almost immediate application for an increase in rates. I believe that to be true. I believe that is what is going to happen. In conclusion, gentlemen, those are my views, and while I am a Conservative first, last and all the time, I am not one of those who call themselves progressive but are not progressive.

Mr. STEPHENSON: In reply to that I want to say that I am a Progressive Conservative—

Mr. CAMPBELL: What does that mean?

Mr. STEPHENSON: I will tell you.

Mr. KNIGHT: A contradiction.

Mr. STEPHENSON: It means taking the best out of the future and keeping that which is best out of the past. I should like to say that listening to the debate in the House and looking it over I see that even those people who may have some objection to this bill are willing to admit that it has some good features. I notice one statement here by a member of the C.C.F. party. Mr. Nicholson of the C.C.F. party said in the House:

Let me make it clear at the outset that I have no personal fault to find with the Bell Telephone Company. The service they have given me and my family while we have used it has always been of a very high order. Some of my friends have been employed by the company over a period of years, and I have never heard any criticism of their labour relations or the working conditions.

Mr. HARTT: I agree with that.

Mr. STEPHENSON: I submit that is a true picture of the Bell Telephone Company. I may say in my own town I have no objection to the rate that is charged. They give good service. A company that has built itself up and is giving service across the provinces of Quebec and Ontario is deserving of great credit. I think possibly we are trying to learn about the organization of this company but at the same time when they are subject to the rulings of the Board of Transport Commissioners in practically everything they do then do we in this committee mean to say we have no confidence in this independent board that the government has established to review the work of this company? I might go on to say that there are some who have said that this company may grow to such an extent that it would be hard for some government to take them over. We must not forget that that may be some peoples' view, but I do say that when this company is under the supervision of the Board of Transport Commissioners that possibly we are wasting a good deal of time here. I may say I have every confidence in the decisions that the Board of Transport Commissioners may make with reference to this company, and I certainly would subscribe to this increase in capitalization.



Mr. HATFIELD: I have no objection to an increase in the capital or getting more money, but I do object to the way they are doing it. I think if they sell \$175,000,000 worth of stock then they should be able to sell \$175,000,000 worth of bonds at 3 per cent and not tax the users of the telephones. I should like to ask on what basis did you intend to sell this stock when you made this application? Did you intend to sell it at par, \$100 a share, or at the market price, \$162?

Mr. MUNNOCH: We expect to sell it at the best price we can get that the Board of Transport Commissioners will approve.

Mr. HATFIELD: But how much money? You must have some idea what you are going to sell it for.

Mr. MUNNOCH: We do not know what the market is going to be, sir.

Mr. HATFIELD: You know what the market is today.

Mr. MUNNOCH: We know what it is today, but we do not know what it will be when we go to sell this stock. We are not going to sell it all at once.

Mr. HATFIELD: I should like to ask you what guarantee this parliament has that you will not go down into some province and try to get control of some other telephone company the way you did in the 30's in New Brunswick. You sent a man down to New Brunswick to try to get control of the New Brunswick Telephone Company. You got 48 per cent of the stock. You raised the stock from \$12 a share to \$20 a share, and then you stopped. What guarantee have we got that this money is not going to be used for that purpose?

Mr. MUNNOCH: In the first place, the construction program that we foresee and for which we hope to get this amount of money is for our own system as now extending in the provinces of Quebec and Ontario. Now, the other question as to the price of stock in New Brunswick—we did not fix that price; it is the investors who bid for the stock who fixed the price.

Mr. HATFIELD: You paid for the stock. You had a man down there to buy the majority of the stock. You said before the adjournment that you did not want a monopoly. When you were authorized—the last authorization you got from the Board of Transport Commissioners in the thirties—you used the money for that purpose, to buy a monopoly and monopolize the New Brunswick Telephone Company. You got a monopoly in that stock.

Mr. JAENICKE: He should know that. How did you buy that interest in this company?

Mr. HATFIELD: I am quite aware of how you did it. I know the man who purchased the stock—his authority.

Mr. MUNNOCH: Well, at page 2 of our brief, sometime back in the early 1900's, about 1890, I think it was, we had a pretty full control in the province of New Brunswick and we sold out our interest to the New Brunswick Telephone Company. It is true we retained some stock.

Mr. HATFIELD: You bought it back in 1930?

Mr. JOHNSTON: It was 1929 or 1930; there was some stock bought. We were always stockholders of the New Brunswick Telephone Company as the result of our sale of the property in 1889 or 1896 when the New Brunswick Telephone Company Stock was bought at various times, and I think some was bought in 1930, which increased the amount of stock we already had.

Mr. HATFIELD: You authorized a man to buy it in to get control of the New Brunswick Telephone Company. I know the man. He has now passed away and I cannot bring him here to give evidence. He told me all about it. I sold my stock after it got up to \$20. Why did you do that? You said you did not want to have a monopoly.



Mr. JOHNSTON: I think the record shows we have not got a monopoly; we have not got control of the New Brunswick Telephone Company.

Mr. HATFIELD: I do not know whether you have or not; you control it. The Northern Electric may have the balance; you have 48 percent.

Mr. JOHNSTON: I think I can say quite definitely that the control of the New Brunswick Telephone Company is held as between Nova Scotia and New Brunswick from our recollection of the last annual report by something like 5,000 shareholders in the two provinces. They are the ones who hold the control of the New Brunswick Telephone Company. I may say that the Bell Telephone Company has no desire to control the New Brunswick Telephone Company.

Mr. HATFIELD: You put a manager down there to manage it.

Mr. ARCHIBALD: Mr. Chairman, I am looking at this balance sheet and I see series B, a long term debt which paid 5 per cent interest. When was that bond issue floated?

Mr. JOHNSTON: Was that in the report?

Mr. ARCHIBALD: Yes, it is on the balance sheet.

Mr. JOHNSTON: That was the issue that was redeemed in March of 1947.

Mr. ARCHIBALD: When was it floated?

Mr. JOHNSTON: In 1927. It happened to be a thirty-year security maturing in 1957 and callable in 1947.

Mr. ARCHIBALD: Now, there is another, series E, maturing on March 1, 1957. When was that floated?

Mr. JOHNSTON: March 1, 1947, and it was due to the proceeds of that issue that we were able to redeem the \$30,000,000 5 per cent bonds, series B.

Mr. ARCHIBALD: In other words, over a period of twenty years the charge on borrowed money has dropped 40 per cent. This one was floated in 1947 and dropped 3 per cent. That is a drop of 40 per cent on the charge of borrowed money.

Mr. JOHNSTON: That is on a particular issue of bonds.

Mr. ARCHIBALD: Now, this gentleman with the white hair here said they would go out maybe in ten years and borrow some more money and the rate of interest might go up. Over a period of years the rate of interest has constantly fallen, the charges on borrowed money are falling.

Mr. JOHNSTON: Might I answer that? If you take the history you will find the same kind of money was being loaned at the beginning of this century at about 3 per cent. If you follow the history of the cost of money over the last fifty years you will find that from the beginning of this century up to about the middle twenties the cost had risen from 3 to 5 per cent. From the middle twenties up to today it had the reverse action. I am not the one to say it is going to turn and move in opposite direction from here on.

Mr. ARCHIBALD: Now, according to the last dividend you paid on this common stock you are going to issue like what is issued now, how much did \$100 give? Not the \$160. What did it pay?

Mr. MUNNOCH: Every share paid \$8 last year.

Mr. ARCHIBALD: \$8 on the \$100.

Mr. MUNNOCH: On whatever you paid for; one share, \$8.

Mr. ARCHIBALD: How much would it be at \$100?

Mr. MUNNOCH: If you bought it at \$100 it would be 8 per cent.

Mr. ARCHIBALD: If you went out and borrowed the money you could borrow it for 3 per cent, but if you float it you have to pay 8 per cent; therefore the man who owns the telephone has to stand the rap. Certainly you cannot put it any other way.



Mr. HARTT: It has fluctuated.

Mr. ARCHIBALD: It is fluctuating; my foot! You can go out and get money for 3 per cent today and if you issue stock you are likely to pay 8 per cent.

Mr. JOHNSTON: If you take our record for last year, we issued stock for \$140, which, at the \$8 dividend, represented a cost of 5·7. The year before we issued stock at \$145, which at 8 per cent represents the cost of 5·3. It is true that in the same year we could have borrowed money at 3 per cent, but there is a difference between the shareholder and the bondholder: one is a creditor under a definite contract of lending his money at a fixed rate of interest that we undertake to pay him back on a given date; the other is the purchaser of the part of a business and he is in that business with all the risks that that entails, the risk of losing his money, of not getting his 8 per cent, of getting no dividend at all. That is the risk he himself carries.

Mr. ARCHIBALD: I would suggest that this company has come before us and stated they are a responsible company. That is the whole basis of what it is asking for. I suggest that they would have no difficulty in issuing further bonds today at a lesser cost to the individual man who is buying a telephone, and substantiate the argument you are trying to drag out—

Mr. HARTT: That is not on the same basis.

Mr. ARCHIBALD: I am not interested in the shareholders; I am interested in buying a home.

Mr. JAENICKE: In connection with this question about debentures, these debentures are not amortized, are they?

Mr. JOHNSTON: No, there is no sinking fund provision at all. They are carried at full value until they mature and then the obligation is to pay them off and perhaps find other money to pay them with as we did in this particular case last year, as the honourable member submitted.

Mr. JAENICKE: Have you issued considerable debentures since the establishment of the company?

Mr. JOHNSTON: Have we—?

Mr. JAENICKE: All during the years.

Mr. MUNNOCH: From 1884 on, we have been issuing and redeeming them as the situation required.

Mr. JAENICKE: Have you redeemed some out of profits?

Mr. JOHNSON: No, I do not think there is a case where they were redeemed out of profits. We have had to find new capital each time.

Mr. JAENICKE: So, your debenture indebtedness has always increased, has it?

Mr. JOHNSTON: I think that is true. I am trying to cast my mind back over the early years.

Mr. JAENICKE: Then, what do these figures on page 24 concerning amortization mean?

Mr. JOHNSTON: That is amortization of the discount. Certain of these bonds were sold at a discount, that is 98; that is what the lender would let us have on a \$100 bond. I am giving this as an illustration. He may have said, "I will buy your 3 per cent bond if you will sell it to me for \$98;" that is, of course, all the money market will pay for these bonds. This \$2 discount has to be amortized over the life of the bonds as part of the interest cost. In other words, if there were a 3 per cent coupon on that bond, it did not cost us 3 per cent, it cost us 3·2 per cent. The ·2 per cent would represent the amortization of that discount we had to accept in selling the bond.

The CHAIRMAN: Are you ready to pass clause 1?

Mr. CAMPBELL: This afternoon, I asked about increased rates. I pointed out the tremendous amount of capitalization which was taking place. The answer I got was rather indefinite, that there was no sign of the company going



to the Board of Transport Commissioners for an increase in rates. Tonight, we have been told that the cost per telephone has risen now to somewhere between \$500 and \$600. It seems to me it is going to be impossible for the company to provide service at the old rates.

Mr. Green, speaking in the House the other night, at page 2431 of *Hansard* had this to say: the Montreal press of February 26 stated that,

Frederick Johnson, President of The Bell Telephone Company of Canada, told the annual meeting today that the company cannot live forever within its present rates for service.

Now, it would appear to me from that and from my own deductions, it is quite likely the rates charged by this company will go up in the very near future.

Mr. McCULLOCH: Will the company not make a profit on the hundred thousand telephones it puts out?

Mr. CAMPBELL: They might, but with that increase in cost, I do not see how they can.

Mr. HARTT: It is possible that 50 years from today the cost may have gone up or down.

Mr. JOHNSON: Whatever the situation may be, gentlemen, I am quite sure, having been through the last rate case, that the telephone subscribers' interests are very well protected by the amount of investigation which is made of our affairs and the close scrutiny which is given to our requirements by the Board of Transport Commissioners.

The honourable member, Mr. Church, made reference to the last rate application when we were combed out by two different firms of chartered accountants, Clarkson, Gordon, Dillworth and Nash for the city of Toronto and Price, Waterhouse for the city of Montreal. They made a searching inquiry, both as to our going rate at that time and the anticipated rate before the decision of the Board of Transport Commissioners was arrived at. Whatever the future holds for us, I am quite sure the public interest is amply protected by the Board of Transport Commissioners.

Mr. IRVINE: I was not at the meeting this afternoon because I had to attend another committee meeting. Perhaps the questions I am going to ask were answered this afternoon, in which case it will not be necessary to answer them again.

The first question I wish to ask is, have the officers of the company satisfied the committee this afternoon that they were amply justified in the enormous increase in capitalization required by this bill? Next, I should like to know if the officers of the company have indicated the capital expenditures the company proposes in the next two or three years and where those expenditures are to be made as well as the details which can be given in that connection. Thirdly, I should like to know what guarantee the company is giving to the public that the rural sections of the community served will have their proper share, at least, of the expenditures which are to be made. Those are three questions I should like to have answered if they have not already been answered, in which case I shall have to read the minutes.

Mr. McCULLOCH: They are all in the minutes.

The CHAIRMAN: In fairness to Mr. Irvine, I wonder whether you feel any question has not been answered?

Mr. MUNNOCH: I think the last point Mr. Irvine mentioned, that is what we propose to spend in the rural territories was, perhaps, not dealt with. The estimates for rural expenditures—that is the figures I am giving now are for our rural projects—for 1948, we propose to spend \$4,600,000 in capital expenditures; for 1949, \$6,000,000; for 1950, \$7,000,000; 1951, \$8,000,000. Those are



approximate figures for the lines and telephones without the equipment and buildings.

Mr. IRVINE: Is that for rural sections?

Mr. MUNNOCH: That is for the rural sections of our system. Of course, to that you have to add central office equipment which is, usually, in the adjacent town.

Mr. HATFIELD: You told Mr. Hartt this afternoon you charged \$7 for a business telephone in Montreal and \$3.75 for a residence telephone?

Mr. JOHNSON: \$3.25.

Mr. HATFIELD: Do you not get most of your revenue from long distance calls?

Mr. JOHNSON: No, most of our revenue comes from local service.

Mr. HATFIELD: What do you mean by, "local service"?

Mr. JOHNSON: The \$7 a month and the \$3.25 a month.

Mr. HATFIELD: From where do you get most of your revenue, the long distance calls or the local calls?

Mr. JOHNSON: From the local calls.

Mr. HATFIELD: You do not charge anything for local calls?

Mr. JOHNSON: We charge \$7 for a business telephone and \$3.25 for a residence telephone in Montreal.

Mr. CAMPBELL: This brief speaks of the heavy loads on long distance lines. I should like to know just what plans the company has for improving the long distance service? What are you going to do, for instance, to improve the service between Vancouver and Montreal?

Mr. MACAULAY: We have under way, as part of this program, extensive additions to long distance lines through our company's territory. Going west across western Canada, we have the trans-Canada association which plans to add additional service this year.

Mr. CAMPBELL: What are those plans?

Mr. MACAULAY: Between our territory and Winnipeg we expect to add twelve circuits this month. From there on to Calgary and Vancouver we have additional circuits coming in this spring, three or four, and another three circuits in the fall of this year.

Mr. CAMPBELL: Are those circuits going through the United States?

Mr. MACAULAY: No, those are through Canada.

Mr. CAMPBELL: Are you not using United States lines now?

Mr. MACAULAY: We have had two lines leased for many years. We have leased some circuits across the state of Maine on the C.P.R. line to provide some protection and on alternate route as well as additional relief to the maritime provinces. In December of last year, on account of the congestion in our own circuits across western Canada and to provide protection to those sections, we were able to lease two circuits from Detroit through Seattle into Vancouver. The lease of these circuits is at a very favourable rate and was approved by all the members of the Trans-Canada telephone system which involves the three provincial government systems and the B.C. Telephone Company, all west of the Bell Telephone Company.

Mr. CAMPBELL: Is that a long term lease or is it on a yearly basis?

Mr. MACAULAY: Those are short term leases. They can be cancelled either by the American company or relinquished by the Trans-Canada system at any time, but at present they are needed to carry the heavy load which we now have. Anybody from British Columbia will recall numerous instances when the lines through British Columbia have been interfered with by slides. We



had bad slides last winter. The Fraser Valley lines were out and at one time in order to get communication from Vancouver back into Calgary and Edmonton we had to use those leased lines. Vancouver got through to Calgary by coming through on the leased lines to Toronto and back to Calgary.

Mr. CAMPBELL: What would happen if those leases were cancelled suddenly?

Mr. MACAULAY: From Vancouver we have four different routes. We have the C.N.R. route from Vancouver to Edmonton, the C.P.R. main line, the Kettle Valley line and the Trans-Canada Line. There are four different routes, but all of them went out in a series of rockslides, whereas the leased lines from Seattle were not subject to the same interference.

Mr. CAMPBELL: If these agreements were cancelled where would we be?

Mr. MACAULAY: We only have two circuits out of fifteen routed that way and our own fifteen circuits west of Calgary are being augmented by three or four this spring and another three in the fall.

Mr. JAENICKE: What do you have to pay for those leases?

Mr. MACAULAY: The American lines are approximately one third of the lowest rate which I have ever negotiated.

Mr. JAENICKE: Do you pay so much a call or how do you pay?

Mr. MACAULAY: I have them leased by the month.

Mr. HATFIELD: What improvement have you in mind for the maritime provinces?

Mr. MACAULAY: We do not operate.

Mr. HATFIELD: I am speaking of the long distance lines to the maritime provinces, and getting through to Quebec. That is what I want to know about.

Mr. MACAULAY: I am speaking now for the Trans-Canada telephone system which is an association of these different companies. We added a couple of lines last fall but since the end of the war the traffic which reached a very high peak has declined. That is an exceptional condition but it looks as if it might turn up a little again. We have not had the same congestion though, in Halifax.

Mr. HATFIELD: You do not seem to have any service from Montreal to New Brunswick.

Mr. HARTT: I beg your pardon, that is wrong. I have been at St. Andrew's for the last two summers and I put through two or three long distance telephone calls every week and the service is as good as that to New York.

Mr. HATFIELD: I put telephone calls through practically every day.

The CHAIRMAN: If there is nothing else to discuss—

Mr. JAENICKE: We have some information to get—some lists that the officials were going to furnish to Mr. Pouliot.

The CHAIRMAN: They are not of much consequence and I do not consider the whole bill should be held up for that. It is information which is more of a personal nature in connection with Rivière du Loup.

Mr. POULIOT: It is not only with respect to Rivière du Loup but to the whole subsidiary company and I hope the improvement will be on the whole line.

Mr. HATFIELD: I would like to ask the witness what plans the company has for improvement of the long distance service through Quebec to New Brunswick? I would like to know if they have any plans to improve the service.

Mr. MACAULAY: We have plans but the traffic has not been growing east of Saint John. There has been some growth to Saint John and there has been considerably more growth in the northern end to Edmundston, Campbellton and Gaspé. We put additional lines into the north end of New Brunswick in the last six months, through the Bell Company's territory. We have plans for adding additional circuits this year and next year.



Mr. HATFIELD: I can tell a better story than Mr. Pouliot. I had a man call me from my constituency the other day and I told him that I would give him an answer and call him back within five minutes. When I did so, they told me the lines had been down all day.

Mr. HARTT: That was in New Brunswick.

Mr. HATFIELD: No, we could not get as far as Quebec City.

The CHAIRMAN: Shall subsection 1 of clause 1, "power to increase capital" carry?

Carried.

Mr. CHURCH: A proposal is made to adjourn to 11 tomorrow now. Tomorrow morning there is a meeting which I have to attend as do certain other people in the building who move in a mysterious way their wonders to perform. You also have a meeting tomorrow morning—

Mr. KNIGHT: Before we leave this financial angle it is said that you have assets of \$379,000,000. What about this depreciation reserve and what is the amount?

Mr. JAENICKE: \$108,000,000.

Mr. JOHNSON: That \$108,000,000, the balance of the reserve is invested right in the assets shown under fixed capital and part of it might be in the present cash figure. It is not separately identified. It is the practice as a matter of economy to employ your depreciation moneys which are represented by that depreciation reserve in the construction of plants to save having to borrow more money.

Mr. KNIGHT: Is that amount of depreciation reserve justified? I would like a comment as to what contingencies it is reserved for? There is a lot of money there.

Mr. MACAULAY: The depreciation reserve of course is an amount of money created each year and which accumulates to take care of retirement of a plant when it is worn out and has to be replaced.

Mr. KNIGHT: My question is what specific contingencies are you providing for?

Mr. MACAULAY: That is something on the order of 38 per cent of the plant value, but I emphasize that the depreciation reserve is computed in relation to the first cost of the plant and therefore bears no relation to what the replacement of the plant might cost if it is installed in the future.

The CHAIRMAN: Section 1 subsection 2—"issue and sale of stock, subject to approval of transport board". Shall subsection 2 carry?

Carried.

Section 2, "repeal". Shall section 2 carry?

Carried.

Section 3, subsection 1, "par value of shares may be changed from \$100 to \$25". Shall the subsection carry?

Carried.

Section 3, subsection 2—"coming into force". Shall subsection 2 carry?

Carried.

Mr. KNIGHT: I want to ask a question here on subsection 2 of clause 1. This sort of closure business does not work. This is a committee of grown men and not children.

Mr. CHURCH: Section 3, Mr. Chairman; I would like to ask if there is to be a split or not?

The CHAIRMAN: Subsection 1 of clause 3. Now, Mr. Church, did you wish to ask a question on that? There certainly has been lots of time.

Carried.



Clause 2, of section 3:

Carried.

Mr. CHURCH: What is the effect of that section 2?

The CHAIRMAN: Clause 4, in subsection 1; does clause 4, carry?

Carried.

Mr. CHURCH: No wait a minute. You are going too fast. I wanted to ask a question.

The CHAIRMAN: You are the one who wanted to finish the bill up tonight, weren't you?

Mr. CHURCH: I want to find out what about the split, because I intend to speak about that. The price will be increased the minute we pass this bill. Is it to be a split of 8 to 1? I would like to ask a question of the company?

Mr. JOHNSON: I do not know what the action will be precisely under this amendment. This is an amendment to our original bill which was not asked for by the company. It provides for the shares being divided four to one. That is, that they will divide up a 100 par value share to four \$25 par value shares. It does not give the shareholders anything. All it means he would get more pieces of paper instead of one.

Mr. CHURCH: I tried to point out this afternoon what happened in the case of the price of railway stock that had been handled in this way. It has now gone to \$37. The minute you pass this bill your stocks go to \$200.

Mr. McCULLOCH: I have some that I will sell you for less than that.

Mr. HATFIELD: You should not vote on this committee then.

Mr. McCULLOCH: Who should not?

Mr. HATFIELD: If you hold stock in this company you should not vote on this committee.

Mr. McCULLOCH: Anybody who is as foolish as you are should not be in this committee.

Mr. HARTT: It should have been \$80 a share.

Mr. IRVINE: Have you come to section 3?

The CHAIRMAN: I am at subsection 2, clause 3. Shall clause 4, of subsection 2 carry?

Carried.

Mr. IRVINE: I was going to move that section 3, be struck from the bill.

The CHAIRMAN: We have passed clause 1. Clause 3, of subsection 1—you were talking about clause 3?

Mr. IRVINE: You mean that you have passed clause 1, of subsection 2?

The CHAIRMAN: No, we have passed subsection 1 of clause 2.

Mr. IRVINE: The last I heard was subsection 2.

Mr. HARTT: We can't hear you down here.

Mr. IRVINE: We can't hear down here what you are passing. I am going to move that subsection 3, be struck from the bill.

Mr. HARTT: I rise to a point of order, Mr. Chairman. The committee passed that section and you have so said, and I think it is a matter of record. Now, if the honourable member is not satisfied with certain things that happened because he could not hear it the committee cannot be held up here until midnight because the honourable member could not hear. He should have been paying attention.

Mr. IRVINE: The honourable gentleman who has just spoken chewed the rag so much and used up so much of the time—I never heard so much pure damned nonsense.

Mr. HARTT: Knowing the quality of the last speaker I could not help but chewing him up in the rag. That is your record and you deserve it.



Mr. IRVINE: I want to know if you entertain my motion?

The CHAIRMAN: I will leave it to the committee, but I am quite willing, because I want everybody satisfied.

Mr. STUART: Let's vote on it.

The CHAIRMAN: Is that agreeable to the committee. I think it is fair to the committee if we do it that way. Is it your intention, Mr. Irvine, to delete the entire clause 3, or just subsection 1?

Mr. IRVINE: On subsection 2—

Mr. HATFIELD: Take a vote on it.

The CHAIRMAN: On the entire clause and have it deleted. What is your motion?

Mr. HATFIELD: He moves that it be deleted.

The CHAIRMAN: Put your motion.

Mr. IRVINE: My motion, Mr. Chairman, was that clause 3, be deleted from the bill, and clause 4, then becomes clause 3. Do you want me to make a speech on it? I dealt with this in the House, and I think—

Mr. McCULLOCH: Oh, once is enough.

Mr. IRVIN: —I think I should state that I am opposing clause 3, because I opposed the principle of splitting stock; and I imagine that most of the members of this committee are very familiar with the practices which are often resorted to when this kind is allowed, and the public invariably has to pay the bill. Now, I am not reflecting on this company nor its officers nor its intentions, but I think they can very well carry on their business and do it well without having this section in here at all.

Mr. McCULLOCH: Take a vote on it.

Mr. IRVINE: Yes.

Mr. MICHAUD: Before we vote on it could we have the opinion of the officials as to why they are seeking this clause?

The CHAIRMAN: I might say before we call any witnesses that my understanding is that the Senate dealt with this thing and suggested this change.

Mr. HATFIELD: Yes, it came in through the back door.

Mr. McCULLOCH: Call a vote.

The CHAIRMAN: The motion briefly is this, Mr. Irvine moves that clause 3, be deleted. Those in favour of the motion? Those opposed?

I declare the motion lost.

Mr. HATFIELD: They are all stockholders.

The CHAIRMAN: Does clause 3 carry now?

Carried.

Section 4—transmission?

Carried.

Mr. KNIGHT: Mr. Chairman, we are now on clause 5, and it was on clause 5, that I wanted to ask a question.

The CHAIRMAN: On clause 5; and Mr. Knight would like to ask a question on clause 5.

Mr. CHURCH: That is the clause on which I also wanted to ask a question?

The CHAIRMAN: Mr. Knight has the floor, I am sorry.

Mr. KNIGHT: I understand the company has always had the power to operate and furnish wireless telephone and radio-telephone systems and to provide services and facilities for the transmission of intelligence, sound, television, pictures, writing or signals. It will be perfectly obvious to the committee that a good many of these things are now in existence. In the early



history of the company some of them were simply matters of prophecy. I do not know whether any of the company officials would be prepared to prophecy on them, but the company has always had the power to operate and to furnish the services set out in this clause. I wonder if some one would tell us just what this means?

Mr. MUNNOCH: The question goes back really to what is a line of telephone. A line of telephone, in the studies that I have given to this matter, include any combination of things that will enable you to communicate from one point to another. Now, it is true, as you point out, that perhaps when the bill was enacted originally radio was not known, but when the British North America Act was enacted radio was not known, and the Privy Council held that lines of steamships, railways and canals—I think that is the wording of section 92—included radio and similar works connecting for communication purposes two provinces.

The situation is simply this. I have given to the company the best opinion that I am capable of giving on the interpretation of the original Act combined with the British North America Act, section 92, under which we fall, but we are getting into the stage now where we will have to go on spending substantial sums of money in the use of radio facilities to augment and link together our lines. I do not want to find that at some day some court will disagree with my opinion and I think in the interests of the safety of the company and its investment that it ought to be made clear. That is the reason the words “has and always has had” are included. We believe we have had those powers if we go to the interpretation of our original statute and the federal laws, particularly back to the British North America Act and to the judgment of the Privy Council on it. I do not want to find after we had spent money that some court disagrees with my opinion.

Mr. KNIGHT: This might be called retroactive legislation, and the mere statement in the bill, if it is passed now, will protect the company in the courts in the future?

Mr. MUNNOCH: I am not really worried about what we have done up to now. I should like to be covered. We have done it under licence from the government in all radio steps we have taken, but while it, as you say, is in a sense retroactive we have not got very far in the radio field yet. We would like to be covered.

Mr. KNIGHT: It is an interesting point. I did not know that a mere statement would protect the company.

Mr. CHURCH: I am going to move an amendment that that clause be deleted. I was reading in *Everybody's Magazine* a couple of months ago about this program. We have a radio committee and they have not reported yet on this. It looks to me—

The CHAIRMAN: Are you ready for the question? The amendment is that clause 5 be deleted.

Mr. CHURCH: I am moving that it be deleted, the reason being that it should not be under the control of the Board of Transport Commissioners and secondly, it is going to give this company a monopoly, and thirdly, that television, radio and these other things are surely not a monopoly for a company such as this.

Mr. MUNNOCH: May I reply—

Mr. CHURCH: Just a moment; I am a member of the committee. I think the government must lay down a policy on it first. Why should we pass a clause like this over the heads of another branch of the government, the radio committee of the House of Commons which has not reported on it yet?

The CHAIRMAN: Are you ready for the question that clause 5 be deleted? All in favour of the motion please signify.



Mr. CHURCH: I do not want to see a monopoly in that line. The policy should be laid down by the government and the radio committee, and the public should have the same protection as in Britain on this question and regulation as there.

The CHAIRMAN: Six in favour. Opposed to the motion? Sixteen. The motion is lost.

Mr. POULIOT: Before the clause is adopted I want to ask the company if the applicants for telephone service will be looked after, and if necessary improvements to the old system will be made before entering the new field of television?

Mr. JOHNSON: May I say we have no intention of entering the field of television. The whole purpose of clause 5 is to put at the disposal of television companies, and to put at the disposal of broadcasting companies, if they ever come into being, and to put at the disposal of broadcasting companies these facilities. We are not going into the broadcasting business. We want to put at their disposal wire facilities that will carry their programs from one place to another, and that is the whole and sole purpose.

Mr. JAENICKE: You cannot do that over ordinary wires?

Mr. JOHNSON: The only way you can carry television from one distant point to another distant point is by means either of coaxial cables laid under ground or by short range radio relay stations. Is that right, Mr. Macaulay?

Mr. MACAULAY: Yes.

Mr. JOHNSON: We want to be in the position if as and when the time comes that television enters Canada, not through our medium, not through our efforts, if it comes here in Canada that facilities will be available to carry television broadcasts from Montreal to Toronto, to Winnipeg and across the country, without which television broadcasting could not reach those distant points.

Mr. CHURCH: That is the point. If it was under the same regulation as Great Britain I would not mind it, but I fear a monopoly, and the government or radio committee has not laid down any government policy yet.

Mr. POULIOT: Mr. Johnson, I was under the impression that the purpose of this was to give each one of your subscribers the pleasure of seeing each other.

The CHAIRMAN: Shall clause 5 carry?

Carried.

Shall clause 6 carry?

Carried.

Shall the title carry?

Carried.

Shall I report the bill?

Carried.

The committee adjourned.



## APPENDIX

BRIEF ON BEHALF OF THE  
BELL TELEPHONE COMPANY OF CANADA

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By N. A. MUNNOCH, K.C., General Counsel and Mr. D. K. MAC TAVISH, K.C.,  
Parliamentary Agent

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IN THE MATTER of Bill No. 8 (C of the Senate), An Act respecting The Bell  
Telephone Company of Canada

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*History of Telephone Industry in Canada*

The Bell Telephone Company of Canada, which has petitioned for the enactment of the above-mentioned Bill, was incorporated by Act of Parliament, 43 Victoria chapter 67 which received Royal Assent on April 29, 1880—just 4 years after the telephone was invented. At that time, there were a few small local telephone companies located in some of the larger centres in Canada, such as London, Hamilton, Windsor, Montreal, Toronto and Quebec. These were purely local systems having few subscribers and were not connected with each other. One of the purposes of the incorporation of The Bell Telephone Company of Canada was to bring these small local organizations together into one integrated system permitting of the subscribers in one locality being able to communicate with those in other localities.

To this end, The Bell Telephone Company of Canada was incorporated with power to extend its operations throughout Canada and to purchase existing systems.

By the end of the year 1881, the Company had purchased or acquired "all other existing telephone interests in Canada" (Annual Report Dec. 31, 1881) and had a grand total of 3,100 telephone subscribers.

After 68 years of continuous operation, the Company now serves 1,306,975 telephones.

As already mentioned, under the Company's Act of Incorporation it is empowered to extend its operations throughout Canada. It has never, however, extended throughout the whole of Canada. At no time did the Company ever operate in British Columbia. By the early 1900's, the Company had relinquished its interests in the Provinces of Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Prince Edward Island and disposed of all of its plant and properties in those provinces. The result is that since 1909 the Company's operations have been confined to the Provinces of Ontario and Quebec with, of course, facilities enabling connection to be made with the systems serving the other 7 provinces and the United States and for directly or indirectly connecting with all other systems throughout the world where interchange of telephone communication is permitted by the laws of other countries and by the facilities provided by such other systems. Connection may now be had with the systems in 72 other countries.

The 1,306,975 telephones which The Bell Telephone Company of Canada serves are all located in the Provinces of Ontario and Quebec.



In the whole Dominion of Canada, there are over 3,200 separate telephone systems serving 2,213,000 telephones. Of these, eight might be said to be the major systems. They are:

The British Columbia Telephone Company serving	193,736 telephones
Alberta Government Telephones .....	53,646 "
Saskatchewan Government Telephones ....	58,987 "
Manitoba Telephone System .....	110,012 "
The Bell Telephone Company of Canada ..	1,306,975 "
The New Brunswick Telephone Company ..	52,426 "
Maritime Telegraph & Telephone Company ..	74,012 "
Island Telephone Company (P.E.I.) .....	7,721 "
	<hr/>
	1,857,515 "
The remaining 3,027 systems serve .....	355,829
	<hr/>
	2,213,344

Relating these 2,213,000 telephones in Canada to the population of Canada we find there is 1 telephone for every 6 persons.

In Great Britain there is 1 telephone for every 12 persons.

In the United States there is 1 telephone for every 4½ persons.

In the Provinces of Ontario and Quebec, in which the Company serves, there are a total of 923 separate telephone systems. The total number of telephones in these provinces is 1,533,000 of which the Company serves 1,307,000. Of the remaining 226,000 telephones, some 225,000 are served by 903 connecting systems with which we interchange service; the balance of 1,000 telephones are served by 19 small systems which do not connect with the Company's lines.

	Connecting		Non-Connecting	
	Systems	Telephones	Systems	Telephones
Ontario .....	588	152,000	8	400
Quebec .....	315	73,000	11	600
	<hr/>		<hr/>	
	903	225,000	19	1,000

It is due in great measure to the Company's long distance lines that all but 19 of these systems in Ontario and Quebec are interconnected so that a subscriber of any particular system may communicate with the subscriber of any other system.

There are approximately 8,000,000 people in the Provinces of Ontario and Quebec with 1,533,000 telephones. That gives a ratio of 1 telephone for every 5 persons. In the other provinces of Canada, the ratio is:

British Columbia .....	1 telephone for every 5 persons
Alberta .....	1 " " " " 8 "
Saskatchewan .....	1 " " " " 8 "
Manitoba .....	1 " " " " 7 "
New Brunswick .....	1 " " " " 9 "
Nova Scotia .....	1 " " " " 8 "
Prince Edward Island .....	1 " " " " 11 "

In the territory served by The Bell Telephone Company of Canada there is one telephone for every four and one-half persons of population. In 1920, there was only one telephone for every 10 persons.

The foregoing statement as to development does not mean that all the telephones are concentrated in the large centres. The Company's records show that in 1945, thirty-nine per cent of the establishments in the rural territory the Company serves had telephone service. In 1945, the Company installed 6,425 additional telephones in the rural areas it serves; in 1946, it installed some 12,465 additional telephones and in 1947, 12,062 additional telephones, so that at the present time 55 per cent of the establishments in the rural territory the Company serves have telephone service. This extension of rural facilities in the past three years to provide for the installation of some 30,952 additional rural services involved the expenditure of some \$6,738,000 of capital funds for the extension of pole lines and wires alone.



If the Company is permitted to carry on its present rural development program; if it is enabled to procure the capital funds to carry it out, it expects that by the end of the year 1951 between 65 and 70 per cent of the establishments in the rural territory it serves will have telephone service. This will mean that the rural telephone development in the territory the Company serves will be very close to the telephone development in the urban areas it serves.

It will be seen from these facts and figures that the Company has well served the territories where it has undertaken to furnish service.

### *Rate Regulation*

The foregoing gives a brief description of the telephone situation in Canada as it exists today and the conditions under which The Bell Telephone Company of Canada operates generally. There are some other conditions which should also be considered.

By December 31, 1881, or the end of the second calendar year of its operation, the Company had acquired 3,100 telephones—and those were all the telephones in service in Canada. In May, 1882, however, Parliament appreciating the importance of this new industry which was in the process of development enacted chapter 95 of the Statutes of that year declaring the Company's Act of Incorporation, and the works authorized under it, to be for the general advantage of Canada.

\* Then, in the year 1892, when the Company was serving but 23,000 telephones, Parliament enacted chapter 67 of the Statutes of that year which provided that

The existing rates of the Company shall not be increased without the consent of the Governor in Council.

This legislation was supplemented by chapter 41 of the Statutes of 1902 which enacted that

The rates for telephone service in any municipality may be increased or diminished by order of the Governor in Council upon the application of the Company or of any interested municipality, and thereafter the rates so ordered shall be the rates under this Act until again similarly adjusted by the Governor in Council.

Under this enactment, the Governor in Council was authorized to refer rate matters to the Exchequer Court for determination and the word "rates" was made to apply to local as well as long distance rates.

Then in the year 1906, when the Board of Railway Commissioners for Canada (now the Board of Transport Commissioners for Canada) was created, that Board was given full and complete jurisdiction over the Company's rates for by your Petitioner's Special Act, chapter 61 of the Statutes of 1906 it was enacted that

This Act and The Bell Telephone Company of Canada and the exercise of the powers hereby conferred shall be subject to the provisions of The Railway Act 1903 and amendments thereto.

By virtue of this enactment and the provisions of The Railway Act, as made applicable, the Board has full jurisdiction over all matters pertaining to the Company's rates. This jurisdiction is a very broad one since the Board has power to act of its own motion (sec. 36), may act from time to time as occasion may require (see 37) and may review, rescind, change, alter or vary its own decisions (sec. 51).

The extent of the Board's powers is evidenced by the provision it embodied in its judgment in the Company's last general rate case (1926-27) from which the following paragraph is quoted:—

For this reason, it is imperative that the Board should not lose sight of the results of the company's financial operations, not only from year



to year but calculated during a much shorter period of time. To that end the company should be required to furnish the Board with complete financial statements each month of the year for its information, and keep it closely and continuously in touch with the company's operations and in a position to judge as to the actual effect of the rates which are now put in, and direction to that effect will be given.

These monthly returns as required by the Board's judgment have been regularly made since the Company's present rate base came into effect under the Board's judgment on March 1, 1927.

But the legislation referred to that made the Company subject to The Railway Act did not limit the Board's jurisdiction to matters of rates.

Under The Railway Act as now in force, being chapter 170 of the Revised Statutes of Canada, The Board of Transport Commissioners for Canada has power and jurisdiction

- (1) over all operations under the Company's Special Acts, sec. 32;
- (2) to enforce agreements the Company enters into, sec. 35;
- (3) to make enquiries into the Company's operations, sec. 69;
- (4) to inspect the Company's works, sec. 71;
- (5) to regulate the construction of the Company's works when matters of public safety are involved, i.e. at railway crossings, secs. 256 et seq.;
- (6) to order the Company to make repairs, sec. 283;
- (7) to regulate the Company's tolls and traffic, secs. 314 et seq.;
- (8) to regulate joint tariffs, secs. 336, 375 (10);
- (9) over the publication of tariffs, sec. 342;
- (10) over contracts limiting liability, sec. 348;
- (11) over the construction of lines upon or across highways, sec. 373;
- (12) over the construction of lines across other lines, sec. 372;
- (13) over the connection of the Company's lines with lines of other systems, sec. 375 (7);
- (14) over all contracts the Company makes with other telephone systems and subscribers, sec. 375 (11);
- (15) to inquire into any contracts whatsoever that the Company may enter into, sec. 384.

By chapter 93 of the Statutes of 1929, which was the last enactment authorizing the increase of your Petitioner's capital stock, a further regulation was imposed upon the Company.

This regulation is as follows:—

The said Company shall not have power to make any issue, sale or other disposition of its capital stock, or any part thereof, without first obtaining the approval of the Board of Railway Commissioners of Canada of the amount, terms and conditions of such issue, sale or other disposition of such capital stock.

From these facts, it will be observed that your Petitioner is thoroughly subject to regulation in all branches of its operations—

- (a) its rates have been subject to regulation since 1892 or for the past 56 years and the Board of Transport Commissioners has been receiving monthly reports upon the Company's financial operations for the past 21 years;
- (b) it has been subject to all pertinent provisions of the Railway Act and the regulatory jurisdiction of the Board of Transport Commissioners for Canada since 1906 or for the past 42 years;



- (c) its issues of capital stock have been subject to the jurisdiction of The Board of Transport Commissioners for Canada since 1929 or for the past 19 years.

#### *Obligation to Give Service*

There is one other provision to be found in your Petitioner's Special Acts to which attention must be drawn. It is to be found in chapter 41 of the Statutes of 1902. It is a fairly long section the relevant part being as follows:—

Upon the application of any person, firm or corporation within the city, town or village or other territory within which a general service is given and where a telephone is required for any lawful purpose, the Company shall, with all reasonable despatch furnish telephones, of the latest improved design then in use by the Company in the locality, and telephone service, etc.

This enactment, which was no doubt passed in the public interest, imposes a definite duty upon the Company to furnish telephones and telephone service upon demand with all reasonable despatch.

It is because of this duty and of the Company's desire to discharge its obligations under it that it has petitioned for the enactment of Bill No. 8.

The Company is not asking Parliament to vote it the amount of additional capital moneys which it needs. What it asks is that Parliament will grant it—

*First*, the power to create, with the approval of its shareholders, new authorized capital as it needs it to the extent of \$350,000,000;

*Second*, the right, having the required authorized capital, to go to The Board of Transport Commissioners for Canada from time to time and try to satisfy it of the propriety of making an issue of a specified amount of such authorized capital and of the price, terms and conditions upon which it is to be issued; and

*Third*, the opportunity, after complying with the Blue Sky Laws, of going to the Canadian investors who, the Company believes, have confidence in our country's future and in The Bell Telephone Company of Canada, and seeking from them the capital moneys the Company needs for the purpose of serving the public of Ontario and Quebec with essential telephone service.

#### *Financial History*

Since the Company is asking for a substantial increase in its authorized capital, it seems appropriate that before attempting to make out its case for the amount of new capital sought we should endeavour to state what the Company has done with its present authorized capital.

The Company's original Act of Incorporation passed in 1880 authorized its capital stock to be \$500,000 divided into 5,000 shares of \$100 each and enabled the Company after the whole of its authorized capital stock had been subscribed and at least 50% thereon paid up to increase its capital to \$1,000,000.

By the end of the year 1883, the Company had purchased or constructed a telephone system serving 6,000 telephones in 52 exchanges and had constructed some 668 miles of long distance lines connecting together such of these exchanges as it was possible to connect having regard to the development of the art at that time. This was a big undertaking at the time for it will be remembered that the telephone was then only 7 years old.

In accomplishing this, the Company had expended the whole of its \$1,000,000 of authorized capital and invested it in the telephone plant and facilities making up its system.

Having used up its authorized capital in establishing its system serving 6,000 telephones, the Company had to have more capital if it was going to expand



its system. Accordingly, it applied to Parliament in 1884 and by chapter 88 of the Statutes of that year its authorized capital was increased from \$1,000,000 to \$2,000,000 or exactly doubled.

With this additional \$1,000,000 of authorized capital and the issue of \$500,000 of bonds, the Company proceeded to extend its system to meet the public demand and by the end of the year 1891, i.e. 7 years after its capital was increased, its system had grown to the point where it was serving 22,753 telephones. It then had a total of 4,432 miles of pole line carrying 9,213 miles of wire line and had constructed about 86 miles of underground duct in Montreal, Toronto and Hamilton.

In these 7 years, the Company had trebled the number of its telephones and increased the length of its lines many times—but in doing so it had necessarily expended \$926,900 of its \$1,000,000 increase of authorized capital with the result that \$1,926,900 of its \$2,000,000 authorized capital had been issued.

At this time, the Company had a balance of only \$73,100 of authorized capital available for the further expansion of its system so in 1892 the Company again applied to Parliament and by chapter 67 of the Statutes of that year its capital was increased by \$3,000,000 giving the Company a total authorized capital of \$5,000,000, an increase of 150 per cent.

With this additional \$3,000,000 of capital and the balance of \$73,100 which it had and by borrowing \$1,750,000 through the issue of bonds, between 1891 and 1901, the Company again nearly doubled the number of telephones it served. Its telephones increased from 22,753 to 44,168. Its long distance lines increased from 4,432 miles of pole line carrying 9,213 miles of wire to 6,634 miles of poles carrying 24,193 miles of wire.

This expansion again used up the whole of the company's authorized capital and in 1902 it again applied to parliament and by chapter 41 of the statutes of 1902 its capital was increased from \$5,000,000 to \$10,000,000.

With this increased capital of \$5,000,000 and the issue of \$575,000 of bonds by the end of the year 1905 the company had grown to the point where it was serving 81,891 telephones, as against the previous 44,168; its miles of pole line had increased from 6,634 to 8,645 carrying 37,082 miles of wire as against the previous 24,193. It had again doubled the size of its system.

By the end of 1905, \$8,604,840 of the Company's \$10,000,000 authorized capital had been issued leaving only \$1,395,160 available for future expansion, so in 1906 the company again applied to parliament and by chapter 61 of the Statutes of 1906 its authorized capital was increased to \$30,000,000 or trebled.

By the end of the year 1919, the company had issued \$22,336,300 of its authorized capital of \$30,000,000 and had issued bonds to the amount of \$11,149,000. So that since 1905 it had issued \$13,731,460 more stock and \$8,824,000 more bonds making a total of \$22,555,460. With these moneys the company had expanded to the point where it was serving 337,476 telephones or over 4 times the number of telephones it had in 1905. It had 96,753 miles of long distance wire or over 2½ times what it had in 1905. The total wire mileage (local and long distance) amounted to 964,098 miles and the company was handling 2,593,000 local calls and 29,000 long distance calls daily.

In the year 1919 alone, the number of telephones increased by 34,271. That was the year following the close of the First Great War. It appeared to the Company that this heavy demand for additional telephones would continue, but at that time the Company had available only \$7,663,700 of authorized capital.

Faced with this heavy demand, the Company in order to meet its obligation to serve the public again applied to parliament in 1920 and by chapter 100 of the Statutes of 1920 its capital stock was increased from \$30,000,000 to \$75,000,000 or 2½ times.

By the end of 1928, the Company had issued stock to the amount of \$60,340,500 and its funded debt (bonds and pension fund note) amounted to



\$41,434,094. So that since 1919 it had issued \$38,004,200 more stock and increased its funded debt by \$30,285,094 making a total of \$68,289,294. But during this period, that is from the end of 1919 to the end of 1928, the number of the Company's telephones had more than doubled; increased from 337,476 to 714,245; its wire miles had increased over 2½ times from 964,098 to 2,449,857.

At the end of 1928, the Company had unissued capital stock in its treasury amounting to \$14,659,500. But the company did not think this remaining amount of capital would enable it to meet the demand for additional telephone service which was then being made upon it.

In the years 1923 to 1928 inclusive, the Company had been growing and expanding at a very rapid pace:

in 1923 it placed in service	52,018 additional telephones
in 1924 it placed in service	50,607 additional telephones
in 1925 it placed in service	52,473 additional telephones
in 1926 it placed in service	40,840 additional telephones
in 1927 it placed in service	38,222 additional telephones
in 1928 it placed in service	45,862 additional telephones

If this demand was going to continue then it was obvious to the company that its \$14,659,500 remaining capital would be insufficient to meet it.

So, in 1929, the Company made its application to parliament and by chapter 93 of the Statutes of 1929 its capital was increased from \$75,000,000 to its present authorized capital of \$150,000,000—doubled.

Since the end of 1928 down to the end of 1947, the growth and development of your Petitioner's system has been as follows:

	1947	1928
Telephones—70 per cent now dial .....	1,306,975	714,245
Miles of Wire .....	4,966,423	2,449,857
In underground cable .....	3,542,193	1,694,640
In aerial cable .....	1,153,523	551,786
Open wire .....	270,716	203,431
Employees .....	23,335	16,240
Daily connections .....	8,662,000	4,855,000
Local .....	8,497,000	4,789,000
Long distance .....	165,000	66,000

This was accomplished by an increase of \$66,080,400 in stock and \$39,631,000 in funded debt; an increase of \$105,711,400.

#### *Need for New Capital*

This enormous growth in the Company's system during the period 1929 to 1947 has left the Company in the following position with regard to its authorized capital.

The Company's present authorized capital is \$150,000,000 created under the authority of chapter 93 of the Statutes of 1929. Of this \$150,000,000 authorized capital—

\$126,420,900	has been paid in full and issued
425,600	has been subscribed and allotted under subscriptions payable in instalments under the terms of the Company's last offering of September 17, 1947.
10,091,700	has been subscribed by employees under the provisions of the Company's "Employees' Stock Plan" and is payable in instalments

\$136,938,200

These three amounts total \$136,938,200 and deducting this total from the \$150,000,000 authorized leaves your Petitioner with a balance of only \$13,061,800 or less than 9 per cent of authorized capital available under its present statutory authority.

The \$126,420,900 of stock which has been paid in full and issued was sold at different prices ranging from par to \$145.00 and resulted in the Company obtaining premiums thereon amounting to \$23,969,859, all of which has been invested in the business. This gives an average premium on all stock issued



from 1880 down to the present time of \$18.96 per share. The premium on all stock issued since 1929 amounts to \$33.40 per share.

The \$425,600 of stock subscribed for on the instalment basis was sold at a price of \$140 per share or at a premium of \$40.00.

The \$10,091,700 being subscribed by employees has been subscribed some at \$115 per share (81,900 shares) and some at \$135 per share (19,017 shares). The subscription price was increased from \$115 to \$135 per share on December 1, 1946.

The issued and paid up shares of the Company are held by 34,439 shareholders of whom 33,013 or 96 per cent, holding 1,015,043 or 80 per cent of the shares, reside in Canada. It will be of interest to know that 57 per cent of the Company's shareholders are women holding 28 per cent of the shares.

4,230 or 12.3 per cent of the shareholders are employees holding 5.8 per cent of the stock.

The balance of \$13,061,800 of unissued authorized capital stock available in the Company's treasury is wholly insufficient to enable the Company to carry out the very substantial construction programme which it must undertake in order to furnish the citizens of Ontario and Quebec with the telephone service they require and are demanding.

### *Construction Programme*

As all the hon. members of the Committee know, during the war and the two years which have followed the war, there was a great shortage of materials and manpower. The use of nearly every kind of material was necessarily restricted or rationed so that the greatest amount of our country's resources could be devoted to the prosecution of the war. These shortages and restrictions affected virtually all of the materials required in the telephone industry and made it impossible for the Company to increase and extend its facilities during that period to the extent necessary to meet or keep pace with the demand for telephone service which increased continually.

Telephone service was declared to be an essential wartime service. What facilities the Company had, and those that could be provided out of the materials made available to it had to be used primarily for serving war industries and other essential wartime services which had to be given first priority for the defence of Canada.

During the war period, there was little that the Company could do to make provision for the telephone needs of the civilian public. Private citizens had to be told that the Company had no facilities and could provide no facilities to serve them. Practically all of the Company's spare or stand-by facilities had been put into service—yet during this six-year period of war the demand for telephones and telephone service continually increased.

On August 1, 1945, which was just before the war ended, the Company had 89,000 applications for telephone service which it could not fill due to lack of facilities.

Since that time, that is from August 1, 1945 to the end of March, 1948, the Company by the expenditure of about \$104,495,000 capital funds has been able to provide the facilities required to actually put 329,000 additional telephones in service; an increase of 32 per cent yet the Company was still faced with 95,749 applications for service which it cannot fill. The Company was able to do this because it then had sufficient authorized capital and other funds available to devote to this purpose. But despite this large increase of 32 per cent of telephones in service, due to the continuing heavy demand, *the Company is still faced with 95,749 applications for telephone service which it cannot yet provide.* In addition to these 95,749 applications for service, the Company has on hand applications from 69,000 subscribers who want individual line service instead of the party line service they now have. These applications cannot be met until the requisite additional lines and facilities can be provided.



But this is not the whole story. The Company's long distance lines are overcrowded with messages. In 1939, its long distance lines carried an average of 60,000 long distance calls daily. Now they are required to carry some 165,000 long distance calls per day. Its local and long distance lines now have to carry 8,662,000 calls daily. The Company has not been able to provide adequate facilities to properly carry this increased load.

To provide the telephone facilities required to meet this heavy demand is not simply a matter of producing telephone instruments and stringing connecting wires. The telephones and wires are useless without the switchboard and central office equipment necessary to make them function. Switchboards and central office equipment are most complicated pieces of apparatus. They cannot be obtained ready-made, but must be designed and manufactured for the precise place in which they are intended to function. Then it cannot install switchboards and central office equipment without having proper building in which to house them. These buildings and additions to buildings must be designed and erected. It will be appreciated that the planning, designing, manufacturing and erection of switchboards, central office equipment and buildings all involve projects which must be planned and designed well in advance and require, under present conditions, time to carry into effect. It will also be appreciated that in the planning and designing of plant and buildings it is necessary that the Company be in a position where it can see its way to finance such projects.

The planning of extensions, additions and betterments to the Company's system also involves the estimation of the probable future demand so that provision may be made for future development in carrying out the works and the Company may have the benefit of the economic advantages of so doing. It is therefore necessary to plan projects and the financing of them on a physical and financial forecast extending years into the future.

The Company is seeking authority for a substantial increase of capital—\$350,000,000—but the construction program which it must now undertake calls for substantial expenditures. Its program for the next 5 years calls for an estimated gross expenditure of some \$360,000,000 of capital money, the principal items being:

Right of Way .....	\$ 1,000,000
Land and Buildings .....	42,000,000
Central Office Equipment .....	97,000,000
Station Equipment .....	95,000,000
Exchange Lines .....	86,000,000
Toll Lines .....	26,000,000
General Equipment .....	15,000,000
Total Gross Construction .....	<u>\$ 362,000,000</u>

This gross construction figure of \$362,000,000 broken down on an estimated yearly basis means a gross construction of about \$74,000,000, in 1948; \$76,000,000 in 1949; \$71,000,000 in each of the years 1950 and 1951 and \$70,000,000 in 1952. These estimates were made in the early fall of 1947. The latest view is that these figures will have to be increased by about 10 per cent and that the current five-year total gross construction will amount to \$394,000,000.

In addition to this, it is the Company's considered opinion that it may be faced with a construction program of like magnitude in the succeeding five years—that is, in the years 1953-57. This is expected to run to something in the neighbourhood of \$70,000,000 per year over this period.

It is apparent then from these projected estimates that the Company will have to make very substantial capital expenditures during the next decade or so.

It is a very difficult thing to estimate with accuracy in advance for the next decade the amount of money which will be involved in the construction program for a large telephone system such as your Petitioner operates. The



Company has tried to look into the future so far as it can with a basic 5-year plan of which the principal items are above stated. This estimated program must necessarily be based on present views of industrial activity and business prospects and the progress of Canada during that period. In reaching this estimate of \$360,000,000 the Company made the best estimate it can, based on its continuous development studies.

The Company has also looked to its past experience—particularly to the period following the First Great War. It is thought that the period we are now in has and will have factors in common with the post-war period following the First War, particularly in the field with which the Telephone Company is concerned, that is plant expansion in industry, the development of new projects resulting from wartime research and increasing population and housing development.

The facts and figures available up to the present time demonstrate this.

Year	Additional phones installed	Hold orders	Held orders % total telephones in service	Year	Additional phones installed	Hold orders	Held orders % total telephones in service
			%				%
1919.....	34,271	(not available)		1945.....	62,583	77,000	7.3
1920.....	38,885	15,000	3.9	1946.....	127,811	84,000	7.2
1921.....	23,916	17,000	4.3	1947.....	129,051	94,900	7.2
1922.....	33,946	23,000	5.2				
1923.....	52,018	4,000	0.7				
1924.....	50,607	3,000	0.6				
1925.....	52,473	3,000	0.5				
1926.....	40,840						
1927.....	38,222						
1928.....	45,862						

So that if the demand for telephone service continues for the next few years as it did following the First Great War on anything like the basis that the figures for the past 3 years indicate, it is clear that the Company is going to be faced with a very heavy construction program to enable it to meet this demand. In the next five years, the Company expects to be called upon to instal some 455,000 additional telephones.

In 1920, the capital obligations of the Company amounted to about \$44,000,000. By the end of the following decade of expansion, the Company's obligations amounted to about \$157,000,000—increased in excess of 3½ times. Its capital stock increased in like proportion, that is from less than 23 millions to nearly 75 millions. Its debt capital increased more than 4 times, i.e., from less than 17 millions to slightly over 70 millions.

While this measure is not put forward as being a complete test of the Company's requirements it is, however, believed to be indicative of the conditions the Company is now facing.

In 1920, the Company's issued capital stock was \$23,000,000. It came to Parliament and sought and obtained authority to more than treble its then existing issued capital of \$23,000,000. That proved to be insufficient to carry the Company through the full expansion period which ended in 1931 and it had to again apply for a further increase in 1929.

If in 1920 the Company had sought an increase in capital of sufficient amount to have carried it through this expansion period it would probably have been thought to be overreaching. Some might think that it is now, but it is respectfully submitted that if the Company is to be able to provide the service which the public require over the next few years it is going to need the additional capital petitioned for.



It is not intended that all of this vast amount of money which the Company is going to require (i.e., some \$700,000,000 over the next decade) will be raised through the issue of capital stock. A substantial portion of it will, it is expected, be obtained through borrowings and other available resources of the Company, such as depreciation credits, which will be used and invested in the plant to be constructed.

The Company requires some \$52,000,000 of new capital to finance its construction program for the year 1948. It is expected that this rate of construction will continue for some years. Applying the Company's long term policy of financing its capital requirements by two-thirds equity capital (capital stock) and one-third by borrowing, this will require that \$35,000,000 be obtained each year through the issue of capital stock.

Thus, according to the best forecasting and estimating the Company is capable of, it thinks and expects that it will need the \$350,000,000 of additional capital authorized by this Bill together with substantial borrowings to carry out the expansion and extension of its system.

The granting of the authority to increase the Company's capital as prayed for does not leave it to the Company to issue and dispose of the new capital as it sees fit. Reference has already been made to subsection 2 of section 1 of the Bill, which re-enacts the provision that was contained in chapter 93 of the Statutes of 1929 and deprives the Company of the power to make any issue, sale or other disposition of its capital stock without first obtaining the approval of The Board of Transport Commissioners for Canada of the amount, price, terms and conditions of such issue, sale or other disposition of such capital stock.

It is respectfully submitted that this subsection 2 fully and amply protects any and all public interests that might be involved.

By section 2 of chapter 41 of the Statutes of 1902, already referred to, Parliament imposed upon the Company the obligation of furnishing telephone service and telephones of the latest improved design to the public upon demand. It is therefore submitted to be in the public interest that the Company be put in a position where it can fulfil this duty. To discharge this duty it is necessary that the Company enlarge and extend its system and facilities to the point where it can meet the public need and furnish service on demand. As already mentioned, there are 95,749 waiting applications for service and an additional 69,000 subscribers waiting for individual line service. By this Bill, the Company is asking the authority to permit it to go out from time to time after satisfying The Board of Transport Commissioners for Canada of the propriety of doing so to raise the necessary capital to enable it to discharge its duty to the public.

#### *Subdivision of Shares*

Section 3 of the Bill provides for the subdivision of the Company's shares of capital stock which are now and always have been of the par value of \$100 each into shares of the par value of \$25.00 each.

The Company did not petition for this provision to be enacted in the Bill. It was put in the Bill by way of an amendment made before the Banking and Commerce Committee of the Senate. In this connection the following extract is quoted from the Senate Debates of January 29, 1948, p. 109.

Hon. JOHN T. HAIG: Honourable Senators, I was present throughout the meeting of the Banking and Commerce Committee when this bill was under discussion. The bill as it has come back to us from the Committee contains two important amendments. One deals with the transmission of shares by will or by letters of administration. The other, which was inserted by the Committee without any request from the Company, provides for splitting each of the shares of \$100 par value into four shares of \$25. That is to be completed not later than July 1, 1949. I would add that the Committee adopted these amendments unanimously.



Your Petitioner did not seek that this provision be enacted in this Bill. The Company was not prepared to propose such a change for in its 68 years of existence its stock has never been split or subdivided and it was reluctant to disturb the existing par value of its shares which had become one of its characteristics. This amendment was put forward in the Senate Committee on the basis that the division of the shares into smaller denominations would encourage the small investor to become a shareholder in the Company and enlarge the market in which the Company will have to seek and compete for the additional capital moneys it requires and thus assist the Company in its equity financing.

To the extent that this may be so, this section might be of help to the Company. It has no effect upon the Company's shareholders' investment. Today, a shareholder might hold one share of \$100 par value. If this section becomes effective the same shareholder will hold 4 shares of \$25 par value or the same \$100 par value of stock.

#### *Transmission of Shares*

Section 4 of the Bill is identical with section 39 of the Dominion Companies Act with the exception of the substitution of the word "the" at the beginning of the second line for the word "a" to conform the context.

Section 39 applies to every Dominion Company incorporated by letters patent and enables such companies to act and rely upon letters probate or letters of administration or other testamentary document granted by any court of Canada, Great Britain, Northern Ireland or any other of His Majesty's Dominions, colonies or dependencies or in any foreign country when called upon to enter a transmission of its shares upon its registers in consequence of the death of a shareholder.

The Ontario Companies Act contains a like provision in section 62 applicable to all Ontario letters patent companies.

Neither section 39 of the Dominion Companies Act nor section 62 of the Ontario Companies Act applies to The Bell Telephone Company of Canada.

Under the general law of Ontario, the Ontario courts will not recognize Letters Probate or Letters of Administration or other documents testamentary which have issued out of the courts of the other Provinces of Canada or of foreign countries unless they have been re-sealed or otherwise authenticated by the Surrogate Courts in Ontario. This was laid down in the very recent case of *Tensil v. King et al* (1947) O.W.N. 807, where the Court said:

It is common ground that no letters of administration or probate or ancillary letters of administration or probate have been issued in Ontario.

In *Fidelity Trust Co. v. Fenwick* (1921) 51 O.L.R. 23 at 35, 64 D.L.R. 647, Orde J. had this to say:

"That a foreign executor cannot come into Ontario and sue for the recovery of moneys due the testator's estate without first obtaining probate here is too well-established for argument. See *Whyte v. Rose* (1842) 3 Q.B. 493, at p. 509; *New York Breweries Co. Limited v. Attorney-General* (1899) A.C. 62."

In *Morrice et al. v. Smart et al.*, (1882), 26 Sol Jo. 752, North J. stated the law thus:

It was clear that foreign executors of a foreign estate could not take in this country any 'transmission of interest or liability' without obtaining representation here.

The result is that if the Company were to allow a transmission of its shares to be entered on its Toronto register relying upon letters Probate or Administration of any province or of any foreign country which have not been authenti-



cated by the Surrogate Courts in Ontario it would have no protection and could not justify its position if the transmission became involved in litigation.

In the case of a deceased shareholder who dies domiciled other than in Ontario or Quebec the Company is therefore in the position of either having to insist that the estate go to the expense of having the testamentary documents authenticated in Ontario or that the transmission be entered in Montreal where Art. 1220 of the Quebec Civil Code would afford it the desired protection. This sometimes causes delay and some irritation on the part of the executors and their solicitors.

It is this situation which would be remedied by this proposed section and its enactment would undoubtedly be helpful to those acting for the estates of shareholders who died domiciled elsewhere than in Ontario and Quebec.

### *Radio and Television*

Section 5 of the Bill is intended to clarify the Company's position with regard to the use of the latest improvements in the art of telephony including the use of radio and wireless telephone and television in providing the communication service which it furnishes.

The Company has no intention or desire to engage itself in the production of radio or television broadcasts. What it wants to have made clear is its right to make use of radio, under licence from the Government, for the purpose of carrying on its telephone business and to make available to others who are or may be engaged in radio or television broadcasting the facilities which the Company has which may be utilized in connection with broadcasting.

Nor has the Company any desire to gain any sort of control of the fields of radio or television broadcasting. Section 5 of the Bill explicitly provides that the powers therein referred to are to be

subject to the provisions of the Radio Act, chapter fifty of the statutes of 1938 and of any other statute of Canada relating to radio broadcasting and the regulations made thereunder.

Everything that the Company has done or accomplished in the radio field to date has been done under appropriate licences from the Department of Reconstruction and Supply. It is intended by this section that the Company's future operations in this field will be subject to the same governmental control.

Wireless and radio telephone is a comparatively new development in the art of communication which is the field in which the Company operates. It is important, not only to the Company but to the public service which it provides and to the public service furnished by others, that there should be no question as to the Company's powers to furnish service by this means.

The Company is already engaged in furnishing service to mobile telephones in automobiles, trucks and ambulances, etc., which cannot be provided by any means other than radio-telephone operating in conjunction with the Company's wire lines. This kind of service can be extended to aircraft, railway trains and ships, and these kinds of service are now coming into demand.

The Company requires to use radio links to connect up its wire lines to overcome natural obstacles. It is now using radio-telephone facilities to connect its wire lines across the St. Lawrence River from Joliette to Sorel. It operates a radio-telephone service between Leamington and Pelee Island where ice conditions frequently used to damage the submarine cables formerly used and interrupt the service. In conjunction with the Canadian Marconi Company and the British Post Office it has furnished trans-Atlantic telephone service by radio for many years.

Wireless or radio-telephone systems can also be used to extend telephone service to localities which cannot be economically or physically served by wire lines, such as island communities—reference has already been made to Pelee



Island—and isolated communities in the northern parts of Ontario and Quebec and other inaccessible points.

Wireless telephone or radio is assuming increasing importance in the economical development of the telephone system. Developments in recent years have progressed rapidly and there is every likelihood that wireless telephone or radio systems capable of handling large numbers of communication channels over long distances may, in many cases, prove to be an economical alternative to the use of wire lines. Since the economical development of the Company's system involves the use of such new developments as they become available it is planned to use wireless telephone and radio systems as an alternative to wire lines where such use is indicated to be the proper procedure.

While, as already stated, the Company has no intention of engaging itself in radio or television broadcasting, it is clear that the telephone companies have played an important part in the development of radio broadcasting by providing connecting links between studios or pick-up points and broadcast transmitters and between radio stations at widely separated points to permit simultaneous broadcasting of program material over a wide area. A large number of program circuits provided by wire facilities are now permanently established by telephone companies for the existing broadcasting stations, and country-wide wire program networks are also in constant use.

This use of telephone facilities has been essential to the growth and expansion of radio broadcasting. In the absence of such facilities, it would have been necessary for the broadcasting organizations to provide their own inter-connecting links and this would have been prohibitively costly. Since, however, pole lines, conduits, cables, etc., already established for telephone use are readily adaptable for radio program purposes, they provide a relatively inexpensive means of furnishing required inter-connecting wire links. The fact that such facilities have been readily available has made possible the present high development of radio broadcasting.

Television broadcasting is, in many respects, similar to radio broadcasting and in its development there is no doubt that provision will have to be made for many connecting links of a similar nature. Thus studio-transmitter circuits and networking facilities will be required. Such connecting links, while different to those for radio broadcasting because of the much wider frequency bands involved, can still be provided by wire and other facilities now available or which will be provided by the telephone systems in the development and expansion of their facilities. It may be pointed out further that television transmission usually involves sound transmission as part of the same program. Both sound and television transmission links are required for simultaneous use in giving this service.

Television has not as yet been introduced in Canada. In the United States and other countries, however, a number of television broadcasting stations are in operation and experimental work on development of this new service is proceeding rapidly. The telephone industry is playing an important part in the development of television by making available suitable wire and radio facilities to link up program pick-up and telecasting stations and to transmit program material for simultaneous broadcast at several points. Briefly, these facilities are as follows:

#### *Wire Facilities*

For television studio-transmitter circuits, ordinary telephone cable pairs are being employed. These are made suitable by employing special types of amplifiers along the cable route. While this type of facility has a relatively high transmission loss it can be used successfully over limited distances.

To extend the range of such local circuits, special low loss pairs have been developed for inclusion under the sheath of ordinary telephone cables. Such



pairs may be provided in trunk cables between telephone exchanges and can be made available at a cost which is very much less than if independent facilities requiring a separate sheath and conduits or pole supports were used.

For inter-city networks, several thousand miles of co-axial cable have been installed or are now programmed in the United States. These cables contain multiple pairs of co-axial tubes which are suitable for the transmission of very wide frequency bands and each pair of tubes can handle up to 600 telephone messages. The tubes are also capable of handling television program transmission. Thus co-axial cable system provides for a television network as well as for telephone message traffic. Co-axial cable is the latest development in telephone cables and will no doubt be put into use by The Bell Telephone Company of Canada when required.

#### *Radio Facilities*

Radio facilities operating in the microwave range have been developed by the Bell System for use similar to its wire facilities. For studio-transmitter circuits at locations where provision of wire facilities is impracticable or uneconomical, successful results have been obtained with radio.

For inter-city links, radio-relay systems have also been developed which, like the co-axial cables are capable of transmitting large numbers of telephone messages and television signals. The first of such systems was recently put into service between New York and Boston and has been employed in conjunction with co-axial cable to link television transmitters in Boston, New York and Washington.

Thus The Bell Telephone System, in providing instrumentalities for telephone communication, will also be in a position to assist in the economical development of television services both locally and over wide areas. It is only reasonable to assume that, as in the case of radio broadcasting, the telephone industry will be called upon to furnish wire and other facilities for television program transmission as this service develops.

It is for these purposes that the Company is seeking clarification of its powers referred to in section 5 and it is respectfully submitted that the clarification of the Company's powers as provided for in section 5 is in the public interest.

#### *Corporate Name—French version*

The last section of the Bill is intended to improve the French translation of the Company's corporate name as it appears in the French version of the Statutes.

The French version of the Company's Act of Incorporation passed in 1880 and the French version of all subsequent amending Acts give the Company's name as

"La Compagnie Canadienne de Téléphone Bell" followed by the English name The Bell Telephone Company of Canada in brackets.

The name "La Compagnie Canadienne de Téléphone Bell" translates into English as "The Canadian Bell Telephone Company" or the "Bell Canadian Telephone Company" and not into The Bell Telephone Company of Canada.

The Company has never used "La Compagnie Canadienne de Téléphone Bell" in any of its publications in the French language. We have always used "La Compagnie de Téléphone Bell du Canada" and the purpose of this proposed section is to regularize the use of the French version of the Company's name which the Company actually uses and which it prefers as the better translation.

This proposed change has been submitted to the Bureau of Translations which agrees that the name proposed is the better translation.

MONTREAL, May 4, 1948.

Respectfully submitted,

THE BELL TELEPHONE COMPANY OF CANADA















