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SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: L. O. BREITHAUPT, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

BILL No. 75 (Letter F of the Senate);

An Act to Incorporate Trans-Canada Pipe Lines Limited.

TUESDAY, MARCH 6, 1951

WITNESSES:

Mr. Frank A. Schultz, Vice-President, Canadian Delhi Oil Ltd., Calgary, Alberta.

Mr. Floyd Warterfield, Pipe Line Engineer, Oklahoma Contracting Corporation, Dallas, Texas.

Mr. George Shattuck, of H. K. Ferguson Company Ltd., Marketing Engineers, Washington, D.C.

Mr. Morris Natleson, of Lehman Brothers, Bankers, New York City, N.Y.

OTTAWA
EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
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CONTROLLER OF STATIONERY
1951

Chairman: L. O. Breithaupt, Esq.,

Vice-Chairman: H. B. McCulloch, Esq.,

Messrs.

Adamson,
Applewhaite,
Beaudry,
Bertrand,
Beyerstein,
Bonnier,
Bourget,
Cannon,
Carter,
Chevrier,
Clarke,
Conacher,
Darroch,
Dewar,
Eudes,
Ferguson,
Follwell,
Fulton,
Garland,
Gauthier (*Portneuf*),
Gillis,
Gourd (*Chapleau*),
Green,
Harkness,
Harrison,
Hatfield,
Healy,
Herridge,
Higgins,
Hodgson,
James,
Lafontaine,
Lennard,
Macdonald (*Edmonton East*),
MacNaught,
Maybank,
McGregor,
McIvor,
Mott,
Murphy,
Murray (*Cariboo*),
Mutch,
Noseworthy,
Pouliot,
Richard (*St. Maurice-Lafleche*),
Riley,
Robinson,
Rooney,
Ross (*Hamilton East*),
Shaw,
Smith (*Queens-Shelburne*),
Stuart (*Charlotte*),
Thatcher,
Thomas,
Thomson,
Weaver,
Whiteside,
Whitman.

Clerk: R. J. Gratrix

ORDERS OF REFERENCE

FRIDAY, 16th February, 1951.

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

Messrs.

Adamson,
Applewhaite,
Beaudry,
Bertrand,
Beyerstein,
Bonnier,
Bourget,
Breithaupt,
Cannon,
Carter,
Chevrier,
Clarke,
Conacher,
Darroch,
Dewar,
Eudes,
Ferguson,
Follwell,
Fulton,
Garland,
Gauthier *(Portneuf)*,
Gillis,
Gourd *(Chapleau)*,
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Harrison,
Hatfield,
Healy,
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Higgins,
Hodgson,
James,
Lafontaine,
Lennard,
Macdonald *(Edmonton East)*,
MacNaught,
Maybank,
McCulloch,
McGregor,
McIvor,
Mott,
Murphy,
Murray *(Cariboo)*,
Mutch,
Noseworthy,
Pouliot,
Richard *(St. Maurice-Lafleche)*,
Riley,
Robinson,
Rooney,
Ross *(Hamilton East)*,
Shaw,
Smith *(Queens-Shelburne)*,
Stuart *(Charlotte)*,
Thatcher,
Thomas,
Thomson,
Weaver,
Whiteside,
Whitman—60.

(Quorum 20)

Attest.

LEON J. RAYMOND,
Clerk of the House.

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.

Attest.

LEON J. RAYMOND,
Clerk of the House.

TUESDAY, February 27, 1951.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 75 (Letter F of the Senate), intituled: "An Act to incorporate Trans-Canada Pipe Lines Limited".

Attest.

E. R. HOPKINS,
for *Clerk of the House.*

81588—1½

Ordered,—That the said Committee be authorized to sit while the House is sitting.

TUESDAY, 6th March, 1951.

Ordered,—That the quorum of the said Committee be reduced from 20 to 12 members, and that in relation thereto Standing Order 63 (1) (*b*) be suspended.

Ordered,—That the said Committee be empowered to print, from day to day 800 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, March 6, 1951.

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

FIRST REPORT

Your Committee recommends:

1. That it be authorized to sit while the House is sitting;
2. That its quorum be reduced from 20 to 12 members, and that in relation thereto Standing Order 63 (1) (*b*) be suspended;
3. That it be empowered to print, from day to day, 800 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

L. O. BREITHAUPT,
Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 262,
TUESDAY, March 6, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at eleven o'clock a.m. this day. Mr. L. O. Breithaupt, Chairman, presided.

Members present: Messrs. Applewhaite, Beyerstein, Bonnier, Carter, Conacher, Darroch, Ferguson, Follwell, Garland, Gauthier (*Portneuf*), Gillis, Green, Harkness, Harrison, Herridge, Hodgson, James, Lafontaine, Lennard, Macdonald (*Edmonton East*), MacNaught, McCulloch, Mott, Murphy, Murray, (*Cariboo*), Noseworthy, Pouliot, Richard (*St. Maurice-Lafleche*), Riley, Rooney, Shaw, Smith (*Queens-Shelburne*), Thomas, Thomson, Weaver, Whiteside.

In attendance: Mr. J. Decore, M.P.; Mr. John Ross Tolmie, Parliamentary Agent; Mr. Frank A. Schultz, Vice-President, Canadian Delhi Oil Ltd., Calgary, Alberta; Mr. Floyd Warterfield, Pipe Line Engineer, of the Oklahoma Contracting Corporation, Dallas, Texas; Mr. George Shattuck, of the H. K. Ferguson Company Ltd., Marketing Engineers, Washington, D.C.; and Mr. Morris Natleson, of Lehman Brothers, Bankers, New York City, N.Y.

On motion of Mr. Riley:

Resolved.—That the Committee recommend that its quorum be reduced from 20 to 12 members.

On motion of Mr. Applewhaite:

Resolved.—That the Committee recommend that it be granted leave to sit while the House is sitting.

On motion of Mr. Herridge:

Resolved: That the Committee recommend that it be empowered to print, from day to day, 800 copies in English and 200 copies in French of its minutes of proceedings and evidence.

On motion of Mr. Green:

Resolved.—That Mr. McCulloch be Vice-Chairman of the Committee.

The Committee commenced consideration of Bill No. 75 (Letter F of the Senate), An Act to incorporate Trans-Canada Pipe Lines Limited.

Mr. Decore, M.P., sponsor of the bill, addressed the Committee and introduced Mr. J. R. Tolmie, Parliamentary Agent for the Petitioners.

Mr. Tolmie was called, explained the purposes of the Bill and was questioned.

Messrs. Schultz, Warterfield, Shattuck and Natleson were called and heard regarding the project contemplated in the Bill; its practicability from a construction and engineering point of view; potential markets in the area to be served, and the proposed methods of financing the undertaking.

Mr. Schultz undertook to furnish the Committee with copies of a map of the route of the proposed pipe line as far East as Fort William, Ontario, and the route presently under consideration from Fort William to Montreal.

At the request of Mr. Gillis, it was agreed that Mr. W. E. Uren, Chairman, Dominion Coal Board, be called before the Committee at its next meeting.

It was also agreed that arrangements be made for Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, to be in attendance at the next meeting.

At 12.55 o'clock p.m. the Committee adjourned until Wednesday, March 7, at eleven o'clock a.m.

R. J. GRATRIX,
Committee Clerk.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
March 6, 1951.

The Standing Committee on Railways, Canals and Telegraphs met this day at 11.00 a.m. The Chairman, Mr. L. O. Breithaupt, presided.

THE CHAIRMAN: Well, gentlemen, we have a quorum so we can proceed with the business of the committee. The first item would be, if you so desire, to pass a motion to reduce the quorum. The usual quorum is 20 but last year I believe we had 12. What is your wish in this connection?

MR. RILEY: I move we reduce it to 12.

MR. MCCULLOCH: I second.

Carried.

THE CHAIRMAN: We should also have a motion to sit while the House is sitting. The committee will likely have a good deal before it this year.

MR. APPLEWHAITE: I would so move.

MR. CARTER: I second.

Carried.

THE CHAIRMAN: In connection with the printing of the evidence is it your wish that it be printed? If so, would it be in order to print 800 copies in English and 200 copies in French? Judging by experience in past years that is about the way the demand would run.

MR. MURPHY: The meetings would be a lot shorter if we did not print at all.

MR. HERRIDGE: I would move that we print the numbers as suggested by the chairman.

MR. CARTER: I second.

Carried.

THE CHAIRMAN: I think that it would be desirable to appoint a vice chairman as we did last year. Mr. Henry McCulloch discharged those duties very well then.

MR. GREEN: I would so move.

MR. WEAVER: I second.

Carried.

THE CHAIRMAN: Mr. McCulloch, I congratulate you on your election; a popular choice.

The next thing, then, having disposed of the preliminaries, is to get down to the business of the day and the reference of the House, that Bill 75, Letter F of the Senate, an act to incorporate Trans-Canada Pipe Lines Limited, be considered. Mr. Decore, the sponsor of the bill is here. He is not a member of the committee but it is his right and privilege to introduce the subject matter of this bill. Would someone move that he be heard?

MR. MCCULLOCH: I so move.

Agreed.

MR. DECORE: Mr. Chairman, I would just direct your attention to Mr. Tolmie who is acting as agent for the applicants and who will give you an explanation of the general outline of the bill. Mr. Tolmie is here, together with a number of witnesses who will be prepared to submit evidence on behalf of this proposed company.

If you will call on him the committee will hear such evidence as he has to offer. I think that is all I have to say at this time.

THE CHAIRMAN: If it is the wish of the committee I would call on Mr. Tolmie to come forward and outline the bill in general. Is that your pleasure?

Agreed.

Would you come forward, Mr. Tolmie? I would ask you to raise your voice so that everyone can hear what you have to say.

MR. TOLMIE: Mr. Chairman and gentlemen: As Mr. Decore explained in the House on second reading, this is an application to incorporate Trans-Canada Pipe Lines Limited, as founded and drawn up in strict accordance with the Pipe Lines Act which parliament passed in 1949.

If you have read the bill you have seen that it accords with the standard form of pipe line bills which the law officers of the Crown, of the Senate and House of Commons, the Department of Transport, the Board of Transport Commissioners, and I believe the Department of Justice, worked out in conjunction with the first application made to parliament. It is pretty well a standard form. I understand that the law clerk of the Senate and the law clerk of the House of Commons have passed this bill as to form, and there is no question about that.

The project, Mr. Chairman, as all members probably know by now, is to build a gas pipe line from Alberta east as far as Montreal, and with the possibility and the hope that it can be extended further east from Montreal at a later stage when the capacity is fully utilized. The present project is founded upon a survey of the route from Princess, Alberta, generally speaking following the main line of the Canadian Pacific Railway to Winnipeg, and then across the Great Shield touching on Port Arthur and Fort William. There is a possible alternative route from Fort William via the Canadian National Railway but that survey has yet to be made in detail because the engineer of the Oklahoma Engineering Company—who is here by the way—after having made a survey of the Canadian Pacific Railway Line was closed out by weather and found it impossible late last fall to complete the Canadian National Railway alternative.

As I said, the whole conception of the line is that it will follow one or the other of the main lines of the railways into the populated areas of Ontario and along the Canadian National Railway route from Toronto to Montreal. The relative ruggedness of the terrain between Kenora and Sudbury has given some people the idea that this project is a little bit difficult, or even impossible, and for that reason we have today the engineer who made the survey on behalf of his company. I think that he will be able to give you some enlightening comments on the type of country that these pipe line builders have met in other countries and that the Shield country of Canada is not as formidable as we have been led to believe, largely because of going over it by train and 'plane.

The line is to be a 30-inch line from Alberta through to Toronto, and then a smaller line from Toronto to Montreal—24 inches—with laterals of varying sizes off the main line to serve communities on either side of the pipe line within economic reach.

Now, we have with us Mr. Shattuck of the H. K. Ferguson Engineering Company Limited who has done, in conjunction with a group of marketing engineers, a survey of the marketing area to be served. It is roughly a 20 mile strip, 10 miles on either side of the main line, with occasional laterals going further. He has made an analysis of the market in that area which, by the way, includes about 62 per cent of the urban population in the four provinces across which the pipe line goes. That 62 per cent of the urban population, namely 133 communities, represents a total of over 3,600,000 people, so that it is quite a substantial marketing area. Mr. Shattuck will tell you how he has proceeded to analyze the fuel consumption possibilities in that area.

We also have with us Mr. Frank Schultz, vice president of the parent company, Delhi Oil Company of Texas, and of Canadian Delhi Oil Company Limited of Alberta, which companies have been carrying on this work up to now. They have spent a considerable amount of money not only in surveys but in active gas exploration in Alberta and they have had rather phenomenal success in discovering new gas fields, in the time they have been operating—since June or July of last year. This company has proceeded on the basic belief that they must show and demonstrate, not only to Canada, but particularly to Alberta, that there is gas there. That is I think in accordance with the policy of the Alberta government as recently announced—that gas companies seeking the right to export gas should show an aggressive attitude with regard to exploration and discover fields that possibly everybody assumes are there but have not been discovered and have not been sought after because there was no market in sight for the gas.

Finally we have a representative, a partner, of the banking firm of Lehman Brothers, New York, who have followed this project from its inception and who have indicated a willingness to organize an underwriting group to sponsor the underwriting of the necessary funds. The funds to be raised are very considerable, estimated at $250 million, and it is a very heavy financial commitment to make.

On the basis of the work done to date and the discoveries being uncovered by Canadian Delhi of Alberta, this firm believes, and all those behind it, that this project is economically sound and can be organized and built within a reasonable time.

It may be that the steel shortage—I think that was raised in the Senate—may cause a delay at the present time. We are no better off in that respect than many other projects in the country. On the other hand we all trust that the steel shortage, and also the international picture that gives rise to it, is not a permanent situation. By the time that the three bodies who have to pass on this—parliament, the Alberta Conservation Board, and finally the Board of Transport Commissioners who will have to licence and authorize the building of a line over a particular route—have dealt with this project and passed it, we hope there will be some brightening in the steel situation. After all the fuel requirements of middle eastern Canada have a certain relative priority, we believe.

Well, Mr. Chairman, if there are any questions which either I or any of the special representatives of the various aspects of the project can answer we will be very glad to do so. I do not want to bore you with a rather long detailed harangue on the project. I am sure you have the meat of it.

The CHAIRMAN: I think you have covered the rough outline of the project quite well.

Gentlemen, would it be your wish at this time to question Mr. Tolmie or to hear these other three men on the various aspects of the project? We have a man here in the engineering department; we have one from the banking department which is very important; and we also have a practical man who understands gas wells.

Mr. TOLMIE: We also have the marketing man Mr. Chairman.

The CHAIRMAN: What is your wish as to procedure? Do you wish to question Mr. Tolmie at this point?

Mr. MURPHY: Why not hear the rest of them first, Mr. Chairman?

The CHAIRMAN: Does that meet with the general wishes of the committee?

Agreed.

Mr. TOLMIE: I would suggest you first hear Mr. Schultz, the vice-president of Canadian Delhi Oil Company Limited, and the vice-president of the parent company. He possibly might start with the picture of gas development and the exploration program.

The CHAIRMAN: Mr. Schultz, could you come forward and give us a rough outline.

Mr. GILLIS: Before you proceed, may I ask a question? This particular project is going to affect in an adverse way many of the coal mining operations in the maritimes. Is it possible to have some representative from that side of the picture to ascertain just what this particular project is going to do to that industry? I think they have a right to state their case before this kind of a bill is adopted. Is it possible to do that—to have some representative from the coal mining industry in eastern Canada?

The CHAIRMAN: Would you not be in a position to ask those questions as a member of the committee?

Mr. GILLIS: I am not representing that industry but if it is going to cut into the market to the extent I think it is, then I think they should have the right to make some representations to the committee directly from the east.

Mr. MURRAY: Coming from British Columbia I would take just exactly the opposite view. We have huge coal deposits out there and we have also huge deposits of natural gas. We cannot turn the clock backwards; this is a progressive business, and I do not think that the coal mining people have any interest in it at all.

Mr. GILLIS: May I say that this pipe line bill does not affect British Columbia at all. This is going straight down to Quebec City ultimately, as I understand it. What I have in mind is this: that the main market for Nova Scotia and New Brunswick, the only economic market, is about 100 miles west of Montreal. If this pipe line went in and supplied the full requirements for that area, it would practically cripple the market which New Brunswick and Nova Scotia have for coal in Quebec, their main market.

Mr. FERGUSON: Mr. Chairman, the company anticipates that the gas will be salable and if it is salable it will be to the great advantage of the people there. Now, the advantages of this gas going to Quebec—if it ever does reach Quebec—should far override coal to the people of Quebec City. I believe it would override even a situation in which the coal mines are actually put out of operation. Surely we will not say: do not give these people the advantages of using gas because it might put some Canadians out of work. This country has never done that since its inception.

The CHAIRMAN: I do not think we ought to get into that argument at this stage. We have as a committee the right to hear anyone who wishes to be heard on this question and we can deal with Mr. Gillis's suggestion at a later time. At the moment the committee has requested Mr. Schultz to come forward and I think we should hear his remarks on the project. Mr. Schultz, will you take the stand, please.

Mr. Frank August Schultz, called:

The WITNESS: Mr. Chairman, considerations for this project were conceived upon broad principles, principles which are common to all gas line projects.

No. 1: We had to be able to supply gas to the consuming areas at a price which they could afford to pay for it. Now, we feel that we can supply this gas at a price which is cheaper than the corresponding charge for coal or oil.

The second consideration was that it should be an all-Canadian project, that it would be Canadian gas transported over an all-Canadian line, and that one hundred per cent of the consumption would be in Canadian cities. It would be a project over which the Canadian government would have complete jurisdiction both as to the projected line and, ultimately, as far as the prices which are realized on the sale are concerned.

The third consideration was that the project had to be economically feasible. In that respect we hired outstanding firms to give opinions regarding feasibility of the projected pipe line route and examine, in some detail, the various factors involved in constructing a pipe line over a difficult terrain. We are satisfied, at this stage, that the line is entirely feasible. We are going ahead with our project as far as we can, particularly in developing gas reserves in Alberta to supply this line.

We recognize that to obtain this end product we must first get clearance from the Alberta government. To gain that clearance we have to develop gas reserves, we have to demonstrate that the company is interested in finding gas, and that the gas could be isolated and produced. We are committed to the principle of spending several million dollars a year looking primarily for gas to be dedicated to this eastern project. At the present time our company has drilled twelve wildcat prospects. Of these prospects eight have ended up as proven new and heretofore undiscovered gas areas.

We are cognizant of the Alberta Board's requirements that a gas company which wishes to build a line has to find additional resources. We are committed to the principle of carrying forward this program until such time as we can convince the Alberta board that sufficient gas reserves have been developed and that export from Alberta is feasible.

In carrying on a step further with the pipe line we knew that we had to have adequate information on the gas reserves from independent experts. We have hired the firm of De Golver and McNaughton, which firm has a fine reputation in our country for evaluating reserves of oil and gas. They are now carrying forward their survey of the gas reserves in Alberta. That work will be finished I think by April 15.

We are satisfied at this stage that the gas reserves are adequate in Alberta to justify this line. We are going to try to convince the Alberta government that our position is a correct one. We shall carry on our wild-catting program until such time as we can convince the Alberta government.

No. 2: You may be interested to know about the marketing situation. We are satisfied at this stage that adequate markets exist in the eastern part of Canada to consume all the gas that we can produce and move through this line. We have taken the entire risk for the expenditure of this money of our own stockholders, and we anticipate that we shall have several million dollars tied into wild-catting, and several hundred thousand dollars tied into the various services prior to the time we are able to get into production. That is the broad range of principles and we would be glad to answer any specific questions in regard to the project if anyone wishes to ask them.

The CHAIRMAN: Thank you, Mr. Schultz. Are there any questions before we call on the next witness?

By Mr. Gillis:

Q. Mr. Chairman, I think that Mr. Decore has given us a very fine survey of the project in the pamphlet which he supplied entitled "Trans-Canada Pipe Lines Limited". I see on page 3 of that pamphlet of explanation the following statement:

> The existing gas companies with their mains, storage tanks and stand-by coal gas production facilities will continue to handle the retailing.

Might I ask Mr. Schultz what these stand-by coal gas production facilities, for example, would consist of?—A. Mr. Chairman, that means "stand-by coal and gas production". In other words we do not feel that in the early stages of this project we can supply all the gas that will be required by the consuming areas, and we feel that it may be necessary to mix some of this natural gas from Alberta with coal gas in order to take care of the demand.

Q. What process would you use to extract that gas from coal?—A. We would be only a transporting company. The local utilities which already have coal gas making facilities to take care of the demand might want to mix some proportion of coal gas which they could manufacture with our natural gas.

This project of ours is entirely a transmission project. We have no desire to retail gas to the ultimate consumer. We merely want to produce and to buy gas in Alberta and transport it to the various utilities that exist now or that may be formed.

Q. Then am I right in thinking that possibly a certain area would be held to setting up a low-temperature carbonization plant for the purpose of extracting gas from coal?—A. No, sir. They could operate with the gas we furnish. We have adequate gas to take care of their needs; but they might want to have stand-by facilities. That would be up to each local distributing set-up.

Q. I thought that perhaps extracting a by-product from coal might off-set the fears which have been expressed that the coal industry would be hurt.—A. It is a situation over which the transmission people would have absolutely no control. We would contract with the local utilities to sell natural gas to them at the city gates. What they might do with it after that by way of mixing it with coal gas would be their responsibility.

Q. But you think there is a possibility of there being a combination of the two?—A. Yes, sir. It has happened in areas in the United States where natural gas comes in; and we can foresee that possibility prior to the time we have built up the pipe line to a capacity load.

By Mr. Green:

Q. I presume those local companies which are already producing gas from coal would continue to do so, using their production only as an auxiliary to your natural gas?—A. In the beginning that would seem likely to be the case they would mix the two products. But ultimately we feel that we would be able to supply all the natural gas that would be required. I think the reason why they will want to change to natural gas as rapidly as possible is that coal gas has a B.T.U. content or roughly five hundred B.T.U. per cubic foot, while the gas we furnish will have a content of one thousand and twenty-four B.T.U.s per cubic foot. In other words, they will get twice the heating value out of natural gas that they do out of coal gas.

By Mr. Harkness:

Q. Are there not considerable technical difficulties involved in switching from coal gas to natural gas and vice versa, or in mixing the two together? I know that stoves built for coal gas will not work with natural gas and vice versa. —A. That is right. Where artificial gas is now being used all the burners will have to be changed. In other words, the mixture of air and gas will differ with the two types of gas.

Q. The point I have in mind is this: do you not think that the operation of a stand-by plant which would presumably have for its purpose the mixing of coal gas with natural gas would be extremely difficult?—A. As a matter of practical approach, an amount of coal gas mixed with natural gas would bring the average B.T.U. content of the mixed product up to 850 B.T.U. or something like that.

By the Chairman:

Q. But let us suppose you had a failure entirely of the natural gas. That would present other difficulties, would it not?—A. Yes, it would; it certainly would! From our experience with pipe lines, we recognize the possibility that we might have a blowout in this line, so we are engineering precautionary measures into this line that should reduce blowouts to a minimum. In the

United States where they have good roads along these large pipe lines they have standby equipment, say, every ten miles; they have an extra joint of pipe; every fifty miles there may be an extra trenching machine or an extra welding machine. On our project we will double the safety factors; we will put a joint of pipe every five miles; we will have welding machines at somewhat closer intervals so that if there is an interruption of service the time involved to repair it will be at a minimum.

THE CHAIRMAN: I suppose that being on the railway's right of way these things will be noticed quicker than they would if the pipe line went through the bush?

THE WITNESS: They will be noticed immediately in any event. We will have to have small planes that fly the entire length of the route daily, and being close to the railroad will facilitate our acting in case of failure—in other words, we will be able to move equipment over the railroad within a matter of minutes after trouble has been localized.

By Mr. Applewhaite:

Q. Is there any estimate as to the length of time over which this project would continue to operate to capacity, I mean an estimate based on the reserves of gas?—A. Our overall thinking of this project is that, if I understand your question properly, we plan on two nine months long construction periods to construct the entire line. When we get an export permit from the Alberta government we know it will have to be in terms of 365 million feet.

Q. Suppose you do get your export permit, have you any idea as to how long you can remain in operation before you have exhausted the available supplies of gas?—A. We are asking for a permit for twenty-five years. Our experience in other natural gas areas has been that, when a pipe line has been developed and producers actually go after finding gas, the gas reserves double and triple and quadruple rapidly. We are not disturbed on that. We are asking for a twenty-five year permit. We are convinced that the reserves in Alberta when they are finally determined will take care of a much longer period of time.

Q. How long would you have to operate at normal capacity before you could return your capital costs plus all operating costs and so on?—A. We think that the twenty-five year period will liquidate the entire investment.

By Mr. Riley:

Q. What is the B.U.T. difference between natural gas and propane?—A. Well, propane—I am speaking from memory—runs about 4,000 B.T.U.'s per gallon. I cannot make a direct comparison as I do not have the data. Dry natural gas will be in the range of 1,024 B.T.U.'s per cubic foot.

Q. What do you estimate the effect of natural gas will be on the propane business in the different cities?—A. I think it will have an effect in the cities proper. Where propane and butane are sold natural gas will replace them, as natural gas is cheaper. In the rural communities it will have no effect, because in the final analysis where we can sell gas depends on economic conditions. A sufficiently large community we can serve, but to justify a line today it will have to be an economic sound situation. The smaller communities far removed from the right of way will continue to use propane and butane.

By Mr. Ferguson:

Q. Have you a map showing the proposed route that the pipe line will follow?—A. We have a tentative map only. As soon as we finish our survey on the Canadian National Railways right of way we will finalize our proposed right of way, but until we can survey that Canadian National Railways route we are

following very closely the Canadian Pacific Railway route. In the final analysis the project has to be built along the cheapest right of way, the idea being that the cheaper we can construct this line the cheaper we can furnish gas to the domestic commercial and industrial users in the east.

Q. Have you established any points yet that will be permanent, I mean that you intend to construct through on the route across Canada?—A. Yes, sir..

Q. Have you a copy of that map available?—A. We have a copy of the overall map but the route shown on that may have to be changed somewhat.

Q. Is that map available for us to see?—A. Yes.

Q. I would suggest that we have it. It might be important to members representing some communities in Canada as these communities might want to know where the pipe line will come through—A. We will be glad to furnish it, with the understanding it is preliminary and the route may change somewhat.

Q. Well, any change that will be made will not be very great. It will be say a quarter or a third or something of that nature.—A. No change as to specific areas, that is all.

Q. How soon can you have that map made available?—A. We can furnish it to you today.

THE CHAIRMAN: I think each member of the committee should be supplied with a copy of that map, or, if you care to bring a larger map and show it to the members of the committee at an adjourned meeting, that might be satisfactory. I imagine every member of the committee would like to see that map. I think that is a good point. If as you say you only have fifteen of those maps I do not think you have enough for all the members of the committee.

MR. FERGUSON: By photostating the maps you could have some ready for this afternoon and those with what you already have will be sufficient.

THE CHAIRMAN: We will likely adjourn this meeting until four o'clock. I do not think we can get finished with this work this morning. If you can have a copy of the map for this afternoon's meeting that will be satisfactory.

MR. MOTT: Mr. Chairmain, have we got any information in this committee regarding this line that we heard so much about last year, the natural gas line coming in from Detroit and Buffalo into Ontario and coming down as far as Montreal. Have we any information regarding that particular line, that is coming in? It seems to me that gas coming in over that line could be supplied at a much cheaper rate than over this long line from Alberta. This line was mentioned on many occasions during the discussion last year, and I am just wondering if any information is available on that project?

THE CHAIRMAN: There is no information on that in the hands of the committee at the present time.

MR. MOTT: Can we get any information on that?

THE CHAIRMAN: I suppose there is something available but there are so many pipe lines under consideration that I doubt whether that is germane to this question.

By Mr. Follwell:

Q. Has the Delhi Oil Corporation of Texas any interest in the gas business in the United States? If so, I would like to know if they have a line that could come to eastern Canada from that way?—A. We are in the gas business in the United States. We have discovered and carried out other projects of this nature where it meant developing a new area. The project I am particularly thinking of is in Northwestern New Mexico, the San Juan basin, in which we were the prime company developing the reserves and carrying through that project, building a twenty-six inch diameter line from those reserves to California, where the reserves were sold to the Pacific Gas and Electric,

and they transported the gas to the San Francisco area. We have no line coming into the eastern part of the United States; all of our lines are in the New Mexico-Gulf Coast area.

Q. Recently, there was a company,—the Eastern Gas Syndicate,—which requested municipalities in Ontario to have a vote taken as to whether or not they would give a franchise to this particular gas company to bring gas in over that route that Mr. Mott mentioned, in through Detroit, down through Windsor and so on. Their intention was, I think, to take Alberta gas and trade it across to the western United States and bring Texas gas up here.

The point I am trying to make is, are you contemplating any such deal as that or are you interested in Canada only and are going to bring the gas from Alberta down through Canada to this area?—A. Our only interest is bringing Alberta gas to the eastern part of Canada. We think that the difficulties are insurmountable for taking western Canadian gas down to the western coast of the United States and working out an exchange; the selfish interests involved in the various communities, we think, will prevent an effective exchange.

By Mr. Conacher:

Q. Mr. Schultz, what is the longest gas line in existence now, and secondly, does Texas gas come to Detroit at this time?—A. I believe that is right. The longest line at the present time is the Transcontinental Pipe Line Company which comes from the Mexican border, McAllen, Texas, to New York City. That line is approximately 1,840 miles long. Ours would be 2,200 miles. Their costs were approximately $245 million; we estimate ours at $250 million. They have, as I remember, a thirty inch line, which is what we contemplate. They have an ultimate deliverability of 550 million cubic feet a day; we expect the same thing.

By Mr. Ferguson:

Q. Dr. T. A. Link, a very eminent western geologist, yesterday in Toronto made a statement that to heat and cook and put to all the necessary uses that he could put natural gas to in a home would cost $150 a year in Calgary, compared with the present methods used in the city of Toronto for the same purposes at a cost of $600 a year. In your opinion what difference would it make to users of natural gas in the city of Toronto, in comparison with the same home in Calgary at $150 and the same home in Toronto at $600? With natural gas what would be the saving made?—A. That is a question we cannot answer at this time. We know we can sell natural gas far cheaper. Our marketing survey will be finished some time in April. The mechanics of the pipe line are this: We will have a fixed investment; we think it will be $250 million. The more gas that we can put through that pipe line the cheaper we can sell each 1,000 cubic feet of it. Now, if the marketing survey shows we can immediately sell 365 million cubic feet a day, then we will have one price; if we can only sell 250 million cubic feet a day, we will have the same fixed investment and a smaller number of units of gas, therefore the gas will have to be higher in price. Now when that marketing survey is made we will be able to come up with a price. It is still in the preliminary stage and will have to be determined in the light of facts as they develop.

Q. You were talking about your charter. Can you give us any idea what the saving might be to the consumer through the granting of this charter. If it is granted and a pipe line comes into operation and you are in a position to deliver gas, will it be an advantage for the person to use gas? Do you think

it would be an advantage to the consumer?—A. Yes, as I understand it, most of the gas being consumed now is artificial gas, and the immediate saving that we will be giving consumers will be the increased value in the gas. Now, we have no jurisdiction over what the local utilities charge for it; but we of course will have to have a price that will completely liquidate this investment over the years. We hope that we can sell gas at a price which will be equivalent in B.T.U.'s to coal or oil. We know from past experience that we can undersell coal and oil, that people will want natural gas. Think of the convenience of it. People can sit upstairs and turn the heat on or off as they want. Think of the cleanliness of it; getting away from soot; not having to carry out the ashes. Those are all important factors to consumers, and if we can undersell coal and oil we are confident that people will want natural gas. When this marketing survey is finished we will be able to say specifically the price at which we can sell gas in Toronto, Montreal, and Winnipeg, and so on.

Q. I want to ask about your American company, has it any lines at the present time headed for Canada?—A. No, it has not. Our lines are all to the south-west.

Q. You are not negotiating at the present time on any deal with anyone to pump any gas from the United States into Canada?—A. No, sir, we have no project under way at this time.

Q. As you know, there are a number of companies in the United States today which are piping gas in from the States to points like London, Ontario. If you have a franchise for a pipe line coming down from western Canada to Hamilton and Toronto, those cities would be pretty well in the centre of the vice as regards price.—A. I can assure you that we have no project under contemplation at the present time, nor have we had in the past, for bringing gas anywhere east. All of our reserves are in Texas and New Mexico and are transported to California; most of that gas will go to California or to, say, Salt Lake City, in Utah.

Q. You are not connected with any companies at the present time running into Canada, or partly into Canada?—A. No, sir.

Q. Would any block of your stock be held by people who have the idea of coming into Canada?—A. That is a question I cannot answer.

Mr. CONACHER: The public will be allowed to buy, will it not?

The WITNESS: Yes sir, and we recognize the principle. We want and need Canadian participation in this entire project, in all stages of the financing.

By Mr. Garland:

Q. How fast will you be able to get on with this project, assuming that you get the necessary authority and assuming that materials are available, how much time would then be necessary, from the time you get the authority, to deliver the goods to central Ontario?—A. We contemplate two nine month long construction periods, during December, January, February and part of March. There would be very little we could do at the end of the first nine month period, but we think that deliveries could be started at the end of nine months, that the project could be completed in a construction period of 18 months.

Q. You would be able to start delivering gas to eastern towns then?—A. Yes, for all practical purposes.

By Mr. Smith:

Q. Would you care to comment on what proportion of the gas would be used for domestic purposes and what would be used for commercial purposes from the supply from the western field?—A. I think Mr. Shattuck will have

to answer that question. In all likelihood the situation is one which would be rapidly changing. However, I can say this, that we know from experience that the domestic load would increase rapidly during the years in relation to the commercial and industrial load.

Q. What would you say about the use of gas, for instance in manufacturing, in the manufacture of steel? Is there much use for gas in the manufacture of steel? Would the cost be low enough to be attractive?—A. Well, only in converting scrap, or reducing it.

Q. You have to use coal in any steel plant in order to make coke for blast furnace use.—A. That is right. It is my impression that for iron ore you have to have coke to reduce the ferric iron to elemental iron, and you can only do that by burning off the oxygen in the ferric iron of the ore. The reduction of scrap, of course, can be done with natural gas, and as a matter of fact it is now being done in Kansas city. It is a matter of burning out the oxygen.

Q. Do you take into consideration that the amount of coal used in the steel manufacturing industry, and the amount of coal used for the melting of scrap, is relatively small?—A. Very small.

Q. Therefore they will still have some use for coal in the manufacture of steel?—A. Gas cannot at this time replace coal in the steel industry.

Mr. FERGUSON: Unless there is a utilities set-up in any city, town or village to handle gas that particular community will not be served by your pipe line?

The CHAIRMAN: That is a good question, what would be the situation in such cases?

The WITNESS: Our idea on that would be this. The transmission company would transport the gas. We hope to be able to get people in these communities along the right-of-way to obtain local franchises and distribute the natural gas. We are perfectly willing to co-operate with them and work with them in every way. Gas will be much easier to sell in cases where communities have distribution facilities already in existence, but in a lot of these small communities they will have to install facilities. We intend to co-operate in every way with the people in cases like this to encourage them to install facilities which will develop the market for our product.

Mr. FERGUSON: At first you are going to market principally with the larger industries?

The WITNESS: Yes, we recognize that we will have to depend on the larger industries to begin with, that we will have to sell to the larger industries such as the paper mills, and so on; until such time as groups or individuals will take the responsibility of setting up local utilities in towns which are not now supplied with gas.

The CHAIRMAN: After all, that would not be an expensive procedure in most cases because they would not have to build much equipment.

The WITNESS: That is right.

The CHAIRMAN: It would be different in the case of some of the older communities where they would probably have to consider the cost of their compressing equipment and other expensive pieces such as retorts. I think, however, that would probably take care of itself.

By Mr. Murphy:

Q. What about the relative value of the fuel you would supply as compared to that at present available? Would it be as high in value?—A. Yes, there would be an advantage to them in this way, these communities would get a gas which will have a minimum of 1,000 B.T.U.'s in it.

Q. You would have a 1,000 B.T.U.'s minimum?—A. Yes, sir. We dehydrate it and take out any liquid that may be in it and then it is dealt with as dry gas. We guarantee a minimum of 1,000 B.T.U.'s.

Q. Can you give us any idea of the price at which you would be able to lay it down at the principal points?—A. No, but it would be more or less stable. Mr. Shattuck can answer that specifically and in greater detail than I can; I mean regarding prices.

Q. Can you give us any details as to the cost of the gas?—A. What it will cost at different points? We recognize that the cost in Winnipeg will be cheaper because of the shorter distance over which it is transported. The general rule of thumb on this—I cannot give it to you exactly—is that it costs between a cent or a cent and a quarter per hundred miles to move the gas; so, in Toronto, let us say, which is approximately a thousand miles further east than Winnipeg it would cost correspondingly more to move the gas to that point.

Q. Then the distributors will have to supply certain facilities, and presumably that would add to the cost?—A. Well, we will have no control over that, that will be up to the local authority; but the minimum B.T.U. value will be in the gas.

Mr. FERGUSON: When a pipe lines bill was before this committee last year, if I remember correctly, I believe we were told that the gas could be sold at practically the same price at the far end of the line because of the general scheme of over-all distribution of cost and the amortization of cost.

The CHAIRMAN: I do not think that is a good question here because this firm had nothing to do with any previous witnesses.

Mr. FERGUSON: Well, Mr. Chairman, this company is concerned with this business; and I recall distinctly that last year we were told that that company could deliver it at the far end of the line at practically the same cost. Here is a company asking for a charter for a 2,200 mile line and they say that they can deliver it cheaper in Winnipeg than in Toronto.

The CHAIRMAN: Oh, I see what you are getting at. Is it a flat price, or how do they intend to deal with it?

Mr. FERGUSON: Yes.

The CHAIRMAN: Perhaps another witness could give us the details on that.

The WITNESS: All I am saying is that as a general proposition I do not think we would be able to deliver gas for the same price at Toronto as at Winnipeg. The cost to us would be lower at Winnipeg; we could not sell it for the same price in Toronto.

Mr. FERGUSON: There is a question I would like to ask you right here. That company which was before the committee last year put in an overall cost to meet the requirements of the whole population, and they proposed to sell it at the far end at about the same price as to all points along the line.

Mr. GREEN: That is what they were trying to tell us, that the gas would be cheaper near Vancouver.

By Mr. Smith:

Q. Can you tell me anything about extending this line further east eventually so that it will reach the Maritime area?—A. We have no surveys on pipe line costs, or on marketing conditions around the Maritimes. If there were a large enough market and we could build a line with a reasonable cost, at some future stage we might go that way with it. We would also have to consider the economic aspect of it and the matter of markets, together with the cost of transportation. They would be the controlling factors.

Q. And you feel now that the distance you would have to carry the gas would be too great in the light of present market demand?—A. Yes.

Q. But if manufacturing should build up in the Maritimes you would be ready to consider extending this pipe line down there?—A. That is right, under proper government permission we could go ahead, and we would—when and if market conditions justify it.

The CHAIRMAN: Is there anything else you would like to ask Mr. Schultz? There have been some good questions asked and I think the answers have been very helpful, Mr. Schultz; thank you, very much.

Perhaps you would like now to have me call Mr. Shattuck, or the engineer.

The WITNESS: I think the next witness should be Mr. Warterfield, of the Oklahoma Engineering Company, who would explain the pipe line construction and progress and the surveys which he made. After that we could deal with the mining end of it, if you wish.

The CHAIRMAN: Good.

Mr. Floyd Warterfield,—Pipe Line Engineering Company and Oklahoma Contracting Corporation called:

The WITNESS: I will have to apologize as I have been sick with the "flu" but I will try to talk as loudly as I can without barking. I feel just like a bull pup with a bone in his throat.

My commission in connection with this project was to survey a pipe line route from the province of Alberta into the eastern consuming markets and areas. By way of self qualification perhaps I can mention that I have been doing this sort of thing for 31 years and if there is anything that a pipeliner likes better than locating a pipe line it is the chance to go out and locate another pipe line so that he can build that one too. I have been coming to Canada since 1922 and I have had opportunity to study the topography and, like a postman, a holiday for a pipeliner means that as he crosses the country by train or 'plane he just mentally visualizes how he could build a pipe line through that area. I have had a lot of opportunity for that sort of thing in Canada.

Mr. DECORE: In view of the technical nature of this evidence could we have the qualifications of this witness?

The CHAIRMAN: Yes, although I think Mr. Tolmie gave them to us in a general way.

The WITNESS: I will be glad to give them to you.

The CHAIRMAN: You are a practical man.

The WITNESS: I am a graduate mechanical engineer of the University of Oklahoma. I graduated in 1920. I have followed pipe line construction, design, engineering, and operation, during the succeeding 31 years.

For twenty-five years before I started a business of my own I was employed by the Standard Oil Company of New Jersey and I have had actual supervisory experience on design, location, construction, operation and installation of pipe lines and systems in the following states: Oklahoma, Missouri, Kansas, Louisiana, Texas, Illinois, Arkansas, Wyoming, Alabama, Mississippi, Georgia, North Carolina, South Carolina, Tennessee, Virginia, Pennsylvania, New Jersey and New York State. That about covers the United States. I am now engaged in the design of a line through Pennsylvania, New Jersey and upper New York involving about 420 miles of pipe line.

During the war I was in charge of the design of the pipe line projects in the China-Burma-India theatre of war, in the design and location of the pipe line system from Calcutta to Dibrugahr, and then from Dibrugahr to Kunming, China, and from Rangoon to Mandalay and thence to the Lido Road.

In Europe I had charge of design and location of pipe line systems from Le Havre to Paris, France.

In South America, I have done work for the Andian National Corporation Ltd. and there is an interesting pipe line which is now being built. It begins 550 miles up the Magdalena river and runs from a point called Puerto-Salgar to Bogota. Over a distance of 84 miles it rises from an elevation of 600 feet to the Bogota plateau where the elevation is 8600 feet, the route going transversely across the eastern Cordilleras. I regard this construction as more difficult from the standpoint of accessibility and transportation, line work, climate, materials and supplies than anything I saw along this route. At the present time I am retained by the Governor of the Department of Cundinamarca. Also I designed and laid out the pipe line system from Umiat to Fairbanks, Alaska, which is a pipe line outlet to serve Petroleum Reserve No. 4 under the commission and direction of Commodore Greenman.

The CHAIRMAN: Well, I think that is all that is necessary in the way of qualifications. You are in.

The WITNESS: Getting closer to home, it was my pleasure and privilege prior to forming Pipe Line Engineering Company to be employed by the Imperial Oil Company as a consultant for the design, location and construction of the Interprovincial and Lakehead Pipe Line system of Canada. I am quite familiar with the prairie provinces and the territory from the standpoint of pipe line construction. More recently I did work on the Winnipeg line from Gretna up to Winnipeg, and also from Sarnia to Toronto. That was a portion of the country that you might generally think of as being particularly difficult construction, but as a pipeliner I would consider it average or normal and in some instances better than average for construction.

In accepting this commission no strings were put on me whatsoever. I was not told what route to select or where to go or where not to go. I merely had to find a route which was feasible, practical, and which could be constructed at a reasonable and proper cost.

In studying the map, Winnipeg seemed to be a focal point. There was not much difficulty of any consequence west of Winnipeg. East of Winnipeg across the province of Ontario some very severe problems were likely to be encountered so two possible routes were explored. However, the weather closed me in and I did not get a chance to explore the combination or alternate route. One of the factors which influenced me in the primary route was the proximity of the trans-Canada highway. In picking a pipe line route you look at the transportation of men, materials, and supplies and working equipment, access roads, rail facilities, and everything of that nature required during the initial stages of construction. You take a look at the same time for the later problems of maintenance, repairs, and service. So, everything being considered, the so-called south route as I referred to it along the lakes, presented some quite difficult construction problems but I have seen much worse in our own country in Pennsylvania. There are certain sections of that country which are difficult, particularly across the Tuscarora mountains and in West Virginia. That is a pipeliner's hell there.

So, there is nothing in this pipe line construction that in insurmountable. It is just big. Some of it is going to be difficult of construction but the average over-all cost comes to a very reasonable and reconcilable figure.

I have a preliminary map here if you care to have it exhibited.

The CHAIRMAN: Is that the map you have for the next meeting? In a general way perhaps the members could see it from where they sit.

The WITNESS: You remember I spoke of Winnipeg being the common point. There was not much of an alternate there. In making this reconnaissance survey I started at Toronto, went to Montreal, back up to Ottawa, along the Ottawa river through what is more or less the clay belt, via Cochrane, Kapuskasing, Hearst, Nikina, Minaki, and on to Winnipeg. Returning from

Winnipeg on the southern route we doubled back to a point around Kenora, through to Fort William, Port Arthur, and Nipigon; through Schreiber and on down to Sudbury.

The route over which I was prevented from flying was the alternate route over the C.N.R. Having flown over the territory I have mentioned though, I was able to evaluate it. There is some rough construction, yes, but it is construction, generally, that any pipeliner can do who is competent, who has the know-how, working equipment and personnel.

Mr. GARLAND: You mentioned Sudbury; does it pass through North Bay?

The WITNESS: I did not get the question.

The CHAIRMAN: Does the line pass through North Bay?

The WITNESS: Wait until I spot North Bay in my mind. It goes into Sudbury, but it goes south of North Bay.

By Mr. Murray:

Q. May I ask a question in a general way, Mr. Chairman? I refer to the amount of attention being given to the question of defence of this country. Would it not be dangerous to put a pipe line near a main line railway?—A. May I answer the question in this way, sir. No.

I do not mean that abruptly please, sir, but since 1898 along the Reading railroad out of Linden, New Jersey, there have been three eight-inch lines in continuous operation. The trains run along there every day.

Q. How often have they been bombed?—A. They have not been bombed as yet but I might answer in this way. In connection with the pipe line I mentioned from Dibrugahr to Calcutta, the Japanese bombed that every day but they never succeeded in securing a direct hit or damaging the line.

Q. Would it not be wiser to follow the trans-Canada highway?—A. If you asked me from a personal standpoint or from the standpoint of construction I would say that the construction would cost less if it did follow that route. I consider it to be the better of the two routes.

Q. It might encourage a better highway, in a straighter line?—A. I am looking at this thing from the impersonal point of view of a pipeliner building a pipe line.

By Mr. Ferguson:

Q. Come back to the point of running a spur line say about 40 miles from your pipe line to a population of about 40,000. In your opinion do they do that in the United States? Do they run a spur line off the main line to supply gas?—A. I know they do it.

Q. It is feasible?—A. There is nothing mechanically that cannot be done if it is economically justifiable. There is nothing to keep you from tying into the line at any point. It is very simple and easy to do.

Mr. MURRAY: Would the construction of this line assist in the redistribution of industry across the country? Would it assist in dispersing the industrial centres and the building up of industries in the small towns back in the country?

The WITNESS: I did not get that.

The CHAIRMAN: Your question is has it had that effect in the United States?

The WITNESS: I think it is axiomatic that wherever cheap fuel is available industry follows.

Mr. MURPHY: It would benefit the small towns along the way?

The WITNESS: I cannot see any reason why it would not benefit everything everywhere, because fuel is the backbone of industry.

Mr. HERRIDGE: I would just like to point out at this stage that last year when Mr. Dixon was giving evidence on another pipe line in respect of our pleas for an all-Canadian route, dealing with the small towns along the route, he told the committee that it had not been the experience of pipe line builders in the States that industry was developed along the pipe line because of the building of the pipe line.

Mr. MURRAY: He was speaking of Texas.

The CHAIRMAN: There are other factors but I think the witness has answered very well—that it does assist.

Now, gentlemen, our witness is burdened by a bad cold. He has been very good to give us the benefit of his experience and so I wonder if there are any other questions?

By Mr. Harkness:

Q. How would the cost of construction through this area in Ontario which is largely rock, in the Great Shield, compare with the cost of construction on the prairies?—A. It is considerably higher, sir.

Q. Can you give a specific figure, as to how much higher it would be?—A. From two to three times. That is due to one other thing aside from the rock.

Q. I beg your pardon?—A. That is due to one other thing aside from the rock. In your prairie provinces you have a two-mile grid system where you do have access roads. They are not passable in certain seasons of the year but in certain locations through Ontario it would be necessary to construct access roads in order to reach your pipe line right of way. For that reason your cost would be accelerated over what it would be if the same location were dumped into Pennsylvania or West Virginia where the territory is literally laced with roads.

Q. In Ontario would you bury this line or not?—A. I would only half bury it.

Q. That would require blasting wherever you buried it?—A. Yes. That is done for mechanical reasons and for other reasons. If you would like me to enumerate them I could.

Q. I know something about this because I come from Alberta.—A. The idea of half-burying a line is to provide an anchor saddle for the line to protect it through your rock. This is protecting the corrosion protective materials by a rock shield or covering of an approved or acceptable type and then earth is back-filled over the top of the line. That is done so as to form a snow barrier to keep your temperatures down. At the same time you provide an anchor for the pipe line, and you guard to some extent against accidental damage and to a great extent against intentional damage.

Q. In effect you would have to blast a trench for this line?—A. Yes.

By Mr. McCulloch:

Q. Would the pipe be fully covered?—A. It would be just a semi-circular mound. If I wanted to go across this pipe line and it were laid on top of the ground, I would have to build a ramp over it or drag it out my of way.

By Mr. Harkness:

Q. I presume that construction of the line would be done by a number of pipe line construction firms, such as Williams Brothers and so on?—A. Unfortunately there is a very limited number of pipe line construction firms which have the know-how, the work equipment and the organization to undertake a job such as this one.

Q. All construction would not be done by one firm?—A. I doubt if any one firm has sufficient amount of work equipment or individual personnel to undertake it, particularly in view of the fact that there are less than sixteen hundred qualified pipe line welders in the United States.

Q. Particularly because there would be a number of sub-contractors?—A. Yes. The contractors would rely very heavily upon the talents of Canadian contractors especially in the way of constructing roads, blasting, ditching and things of that kind.

By the Chairman:

Q. You are giving evidence as the head of an engineering firm. You do not undertake the work yourself?—A. I have been in the construction business.

Q. Are you in the construction business now?—A. No. I am doing engineering design and inspection work entirely.

The CHAIRMAN: If there are any other questions, perhaps we might have them now. We have another half hour. Perhaps the members of the committee would like to have a chance to hear a representative of the financial end of it. Thank you very much, Mr. Warterfield.

Mr. TOLMIE: I think mention has been made of market demand and I wonder if we could call now upon Mr. George Shattuck who is a representative of H. K. Ferguson Company, Ltd., the marketing and survey people. He would describe the procedure which they have adopted in the market survey, and would give you some generalizations from it. His report is still in the "finalizing" stage and he has yet to have it drawn up and printed. But he can give you the highlights at this time.

The CHAIRMAN: Is it the wish of the committee that we hear from Mr. Shattuck now? Come forward Mr. Shattuck.

Mr. J. G. Shattuck, called:

The WITNESS: Mr. Chairman, H. K. Ferguson Company Limited was asked to verify the fact that there are sufficient natural gas markets in the eastern part of Canada to support a pipe line from Alberta through to Toronto and on to Montreal.

Beginning about Christmas time we put a crew of industrial engineers acquainted with fuel consumption in Ontario and Montreal Island to determine the amount of industrial consumption of fuel in those areas.

After Christmas several of the men were detailed to go westerly and to follow the route all the way back as far as Regina and Moose Jaw. During the same time the Research members of our crew have been examining data showing the percentage of residential and commercial sales in those areas and the prices competitive with present fuels.

Our field work is about completed but we shall have to review all of it and to fill in data that has been missed. We hope to have the completed results by about the middle of April.

However, our work has gone far enough so that we are assured that, at any rate, the market would absorb one hundred billion cubic feet of gas a year at prices that will service the pipe line, pay the operating costs, and service the debts necessary to finance construction.

By Mr. Ferguson:

Q. Have you any idea of the possible reduction in cost over present methods of heating and over the use of gas, let us say, for the City of Toronto?—A. I am somewhat dependent upon my United States experience. I believe that in most cases you will find actually fuel will cost about one half what it does cost with manufactured gas. However, I would not like that opinion quoted against Canadian utilities here because I have not studied the question.

Q. Would you say that the cost to the consumer for your fuel would be one-third less than it costs today?—A. You mean, if they heated their houses with manufactured gas?

Q. Yes.—A. Yes, I think that would be a conservative statement; but not necessarily so as to cooking and water heating. Those sales are depended upon by local utilities to maintain most of their fixed costs, and they might not be able to reduce that cost.

Q. Would the cost to the local utility for the fuel they are delivering, outside of their cost of operation, be one-third less than their present cost of fuel? —A. I do not believe I could answer your question.

Q. Whatever burden the utilities might have would be a horse of another colour; but if they are paying one-third less for the product which they are supplying, do you think that the product could be sold for one-third less to the consumer?—A. They might make reductions when they started selling the gas, but I would hesitate to give any opinion.

Q. Have you had any experience with studies of a similar nature?—A. It has been found generally that after natural gas has been introduced into an area which has used manufactured gas for heating that rates may be reduced after several years service. Some cities do it immediately, while others do it after some years.

Q. So you think that we can look forward to a reduction in the cost of heating our homes in Canada?—A. Yes.

By the Chairman:

Q. But you cannot say how much?—A. No.

Q. Your experience has not covered Canadian cities, utilities, and commissions. All those factors would come into the question, would they not?—A. Our assignment did not cover it.

Mr. LENNARD: It says in the circular:

> "...a preliminary calculation in January showed a competitive advantage of $1 a ton over American anthracite coal..."

That would be only about five per cent, would it not?

The CHAIRMAN: It is difficult for the witness to say how much.

Mr. LENNARD: It does not say who is the author of the pamphlet. We got it through the mail.

The CHAIRMAN: Are there any further questions?

By Mr. Smith:

Q. What control does the Public Utilities Board of any one of the provinces have over the price which you will get for the supply of gas to the distributing company? Is there any or none?—A. I think that is entirely out of my experience. I do not think I can answer your question.

The CHAIRMAN: Are there any other questions?

By Mr. Harkness:

Q. Have you any figure to show what the cost is going to be at your main gate at Princess?—A. No. It is true that I have been given a figure to assume at this time, but I do not believe that it is a figure that should be quoted. It was just a starting assumption for my work.

Q. What I was going to ask you next was: what is your estimated cost of transporting one thousand cubic feet of gas? In other words, I think we should have some idea of what the estimated cost of this gas is going to be at your main gate, and what the estimated cost is going to be for transporting it,

let us say, to Toronto?—A. We would have to wait until the final marketing estimates are completed, because the costs of the line tend to vary in proportion with the amount of gas handled. It is more or less a lump sum for a large part of the cost. For instance, if you have ten per cent more gas handled, the cost becomes roughly ten per cent less.

Q. The pipe line companies we had appearing before us last year were able to give us what they estimated the cost of gas would be and what they estimated the cost of transporting it would be, that is to say, what they estimated it would cost to deliver one thousand cubic feet of gas to its destination.—A. I think that by May we shall have those figures to quote, that is, when my work is completed.

Q. You have not got them now?—A. They would not be reliable.

By Mr. Follwell:

Q. Did you survey any place where the municipalities had no set-up for the distribution of gas?—A. Yes, we have.

The CHAIRMAN: Is that all you have?

By Mr. Ferguson:

Q. Are there any limits on the profits you can make or the length of period of time that you require to write off these expenditures? Suppose you could write these expenditures off, say, in ten years, with the price of gas selling at a price which would be advantageous for the consumer to buy rather than to buy coal? If you can write this project off in ten years, then stockholders would be able to expect good profits?—A. I think it is a widely accepted utility practice to try to serve as many people on as wide a market as you can economically, and that will attract investors to the project. In other words, serve as many as you can at a fair price.

Q. For instance, in the case of the Bell Telephone Company there is a restriction on their profits, yet there is no restriction on the profits of pipe lines. I do not suppose there will be many pipe lines built across Canada. To your knowledge is there any restriction on the profits you can make?—A. I do not understand Canadian law very well.

Q. In the United States is there a limit to the profits a pipe a line can make there?—A. Yes, there is.

Q. You do not know if there is one here in Canada or not?—A. No.

The CHAIRMAN: Mr. Matthews of the Department of Transport could answer that this afternoon.

Mr. MURPHY: Are we going to have evidence before the Committee as to the cost of the product at the various places?

The CHAIRMAN: That is up to the committee.

The WITNESS: I did not understand the question.

The CHAIRMAN: The question was as to whether the cost at different points would be available so that we could make a comparison with the present setup and determine how much savings would be likely to accrue to a given municipality or a given commission in a municipality.

The WITNESS: I believe that the data we are now preparing to present to the Alberta board would largely answer that question.

Mr. FERGUSON: What is that again?

The WITNESS: I believe that the data we are now preparing to present to the Alberta board would largely answer your question. That will be completed about the first of May.

The CHAIRMAN: If there are no other questions at this point, Mr. Tolmie may wish to introduce another witness.

Mr. TOLMIE: Mr. Chairman, before I call on Mr. Natleson, a partner of the firm of Lehman Brothers in New York, the last witness was asked whether the sale of gas on this project would be subject to some kind of control with regard to price. Now, I only know that you have in most of the provinces of Canada public utility commissions, and these utility commissions primarily govern the profit hydro electric companies can make. We have not had much experience in Canada yet with natural gas companies but my understanding is that these boards will have jurisdiction.

Mr. HARKNESS: We have regulations in Alberta. The public utilities commission sets the rates there.

Mr. TOLMIE: Yes, I understand so, but when it comes to the eastern provinces I understand the provincial utilities commissions will take over control, and the rate structure will be subject to the particular provincial commission.

Mr. HARKNESS: Yes, I think the setup will be the same as in Alberta.

Mr. FERGUSON: The utilities commissions may only dictate the difference between the purchase price and selling price, they might have nothing to do with the pipe lines purchase price. They might say you can make so much of a profit but that has no bearing on what the pipe line people are paying for the product.

Mr. TOLMIE: With respect sir, I would suggest that the utility commissions would assume control and under provincial jurisdiction would have the right to control the purchase price that the local utility would pay. They would have to be satisfied with respect to the fairness of that price, otherwise they would not allow the local city utility to buy the gas from them. They would dictate a price, as some provinces have done in other types of service such as electricity and, I believe, in British Columbia they have attempted to do the same thing with respect to petroleum and gasoline.

Mr. FERGUSON: Are you sure that they have that control? Are you simply building a pipe line without having appeared before the various utilities commissions in each province that will say we will permit you to charge so much and no more? Are you going blindly ahead to build this pipe line and then run into provincial utility commissions, who will say they will not allow you to charge that amount?

Mr. TOLMIE: We expect we will have to meet the provincial utility commissions in each province, but that procedure is encountered by every pipe line company in other areas. In the United States where each state utility commission exercises the same control, that is done.

Mr. FERGUSON: And you believe they have control over your selling price to the local utility, is that right?

Mr. TOLMIE: That is right, sir. I do not believe the jurisdiction lies with the dominion and, therefore, it must lie with the provincial, and they have not exercised it in the eastern provinces yet because the problem has not come up to them. We expect they will follow the same procedure as they do in control of electrical energy, and as Alberta has done within its own borders.

Mr. GREEN: I think there is a defect in the Pipe Lines Act which authorizes the board of Transport Commissioners to put controls on oil but not on gas.

The CHAIRMAN: Mr. Matthews could inform us on that and clear this point up.

What is the other point you were going to talk about, Mr. Tolmie?

Mr. TOLMIE: I was going to introduce Mr. Natleson. He is a partner of Lehman Brothers, a firm of bankers in New York. As I mentioned, this firm has indicated a willingness to undertake the organization of an underwriting group. I may say briefly that Mr. Natleson is in charge of the industrial section of Lehman Brothers.

Mr. Morris Natleson, called:

The WITNESS: Mr. Chairman, I have been with Lehman Brothers for about twenty-five years and have been a partner for a number of years. Lehman Brothers has been associated with a great many large and substantial underwritings and in the development of a number of new industries. Most notable, I think, is our experience in developing the aviation industry in the United States. We were directly concerned, with most of the major air transport lines at a time when most other banking houses were a little bit afraid of them from the financial point of view.

In this case, we feel that we can perform a real service for Canada as well as for our friends of Delhi Oil Company in making available financial aid to develop resources which unfortunately exist so far away from your centres of population and from the area of your country which is in most need of those resources. As far as our relations with Delhi Oil Company are concerned we feel they are competent to develop a pipe line, even one as big as this. They have built pipe line projects in the past, and have found and developed large gas reserves. They have gone ahead with their own money in this project to develop gas reserves in your province of Alberta. We are also impressed with the calibre of experts they have selected. It may be that when we arrive at the point where financing will be undertaken, just prior to the construction of the line, we will find it necessary, with a view to satisfy investors, to make spot checks of our own with other experts, and for that we will spend our own money.

This is a very substantial project, a $250 million project, which is about as big as any project that has been financed in the United States, and it will require on our part, a very large banking group. We would like very much to have the co-operation of the major banking houses in Canada to permit us, through them, to attract Canadian investors to the purchase of bonds as well as of capital stock. Obviously, at this point we can have very little information as to specifically what the costs are going to be and what annual charges will be, since the bond market does not remain static, and this financing is likely to take place within a period of a year, probably not before eight or ten months.

There was one question asked which is not in my province but I do have a thought on it. The question was asked about the prices of gas in particular communities. Gas is usually sold to utilities on the basis of a long term contract, and that contract is normally made prior to the time that gas is ready for delivery. At the time the contract is made it occurs to me that the local rate body in each province would probably want to examine the contract to see that the contract is suitable for the particular public utility. We also hope that we can line up, and I think it will be necesary to do so before the pipe line is financed, the assurance that there is enough gas available in Alberta and under contract to the pipe line to support the requirements of the users on the other end of the pipe line. We probably will require contracts, and I think they will be forthcoming, from major industrial users who will wish to assure their requirements, for a long period of years. At the time these contracts are written, which probably will be prior to the time the pipe line is built and prior, perhaps, to the time it is financed it will be possible to specifically determine what the selling price of the gas will be.

From the financial point of view and from the marketing point of view, we will have a pretty good idea of what the pipe line requires to pay its debt service, to amortize its debt and pay for maintenance, cost of transportation, etc.; so that the contract will have to be based at that time on these estimates of cost.

And then, again, in answer to a question by one of the honourable gentlemen—about rate for gas to public utility companies. The contract with utilities might very well be on a sliding scale so as to provide for reductions in rates in the future as sales volume increases.

The CHAIRMAN: I believe that Mr. Warterfield mentioned that this line is one of the longest ever undertaken, that it exceeds the line which was built in the United States by some 400 miles.

The WITNESS: That is right, Mr. Chairman. I do not want to minimize the size of the undertaking; but the cost is somewhat lower than it would be in the United States; even though there is some difficult terrain, the cost should be somewhat lower because so much of the terrain is comparatively easy to build over. As I said, I am not an engineering expert. The engineers will be the ones to determine the ultimate cost of this line; but it appears to us to be completely feasible and serve an economic purpose, and can deliver gas over this route, 2,200 miles, to a point like Montreal at prices competitive with other fuels.

By the Chairman:

Q. You have built and operated other pipe lines?—A. We have been in a number of issues of other pipe line companies.

Q. So that you would have the benefit of your experience in their construction and operation?—A. Yes. We have been in a number of pipe line businesses —without refreshing my memory as to the details I could not tell you the lines specifically—but we have been in a number of them. There are four or five major pipe lines in the United States, and we have participated in financing most of them.

The committee adjourned to meet again tomorrow March 7, 1951, at 11 o'clock a.m.

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: L. O. BREITHAUPT, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Bill No. 75 (Letter F of the Senate)

An Act to Incorporate Trans-Canada Pipe Lines Limited

WEDNESDAY, MARCH 7, 1951

WITNESSES:

Mr. Morris Natleson of Lehman Bros., Bankers, New York City, N.Y.

Mr. Frank A. Schultz, Vice-President, Canadian Delhi Oil Co., Calgary, Alberta.

Mr. W. E. Uren, Chairman, Dominion Coal Board, Ottawa.

Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, Ottawa.

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CONTROLLER OF STATIONERY
1951

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 430,
WEDNESDAY, March 7, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at eleven o'clock a.m. this day. Mr. L. O. Breithaupt, Chairman, presided.

Members present: Messrs. Applewhaite, Beyerstein, Bonnier, Cannon, Carter, Conacher, Dewar, Ferguson, Follwell, Garland, Gauthier *(Portneuf)*, Gillis, Green, Harkness, Harrison, Herridge, James, Lafontaine, Lennard, Macdonald *(Edmonton East)*, MacNaught, Maybank, McCulloch, Mott, Murphy, Murray *(Cariboo)*, Noseworthy, Riley, Rooney, Ross *(Hamilton East)*, Shaw, Smith *(Queens-Shelburne)*, Thomas, Thomson, Whiteside.

In attendance: Mr. John Ross Tolmie, Parliamentary Agent; Mr. George Shattuck, of H. K. Ferguson Company Ltd., Marketing Engineers, Washington, D.C.; Mr. Morris Natleson, of Lehman Brothers, Bankers, New York City, N.Y.; Mr. Frank A, Schultz, Vice-President, Canadian Delhi Oil Ltd., Calgary, Alberta; Mr. W. E. Uren, Chairman, Dominion Coal Board, Ottawa, Ontario; Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, Ottawa, Ontario.

The Committee resumed consideration of Bill No. 75, (Letter F of the Senate), An Act to Incorporate Trans-Canada Pipe Lines Limited.

Mr. Natleson's examination was continued.

Mr. Uren was called, examined and retired.

Mr. Matthews was called, examined and retired.

Mr. Schultz's examination was continued.

At 12.55 o'clock p.m. the Committee adjourned until Thursday, March 8, at eleven o'clock a.m.

R. J. GRATRIX
Committee Clerk.

81600—1½

MINUTES OF EVIDENCE

House of Commons,
March 7, 1951.

The Standing Committee on Railways, Canals and Telegraphs met this day at 11.00 a.m. The Chairman, Mr. L. O. Breithaupt, presided.

The Chairman: Gentlemen, we have a quorum. We would like to get started as nearly on time as possible. Yesterday at the adjournment we were hearing the evidence of Mr. Natleson. Is it now the wish of the committee that we continue with him at the moment? He was speaking with respect to the financial end of the company. If there are no other suggestions, I would ask Mr. Natleson to come forward and to continue with his evidence; following which the members of the committee may ask him any questions in relation to the financing.

Mr. Morris Natleson, Lehman Brothers, recalled:

The Witness: Thank you, Mr. Chairman. Yesterday at the close of the session I was talking about prices and costs. I think it might be advisable for me to touch very briefly on the price and costs aspects to consumers.

The price of the gas in the first instance will be determined by the cost of bringing the gas to the consumer and by the price that is paid for the gas in Alberta.

The price will depend upon the following factors: In the first instance, how much is paid the producer of the gas in Alberta. That price is fixed by the province of Alberta. So what we shall do will be to get a long term commitment from the producer of the gas at a price permitted by the province. I would doubt very much if we were permitted to negotiate a price for the gas as such.

The second element in cost is the cost of the pipe line itself. In the overall cost of the pipe line there must be included the rate of interest that has to be paid on the money. That will determine the cost of transporting the gas through the pipe line. There are also operating expenses in running a pipe line which, as a rule—while they look big in amount—are small in relation to the amount of gas carried through.

So there are really three factors which will determine the price of gas, assuming that we carry a full load of gas through the pipe line; that is, our original cost of the gas, the cost of the pipe line, the cost of servicing and maintaining the pipe line, and the cost of paying the interest and other charges on the cost of the money.

In the first studies, the amount of cost that can be set will be comparatively small in relationship to the total carrying capacity of the line. The reason for that is that our gas will be coming into an area which until now has had comparatively high prices for gas and comparatively low prices for electric current and other forms of fuel, so that initially we would not expect that the full capacity of the line would be used.

In determining the price at which this gas will be sold in the first instance, we will in effect take the total cost of transporting the gas to the market and divide it by the amount of gas which we think we can sell. That will determine

the initial price and we expect that the initial price must be lower—even if only moderately lower—than the cost of competing forms of fuel.

Once that price has been set—and it must be lower than competitive prices—from then on the growth of the use of gas should be very rapid, if it is based upon all previous experience.

As the market for gas develops, based on competition and a promotional rate at which we are going to be able to deliver gas, then further decline in the cost of the gas to the consumer can take place.

So I think we can summarize it by saying that there will be a moderate reduction in price to the consumer initially with the opportunity of a very substantial reduction in price when the full potentialities of the line have been developed.

Now, before the consumer gets this gas, it must go through a public utility distribution system. The public utilities in the States and, I presume, your public utilities here are equally intelligent in carrying on their business. The practice has been for the rate charged by public utilities for gas which is used in excess of normal requirements to become lower. In other words, when the consumer buys more gas to use, let us say, for heating, space heating and water heating, such increase in sale of gas to the consumer results in giving him a rate which is lower than his present gas rate, so that for any gas he uses in excess of his present requirements, over and above them, his rate will become lower as pipe line costs and the cost of the gas delivered to the public utilities become lower.

I think I have covered that question understandably, Mr. Chairman.

The CHAIRMAN: Are there any questions?

Mr. HERRIDGE: Mr. Chairman, is it in order to ask the witness a few questions on the financial aspects of the company?

The CHAIRMAN: Yes.

By Mr. Herridge:

Q. I wonder if the witness could tell the committee why the share capital is stated to be $5 million?—A. Mr. Chairman, I think the initial share capital might be said to have no relationship to the ultimate share capital required. Five million dollars was selected for purely arbitrary reasons. It represents an amount which is believed to be adequate to cover the cost of operating this business until the pipe line starts to be built; but it has no relationship to what the capital will be in the future. It merely indicates that this is a substantial business.

Q. Where will these shares be floated? Will it be in New York or in Canada?—A. There will probably be bonds as well as capital stock. The bonds will probably be sold privately because that has been the practice in the past. The reason for it is that the terms and conditions of the bonds have to be negotiated with direct buyers. Those bonds will be sold in this country as well as in the United States, depending on the willingness of buyers to purchase them.

As to the share capital, it will be sold; we presume we will have a syndicate which will include leading houses in the United States as well as leading houses in Canada and that a substantial amount of the share capital will be made available to Canadians through Canadian major banking houses.

Q. Could the witness tell the committee the names of the brokers who would be used?—A. I would like to be excused from that question, Mr. Chairman. It could be very embarrassing if I should leave out one of my good friends through inadvertence.

Q. What commission is likely to be paid to the brokerage houses?—A. That obviously would depend on market conditions at the time. The specific price

at which the securities will be sold will, of course, determine the cost of selling at that time. So it is very difficult at this point to indicate what the cost of selling the share capital would be.

On the other hand, the cost of selling the bonds can be pretty well determined. I think it would represent a fraction of a cent provided it is done privately. But if it is done publicly, it might run higher than that.

In selling a large amount of common stock, the cost of selling capital stock might run in terms of percentage, I would say, under ten percent; but I would not like to be held to that. I do not know of any way I can determine at the moment what the cost might be.

Q. Could the witness tell the committee if the holders of the share capital, let us say, of this $5 million, as opposed to the $245 million of bonds and other securities—will they control the company?—A. There is some misapprehension. I do not think we can have debentures of $245 million. As I indicated before, share capital of $5 million represents the cost; but I cannot say what might be necessary before long-term financing can be arranged.

In the United States long-term financing has been done on a basis of between 75 and 80 per cent in bonds. That would mean something between $180 million and $200 million in funded debt; and the remaining $50 million would be in the form of capital stock, approximately, anywhere from $40 million to $60 million in the form of capital stock.

Q. Have you any idea what the par value of the debentures or the other securities would be when they are sold?—A. Debentures usually are attempted to be sold at par, at 100 per cent of par value. That is done by setting an interest rate which would make it worth while. So the price will be par; but the interest rate may vary, depending upon conditions at the particular time that the debentures come to be sold.

By Mr. Applewhaite:

Q. With respect to this capital, Mr. Chairman, it is not risk capital. Will it be paid up on an amortization basis, or will it just be a capital debt bearing interest?—A. The practice with respect to pipe line companies has been to provide for the paying out of the debentures over a period which represents the usual life of the field, or something less than the life of the field from which the natural gas is drawn. In this case I imagine that these debentures will be sold on a basis of an interest rate and an amortization rate which will retire all the bonds over a period of 20 to 25 years.

Q. Is it the intention of this company to buy and sell gas entirely, or is it the intention of the company to act as a common carrier, carrying other people's gas for a fee?—A. I cannot answer that. I do not know. I would doubt it, though.

By Mr. Conacher:

Q. What about this new ruling of the SEC in the State of New York, according to which Canadian capital or Canadian companies cannot raise money where there are any outstanding options? How could you get around that to bring in capital for common stock in the case of your company?—A. If you have no options it would bring it out from the SEC. But if the company's options are essential, we might be able to work it out with the SEC and to get their permission. I think we might be able to get the SEC to make a reasonable extension.

Q. The same difficulty arose in connection with companies just as big as your company, under that ruling of the SEC. It applied to Imperial Oil and everybody else.—A. I appreciate that. But our own experience is that upon reflection and upon proper representation, they have usually adjusted their point of view in the matter to conform to the realities of the situation; and

it is my impression that with respect to Canadian companies which are worthy, investors have been and will be exempted from the order.

Q. Ultimately the common stock would control this company, and when the bonded debt is paid off, control then comes into the hands of the common shareholders.—A. I think it is a matter of definition what you mean by "control". Actually, the common stock will control the company from the very moment that it is sold, because the common stock will elect the board of directors. The bonds will not have any hand in electing the directors.

Q. That is all I have, thank you.

By Mr. Harkness:

Q. Mr. Chairman, might I ask the witness who is expected to subscribe this first $5 million?—A. I believe it is the Delhi Oil Company Limited.

Mr. SCHULTZ: Might I hear the question again, if you please?

Mr. HARKNESS: Who is expected to subscribe this first $5 million? Is any of it to be sold to the public?

Mr. SCHULTZ: We expect that both Canadians and Americans will participate in this $5 million of shares from the very beginning. It will not be a situation where it will be subscribed privately by a group of Americans. We expect it will result in Canadians being placed on an equal basis from the very beginning.

Mr. HARKNESS: Then I take it that these shares will be placed in the hands of stock dealers and offered to the general public in the regular way?

Mr. SCHULTZ: Yes, sir, through regular channels.

Mr. NOSEWORTHY: Will this stock be sold before the company gets a permit to build its pipe line?

The CHAIRMAN: I wonder if we might confine our questions to the witness here and later on we can recall Mr. Schultz, possibly with respect to another matter. Would that be satisfactory? Are there any further questions?

The WITNESS: There will be no stock sold to the public through public distribution until the pipe line is ready to be built and until all the necessary permits and necessary contracts for gas are obtained at both ends. I do not think we can sell stock to the public out of the blue sky.

By Mr. Noseworthy:

Q. How much of this $5 million share capital is likely to be put up prior to receipt of the permit?—A. Whatever is to be put up will be put up privately. Obviously the intention is that whatever is needed to get the line to the stage where contracts can support it will be up to the Delhi Oil Company Limited.

Q. The point I have in mind is this: we may have a considerable number of these pipe line companies incorporated. It has been said on numerous occasions that probably not more than one will operate over any one given route. I am trying to find out just what is the advantage to a company to have, let us say, a part of $5 million invested before they know whether or not they are going to get a permit. I would like to know why so many of these companies are anxious to become incorporated? Just what advantage is there in becoming incorporated, in getting a company incorporated without knowing whether they can ever get a permit or not.—A. To answer that question would require an explanation of the capitalist system and what makes it work. That is what has developed America and I hope, will develop Canada,—the fact that people are willing to risk their own hard earned money to develop a new industry.

By Mr. Riley:

Q. I understood the witness to say that the initial $5 million capitalization was what was anticipated to take care of the requirements of the company up till the time construction was ready to begin. Is that right?—A. I must have misunderstood the first question but I understand it now. It is a five million share capitalization. The five million shares will ultimately represent the capital stock that is to be sold behind the bonds. The amount of money that is necessary to go into this picture in order to develop this company to the point of construction has no relationship to that five million shares. It will go in as either stock purchased to buy some of the shares or go in in the form of a loan, but there will be enough money put in this company to bring it to the point of starting construction, but those five million shares we are talking about are not $5 million. It is five million shares which will be sold at a price to yield whatever is necessary over and above the debt.

By Mr. Murphy:

Q. In your survey, do you expect to deliver gas, say, at Montreal or Toronto, as cheap as gas now being delivered in Canada through the other lines?—A. I did not know there was any natural gas being delivered by other lines. Do you mean manufactured gas?

Q. Gas coming in to western Ontario,—Texas gas.—A. I could not answer that question because I do not know the exact situation. I am not an expert gas man.

By Mr. Lennard:

Q. You did mention that this natural gas would be put on the market much cheaper than any existing fuels.—A. Cheaper than existing manufactured gas, or coal or oil.

Q. Yes, but we are getting gas from Texas through a pipe line laid through Windsor.

Mr. MURPHY: I thought that when you were making your survey you would know pretty well the prices you could deliver gas for at Montreal, in view of the fact that there is now gas coming into Canada from the United States.

The CHAIRMAN: I imagine that is more of a technical question that one of the other witnesses could answer. Mr. Natleson is the banking connection.

Mr. MURPHY: I assume, Mr. Chairman, that a banking firm would make a survey of general conditions as part of their own survey.

The CHAIRMAN: I do not think they would have the engineering details, they would probably look at the project from the financial side.

The WITNESS: We obviously have looked at the economics of the situation and the economics include the kind of question you ask, but I cannot answer at the moment. Unfortunately, in the first place, I do not know at what price this gas can be delivered from the States into that area you mentioned. I do not know what kind of contract they have. In the second place, we could not compete with that price in the initial stages of our gas line because that line is in a fully developed state and it is carrying gas at capacity. Now, eventually our price will compete with that price but I cannot say it would in the first year or the second year.

By Mr. Rooney:

Q. I suppose the bonds that you will issue would be first or second mortgage debenture bonds, so if you were not successful the control of the company would eventually go to the bondholders, and you people who are putting up the

initial money would lose out, is that not right?—A. That is the legal aspect of mortgage bonds. I think we will have the economics of this pretty well settled before we sell those bonds so that it will appear that the line can operate even at this moderate capacity and earn enough to pay interest and amortization on the bonds so they will not go into default.

Q. But if that failed, the bondholders would naturally take over?—A. If for any reason it failed the bondholders would have the right under Canadian law to take over the property but they may or may not avail themselves of that right.

Q. Therefore, the stockholders, you people who are putting up all this initial money, could be wiped out and the bondholders would get the whole thing?—A. Yes, sir.

Q. You are taking the chances?—A. The investors who put the capital stock in are always subordinate to the interests of the first mortgage bondholders.

By Mr. Riley:

Q. Would the trustee not be represented on the board of directors?—A. Which trustee, the trustee of the bonds?

Q. Yes.—A. If it is the practice in Canada to do so, yes. It is not the practice to do so in the United States but we will follow whatever the Canadian practice is.

The CHAIRMAN: Gentlemen, I believe we have covered this matter pretty well with Mr. Natleson's evidence of yesterday and today. I do not want to hurry things along but unless there are more questions I think perhaps we will call another witness. Thank you Mr. Natleson.

Yesterday, you will recall that Mr. Gillis brought up a question in connection with the economic aspects of the situation, particularly as related to the production of coal. It was suggested that we have Mr. Uren here. He is here this morning, and I was wondering if you wished to hear him at this time. Mr. Gillis perhaps might lead off with a question. We will call Mr. Uren to the head table. Mr. Gillis, you can proceed then and ask a question of the coal controller.

Mr. W. E. Uren, Chairman, Dominion Coal Board, called:

By Mr. Gillis:

Q. We coal men must stick together. What I had in mind, Mr. Uren, was how this particular project, when completed and in operation, is going to affect the coal industry of the maritime provinces. Now, it was brought to our attention yesterday that no survey for this particular natural gas project was made east of Montreal. Very few surveys are made east of Montreal! It struck me during the course of the discussion that if this natural gas project is developed and goes into the Montreal and Quebec market, which is one of the main markets for maritime coal, that it would affect in an adverse way the marketing of our coal, and not only Nova Scotia coal, I am also interested in American fuel coming into this country. I am a coal miner. They claim that when this project is completed they can undersell American anthracite in the Ontario and Quebec markets by at leasct one dollar a ton, and if and when this project is fully developed it will mean the coal miners in the United States will lose a large market in Canada. What I am particularly interested in is, whether you could give us some idea as to how this project is going to affect the Nova Scotia and New Brunswick industry in the market they have now in Quebec up to about 100 miles west of Montreal?—A. Well, the inclusion of any other form of fuel energy always seems to affect the consumption of coal. I mean

gas or liquid fuels, plus the hydro. This is borne out by the increased productivity that there is in the province of Quebec and the lower consumption of solid fuel. In other words, we know that production in the province of Quebec is at peaks in practically all areas, whereas consumption of coal has in total shown a decline in comparison with the increased production.

Over a period of the past five years, or more particularly since the war, the consumption of coal has gone down. Very fortunately, through the initiative of the coal industry and with the help of the government, the consumption of Canadian coal in the province of Quebec has gone up remarkably. I say remarkably. I would not look at totally how much damage it might do. The inclusion of gas, I would say, into the province of Quebec, would necessitate, where the Canadian market is concerned, a considerable change in their combustion facilities. In other words, not being a technologist, I would say that industrially they would have to make very considerable changes in their boilers. The price of the fuel, that is of gas, plus the assured continuity of service, might determine whether they would change their boilers to the burning of gas, or whether they would continue to burn coal. For the foreseeable future, as far as we can forecast at the present time, the maritime coal industry is in this position, that I do not think that gas would make a great deal of difference for a great number of years because we still have many pockets and gaps in the province of Quebec to fill with maritime coal of a suitable quality which is not available, and the market for which has not been undertaken by liquid fuels or the continued importation of American coals. Now, perhaps I am a little different from Mr. Gillis on this,—I am a hard rock miner. I consider that one of my duties on the coal board is to do everything possible in assisting the various coal operators to market Canadian coal, first of all to the exclusion of competitive solid fuels coming in from the United States, and secondly, in other forms of fuel energy that are available.

To summarize I would say, no, that the inclusion of gas over a period of the next three years, and I cannot forecast for too far ahead, would not be damaging or serious in any way to the coal mining industry of the maritimes.

Q. I do not anticipate it would myself for a few years, but I look upon the coal industry of Nova Scotia as the basic industry of that province and without it there is not anything else. These pipe lines are going to go into the large centres of the population, they are not going to fan out into the little pockets at all. Now, Quebec city and that area between Quebec city and Montreal up to about Coteau, is about the main market now for Nova Scotia coal in that province. Now, those pipe lines are definitely going into Montreal, where there is a large coal market?—A. Yes.

Q. And they are definitely going through to the city of Quebec?—A. Yes.

Q. Well, I am not opposing this project from the technological standpoint; it is progress; but it seems to me that I cannot see any hopes for putting cheaper fuel into that particular center without wiping out perhaps the economy of the part of the country on the other side of it. Perhaps the effect would not be immediate, but I am thinking of what will happen in the next five years or even within the next ten years. The Canadian government have a considerable investment in the mining industry of eastern Canada and at the present time they are financing by way of loans a large mechanization proposition. I just want to tell you, Mr. Uren, that I am glad you are because it is helping with the marketing of that coal and the mechanization of that industry. You are doing an excellent job. I would not like to see something happen now without due consideration being given to what the repercussions from it would be in the next five or ten years.

By Mr. Murray:

Q. Mr. Uren, do you consider that the coal industry of Canada is on an efficiency basis at the present time?—A. We are only talking at the present time about the eastern part of it, let us stay with the eastern part. They are not on an efficiency basis in eastern Canada, they are not on the efficiency basis that they are going to be on; and that is the reason for the expenditure of some $18 million to $20 million, in which the government participates to the extent of $7 million—and to a smaller extent with some of the other operators in eastern Canada. If you want to jump over to western Canada, they have been mechanizing for a long period—not only the war years, but since the war years—and if I might say so, Mr. Chairman, without any detraction from other individuals, efficiency in the west is of a higher degree than it is in the east. At the same time, mining conditions in the west are more favourable for it than are mining conditions in the east. But to bring them up to the efficiency they should have in comparison with their working conditions we have already spent a large amount of money; and we are in hopes, and we feel certain, that that expenditure of money over a period of five or six years in eastern Canada would improve the efficiency of their production. Perhaps I should explain what I mean by that; not only will they improve their production, but also the quality of the coal should improve. They will never become competitive in total amounts of production with their competitors in the United States, because their man-days are so much greater, and their seams are much easier to work; which means that even with a better class of mechanization it will be impossible to get production up to anything like a comparable basis with them; but we believe that they most certainly will improve and must improve their man-day production, and the cost of that day.

Q. Well, transportation would enter into that.—A. Transportation is one of the chief factors in the inability of the Maritime industry to further satisfy the Quebec market; and I stick to the Quebec market because a great deal of the coal, a good portion of the coal gets a subvention, and we do not intend to permit operators to move coal into areas on subvention that are more costly to serve than some of the areas they could satisfy. In other words, we move the coal to the closest point, cheapest to the taxpayer, and leave the more distant points to be served by imported fuels.

The CHAIRMAN: Gentlemen, this is all very interesting. I know we are all interested in this general discussion on coal, both in the east and the west, and we are interested in the general aspect of the points raised by Mr. Gillis.

By Mr. Gillis:

Q. Would you say, as a long range proposition, this project would not have a serious effect?—A. Not seriously.

Q. Not seriously?—A. If it would be interfering seriously with the operation in the Maritimes then we are wrong in what we think we are right in, in mechanizations and so on.

Q. That is what I thought.—A. The inference of the company is that we are wrong there.

Q. On the other hand, if it does not interfere and the market cannot absorb the gas, the pipe line company are making a bad investment.

By Mr. Murray:

Q. I understand that they are conveying coal in pipe lines down in the States.—A. Pittsburg Consolidated just started a very small experimental, pilot plant.

Q. Yes, four miles long.—A. Yes, and we have an opportunity of examining that.

By Mr. Gillis:

Q. Have you had any representations from the coal industry in Nova Scotia on this?—A. No.

Q. None whatever?—A. No.

Q. That is all I wanted to know, it would look then as though the pipe lines are very foolish to go into that market.

By Mr. Riley:

Q. What percentage of the output of New Brunswick coal would be brought into Quebec?—A. Did you say, New Brunswick coal?

Q. Yes.—A. In 1949 it was 2,851 tons, of the total production of approximately 500 thousand tons.

By Mr. Harkness:

Q. Mr. Uren, I am sure you know the situation in Alberta. The miners are very much concerned over the future of their industry, and of their jobs, as a result of the number of gas pipe lines that are coming into operation. Could you tell us anything about what effect those particular pipe lines, or any other pipe lines running east would be as far as the coal industry in Alberta is concerned?—A. This pipe line is, as I understand it, a trans-Canada pipe line?

Q. Yes.—A. Are they going to have offshoots any place along the line?

Q. Yes, they are reckoning on serving Moose Jaw, Regina, Portage, Brandon, Winnipeg and so on.

By Mr. Shaw:

Q. Mr. Chairman, may I ask Mr. Uren what he thinks on that?—A. Very serious, more serious that in the case of the Maritimes.

Q. Might I ask Mr. Uren another question: Do you think that industrialization resulting from gas export will result in power development from coal which would offset any anticipated disastrous effect of gas export from Alberta.—A. Well, that would be a useful thought, but I haven't given it any study.

Q. There appears to be a certain situation associated with that, that in view of the acute shortage of power in Alberta today and the relative cheapness of developing power to the use of low grade coal, that it would likely offset.—A. I do not know whether it would offset, but we are working through committees with the Deputy Minister of mines out there, Mr. Tanner, and there are discussions about the construction of power near Edmonton, where we have some of our cheapest holdings.

The CHAIRMAN: Are there any other questions?

Mr. GILLIS: I just want to ask Mr. Uren one more question.

The CHAIRMAN: All right, one more.

By Mr. Gillis:

Q. Have you any idea what percentage of Maritime coal was used for domestic purposes in the areas to be served by these pipe lines, as far east as Quebec city?—A. In the Quebec area—domestic—I could give you more on the industrial consumption than I can on the domestic. It is pretty difficult to get the domestic in percentages. I can get it for you Mr. Gillis, but I have the industrial right here.

Q. You do not think it would hurt us very much in the industrial field; but I am interested in the domestic.—A. I do not think it would hurt us very much in the industrial, but by far the highest percentage of consumption of Maritime coal is in the industrial field.

Q. It is in the industrial field?—A. Yes. And now, in the Quebec area the consumption of Canadian bituminous coal in 1950 was 42·8 per cent, and United States bituminous was 57·2 per cent. That is approximately the same as it was in 1944 in the Quebec area. In the Montreal area the consumption of Canadian coal in 1950 was 53 per cent, and United States was 47 per cent; and that compares with 7·3 per cent Canadian in 1944 and 92·7 per cent United States.

Q. Therefore, I'd say you are doing a good job mechanizing the mines.

By Mr. Murray:

Q. Is there not some sort of assistance given Canadian coal in the form of subvention?—A. Yes.

Q. And they have obtained that during the last three years?—A. Yes.

Q. What is the total sum?—A. I am sorry I haven't got this year's figure for you, because it has not been tabled yet.

Q. No.—A. In 1949-50 we paid out $3,918,000 for 2,386,000 tons of coal; in 1948-49, $1,679,000 for 1,783,000 tons of coal; in 1947-48, $764,000 for 616,000 tons of coal; and by 1946-47, $1,500,000 for 1,100,000 tons of coal; and in 1945-46, $1,897,000 for 1,163,000 tons. This year it will be along the lines of last year. We can't pay out any more because we can't move any more coal, we haven't got the transportation facilities with which to do it.

The CHAIRMAN: Mr. Harkness.

By Mr. Harkness:

Q. Mr. Uren, can you tell us anything about the possibility of gasification or liquefaction of this Alberta coal and its eventual transportation by pipe line to the east? In other words is there any possibility that the coal industry in Alberta might be able either to keep up or to go ahead?—A. Yes.

Q. Because of development of that kind? What can you tell us about that?—A. I cannot tell you very much because, as far as Canada is concerned our operations on gasification or hydrogenation have amounted more or less to looking or watching briefs on the tremendous experiments they are making in the United States.

George Hume is here. He is an expert in all these fields. I do not know whether he is here as a witness but he can certainly tell you more than I can. We are watching very closely what they are doing in the States. Also, as soon as they revamp the buildings out at the Fuels Division they will have a small pilot plant for hydrogenation, but there is nothing for gasification up to date.

Q. As far as the Alberta coal industry is concerned it would appear that the development of pipe lines must go on and there will be future difficulties along these lines.—A. I personally do not agree with that. I still think there will continue to be favourable markets for Alberta coal.

Q. However you think this pipe line development presents a very serious threat?—A. Very serious.

The CHAIRMAN: Well thank you, very much, Mr. Uren. We appreciate your handling of the situation. I think everybody is satisfied that we have got the answers to the questions.

Yesterday there were a few other answers asked and we promised to have Mr. Matthews from the Transport Board here. If you would care to come up Mr. Matthews I think there are a few questions which the members would like to clear up.

Mr. J. W. Matthews, General counsel, Board of Transport Commissioners for Canada, called:

The CHAIRMAN: Mr. Mott, would you like to ask your questions now?

By Mr. Mott:

Q. Mr. Matthews, last year during the discussion regarding pipe lines, both east and west from Alberta, it was mentioned that there would be an agreement between the United States and Canada that the United States would pipe gas into Ontario and Canada would pipe gas into the United States on the west coast. Now I want to ask this. According to the information that I have received since that time, I understand that, while there is a line from Detroit and Buffalo into Windsor and it was the intention to expand it—according to the information we had in the House last year—since that time the United States has put an embargo on gas coming into Canada. They will not allow gas to come into Canada that way?—A. Well, Mr. Chairman, I am sorry I do not know anything about that.

Q. You do not know that there is an embargo on gas coming from the United States into Canada?—A. No.

Q. You do not know if there is any agreement between Canada and the United States about gas coming into Canada?—A. I do not know that there is any agreement.

The CHAIRMAN: The matter has not come before the commissioners.

Mr. CONACHER: There is gas coming into Canada from the United States through Detroit. There is gas coming in at the present time, originating in Texas.

The WITNESS: I am sorry I have no information on it.

By Mr. Ferguson:

Q. Mr. Matthews, does your department set a maximum of profit that a pipe line company can make when they are applying for a charter?—A. No, sir.

Q. They can charge or write off the cost of this installation in ten years, we will say, and the user will have to pay for it. That may be a ridiculous figure but we have been told it would be written off in twenty-five years. As far as your department is concerned there is no restriction made of virtual necessity on the amount of profit allowed when the charter is applied for? —A. That is so. There is no restriction.

Q. In other words this could be written off by the cost charged to the consumer in ten years and, from then on, this pipe line would probably be the only method of transporting this valuable asset to the consumers of Canada. The owners could charge whatever they felt like according to their charter. There would be no supervision by your department?—A. There is no control by our department, that is true. There is the constitutional question which we went into very carefully at the time the pipe lines bill was before parliament. It appeared at that time, and I believe it is still the opinion of the Department of Justice, that the dominion has no jurisdiction over the prices charged to the consumers of gas. That matter is up to the provinces.

Q. The provinces have jurisdiction by way of the public utilities commissions, and they have supervision over the local distributors.—A. Yes.

Q. But have the provinces the right to interfere with a company operating under a dominion charter, and set a price at which the companies can sell to the local municipalities or the local operators? Must the provinces not say these people have a charter and they are permitted to charge whatever they can. The companies can say they only make a profit that will pay the stockholders 6 per cent, 7 per cent, or 8 per cent. It is like Bell Telephone. They say our cost is this much and therefore we are not robbers; we are making only a reasonable profit. Does not the province supervise only with respect to the charge by the actual retailer of the product?—A. I see what you mean but I think the province has jurisdiction over the price gas is sold for in the province.

Q. You just think so?—A. I think so.

Q. It might be possible that there is no supervision over what the pipe line companies can charge to the public utilities in the various provinces. The control would come over the local public utility in every province?—A. That might be but it would work back to the price the pipe line company charges the public utility.

Q. They could prove they were paying a certain figure and making a reasonable profit over that, but there is the possibility this pipe line could make a most unreasonable profit, something which is not permitted in the United States but which is permitted in Canada?—A. I think that would be within the control of the province.

Q. When they apply for a charter to the Security Exchange Commission in Washington they are asked what profit they are going to make, and they are not allowed more than a reasonable sum.

Mr. MURPHY: We have a commission in Ontario.

Mr. ROONEY: Competition would look after the prices.

Mr. MURPHY: They have to go before the commission to get the price established.

Mr. MOTT: The pipe line or the local authority?

Mr. MURPHY: The merchandiser; the gas company which we have in Ontario has its rates set by the gas controller.

Mr. MOTT: That is the retailer.

Mr. MURPHY: No, the price the company has to sell the gas at—that is my understanding.

Mr. MOTT: The retail company? I do not think there is any control, but I hope there will be.

Mr. MURPHY: There is control over the pipe line company that brings the gas in.

Mr. MOTT: Is there a restriction on the price they sell at?

Mr. MURPHY: They have to go before the board to have the price set. When there was a limitation on gas during the war, the matter that was mentioned a few moments ago, the question of the rise in price disturbed many people, and it had to go before the board at that time.

Mr. MOTT: I think it should be established by every member of this committee that pipe lines companies must have some control over the prices they can charge—control either by the provinces or the dominion. If not, people will think that they have been granted this charter, that it has been approved by the members of the House of Commons, that it has been gone into thoroughly and that everything is all right. Even though the local authority may be fairly well restricted to a certain figure, restricted by the commission in Ontario or in the other provinces, yet the pipe lines might make an excessive profit.

The CHAIRMAN: That is not within our jurisdiction. The Transport Commissioners have to pass on these various pipe lines after the province of Alberta gives them the right and the licence to go ahead. So, the matter is not within the jurisdiction of this committee.

Mr. MOTT: No, but as a committee we might say that it would not pass if the Transport Commissioners did not have some restriction. Unless that is so I do not think the members who are sent here to protect the public should pass the charter. It cannot go before the Board of Transport Commissioners unless it is passed by this committee.

I am not trying to delay this in any way, shape or form but I am looking to the future.

By Mr. Riley:

Q. Is it not so, Mr. Matthews, that the rates for services of public utilities are matters for the provinces to control?—A. Yes, that is so. The dominion has no jurisdiction over the prices charged.

Q. It is a matter for the public utility boards or such similar commissions as are set up in the provinces?—A. That is my opinion.

Q. That applies to telephone rates, gas, electricity, and all that sort of thing?

Mr. GREEN: No, it does not apply to telephone rates.

The CHAIRMAN: Mr. Green, do you wish to have the floor?

Mr. GREEN: It does not apply to telephone rates because, in the province of British Columbia our company is governed by the dominion.

The WITNESS: Yes, the Bell Telephone Company and the interprovincial telephone companies come under the Railway Act and they go before the board.

Mr. ROONEY: Mr. Matthews, do you think that as far as price at which gas is sold is concerned, it would be guided by supply and demand. They can make no unreasonable profit in my opinion, because they would not get sales and other fuels would take their place. Does not this all come right down, as far as gas is concerned, to supply and demand?

The WITNESS: Yes, I suppose the competitive angle would have some bearing on it.

Mr. MOTT: It does not have any bearing on it necessarily. If they can produce this gas in the city of Toronto at a certain figure, at a much lower figure than that for heating homes by coal, then they can step up their price to the retailer and simply say that it is still lower for the user. He may save a small fraction as against the cost of heating by coal, but it still may be an exhorbitant price to charge the retailer or distributor of this gas, which is God's gift to the people of Canada. Supply and demand may not have any bearing at all. Certainly they would not be crazy enough to make this large expenditure and charge prices so high that nobody would use the gas, but there is a possibility that they will charge prices that are ridiculous. This is a public utility and it is a question in the minds of our own people whether it should be controlled by the government and gas distributed to the people at actual cost.

The WITNESS: All I can say is that the dominion has not got jurisdiction. It is a matter for the provinces.

Mr. HERRIDGE: I would like to ask this question. The people holding these interprovincial charters for the carrying of gas and oil are carriers. We have heard that in the committee before. They are common carriers of gas and oil. On what basis does the Transport Board distinguish between common carriers of gas and oil—interprovincially—and the common carriers on the railroads whose rates they control?

The WITNESS: That is a matter of carriage. There is a provision in the Pipe Lines Act that a carrier of oil may be declared to be a "common carrier" and then the rates of course have to go before the board—but that is for the carriage. Gas is in a different category because we are told by the American experts that it is impractical to call a carrier of gas a "common carrier". The gas gets all mixed up and there must be provision for storage. So, there is no provision in the Pipe Lines Act for carriers of gas to be declared "common carriers". There is a provision regulating common carriers of oil. The board has nothing to do, however, with the price fixed for the sale of gas.

Mr. APPLEWHAITE: The Board of Transport Commissioners, and no other body of your department, has any authority at the present time to compel a company of this sort to act as a common carrier or to handle anyone's goods?

The WITNESS: That is so, as long as they stick to gas.

By Mr. Green:

Q. Let me get this clear on this matter of control of rates. An oil pipe line is a common carrier under the Pipe Lines Act?—A. It can be declared to be one.

Q. A gas pipe line is not?—A. That is so.

Q. There is provision in the Pipe Lines Act that the Board of Transport Commissioners may make orders or regulations with respect to all matters relating to traffic, tolls, or tariffs?—A. Yes.

Q. That applies only to oil?—A. That is right.

Q. There is no such provision with respect to gas?—A. That is right.

Q. But is it a fact this provision for setting a toll or tariff is only for the carrying of the oil and does not apply to the sale of the oil to a distributing company?—A. That is so, Mr. Green.

Mr. RILEY: Could we not have a witness brought here who would establish to our satisfaction who might have control of the rates from the source right through to the retailers in each of the provinces? That would clear this matter up.

Mr. LENNARD: That is a matter of economics. Competition with other fuels will regulate prices.

The CHAIRMAN: It could be done, Mr. Riley. What is the wish of the committee?

Mr. ROONEY: I think the last answer is correct; that competition with other fuels will set the price.

The CHAIRMAN: You can give us that at a later date, can you not?

By Mr. Shaw:

Q. Speaking of the common carrier angle with respect to this question, is it true that while the Board of Transport Commissioners has not been given the authority to declare any pipe line to be a common carrier as far as gas is concerned, that it could do so? In other words, that it does have the legal right to so declare it?—A. No, Mr. Chairman. The legislation does not cover it.

Q. I mean this: that while the legislation does not cover it, the authority to do so does rest with the department?—A. That is so.

The CHAIRMAN: Thank you very much, Mr. Matthews, for coming here today.

Returning now to the main subject of the bill, might I ask Mr. Tolmie if he has any other witnesses that he wishes to call? I notice that he has maps here for distribution.

Mr. TOLMIE: Yes, Mr. Chairman. Unless there is a witness you would like to have recalled for further questioning, I do not think there is anything more we wish to add. I might say that those maps were culled from the Oklahoma Engineering reports, and we could not get them photostated. They would not fit the photostating arrangements. However, there are 24 copies of them here.

There are two maps. One shows generally the route of the main transmission line. The other shows the projected gathering system in Alberta. But we must indicate to you that the gathering system projected is only tentative. It is based on the known gas field in Alberta. That gathering system will stretch out to whatever gas fields are discovered and available within economical reach of the pipe line, including the Peace River district.

The CHAIRMAN: I wonder if Mr. Schultz would come forward while the members have these maps before them. We promised to have the maps available here today. The members might want to ask Mr. Schultz a few questions.

Mr. Frank A. Schultz, recalled:

The CHAIRMAN: Is there anything you want to say about it, Mr. Schultz? Mr. Schultz has pointed out that the map is fairly self-explanatory; but if any of you are interested in particular phases of it which do not appear, or are interested in municipalities or constituencies—from the point of view of members of Parliament—which are not covered, now is the time to ask your questions.

By Mr. Whiteside:

Q. Mr. Chairman, I think it was mentioned yesterday that the pipe line would follow the main line of the Canadian Pacific generally. But I notice here that it follows a straight line directly east from Princess. Is it contemplated to put it through in a straight line or to follow the track through the prairie region?—A. No, sir. The idea is to build it as nearly to a straight line as possible in order to save in pipe costs and ditching costs. There may be some detours necessary, but primarily it would be just a straight line.

Q. What would be the approximate smallest concentration of population serviced? Suppose this line were adjacent, let us say, to a rural community or to a village of 50 or more. Would it be possible to serve them? Would it be feasible on an economical basis?—A. If there was a small community situated let us say within a half mile of the pipe line, we would endeavour to serve it. The principle is that a pipe line has to serve the most people possible, and we would endeavour to serve that small community.

Q. What would be the smallest number of persons who could be served economically in a distribution center by making a tap into your pipe line? Would it be 50 or more, or less than that number?—A. Mr. Chairman, that is a most difficult question to answer. It would depend entirely on the amount of gas to be consumed. If an industry be located, let us say, in a small community, other than the general residential requirements of that community, it would follow.

By Mr. Ferguson:

Q. Mr. Chaiman, what type of industry would use a considerable quantity of this gas, and how much would that industry have to use before it would be advisable to run a pipe line, let us say, 40 miles? If a community has, let us say, a population of 10,000, would it be possible with that population to run a distance of 30 miles from your main line for the purpose? Would it be profitable?—A. Certainly, if the industrial demand were large enough. Even 30 or 50 miles would make no difference.

Q. Would you say that a pipe line to a community of around 10,000 would be feasible?—A. Yes.

Q. What type of industry uses the largest quantity of your gas?—A. Practically any industry which is now using coal or other fuel could utilize natural gas. The important thing is that we would sell gas at a price under their present fuel costs and when we did that, they would want to convert. There is one exception, the steel industry, which has to have coal in order to reduce its iron ore.

Q. Well, consider a community of around 10,000 which is using, let us say, 8,000 tons of coal a year. Would it be profitable to strike off from your main line for a distance of 40 miles with a spur line in order to feed them?—A. Your question is too technical for me to answer. I have not got the data.

Q. But have you any idea?—A. No, sir. I do not have any rule of thumb to go by.

By Mr. Shaw:

Q. Mr. Chairman, might I ask who will have the final say as to whether or not a given community shall or shall not be supplied with gas? The company may assert that while it is economically feasible, there is just not a wide enough margin of profit to lead up to supplying that community. Will the company have the final say as to whether that community be served, or will the Board of Transport Commissioners or some other authority determine it?—A. Mr. Chairman, I think that is a legal question and I am sorry, but I cannot answer it.

Q. I think it is a question which may come up all along this line.—A. I think we will be glad to serve any community we can serve economically.

Q. But it would be your definition of "economically".—A. We will have a transmission company which is a service company, to serve the most people. We would gladly bend over backwards to serve the smaller communities, but we could not do it at a loss.

Q. I realize that.—A. To do so would place an extra increment of cost upon the gas supplied to other communities. It obviously would not be fair.

Q. Would you supply gas to any locality which might determine that it is economically feasible to do so?—A. Yes, sir. If some community should desire natural gas and should lay a lateral line to our main line, we would certainly supply them with the gas they needed.

By Mr. Murray:

Q. I notice that your map does not show the Peace River country. Have you any idea of the potentialities in the Peace River country at this time? Would there be, let us say, eight million feet of gas in reserve there?—A. Our thinking at this time on the Peace River reserves is that there are possibly a trillion and a half to two trillion feet available in the Peace River country.

Q. That is, in British Columbia and adjacent in Alberta—A. Yes, sir.

Q. That would be enough, in itself, to supply a pipe line?—A. We think that the Peace River reserves will increase in importance; and at such time as we can justify an additional two or three hundred miles of gathering system to go up there and get it, we will be prepared to lay the line and go up and get the gas from any of the fields now discovered or to be discovered in the future.

Mr. MURRAY: Thank you!

By Mr. MacNaught:

Q. With respect to the question asked just now by Mr. Shaw, do you think it would be largely left to the discretion of local public utility boards or to your company to supply gas to certain areas?—A. I do not know enough about provincial law to answer your question. I would just say that if we were directed to sell gas to a community, we would certainly do so.

The CHAIRMAN: I imagine that Mr. Shaw was referring to communities which were so small that they did not have any public utility commission.

Mr. SHAW: But you would have your provincial board. However, I doubt if they would have the authority to supply any given community. I might say that one of the complaints in my province now is that some communities claim that they should be served and are not being served today. In some cases companies have said: you set up your local company and we will supply you with the gas. But many of these small communities do not have the capital available.

By Mr. Herridge:

Q. I think that Mr. Shaw's point is very well taken. We have railroads in Canada running branch lines in services at a loss because they are public

service corporations and they have to give those services even though they are operated at a loss, and that loss is spread over the rest of the population of Canada. Then, take the case of telephone companies. There are many small places with telephone companies operating although they do so at a loss to the companies concerned. Then again, take the case of the Power Commission of British Columbia. It serves many communities at a loss, but the loss is carried by the community as a whole.

In view of what the witness has said, could we expect a small community to be served at a loss? To do so would mean increasing the rates generally. But in view of this being an almost national public service organization all the people along the line could be charged with the cost which would be very small in relation to the total cost of operation, because the communities are small—I mean the operation of all this service by the company?—A. The desire of the transmission company is to sell the maximum amount of gas. If a small community can be serviced, we would want, and we would need to do it. The more gas that we can put through the line, the smaller the differential becomes between the cost of presently used fuels and the cost that we have generally. In short, if there be a small community, we would be happy to serve it.

By Mr. Ferguson:

Q. You mean that you would be happy to serve a community and that you would bend back to serve that community?—A. Exactly, sir.

Q. Mr. Chairman, this is a private company which is owned by stockholders. I have noticed that stockholders will bend back just about as far as necessary in order to sell their product. But stockholders do not exhibit much in the way of generosity. Personally, I do not appreciate any company in which I own stock being overly generous. In short, I want the profits. We are considering the granting of a charter to a national venture. I do not own any stock in it and probably I never shall unless it is going to have a free hand with tremendous profits, in which case I will jump in with the rest of them. My point is that a pipe line company will bend back as far as is necessary to sell their product over present methods of heating and cooking.—A. The pipe line has to sell its gas and the only way it can sell its gas is to bring its price progressively downward to a point where more people will want to use it. If we over-price our gas, no one will want to buy it. They will prefer to buy fuel oil.

Q. Yes, but this country is very cold and it is not optional whether you heat your house or not. It is compulsory to do so. Therefore, you should have no difficulty in selling gas if you can undersell the present methods of heating.

By Mr. Riley:

Q. I would like to ask the witness this: would not the service to the smaller communities depend upon convenience and necessity as the development progresses, as is the case with all other public utilities?—A. That is true. The only yardstick we know is to measure it on an economic basis. If the community is large enough and close enough to the pipe line we will be happy to serve it. If the community is small and far removed from the pipe line where it could be served only at a loss, then our inclination would be that we could not serve that community.

Q. And you would be governed in that respect by the Board of Transport Commissioners, would you not?—A. By whatever agency had the jurisdiction.

By Mr. McCulloch:

Q. Would consumers off the route of your main pipe line have to pay a higher rate for their gas than those on the main line? In other words, consumers far removed would not be able to get gas at the same price as in a large city?—

A. It would depend. The communities that are nearer the Alberta fields, generally speaking, would be served at a lower cost than the communities in Ontario.

Q. But where your lines go into a small community your prices would have to be a little higher?—A. Yes, sir. That is true.

By Mr. Noseworthy:

Q. I would like to follow the objection raised by Mr. Ferguson. This charter, we will say, is granted but no provision is contained in the charter regarding rates. Let us assume that this company builds the line from Alberta to Montreal. Ten years from now industries along that line, as well as domestic consumers, have been converted to the use of natural gas. Nobody has any authority to regulate those rates except the provinces, and the position is, will the provinces be in a position to say to this gas company, you are making an exorbitant profit. When the major part of industry and domestic consumers have already converted to the use of natural gas, this company will have a monopoly on their supply. It seems to me there should be, before that charter is granted, some clause in it saying that that company must limit their profit to a certain amount. I can see where the province is going to be up against a monopoly, and completely helpless as far as rates are concerned. Installations will have been made and prices hiked up to just as much as the traffic will bear, and we will find we are completely at the mercy of that monopoly.

Mr. FERGUSON: I do not see that the provinces should have the jurisdiction to say what prices this company should charge.

The CHAIRMAN: There is no use getting into that discussion now.

Mr. FERGUSON: If they did have that right, one province would decide that the price was too high and would force the company to sell gas at another figure which might be so low that the company could not distribute it to the other provinces who felt the price was right. I think you will find that a province has not the right to tap into a natural gas pipe line and say, you can deliver gas in this province only at a certain figure. As I said, this might have the effect of shutting off the supply of gas to the other provinces. I believe the only body which has any jurisdiction over the price you can charge is the dominion government, not the provincial governments.

The CHAIRMAN: Mr. Schultz is not in a position to answer that.

By Mr. Whiteside:

Q. In referring to this gathering system here, the line is taken off at Princess. Now, you said yesterday that you were carrying out some work on some wildcat discoveries in Alberta. Is there any chance that the main lead might be changed from Princess to some other portion of the field?—A. Well, it is entirely possible it could adjust slightly. If new fields were found in this general Princess area, of continuing and substantial quantity of gas, then the gathering system could change in some general aspect.

By Mr. Murphy:

Q. I notice in this memorandum that was sent around to us, and also from your map which, by the way, shows a red line going from Toronto to Stratford, that you hope, you expect, to ship gas to the old gas and oil fields in western Ontario as your storage. Can you tell me what fields you expect to store gas in during the summer months in western Ontario?—A. At the present time we cannot. We have had a consulting geologist evaluating some of the old fields in southern Ontario. We know that there are numerous fields that are capable of gas storage but we have made no attempt to purchase any of these fields as we feel that is something that should be done after the pipe line is in operation.

Q. Do you know anything of the company that is now bringing gas into Ontario?—A. Generally, yes.

Q. Have you any relationship with that company?—A. No.

Q. None, whatsoever?—A. No.

Q. Just one more question which I wanted to ask a while ago. In view of your coming into this area I assume that someone in your organization knows the cost of gas that is coming into Ontario?—A. We know generally; specifically, we do not. We have read the newspapers to the effect that Tennessee has proposed to supply gas in the southern part of Ontario. One aspect to that, we think, is very important. The gas that will come into southern Ontario from the United States has been classified as dump gas, which is gas that will be delivered during the summer months.

Q. I am talking about gas that is coming in now. Have you any idea what the price of that is?—A. Just very generally. We feel that at the beginning of our project in its first stages, the gas that we will deliver to this area is within a competing range with their costs, within a general range. We do feel that this gas that is coming up from the United States is subject to the jurisdiction of the federal power commission which by precedent has said that it will always be a dump load proposition, meaning that when there is demand for it in the United States it will be cut off from Canadian users. On the other hand, our line that we propose will supply an increasingly large amount of gas year after year to this eastern market. In the one case as the population in the United States grows the gas that is imported from the United States now will gradually diminish, whereas our project will increase its supply through the years.

Q. Is there any territory other than the thickly populated cities like Toronto and Montreal where you might have storage comparable to what you have in southern Ontario?—A. There are some artificial gas storage facilities, steel storage, around the country, but they are of minor importance.

Q. In your own experience, have you stored gas in other gas fields previously?—A. Yes, sir.

Q. And you did not lose much gas?—A. If you can count on a 15 per cent factor you are safe. In other words, you can afford to lose 15 per cent and still be in good shape.

By Mr. Conacher:

Q. This company will have no monopoly on serving the small communities referred to. For instance, in Vermilion, Alberta, there is a small company serving the community from the gas fields there, and as independents drill in places surrounding these areas,—Vegreville is another, I think,—in those areas that gas will be used for local consumption independent of any of these broader pipe lines. Further, on the question of price a question that seems to be worrying the committee, when they get down into Ontario they will run into competition with, for instance, Union Gas, and they will have to undersell them or sell with them. As far as charging an exorbitant profit is concerned Union Gas have been in business for years, getting their gas in Ontario, so this concern, bringing gas over the long distance they do, in all likelihood it will cost them more to produce gas in Ontario than it does Union Gas, as far as price in concerned. I do not think the committee should tie anybody's hand in connection with making a fair profit in producing something that is going to be so valuable to all of Canada. I may say further that we do not have all the gas in the world in Canada; the Montana and Texas fields in one day could produce more gas than we all could use and unless these opportunities are taken advantage of while people are putting up the capital to bring that product down here, there is a possibility that Americans will run pipe lines up to our borders and make it so attractive that our own gas production would be lost to this country.

By Mr. Harkness:

Q. In connection with this gas gathering system that you provided us with a map of, Mr. Schultz, is that an integral part of your estimated $250 million construction or do you propose to have a separate Alberta charter for this gas gathering system, a separate company?—A. We consider the entire project as a single unit and the reason for it is that the gas has to be purchased and gathered at the cheapest possible price and if the gathering were done by a separate unit it would be entitled to some increment in profit on the gathering. We do not propose that the gathering and the main transmission line will be operated other than as a single unit with one overhead.

Q. You probably know that there are one or two other projected gas gathering systems in Alberta. In the event that one of these companies gets a charter from the Alberta government and builds the gas gathering system, are you then prepared to buy your gas from it and not build it yourself?—A. If someone else had a charter we would be forced to buy from them. We appreciate the Alberta commission has control over the gathering system, but we think that if someone else owned the gathering system it would mean higher prices.

Q. In other words, you are prepared, even if you do not get the right to build this gathering system, to go ahead and build a transmission line to the east just the same?—A. We want to build a gathering system, because we have to supply the gas at the cheapest cost we can.

Q. But what I am getting at is this: If you do not get the right to build a gathering system are you still prepared to go ahead with the transmission system?—A. It would not kill the project. We just know the gathering system has to be an integral part of the project to save that additional increment of cost.

Q. In other words, the proposition would be much more attractive to you if you were able to have a complete gathering system of your own throughout that country?—A. Yes sir, for the very reason that the cheaper we can buy the gas and the cheaper we can sell the gas in the east the more customers we are going to have, and the more customers we have the more gas we are going to sell and the better off we will be.

Q. Where are you building your own gas lines about which you spoke yesterday?—A. In this general Cessford area, roughly 32·4 miles north of Princess. We have three fields southwest of the Cessford area—

The CHAIRMAN: Would you mind raising your voice a little? I do not think the people down here can hear the conversation at all.

The WITNESS: I will start over. We have three fields in the general Cessford area shown north of the Princess; and approximately 12-14 miles, some such distance as that, southwest of the Cessford area we have a field that we call the Countess area. We own an area here in the general Cessford field in which we have two completed wells and one now drilling. We have the Picardville field and the Cardiff field—that is shown at the north end of the map. We own the Picardville field. We have a field called the Royal Park, in the general area east of Morinville. We are now drilling a new discovery that is approximately 12 miles south of the Castor area; and we have discovered, within the last sixty days, a field just north of Castor, one which we call the Link Lake area, a new field.

By Mr. Harkness:

Q. Where do you anticipate getting the major portion of your gas from?—A. Well, I gave you those figures. We estimate that the quantity that would be available from, or that we could produce from our own fields would be sufficient to supply the 365 million.

Q. The biggest field, of course, is this one down here at Pincher Creek?—A. Yes sir, that is right. We have tested, but we are reserving the Pincher Creek field. The corporation which owns that field thought they could deliver 165 million feet of sour gas per day; that with 125 million feet from the other pipe line would give us our 450 million.

Q. I see that you have a line running from the Pendant D'Oreille right down to the southern border of the province. Do you consider that that field is essential to your project?—A. We are carrying 48 million feet of gas that may be used somewhere else. That is just a small part out of a flow of 365 million feet. It may be that we will need the Countess area, then we have the district up here known as Link Lake.

Q. The reason I am asking these questions is that there is now before parliament the bill relating to another company which proposes to take gas from that field into Montana for use by the Anaconda Copper Company.—A. Yes sir.

Q. And that is why I was wondering whether you considered this field essential to your project?—A. We projected a lateral of some 27 miles down through—27 plus 14—and there are some wells, some fields in there that we anticipate being able to buy.

Q. Would you anticipate any difficulty with the gas of the field owned by the Calgary Gas Company, which is not presently active, and which is only about 14 miles from the Pendant D'Oreille field?—A. Well, as far as we are able to tell the Alberta gas company have not made any effort to produce a gas. I understand it is shut down at the present time; therefore, it is a prospective gas purchasing contract for us.

Q. Perhaps I should clarify what I was saying a little more; you would like to have this field which is only 40 miles from the border, the Pendant D'Oreille, but I take it that you do not consider it essential?—A. I would say that other than Pincher Creek, that no single field is an indispensible field if we can make up the amount of gas from reserves that we have in this system, or from reserves still to be discovered.

Q. And you must have Pincher Creek in order to produce the volume you want.—A. Yes.

By Mr. Murphy:

Q. You said that you would get so many tons of sulphur?—A. Yes, in the case of one of the fields there the chemical analysis is approximately 15 per cent acid gas; 8 per cent sulphur sulphide and 10 per cent sulphur oxide.

Q. Would it be part of your operation to obtain sulphur?—A. That is a matter of negotiation. We could put a plant there to fix the sulphur, the sulphide will be fixed, and produce an amount of sulphur which will add materially to Canada's natural resources; I would say, to the extent of 350 tons a day over the period of the useful life of the line, a matter of 25 or 30 years; and it is our understanding that that represents about a quarter of the total requirements at the present time for sulphur in all of Canada. That would be a very useful contribution to our national economy.

The CHAIRMAN: Yes, there is a great shortage of sulphur.

By Mr. Murphy:

Q. I wonder if you could tell us in the light of your experience what it would cost you to produce sulphur?—A. Well, the actual fixing of the sulphur is not a very expensive proposition. We anticipate being able to fix this sulphur in a plant which would cost less than a million dollars.

Q. You would build a factory for the purpose?—A. Yes sir. Considerably less than a million dollars I would say. The big item, of course, is in the plant;

the overhead for operating the plant is not very great, it would only require three or four men to operate it.

Q. Would you be in a position to give us any idea of what the cost would be per ton?—A. I could obtain the figures for you. We have fields in northwestern Mexico with respect to which we have worked out very exact cost information; but I regret that, from memory, I would not be able to tell you. I would be glad to get it for you.

Q. I feel that it would be good for us to have that information; no doubt, the defence department people would be very interested in having it.—A.And, of course, the pulp and paper companies are very greatly interested in an improved supply of sulphur for that industry.

By Mr. Applewhaite:

Q. Is it possible—and has any consideration been given to this—that your company might carry gas for other companies?—A. No, sir; by its very nature a gas pipe line could not operate as a common carrier. What I mean by that is this, that we would be required, prior to financing this line, to obtain firm contracts with respect to the operations, at both ends of the line. You will have to have firm contracts for the sale of your product, as well as for its supply. There is no capacity left for the line to act as a common carrier.

Mr. MURPHY: I would just like to follow up one point. Mr. Schultz said a moment ago that he would get us certain figures in respect to this matter of the production of sulphur. I suggest, Mr. Chairman, that when he does that he gets a copy of the material on sulphur production for the use of each member of the committee.

The CHAIRMAN: Yes, that would be a good idea, if you can do that, Mr. Schultz.

The WITNESS: You are speaking of the development in western Canada?

Mr. MURPHY: Yes.

By Mr. Shaw:

Q. Earlier today Mr. Conacher referred to the fact that a number of the larger industries in Ontario are now being supplied with gas from local wells, and that being the case they obviously would get the supply at a more attractive rate than it would be possible for them to get gas from Alberta; and I was wondering how that would apply to communities which might be served by this new pipe line. Would the witness indicate whether his company will or will not have the final say as to which communities are to be served? Surely, his answer to that is something which you as a company would have to know. I think we should have that information. The point I am interested in there, Mr. Chairman, is this. A small community such as the one in which I live, which has a population of 1,300, is fairly surrounded by pipe lines and yet it is possible that we might be without gas.—A. Well, our attitude with regards to supplying all communities is that I think it has been demonstrated already that we are competitive, and the whole of our effort would be directed toward supplying an adequate service. You see, our very existence depends on the kind and quantity of service we are able to give.

Q. But your company has the right to determine that, hasn't it?—A. Well, I think there is a legal aspect to it.

The CHAIRMAN: Well, gentlemen, it is getting close to the time for adjournment.

Mr. NOSEWORTHY: Before we adjourn, Mr. Chairman, I think we should have some information on the constitutional provisions which render it impossible for a pipe line company of this kind to be classified as a common carrier. As I see it,

they should be in exactly the same position as was the oil pipe line company whose bill was before parliament last year, and who come under the jurisdiction and control of a federal authority. Personally, I do not see why we should throw that responsibility back on the provinces in a case like this.

The CHAIRMAN: Well, Mr. Noseworthy, I do not think there is anything that this committee can do about it. I mean, that this committee has no direction, no reference, of that kind. We can get the information, certainly; but that won't change the law.

Mr. NOSEWORTHY: I suggest that we should review that point and prepare a recommendation on it.

The CHAIRMAN: We will make a note of that.

Mr. HARKNESS: I do not think a gas pipe line would be in the same position. In the case of the oil pipe line company you have a firm contract to deliver specific volumes of commodities.

Mr. GREEN: Is there not some difference in carrying oil? They can block out a certain amount of oil which is to be delivered to or for another company.

Mr. WHITESIDE: That is right, and there is another reason too; this oil is delivered to the refinery and is refined, and the oil pipe line company delivers a specified amount, let us say ten thousand gallons to a certain customer. In that way, the situation is different.

Mr. MURPHY: Yes, and gas has a lot of air in it.

The CHAIRMAN: I do not know just how soon we can come to a consideration of the bill itself, but I think we should get there as soon as we can. Shall the committee sit again tomorrow at 11 o'clock?

Some hon. MEMBERS: Agreed.

The committee adjourned to meet again tomorrow, March 8, 1951, at 11 o'clock a.m.

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

CHAIRMAN—MR. L. O. BREITHAUPT

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

BILL No. 75 (Letter F of the Senate);
An Act to Incorporate Trans-Canada Pipe Lines Limited.

THURSDAY, MARCH 8, 1951

WITNESSES:

Mr. Frank A. Schultz, Vice-President, Canadian Delhi Oil Ltd., Calgary, Alberta.

Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, Ottawa, Ontario.

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81675—1

REPORTS TO THE HOUSE

THURSDAY, March 8, 1951.

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

SECOND REPORT

Your Committee has considered Bill No. 75, (Letter F of the Senate), intituled: "An Act to incorporate Trans-Canada Pipe Lines Limited", and has agreed to report same with amendment.

All of which is respectfully submitted.

L. O. BRIETHAUPT,
Chairman.

TUESDAY, March 13, 1951.

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

THIRD REPORT

On March 8, 1951, Bill No. 75 (Letter F of the Senate), An Act to incorporate Trans-Canada Pipe Lines Limited, was reported by your Committee as amended.

A printed copy of the proceedings and evidence taken in relation to the said Bill is now tabled.

All of which is respectfully submitted.

L. O. BREITHAUPT,
Chairman.

81675—1½

MINUTES OF PROCEEDINGS

THURSDAY, March 8, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at eleven o'clock a.m. this day. Mr. L. O. Breithaupt, Chairman, presided.

Members present: Messrs. Applewhaite, Bonnier, Cannon, Carter, Conacher, Dewar, Follwell, Gillis, Green, Harkness, Harrison, Herridge, Hodgson, Lafontaine, Lennard, Macdonald (*Edmonton East*), McCulloch, McIvor, Mott, Murphy, Murray (*Cariboo*), Noseworthy, Richard (*St. Maurice-Lafleche*), Riley, Rooney, Shaw, Smith (*Queens-Shelburne*), Stuart (*Charlotte*), Thomas, Weaver, Whiteside.

In attendance: Mr. John Ross Tolmie, Parliamentary Agent; Mr. Frank A. Schultz, Vice-President, Canadian Delhi Oil Ltd., Calgary, Alberta; Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, Ottawa, Ontario.

The Committee resumed consideration of Bill No. 75, (Letter F of the Senate), an Act to incorporate Trans-Canada Pipe Lines Limited.

Mr. Schultz's examination was continued.

Mr. Matthews was recalled, heard, questioned and retired.

The Preamble and Clauses one to five inclusive were severally considered and adopted.

At 12.30 o'clock p.m. the Committee adjourned to meet again at 4.00 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4.00 o'clock p.m. Mr. L. O. Breithaupt, Chairman, presided.

Members present: Messrs. Applewhaite, Bonnier, Carter, Conacher, Gauthier (*Portneuf*), Gillis, Green, Herridge, Lafontaine, Lennard, Macdonald (*Edmonton East*), McCulloch, McIvor, Mott, Murray (*Cariboo*), Noseworthy, Rooney, Shaw, Smith (*Queens-Shelburne*), Thomas, Weaver.

In attendance: Mr. John Ross Tolmie, Parliamentary Agent; Mr. Frank A. Schultz, Vice-President, Canadian Delhi Oil Ltd., Calgary, Alberta.

The Committee resumed a clause by clause consideration of Bill No. 75, (Letter F of the Senate), An Act to incorporate Trans-Canada Pipe Lines Limited.

On clause 6:

Mr. Green moved:

That paragraph (*a*) Clause 6 of this Bill be amended by inserting after the word *hydrocarbons* in the twenty-eighth line the following: "provided that the main pipe line or lines, either for the transmission and transportation of gas or oil shall be located entirely within Canada".

After discussion, and the question having been put, the said motion was agreed to.

Clause 6 as amended, Clauses 7 to 11 inclusive and the Title were severally considered and adopted.

The Bill, as amended, was adopted and the Chairman ordered to report the same to the House forthwith.

At 4.12 o'clock p.m. the Committee adjourned to the call of the Chair.

R. J. GRATRIX,
Clerk of the Committee.

CORRIGENDUM

Evidence No. 2, March 7, 1951

(By Mr. Murray (*Cariboo*))

Page 46, line 22 thereof: "eight million" should read, "*between three and three and one half trillion*".

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
March 8, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met this day at 11.00 a.m. The Chairman, Mr. L. O. Breithaupt, presided.

The CHAIRMAN: Gentlemen, we have a quorum. It is 11.05 and we believe in starting meetings as nearly on time as possible, so with your consent we will proceed. Yesterday before adjournment the question came up as to the estimated cost of constructing and operating a sulphur reduction plant capable of converting residue hydrogen sulphide gas to elementary sulphur such as from the Pincher Creek field. Mr. Schultz is here and he has prepared a statement on this which I would ask the clerk to distribute and then he will enlarge on it. Is it your wish that he be heard at this time?

Agreed.

Mr. Frank August Schultz, Delhi Oil Ltd., recalled.

The CHAIRMAN: I believe all the members of the committee present have the statement. Would you care to proceed, Mr. Schultz, please?

The WITNESS: I have prepared some figures on this possible sulphur reduction plant. The background for it is figures that we have prepared on a field that the Delhi Oil Corporation owns in northwestern New Mexico that has a similar acid gas content to that of Pincher Creek. I will file the figures, Mr. Chairman.

ESTIMATED COST OF CONSTRUCTING AND OPERATING A SULPHUR REDUCTION PLANT CAPABLE OF CONVERTING RESIDUE H_2S GAS TO ELEMENTAL SULPHUR SUCH AS FROM THE PINCHER CREEK FIELD, ALBERTA

Total Plant Cost		$750,000 00
Operating Cost per day (including Labour, Amortization on a 10-year basis, Insurance, Replacement Costs and Contingencies)	$600 00	
General Overhead and Sales Costs per day	300 00	
Total	$900 00	

Production

One thousand cubic feet of Hydrogen Sulphide gas contains 87 pounds of elemental sulphur. An efficient plant will recover 85 per cent of the 87 pounds or 72 net pounds per 1,000 cubic feet of gas. The raw gas at Pincher Creek will average approximately 7½ per cent Hydrogen Sulphide or 5·4 pounds of Sulphur per M.C.F. at the outlet side of the plant.

Assuming a daily production rate of 165,000 M.C.F. of raw gas, this will result in 891,000 pounds or 425 tons of elemental sulphur per day.

Production Costs

Assuming that the raw hydrogen sulphide gas is delivered free of all costs to the hydrogen sulphide reduction plant, then the cost per ton for fixing this sulphur would be $\frac{\$900}{425} = \$2.04$ per ton. This figure contemplates only the basic costs, exclusive of all handling and shipping charges.

Due to the corrosive nature of the hydrogen sulphide gas, replacement costs on the equipment might be higher than that indicated above (viz. ten year amortization), resulting in a somewhat higher production cost.

We recognize that costs at Pincher Creek will vary from what they are in northwestern New Mexico but I have attempted to adjust the plant cost and the operating cost, overhead cost, to the Pincher Creek situation. Now, I want to represent this as our own idea based upon our experience in northwestern New Mexico. There may be some latitude when a plant is actually constructed at Pincher Creek, but this is our best thought at this time.

We have contemplated a ten-year amortization on this type of plant due primarily to the fact that we are handling an acid gas, hydrogen sulphide, that will have some water in it. Replacement costs may even be higher than on a ten-year basis, therefore, when the plant is in actual operation we might have to figure a five-year amortization. There are eighty-seven pounds of sulphur content in one thousand cubic feet of hydrogen sulphide gas. The plant that we have contemplated will have an eighty-five per cent efficiency factor which leaves seventy-two pounds net of sulphur to be recovered. The gas at Pincher Creek runs approximately seven and one-half per cent, leaving a total of 5·4 pounds of recoverable sulphur per thousand feet of gas. This comes up to a total figure of $2.04 a ton for fixing sulphur. This figure does not contemplate a cost for the hydrogen sulphide gas. We are considering it as a residue, a waste product that would be converted to a useful chemical. Incidentally, this, of course, does not take into consideration handling cost; it considers only stock piling in large bins. There would be an additional cost for handling and certainly freight costs would be quite high. In our own figuring at Pincher Creek, the freight problem was the most difficult one because freight rates are pretty high, say from Pincher Creek to the consuming areas in the east. I do not have the exact figures but it seems to me that freight rates from Calgary to Winnipeg were something of the order of $24 a ton. I do not want to be tied to this figure but I believe it was $24 a ton from Calgary to Winnipeg. That is a figure I am drawing from memory and I do not want to be stuck with it later on.

Mr. MURRAY: Mr. Chairman, since we have an eminent engineer here this morning, Mr. Schultz, he might tell us some of the byproducts which could be manufactured from sulphur on the spot, too.

The CHAIRMAN: Could we not confine our interest to this statement in the meantime and later we can call on the engineer.

By Mr. Murphy:

Q. In addition to this information and essential also, I think, to the question: are there any other chemicals as byproducts that could be produced in quantity from this same source?—A. From the Pincher Creek?

Q. Yes.—A. Yes, sir. There are more hydrocarbons. There would be approximately when the field is completely exhausted a total of some twenty-seven million barrels of various hydrocarbons; that would include propane, butane, ethane, gasoline, diesel oil.

Q. Do you purpose getting those products in your processing before gas is delivered in the line?—A. Oh, yes, sir. The gas will be dried completely before it is put in line. All of the liquids will be removed by a gasoline absorption plant.

Q. Do you purpose showing revenue from those byproducts?—A. No; the transmission company, and I want to make this perfectly clear, at the present time does not have a purchase contract with the Gulf Oil Corporation. We are trying to deal with the Gulf Oil Corporation. The transmission company will buy or produce only the dry gas from any of these fields. It will not have a side income from the byproducts, so to speak.

Q. You purpose only to have the one plant for the recovery of these products?—A. Yes, sir.

Q. At Pincher Creek?—A. Pincher Creek is the only field so far that we contemplate would be tied into this transmission system that produces hydrogen sulphide.

Q. The recovery of other products would not be possible in the one plant? —A. No, it would not. I am sure that the Gulf would have no interest in disposing of twenty-seven million barrels of liquids, and if they recovered it, undoubtedly the plant would belong to them. It would be a separate item.

Q. There is one point I would like to get some information on. We have here the possible cost of the sulphur plant. Mr. Schultz has indicated that he thinks the freight rate is some $20 odd, say from Calgary to Winnipeg. This being such an essential product at this time I was wondering if we could obtain the freight rates from the source to certain parts of Canada where this product would be required in order to determine probably its comparative cost against the sulphur we get from other sources not so close?—A. We do not have those figures.

The CHAIRMAN: I do not imagine they have the figures but the figures would be obtainable by anyone. It just prolongs this situation by asking Mr. Schultz to bring this information to the committee when the information is available to all of us to make comparative laid down costs. I see what you are getting at and it is a good point, but I do not think we should detain Mr. Schultz by asking him information of this kind.

Mr. MURRAY: No, but I think it is important the committee should have the information. I wonder if it is not equally important, in view of this project, to get information on the volume of the other very essential byproducts.

The CHAIRMAN: Mr. Schultz, are you in a position to give that now, based on the extraction of sulphur?

The WITNESS: No, but I would say this, that when we first considered this product we considered that the sulphur was almost a break-even proposition, that there would be very little profit to be made in the sulphur, it might even have to be produced at a loss, but we were prepared if we built this line to fix the sulphur regardless of whether it could be operated at a profit or a loss because we knew that over a period of time if we were piling up 350 to 400 tons of sulphur a day, ultimately the market would come and get it. Of course, it can be stored without any difficulty, by just piling it up in several thousand ton blocks. Since our figure was prepared the price of Gulf Coast sulphur has advanced several times and there is not too much doubt in our minds now that the project could have operated at a profit, on some small margin of profit. There is one fact I have not figured in here and I do not know where the cost rightly belongs, but it will take about two cents a thousand of the raw gas to treat it out and remove this hydrogen sulphide, carbon dioxide, from the marketable gas.

The CHAIRMAN: If there are any other questions on this subject you can ask them now, if not, we can probably have Mr. Schultz give further evidence when we get further on with the bill.

Now, as far as your question was concerned, Mr. Murray—

Mr. MURRAY: I am thinking of the manufacture of acids and so forth which are vital to the industrial development of that area of western Canada.

The CHAIRMAN: You feel that some engineer present was qualified to answer that?

Mr. MURRAY: I do not ask for very detailed information.

The CHAIRMAN: Mr. Schultz, I believe, has the answers.

Mr. MURRAY: There is a great market there for some of the byproducts such as sulphuric acid, and sulphurous acid and other products, say in the manufacture of storage batteries, a demand right in the neighbourhood.

The WITNESS: Yes, that is true. Particularly, I understand, there is a fertilizer plant at Calgary that could undoubtedly utilize some part of this sulphur as sulphuric acid. Approximately twenty-five tons a day of sulphur are already being manufactured at Trail by Consolidated Smelters and I understand that that is being converted directly to sulphuric acid and marketed in that general area. We recognize that with this amount of sulphur available and a freight rate that might work to a disadvantage that it would be an ideal situation if we could bring in some new industry to Alberta and in that respect we have talked to one concern, the International Minerals and Chemical Corporation. They have indicated an interest, if we work out this development and produce this sulphur, of coming into Alberta and working out an arrangement to utilize this sulphur. We think that is very important that a company intending to take a natural resource from Alberta should induce new industry to come in, if we can, and that is one of our problems which we are working on. However, until something definite is done in the development of sulphur, an industry is not in a position to say it will or will not locate there, but at least we have had discussions and are carrying forward those discussions for the utilization of this sulphur within Canada.

The CHAIRMAN: Does that answer your question, Mr. Murray?

By Mr. Murray:

Q. What products does that company you just mentioned deal in?—A. Fertilizer, primarily. It is the biggest fertilizer making company in the world.

Q. They would establish at Pincher Creek or Calgary?—A. The general thinking was, somewhere in Alberta, to utilize that sulphur; that is the basis on which we are talking to them, that it would be a Canadian utilization of the sulphur.

Q. Thank you.

Mr. SHAW: May I as an Albertan commend Mr. Schultz' company for the energy he has indicated they displayed in trying to encourage an industry to become established in that province. It is very important. Yesterday, I made an enquiry with respect to the policy in connection with serving the various communities along the proposed route of the pipe line. To me that is extremely important, especially where this is likely to be the only pipe line company serving the area traversed by this pipe line.

The CHAIRMAN: Yes, Mr. Shaw, we are coming to that. You are quite in order, though.

By Mr. Shaw:

Q. I asked yesterday if the sole right to determine which communities are to be served is to be left with this company. Have you been able, Mr. Schultz, to get that information? You will understand why I feel keenly about this. If, for example, there are eight communities, and I am thinking of a specific area

now, ranging from 500 to 1,400 people, two of them in the neighbourhood of 1,400, a company could pick out those two large ones and make it economically impossible for any other company to come in and serve those remaining communities.—A. All I can say is that I cannot answer the legal aspect on it, but we have tried to demonstrate that we are willing to serve the small communities, and the only example I can cite is that we have been dealing with and have dug wells to supply the community of Picardville in Alberta. We have recognized the principle that home folks have to be taken care of and we are willing to do it where we have a gas field or a gas purchase contract in the field to take care of the local community. We do know that this transmission and gas gathering system will enable us to serve a large number of small communities that are not now being served.

The CHAIRMAN: Thank you very much, Mr. Schultz. I think we appreciate your interest in serving as many communities as possible but I think there is a legal aspect that covers this point that Mr. Shaw brings up and I would ask Mr. Matthews to come forward a minute and explain clause 51 in the Pipe Lines Act which takes care of that situation.

Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, recalled:

The WITNESS: Well, Mr. Chairman, I presume the committee is familiar with this clause 51 of the Pipe Lines Act, but I will read it.

> 51. Where the Board finds such action necessary or desirable in the public interest, it may direct a company to extend or improve its transportation facilities to provide facilities for the junction of its company pipe line with any pipe line of, and sell gas to, any person or municipality engaged or legally authorized to engage in the local distribution of gas to the public, and for such purposes to construct branch lines to communities immediately adjacent to its company pipe line, if the Board finds that no undue burden will be placed upon the company thereby, but the Board shall have no power to compel a company to sell gas to additional customers if to do so would impair its ability to render adequate service to its existing customers.

That section gives the Board power to order a company to extend its pipe lines to serve any communities which they think should have the service, but there is a limiting provision, that the Board shall have no power to compel the company to sell gas to additional customers if that would impair the economic position of the company and its ability to serve its existing customers.

By Mr. Shaw:

Q. Let us assume that this company is incorporated and secures a permit to export. They run their line through to Montreal. They decide they can procure customers enough in several of the larger cities including Montreal, Toronto, Ottawa, and so on, to take the gas; this line will carry gas to serve those communities, but the communities along the way which may feel they have a justifiable demand for gas are in effect told to jump in the lake.—A. I think it puts it up to the Board: "Where the Board finds such action necessary or desirable in the public interest, it may direct the company to extend or improve its line". So I presume if anyone had a complaint along the line they would apply to the Board and have it decided upon there.

Q. In the final analysis is it not a fact today that the Board has the right to say to the community or to the people of the community, "Now, if

you desire to form a company, we will force the transmission company to supply you with gas", but they cannot force a company to go in and establish a distribution system, that is, in any given community.—A. I think that is so.

Q. Well, this is the thing that concerns me. It may be economically feasible for a large company like this to supply gas to a local community where it may not be economically feasible for a local company to establish a distribution system because the company operates, as you appreciate, as an entire business, whereas, this one little group may have to function in one little community, after possibly building a three-mile long line to that community. Of course, I understand we probably have not had enough experience as far as the transmission of gas is concerned, and I would urge the Board to learn all it can about this Pipe Lines Act and if it requires to be amended I hope the government will see to it that the necessary amendments are submitted to Parliament.—A. In answer to that I will just say that this provision is something similar to the same provision in the Natural Gas Act of the United States where they have a good deal more experience than we have.

Q. How has it worked out?—A. They tell us it works out all right. However, if there is any difficulty about the operation of the Act the board will bring forward any amendments needed.

Q. While I am here I will keep my eye on it.

The CHAIRMAN: There is another question arising out of the meeting we had yesterday and that is one raised by Mr. Noseworthy, who asked for additional information as to the constitutional provisions which render it impossible for a pipe line of this kind to be classified as a common carrier.

The WITNESS: I do not think there is any constitutional difficulty about that because oil pipe lines can be declared to be common carriers and I should think gas pipe lines could be also. The difficulty seems to be one of a practical nature. Gas experts of the United States have told me that none of the gas lines there have ever been declared to be common carriers. The difficulty is a practical one arising out of the receipt and delivery of the gas. The gas comes in and flows along the line, and if it were a common carrier it would have to arrange to segregate the gas of the different companies, they would have to arrange to deliver it to different distribution systems, arrange for storage facilities for each company's gas, and so on.

Mr. SHAW: There is one common carrier in Alberta, if I am not mistaken, between Turner Valley and Calgary. I understand that the Alberta Conservation Board there made a decision forcing this particular pipe line to take gas from other companies. It was felt that there was too much waste in Turner Valley, and the company insisted on carrying its own product only.

The CHAIRMAN: But that law has been changed since.

Mr. SHAW: Yes, it has been made a common carrier. That company has been forced to take gas from small independent companies operating in that area.

The CHAIRMAN: But they cannot get any gas unless they gather gas from different sources?

Mr. SHAW: It is my understanding that that is an example of a gas pipe line that has been made a common carrier. That is what I wanted to convey.

Mr. APPLEWHAITE: They have more than one client? Are they carrying gas for more than one person?

Mr. SHAW: They have been forced to take gas from the various wells in Turner Valley.

Mr. APPLEWHAITE: They carry it for a fee, they do not buy it?

The WITNESS: Is that not a common purchaser line?

By Mr. Shaw:

Q. It is conceivable that the corporation distributing gas is a common purchaser.—A. Yes, one company operates the line for its own gas?

Q. Yes.—A. It is not a common carrier then, that is a common purchaser.

Q. One company built and owned the line and were carrying their own product. Many of the smaller wells could not dispose of their product, and action was taken to force the company to carry gas from the various wells owned by the different companies, and it is probably sold in bulk in the city of Calgary.

Mr. APPLEWHAITE: With your permission, Mr. Chairman, I would like to ask Mr. Shaw one question. What happens to their own customers while they are carrying gas for somebody else?

Mr. SHAW: Mr. Chairman, I do not profess to have all the details. I was merely pointing out that this was an example of a common carrier. I assume that they know the volume of gas they take from each company owning wells in Turner Valley into the main pipe line, and then, I understand, it is sold in bulk or distributed in Calgary.

Mr. APPLEWHAITE: Then, the gas is all mixed up?

Mr. SHAW: Naturally, it has to be.

The CHAIRMAN: This is really of indirect interest to this committee.

Mr. SHAW: Except it is an example of a common carrier.

By Mr. Noseworthy:

Q. I think in the case of the United States there is a limit placed on the profit that gas-carrying pipe lines can make. We have that limitation, I understand, in regard to pipe lines for oil but we have no provision whereby such a limitation can be placed on these gas pipe lines. What do you think is the necessary step to take in order to have that apply to gas?—A. I do not understand your question.

Q. In the case of the United States you said yesterday the federal authorities had placed a limit on the profit that may be earned by these gas pipe lines and that we had that in Canada in the case of the oil pipe lines. Now, what steps are necessary in order to secure similar legislation regarding gas pipe lines?—A. Well I do not think I did say that in the United States they put a limit on the profits that are made on these gas pipe lines. I have not any knowledge of that. In Canada I do not think they put a limit either on the profits, except under the Income Tax Act. A company such as the Imperial Oil carries oil by pipe line and I do not think there is any limitation placed on the profits made by the company except under the Income Tax Act. They carry their own oil from the well to the refinery, and I presume that it is all treated as part of their organization.

The CHAIRMAN: Can you tell us how the pricing is done? I think that will clear up all the unfinished business that was left over until today's meeting. Mr. Noseworthy has brought up the last point there. Who controls the pricing of the product? Is that a provincial jurisdiction?

The WITNESS: Well, we have been advised by the Department of Justice that it is a provincial jurisdiction. I do not know who controls it in the different provinces or whether there is any control on gas carried from one province to another at the present time. Perhaps it is the Utility Board. There is a Utility Board in Saskatchewan. I do not think there is any Board in Ontario which controls the price—there may be but I do not know. Anyway, our advice is that it is a matter of provincial jurisdiction and that it is up to the provinces to control the price at which gas is sold to the consumer.

By Mr. Murray:

Q. In British Columbia does not the Public Utilities Board control the price?—A. I presume it would.

Q. There is an actual example there, is there not?—A. I do not know what the gas situation is there.

Q. Gas is brought from Alberta to Dawson Creek, British Columbia, and distributed?—A. I do not know what the situation is.

Q. It is a fact that the Public Utilities Board have to give a certificate and to approve the price?—A. It would be a matter for the province.

By Mr. Shaw:

Q. I have one more question to ask Mr. Matthews. Do the provisions of that Act apply to the gathering system within the province?—A. I do not think so.

Q. Then, I do not know whether this is fair or not, but would you conclude, therefore, that it is a matter of provincial jurisdiction when it comes to laying down policy relative to servicing communities within the province—as far as the gathering system is concerned?—A. Well I am not very familiar with the pipe line business but, as I understand the split up, one company will handle the main trunk pipe line and another company will look after the gathering lines.

Q. Not necessarily in this case? I believe they have indicated that they would like to operate the entire gathering system as part of their main trans-Canada pipe line system—however they may have to do otherwise?—A. I think it is all operated by the same company and I would think they would have just as much control over the gathering line as over the main line.

Q. You are speaking from the point of view of the Board of Transport Commissioners?—A. Yes, as I understand the split up that is my answer. In this case it seems to be different.

The CHAIRMAN: Well, gentlemen, are we ready to consider the bill?

Agreed.

Shall clause 1 carry?

> 1. Clinton Williams Murchison, oil and gas executive, and Frank August Schultz, oil and gas executive, both of the city of Dallas, in the state of Texas, one of the United States of America, John Ross Tolmie, barrister and solicitor, John McCreary Coyne, barrister and solicitor, and Ross Garstang Gray, barrister and solicitor, all of the city of Ottawa, in the province of Ontario, together with such persons as may become shareholders in the company, are incorporated under the name of Trans-Canada Pipe Lines Limited, hereinafter called "the Company".

Mr. APPLEWHAITE: With respect to clause 1 I wish to raise a small question. It may seem a silly question or it may not. The trans-Canada highway—a purely national endeavour, and Trans-Canada Air Lines, a nationally owned air line, use the word "trans-Canada" and I think that a lot of people not only in Canada but elsewhere have come to think of that name as being connected with a national or publicly owned operation. I do not suppose the Dominion of Canada has any vested interest in the words "trans-Canada" but I wonder whether the committee does or does not consider that there is some merit in perhaps trying to retain the term "trans-Canada" for things which are purely Canadian and owned by the people of Canada. I think the question is at least worthy of consideration by the committee.

The CHAIRMAN: Is there any discussion?

Mr. MURRAY: Well I would say that if they called it "Canada pipe lines" it would be just as all-embracing as "trans-Canada", when they are building a pipe line across Canada through the various provinces.

The CHAIRMAN: It involves a change of name for the company. Would you care to remark on that Mr. Tolmie?

Mr. TOLMIE: With respect to the name "trans-Canada" I may say that we checked with the companies branch and they had no objection to the name. We reserved it with them. It is true that the companies branch will now allow a company to be incorporated with the name "dominion", "federal" or "Canada" to denote national ownership. There is Trans-Canada Air Lines and what is commonly referred to as the Trans-Canada highway. There are, however, other trans-Canada operations. I believe that the Canadian Pacific Railway had a train called the "Trans-Canada" and there are highway operations. The name has not been arrogated to any dominion or federal use as such.

The CHAIRMAN: Shall clause 1 carry?

Carried.

Clause 2.

Carried.

Clause 3.

3. The capital stock of the Company shall consist of five million shares of the par value of one dollar per share.

Mr. GREEN: On clause 3 may I ask a question. Apparently the applicants are only making provision for sufficient capital to get the company set up and not to actually do the construction. When they come to construct the pipe line will they then have to come back to parliament for an increase in capital?

Mr. TOLMIE: Yes, Mr. Chairman, that is contemplated. We would have to seek, like any other company incorporated by parliament, authorization for an increase in capitalization. However, there is no point in shooting at a very large figure now because of the incorporation fees. When we know the exact amount we would want to fix on that. Then, there is also the transfer tax on the transfer of stock and we do not want to have too large a par value at this stage. If recapitalization were required we would have to come to parliament and have the exact amount settled then.

Mr. McIVOR: Are these shares offered for sale in Canada only?

The CHAIRMAN: No, and I think that is covered in yesterday's evidence. Shall clause 3 carry?

Carried.

Clause 4.

Carried.

Clause 5.

Carried.

Clause 6.

6. The Company, subject to the provisions of any general legislation which is enacted by Parliament relating to pipe lines for the transmission and transportation of gas or oil or any liquid or gaseous products or by-products thereof, may

(*a*) within or outside Canada construct, purchase, lease, or otherwise acquire and hold, develop, operate, maintain, control, lease, mortgage, create liens upon, sell, convey or otherwise dispose of and turn to account any and all interprovincial and/or international pipe lines and all appurtenances relative thereto for gathering, processing, refining, treating, transmitting, transporting, storing, and delivering natural and artificial gas and other gaseous or liquid hydrocarbons,

and purchase, or otherwise acquire, process, refine, treat, transmit, transport, and sell or otherwise dispose of and distribute natural and artificial gas and other gaseous or liquid hydrocarbons, and own, lease, sell, operate, and maintain aircraft and aerodromes for the purpose of its undertaking, together with the facilities required for the operation of such aircraft and aerodromes; and own, lease, operate and maintain interstation telephone, teletype and telegraph communication systems and subject to *The Radio Act, 1938,* and any other statute relating to radio, own, lease, operate and maintain interstation communication facilities;

(*b*) purchase, own, lease or otherwise acquire and develop and turn to account and sell, deal in and dispose of real and personal property of whatsoever nature used or capable of being used in connection with its undertaking; and

(*c*) exercise as ancillary and incidental to the purposes or objects set forth in this Act, the powers following, unless such powers or any of them are expressly excluded by this Act, namely, the powers set forth in paragraphs (*a*) to (*bb*) inclusive of subsection one of section fourteen of *The Companies Act, 1934.*

Mr. THOMAS: Possibly I should have asked this question in the general discussion before the bill came in, but I see by this gathering map that almost half the gas is to be obtained from the Pincher Creek field. I wonder if Mr. Schultz could tell us the comparative cost of drilling or producing in the Pincher Creek area as compared with other sections of the gathering system?

Mr. SCHULTZ: The study we have made at Pincher Creek indicates that the wells will cost approximately $750,000 each. It is our thinking that to fully develop the field will take approximately 21 wells. The drilling cost out on the prairies is considerably less. I would say that for a completed well there our average cost to date is approximately $50,000. The only difference is that the fields in the prairies are figured to contain as much as 30 billion feet of gas for an entire field. In the Pincher Creek area the best engineering shows a trillion and a half feet of gas to be produced. So, although the wells are more expensive at Pincher Creek the amount of gas to be recovered from the wells makes the over-all cost probably less in the long run than for drilling on the prairie fields.

Mr. THOMAS: That is what I wanted to know. I was under the impression that wells had to be almost twice as deep in the Pincher Creek area.

Mr. SCHULTZ: Yes, 12,500 feet.

Mr. THOMAS: Production would offset the cost of drilling?

Mr. SCHULTZ: Exactly.

The CHAIRMAN: Shall clause 6 carry?

Mr. MOTT: With reference to paragraph (*a*) I see it says "within or outside Canada". Is it the intention for this company to run gas outside of Canada? You can branch off anywhere on this trans-Canada line, go down into the States over various routes. You could even turn around in this case and run out to the coast. Is not that a very wide clause—"within or outside of Canada?"

That was the very cause of all the argument last year in this committee. Now we have what is supposed to be an all-Canada line but you have here "—outside Canada".

The CHAIRMAN: Would you answer, Mr. Tolmie?

Mr. TOLMIE: That is probably an abundance of caution of the legal draftsmen, for which we must take full responsibility.

It is quite usual, and in order, to provide that any company incorporated in Canada has power to carry on its activities within or without Canada. That is in accordance with the precedents and the standard form which we adopted, largely because we do not want to have it ever raised that we have not the power to carry on any activity outside Canada.

As you will notice the special powers include a lot of ancillary powers, some of which may have to be carried on outside the country. For instance, in connection with the sulphur problem, it may be that the marketing of sulphur or the treating of it cannot be undertaken in Canada economically, and the company would have to set up some branch or some plant outside of Canada.

Likewise, with any of the ancillary powers referred to in paragraph (*c*) in connection with the pipe line, they would want to have the power legally to carry on business outside the country. It is really to get around any suggestion that the doctrine of ultra vires would be used against this company.

Now, on the broad question of whether or not with this charter the company may turn around and apply for the right to build a line outside of Canada, or to go out to the west coast through the states of Idaho or Washington, all I can say is that the Board of Transport Commissioners are the ones who will decide on the route. As you have heard the whole preparation and conception of this is an all-Canadian route east, and that is where the study has been made; that is the way the application has been prepared, both for the Transport Board and for Alberta. It would be very difficult to change or about face and use this charter for a line designed to go somewhere else.

Mr. CANNON: It is not the intention?

Mr. TOLMIE: It is certainly not the intention and the whole preparation and the work that has been done is completely propounded upon this all-Canadian route or eastern route where the market has been surveyed with great expense and a great deal of particularity with respect to the small towns and communities.

Mr. MOTT: In so far as this act is concerned, and in so far as we are concerned in passing it, this line can be outside of Canada or branch off anywhere under that clause. That is what caused the whole discussion last year and here is the same thing.

They can go to Winnipeg, and then get permission from the Board of Transport Commissioners to run down to Duluth or somewhere else. We were given to understand that this was an all-Canadian route, and then in the first paragraph of this clause you have "within or outside Canada".

It is all right with me, but it is the same thing over again. We hear all about Canadian routes and then, in this clause, we say that you can take them anywhere.

The CHAIRMAN: I think Mr. Mott has brought up a very good point and it is one on which the committee should be reassured. In the committee and in the House last year, rightly or wrongly, opposition developed on that very point. I think the committee should assure the House on the point, and also that the committee should be assured that this is an all-Canadian plan or project as we have been led to believe that it is.

Now, if Mr. Tolmie or any of his people here can give us that assurance I think the committee would like to have it.

Mr. MURRAY: Would it not be possible to just strike out the second and third words in subclause (*a*)?

The CHAIRMAN: I beg your pardon?

Mr. MURRAY: Could we not delete the words "or outside"?

Mr. TOLMIE: If I may suggest it, that is the very thing, out of an abundance of caution as a lawyer, that you should not recommend. You state specifically that this company can only do business in Canada. The powers of the company to hold property and to negotiate any kind of contract would be specifically stated to be within Canada and that would be contrary to the normal method of incorporation of a company to carry on business anywhere in the world. The alternative would be to drop all of the phrase "within or outside Canada". Then the inference would be the same as that for any other company, that it has the power to carry on business anywhere in the world.

Mr. MURRAY: There has been very strong feeling in areas right across Canada with respect to whether these operations would be within Canada. I think you could change the wording of it so as to give the company full right to proceed with business activities outside of Canada.

The CHAIRMAN: Yes, disposing of by-products and that sort of thing in the United States.

Mr. MURRAY: It seems to me that the understanding is that the line is to run across Canada.

Mr. SHAW: When this company applies to the Alberta government for an export permit, which they will do I understand before they start construction, they are going to have to specify, are they not, and to specify very definitely, where they are going to export the gas? Is that right or wrong?

The WITNESS: If we go before the Alberta Board we will have to specify specifically the route we intend to follow. We assume that we will obtain an export permit based upon an all-Canadian route. I do not see how we can possibly get an export permit for 365 million feet of gas for the eastern market and then turn around and build to the south or west. Our entire thinking has been an all-Canadian route from the beginning and I think an export permit would have no basis if we obtained it with the understanding the gas was going east and then try to do something else with it.

Mr. MOTT: Why not cut out that "outside Canada", for the transport of gas and oil? It is easy enough to say that it is an all-Canadian route now, but you may go to the Alberta board later on and say that you are trying to put gas out to the Pacific coast or, all of a sudden, say that you have found a route down to Duluth or somewhere else in the United States. Then you would say: "Well, our line is in, why can't we transfer it down there". If you did that you would not then get a permit to transfer gas to the Pacific coast.

The whole argument hinged on that last year in both the House and the committee. If this is going to be inside Canada why not cut out "outside Canada" —except for by-products where you could say "outside Canada".

Mr. THOMAS: I might suggest that this discussion should have been carried on when the master pipe line bill was in the House in 1949.

The CHAIRMAN: Well, we have to deal with this particular bill.

Mr. GILLIS: The matter was raised in 1949.

Mr. HERRIDGE: Following up the statement made by Mr. Murray, possibly this act could be changed to provide for the piping of gas within Canada but to provide for other activities of the company outside Canada. Mr. Murray has mentioned, as Mr. Mott has, the strong feeling in Canada that we want these natural resources to serve Canadian requirements. I would like to ask if this section cannot stand and consideration be given to amending it so that it is clear there is authority to build a pipe line in Canada and to conduct the other business outside of Canada. That should be confirmed by these gentlemen and the Canadian people assured.

Mr. STUART: There has been a lot of discussion about gas and oil for Canadians and we have heard these arguments before. I am not saying that the members are not sincere but it would appear to me that if the gas or oil goes to British Columbia the members there would not worry too much about where else it went.

Mr. MOTT: No, it is just the opposite.

Mr. STUART: No, I am of the impression that they say: "If we get what gas we want in British Columbia, and we want to be on the line, if there is any surplus then send it to the United States or anywhere else you wish".

I might suggest a plan for putting a smaller pipe line into British Columbia, enough to service their needs, and then there would be none for the United States and they could send some down to the maritime provinces.

Mr. HERRIDGE: That is what we are fighting for.

Mr. STUART: Well, if we are, let us be consistent. If it is an all-Canadian proposition let it be for Canada. You people, though, seem to say that you want enough for British Columbia but you will let the rest of us, down in the maritimes for instance, fend for ourselves. Your argument is: give us all we want in British Columbia, and what is left you can ship over the border or anywhere else. As long as you get what you want you are satisfied.

Mr. NOSEWORTHY: Is there any provision in this Act whereby this company, if they found it economical and more profitable, could not build this line from the head of the lakes down into United States territory? Is there anything in the bill that they cannot in fact do that if they can persuade the Board of Transport Commissioners to give them a permit? Is there anything in the bill to that effect?

Mr. TOLMIE: All I can say in answer to that is that this bill is to incorporate a company to build pipe lines in accordance with the Pipe Lines Act and the Pipe Lines Act requires this company, or any company when incorporated, to apply to the Board of Transport Commissioners to get authorization for the route.

I would suggest, sir, that it is inconceivable that a company that has gone to the lengths this company has, both in telling parliament and in telling the public, and in spending money in the investigations it has made of markets across the country and on engaging engineers to survey routes, would with a straight face go to the Transport Board and say: "Notwithstanding all we have said we now want to apply for a route different from that which we said we were going to apply for". Even if they did that the Transport Board, I think, would refuse the application because the company would have showed bad faith.

This bill to incorporate the company is giving it all the powers considered necessary for it including the carrying on of activities outside the country if necessary. Included is, incidentally, the power to borrow money and to issue their stock. As we heard yesterday or the day before, a large part of this money will have to be borrowed from American insurance companies through American underwriters. I would suggest, with respect, that if amendment is desired, the words "within or outside Canada" should be dropped so that there is no specific statement that this company is incorporated only to do business in Canada. Give it the powers of a natural person to do business as a company, so when it comes to carry on business outside of the country someone will not raise the question of the company having no powers to do this or that. They would say it is limited to carrying on business in Canada, and that is very different from any other dominion incorporated companies which have been incorporated under the Companies Act.

Mr. GREEN: Mr. Chairman, if you will remember when this pipe line question first came up in the House, and during the discussion that has taken place since,

some of us suggested that there should be written into each charter the route that was to be followed just as has been done in the case of a railway. We were not able to convince the government that should be the method followed. The government took the position that this Act was to be for a general charter. Then, we were put back in the position where all we could do was deal with the statement of the applicants as to where they intended to build the line. It was on that basis that last year we opposed the charters of the companies which were proposing to build through the United States. Certainly it would have been much better if in each charter there could have been written the route where the line would go. However, we have never been able to have that suggestion accepted.

Here, in this case, we have a company which is committed up to the hilt so far as representations are concerned and so far as preparations are concerned, to build an all-Canadian gas pipe line right from the west to the east—something which I personally did not dare argue last because I did not think it was feasible. I thought I would have been laughed at if I had argued that and I certainly would have been. However, I am all in favour of a plan of this type.

However, these people have come in and are prepared to go ahead and risk development of this kind, which somebody said yesterday may be as important to Canada as the construction of the Canadian Pacific Railway line. I think it has helped to change the thinking of a great many Canadians on this question of using Canadian products for Canadians first.

To just simply take this Act and change it when other companies' acts were allowed to go through on the other basis, the basis adopted by the government, is hardly fair. Last year some of us moved an amendment to put in words into what would be section 6. I forget how we worded it because I have not got my file this morning but it provided they would have to build their pipe lines through Canada or had to serve Canada first. We did have an amendment of that type moved which was voted down. We moved it on both the bills but it was voted down both times. Perhaps something of that kind may be written into this section 6. I do not know whether it could be or not.

Mr. RILEY: Where was that?

Mr. GREEN: It is in the middle of paragraph (*a*) of what is section 6 of this bill and I think it said something about serving Canada first, something about the main transmission line being in Canada. The records will show just what the terminology was. I think these people certainly are proposing to do something which would be very much to the interest of Canada and I believe they are genuine in their proposal. If it turns out they are deceiving us they will certainly get a rough ride in several different directions. I do not think they would be able to build their pipe line at all if they are putting over a deception in this committee, but I think the way they have given evidence is enough to convince anyone they are straightforward about their proposal.

Mr. MCCULLOCH: If they serve Canada first they should have the right to sell their surplus anywhere else they can.

Mr. MURRAY: The word "deception" should not be used in this committee.

Mr. SHAW: I would say in the sense it was used it was perfectly all right. He did not accuse anyone of deceptive action.

Mr. MURRAY: We are not dealing with matters of opinion, we are dealing with a great national issue here and when these other pipe line bills were before us we were dealing with a little factor known as the Rocky mountains. We have no Rocky mountains to surmount in this case, we have open prairie and open territory all the way to Montreal and we can very nicely build a pipe line to Montreal and follow the lines of nature.

The CHAIRMAN: I do not think that is the question exactly. The question is that the House generally assumes that this is to be an all-Canadian pipe line and it met with a very good reception in the House in the various speeches that were made, and I heard them all. The only thing that we want as a committee is to be able to go back to the House and recommend the bill on that understanding. If the company could work out something through their solicitors to satisfy that angle I think it should be done.

Mr. NOSEWORTHY: Mr. Chairman, there is this difference. The other companies last year had no intention of building an all-Canadian pipe line. These people point out they have every intention of building an all-Canadian pipe line and if that is their obvious intention why do they not give us assurance by writing that into the bill that the gas will come to Montreal by an all-Canadian route.

Mr. MOTT: As far as I am concerned I am not one of those who feel that I want to be narrow-minded on this at all. It is set out to be an all-Canadian pipe line but I think if this line is going to Montreal and if there is some rearrangement along the line which will take gas to the consumer cheaper, I would be all for it. On the bill that we had before us last year, in order to lay a line to Vancouver, British Columbia, they had to duck down around the mountains to save something like ten millions of dollars to get to the coast, but I was for it. We have been given the impression that this is to be an all-Canadian pipe line and that is what we think it is, it is a Trans-Canada line; and you should be able to take off taps anywhere along that line for a large city or a large industry or even for an atom bomb industry which consumes a lot of gas located across the border somewhere, if this would be the closest line to take off the gas. As far as I am concerned I think they should give all latitude to help the other side, which will, in turn, help us. We are given to understand that this pipe line is to be laid within Canada and as far as I am concerned if they want to take it down that way I do not mind as long as we can get the gas as cheaply as we can.

Mr. GILLIS: I just want to say this. The wording there is unfortunate. I was quite impressed with the witnesses, and apart from the effect it might have on our maritime coal industry I am in favour of this project. I objected to all those other bills from the start but not because of the route they were following. My main objection, I might say to Mr. Thomas, to all those pipe line bills was based on the fact that we were handing over for all time our resources to American capital, and that if risk capital could not be found in Canada then I thought the Canadian government should develop these pipe lines; it certainly could have raised the capital. I am convinced of the sincerity of the people making this proposal. At least we have one thing that we did not get from any of the other pipe lines, we have a map here which shows us that the route is going to be straight across Canada from Calgary to Quebec City. If we go back to the House with that bill as it is worded now, we are going to raise all the discussion that we have had on those other pipe lines, and it will be picked on and hung up week after week. If some way could be found to change that wording I think it would avoid a lot of friction. Now, we may check all these statements the witnesses have made, but we have had on a good many occasions cabinet ministers who came before us on a bill and assured us they were absolutely certain on a point and then months after that they would argue in the House and say that this law is not being applied in accordance with what the minister said and the reply is that what the minister said does not matter, it is what the bill says. There is not a thing to stop this company from going down from Calgary and shooting in any direction they like. There is nothing in the bill to say that this pipe line is going to be built on an all-

Canadian route to Montreal. If we had something in there that would give us that assurance or remove the ambiguous language that is there now, I think it would save the company a lot of trouble.

The CHAIRMAN: Mr. Tolmie has just said he is quite willing under the circumstances to take out the first four words of clause (*a*) in section 6 "within or outside Canada".

Mr. NOSEWORTHY: That would not make an iota of difference as far as this bill goes; the omission of those words does not make one iota of difference.

Mr. CANNON: Mr. Chairman, I think that the committee ought to be satisfied with the assurances, the clear assurances that are being given by the promoters of this bill that an all-Canadian route will be followed. Last year I remember we were not able to pin anybody down. We would be told that the route would be where the board said it would have to be, and the promoters of the bill would not take a definite stand or undertaking that it would be an all-Canadian route. Here we have evidence to that effect, it is on the record, we have a map, we have the notes taken in shorthand and we will have the printed report of the committee. The statements that have been made here will be on record and I think that we have ample safeguards with these statements and with the fact that all plans have been made for it to be an all-Canadian line, and also we have safeguards in the fact that the permits will have to be obtained from the Alberta Conservation Board. I think we have ample safeguards that it will be an entirely Canadian route and under these circumstances we should accept the assurances of the people behind this bill that it will be such. I know, as a lawyer, it would not be advisable to put in clause 6, simply the words "within Canada" as we would be so restricting the activities of the company that it would make the charter absolutely useless.

Mr. HARKNESS: I am quite satisfied myself as to the intentions of the company, but I am wondering if they would be willing to write into the bill to meet the wishes of the committee, a clause some place containing simply a phrase along this line: that the main transmission route will go from Alberta to Toronto and Montreal along the general line of the Canadian Pacific Railway.

Mr. TOLMIE: I am afraid, Mr. Chairman. This is a form of bill which has been worked out by the law officers of the crown. It is standard form with regard to the creation of a company to carry on a pipe line business, build a pipe line, maintain it and carry on ancillary business to it. Now, the big objection to specifying that this company is only incorporated to do a certain thing in a certain area is that you have immediately restricted the powers of that company to the point that we may not be able to finance it. The words "within Canada" would block our efforts. The suggestion we take out the words "within or outside Canada" contracts our whole program; at least, though it does not point up that it is limited within Canada, it still leaves the company incorporated to do business anywhere in the world. We must have that power, otherwise we cannot raise the money to finance the project. The British-American Pipe Line Company incorporated in 1949 to build a pipe line between Montreal and Toronto had the same words exactly "inside or outside of Canada". They have to sell or purchase oil outside of the country, and they were given the powers of a natural person to do that. I cannot imagine what we would have to do outside of Canada later on but we certainly must borrow money outside of Canada and for that reason if there is a disposition to amend we should not point up that it is only limited within Canada by taking the words out "within or outside Canada". Futhermore, we would have to check with the law clerks of the two Houses, the Department of Justice and I think the Counsel for the Department of Transport who have settled on a form of bill. We thought we were strictly within it, but if these words are taken out then it is just as it is, it has powers to do certain things.

Mr. HARKNESS: I think Mr. Tolmie has misunderstood my meaning. I do not suggest that these words "inside or outside Canada" or "interprovincial pipe lines" should be taken out at all. I suggest there should be added the words that the main transmission line will run from Alberta to Toronto and Montreal in Canadian territory; in other words there will be nothing taken out which will restrict your powers in any way but there would be an assurance contained in the bill that the main transmission line would run across Canada.

Mr. APPLEWHAITE: I do not know these people from Adam. They have apparently satisfied the majority of this committee that they are not only sincere but they are going to operate along the lines that the majority of this committee wish, undertakings which the sponsors of a great many other pipe line bills which we have passed did not give to satisfy the committee along those lines. Under those circumstances it would be unfair to place restrictive provisions in this bill which did not appear in other bills which have already been passed by this parliament, and I do not want to be a party to make fish out of one and flesh out of another. I do not think it would be fair under any circumstances to issue two similar bills, one restrictive and one not, and I think it would be particularly unfair to do so in the bill before this committee, as we seem to be satisfied with the bona fides of the sponsors.

The CHAIRMAN: You must not overlook the fact that there are other bills coming to this committee, Mr. Applewhaite, and if you take that broad viewpoint on this bill, to be consistent you will have to consider the other bills in the same light.

Mr. HODGSON: This bill is called the Trans-Canada Pipe Line Bill. There should be something in that bill to say that this line is going to be in Canada. Because we have been fooled before is no reason why we should be fooled again. Two wrongs do not make a right. There should be some clause in that bill guaranteeing that this pipe line will be built in Canada.

Mr. NOSEWORTHY: This company obviously intends to build this pipe line between Alberta and Montreal through Canada. They have given us that assurance. All we ask is that there should be something written in the bill to that effect, but which will not limit them to carrying on a business anywhere in the world. We should insist that the main transmission line from Alberta to Montreal should go through Canadian territory, I might say that we have never been given that assurance by any of the gentlemen who have come before us previously, and since these people give us that assurance in committee here we just cannot see their objections to having that declared in the bill, that as far as the main pipe line is concerned it is to be laid from Alberta to Montreal through Canadian territory.

Mr. MCIVOR: I am not a lawyer, but sometimes I have some practical sense. This is the first time that we have had a pipe line of any description that is all Canadian and I thought that there would not be any doubt about it in committee because the pamphlet we received stated the different places, towns and cities that were to be served by this pipe line. I am concerned because I do not want anything to stop this pipe line bill going through because I think it is fair. The company has shown itself to have initiative. When somebody in Alberta announced there was not enough gas to keep this pipe line going the company found seven other sources of gas. I think this shows initiative that should get encouragement.

Mr. RILEY: In line with the suggestions that have been offered to date I am wondering just what reaction is in the minds of the intended incorporators in respect to this assurance going into the bill that the main transmission line be carried in its entirety across Canadian territory. If they are prepared to give us that assurance, then, what objection would they have to a clause being inserted in the bill which would require that the main transmission line go across Canadian soil in its entirety? They may have had a reason for giving

that assurance; then if they had such a reason, surely they would have no objection to the clause being inserted in the bill. I do not doubt but that at some time in the future it may be necessary to bring gas to this transmission line from some section of the United States and as the country develops to tap gas off that transmission line to flow into the United States, but in the light of their assurances what objection would they have now to having a clause inserted in the bill?

The CHAIRMAN: I think we ought to have a reply to that and have it cleared up.

Mr. TOLMIE: Mr. Chairman, there is no objection whatsoever and I thought that was made clear. We are dealing with a standard form of pipe line act and to suggest that we make this or that change without regard to what it does to other provisions and powers of this company is going to take some careful consideration and I would not like, for instance, to state that the main transmission line shall follow the Canadian Pacific Railway or the Canadian National Railways main line or to restrict the company's powers to do business outside the country in any ancillary way; and more than that I would suggest that since the law officers of practically all bodies of the government concerned with this have pretty well settled on the bill I should consult with them if we are going to make any change in the standard form. We might do it hastily and so make this particular company a rather special case corporatewise.

Mr. RILEY: I am very much disappointed in the way Mr. Tolmie answered this question. I want to give him to understand that I have no objection to this bill at all other than the fact that a suggestion was made that in order to confirm the verbal assurance, a section be put in the bill to confirm that assurance. In answer to that Mr. Tolmie comes back with this matter of doing business inside and outside of Canada. I have no objection to amending that section in any way. Add a section to the bill which will not destroy any part of the bill but will give assurance to the Canadian people in the light of the assurances already made verbally by the incorporators that the transmission line will be carried across Canada. I would like to get that specific question answered.

Mr. GREEN: I think I have an answer here. This is the amendment which was moved last year:

> That paragraph (*a*) of Section 6 of the Bill be amended by inserting after the word 'hydrocarbons' in the twenty-eighth line the following: 'provided that the main pipe line or lines, either for the transmission and transportation of oil or gas shall be located entirely within Canada.'

The CHAIRMAN: What bill was that on?

Mr. GREEN: The Alberta Natural Gas Company. It just so happens, Mr. Chairman, that the same word is in the same line in this bill. The additional words will be "provided that the main pipe line or lines, either for the transmission and transportation of oil or gas shall be located entirely within Canada." Now, I think that that meets Mr. Riley's suggestion and it would not conflict with the company's power to do business outside of Canada and it would make absolutely certain that the main line must be built within Canada. I think perhaps the word "gas" should go ahead of "oil" because this is a gas company. I realize if the sponsors of the bill would like to discuss this not only among themselves but perhaps with the departmental officials they should be given time to do so. If they would approve of an amendment of that type I suggest it would meet all our objections and would be settling a very fine question for some of these other lines.

Mr. MOTT: I raised this question because last year each one of the gas and oil lines was going to go through the United States and then up to Canada, but

in this particular case we are given to believe that there is none of this gas to be exported to the United States, it is a separate Trans-Canada line running to Toronto, Ontario, and through to Montreal over all-Canadian territory. I did not raise that objection because this company is to carry on business within Canada, but the others were in Canada but were going through the United States.

The CHAIRMAN: I believe this point that has been raised is extremely important, and I believe that we have had a good discussion which probably will lead into something definite being done to satisfy the members of the committee. I would suggest we adjourn at this point to allow the company and the legal officers who are handling their case, to clarify this point and try to satisfy us, when they come back. I think today, we could meet at 4.00 o'clock to give us an opportunity to carry on this discussion. They have to check with the law officers and I think that would be reasonable.

Mr. GREEN: We are in a particularly bad spot today. At 4.00 o'clock we will be dealing with a bill in the House.

The CHAIRMAN: We have given away to that viewpoint for three sittings. Mr. Tolmie has said they can do it by this afternoon. I might say that I have a busy day myself in front of me.

We will adjourn until 4.00 o'clock.

The committee adjourned.

AFTERNOON SESSION

The committee resumed at 4:00 p.m.

The CHAIRMAN: Before adjournment we were discussing clause 6.

Mr. SHAW: On a question of privilege: before you get into something else, this morning I made a statement that I think was not true and I am one who likes to admit the need of making a correction. I suggested that the gas pipe line from Turner Valley to Calgary was a common carrier. I am advised now that that line is owned by the distributor but that the distributor is a common purchaser. It is the oil pipe line that is a common carrier. I would like to have that correction made.

The CHAIRMAN: Thank you very much, Mr. Shaw. The committee appreciates it and the correction will be made.

Mr. SHAW: I was speaking only from memory this morning. Common purchaser is the term.

The CHAIRMAN: Getting back to clause 6, and particularly subclause (*a*), Mr. Tolmie and Mr. Schultz have had an opportunity of discussing this matter. Have you any suggestions to meet the desire of the committee in way of an amendment?

Mr. TOLMIE: Mr. Chairman, concerning the amendment which Mr. Green proposed this morning, I took the liberty of checking that with the law clerks of the Senate, the House of Commons, and the Department of Transport and they see no technical or legal difficulty with such a wording under the Pipe Lines Act and as far as we are concerned it does not handicap this company in the ancillary powers or the general powers of the company which was the main point that we were worried about and we would have no objection whatsoever to that amendment.

The CHAIRMAN: Have we the wording of the amendment?

The CLERK: That paragraph (*a*) of section 6 of this bill be amended by inserting after the word "hydrocarbons" in the twenty-eighth line the following: "provided that the main pipe line or lines, either for the transmission or transportation of gas or oil shall be located entirely within Canada."

Mr. GREEN: I so move.

Mr. HERRIDGE: I second that, Mr. Chairman.

The CHAIRMAN: I think you meant line twenty-four, did you not, Mr. Green? Hydrocarbons is in line twenty-four of the present bill.

Mr. LAFONTAINE: You have the word "hydrocarbons" in line twenty-eight too.

Mr. TOLMIE: Yes, it occurs in two places.

The CHAIRMAN: Is that where it comes in, in line twenty-eight? After the word "hydrocarbons" in the twenty-eighth line the following words are to be added: "provided that the main pipe line or lines, either for the transmission or transportation of gas or oil shall be located entirely within Canada."

Mr. LAFONTAINE: Why should it not be only gas pipe lines?

Mr. TOLMIE: In this case it is only gas.

The CHAIRMAN: There would be no objection to leaving both gas and oil in.

Mr. TOLMIE: No, it does not matter.

The CHAIRMAN: Does any member of the committee have an objection? Shall the amendment carry?

Carried.

Clause 6, subclause (*b*)?
Carried.

Clause 6, subclause (*c*)?
Carried.

Clause 7?
Carried.

Clause 8?
Carried.

Clause 9(1)?

9. (1) The Company shall not make any loan to any of its shareholders or directors or give whether directly or indirectly, and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of, or in connection with a purchase made or to be made by any person of any shares in the Company: Provided that nothing in this section shall be taken to prohibit:

(a) the making by the Company of loans to persons, other than directors, bona fide in the employment of the Company with a view to enabling or assisting those persons to purchase or erect dwelling-houses for their own occupation; and the Company may take, from such employees, mortgages or other securities for the repayment of such loans;

(b) the provision by the Company, in accordance with any scheme for the time being in force, of money for the purchase by trustees of fully paid shares in the capital stock of the Company, to be held by, or for the benefit of employees of the Company, including any director holding a salaried employment or office in the Company; or

(c) the making by the Company of loans to persons, other than directors, bona fide in the employment of the Company, with a view to enabling those persons to purchase fully paid shares in the capital stock of the Company, to be held by themselves by way of beneficial ownership.

(2) The powers under paragraphs (*b*) and (*c*) of subsection one of this section shall be exercised by by-law only.

(3) If any loan is made by the Company in violation of the foregoing provisions, all directors and officers of the Company making the same or assenting thereto, shall, until repayment of said loan, be jointly and severally liable to the Company and to its creditors for the debts of the Company then existing or thereafter contracted: Provided that such liability shall be limited to the amount of said loan with interest.

Mr. HERRIDGE: Would the witness just explain the full meaning of that section?

Mr. TOLMIE: Clause 9, Mr. Chairman, is the usual provision to prevent the company making loans to shareholders or directors or officers that might dissipate the funds of the company.

The CHAIRMAN: Shall the clause carry?
Carried.

Clause 9 (*a*)?
Carried.

Clause 9 (*b*)?
Carried.

Clause 9 (*c*)?
Carried.

Clause 9 (2)?
Carried.

Clause 9 (3)?
Carried.

Clause 10?
Carried.

Clause 10 (*a*)?
Carried.

Clause 10 (*b*)?
Carried.

10. The redemption or purchase for cancellation of any fully paid preferred shares created by by-law pursuant to the provisions of this Act, in accordance with any right of redemption or purchase for cancellation reserved in favour of the Company in the provisions attaching to such preferred shares, or the redemption or purchase for cancellation of any fully paid shares of any class, not being common or ordinary shares, and in respect of which the by-laws provide for such right of redemption or purchase, in accordance with the provisions of such by-laws, shall not be deemed to be a reduction of the paid-up capital of the Company, if such redemption or purchase for cancellation is made out of the proceeds of an issue of shares made for the purpose of such redemption or purchase for cancellation, or if,

(a) no cumulative dividends, on the preferred shares or shares of the class in respect of which such right of redemption or purchase exists and which are so redeemed or purchased for cancellation, are in arrears; and

(b) if such redemption or purchase for cancellation of such fully paid shares is made without impairment of the Company's capital by pay-

ments out of the ascertained net profits of the Company which have been set aside by the directors for the purposes of such redemption or of such purchase for cancellation, and if such net profits are then available for such application as liquid assets of the Company, as shown by the last balance sheet of the Company, certified by the Company's auditors, and being made up to a date not more than ninety days prior to such redemption or purchase for cancellation, and after giving effect to such redemption or purchase for cancellation;

and subject as aforesaid, any such shares may be redeemed or purchased for cancellation by the Company on such terms and in such manner as is set forth in the provisions attaching to such shares, and the surplus resulting from such redemption or purchase for cancellation shall be designated as a capital surplus, which shall not be reduced or distributed by the Company except as provided by a subsequent Act of the Parliament of Canada.

Mr. HERRIDGE: Would the witness mind explaining subclause (*b*) to a person who is not versed in legal terminology?

Mr. TOLMIE: That, Mr. Chairman, is to take care of the redemption of any redeemable preferred shares that might be issued if made out of cumulative profits of the company. It will not be deemed to be a reduction of the authorized capital of the company, if the redemption for cancellation of the fully paid shares is made without impairment to the capital; having been paid out of the net profits, that would be permitted, and it is permitted under the Dominion Companies Act.

The CHAIRMAN: Shall the clause carry?
Carried.

Clause 11?
Carried.

Shall the preamble carry?
Carried.

Shall the title carry?
Carried.

Shall I report the bill as amended?
Carried.

There is nothing before the chair, gentlemen.

Mr. LAFONTAINE: I move we adjourn.

The committee adjourned.

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

CHAIRMAN—MR. L. O. BREITHAUPT

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

BILL No. 115 (Letter M-1 of the Senate);
An Act to Incorporate Trans Mountain Oil Pipe Line Company

MONDAY, MARCH 19, 1951

WITNESSES:

Mr. R. L. Bridges, Director, Bechtel Corporation, San Francisco, California, U.S.A.

Mr. D. L. Roberts, Vice-President, Bechtel International Corporation, San Francisco, California, U.S.A.

OTTAWA
EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1951

ORDERS OF REFERENCE

THURSDAY, 15th March, 1951.

Ordered,—That the name of Mr. Byrne be substituted for that of Mr. Lafontaine on the said Committee.

Attest.

Leon J. Raymond,
Clerk of the House.

FRIDAY, March 16, 1951.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 115 (Letter M-1 of the Senate), intituled: "An Act to incorporate Trans Mountain Oil Pipe Line Company."

Attest.

E. R. HOPKINS,
for *Clerk of the House.*

81753—1½

REPORT TO THE HOUSE

MONDAY, March 19, 1951.

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

FOURTH REPORT

Your Committee has considered Bill No. 115 (Letter M-1 of the Senate), intituled: "An Act to incorporate Trans Mountain Oil Pipe Line Company" and has agreed to report it with an amendment.

A copy of the proceedings and evidence taken is appended.

Clause 3 of the said Bill No. 115 provides for Capital Stock consisting of 5,000,000 shares without nominal or par value. Your Committee recommends that, for taxing purposes under Standing Order 93(3), each share be deemed to be worth $11.00.

All of which is respectfully submitted.

L. O. BREITHAUPT,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, March 19, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at ten thirty o'clock a.m. this day. Mr. L. O. Breithaupt, Chairman, presided.

Members present: Messrs. Applewhaite, Carter, Dewar, Fulton, Gillis, Harrison, Hatfield, Herridge, Lennard, Macdonald *(Edmonton East)*, MacNaught, McIvor, Murray *(Cariboo)*, Noseworthy, Riley, Robinson, Rooney, Stuart *(Charlotte)*, Weaver, Whiteside, Whitman.

In attendance: Mr. A. Laing, M.P.; Mr. S. M. Blair, Parliamentary Agent; Mr. R. L. Bridges, Director, Bechtel Corporation, San Francisco, California, U.S.A.; Mr. D. L. Roberts, Vice-President, Bechtel International Corporation, San Francisco, California, U.S.A.; Mr. G. S. Colley, Executive Vice-President, International Bechtel Inc., Saudi Arabia; Mr. I. G. Wahn, Barrister, Toronto, Ontario; Mr. J. Fortier, Legal Adviser, Department of Transport, Ottawa, Ontario.

The Committee commenced consideration of Bill No. 115 (Letter M-1 of the Senate), intituled: "An Act to incorporate Trans Mountain Oil Pipe Line Company".

Mr. Laing, M.P., sponsor of the Bill, addressed the Committee and introduced Mr. S. M. Blair, Parliamentary Agent for the Petitioners.

Mr. Blair was called, explained the purposes of the Bill and was questioned.

Messrs. Bridges and Roberts were called, heard and questioned regarding the project contemplated in the Bill; its practicability from a construction and engineering point of view; potential markets in the area to be served, and the proposed methods of financing the undertaking.

The Preamble and Clauses 1 and 2 were severally considered and adopted.

On Clause 3:

On motion of Mr. McIvor:—

Resolved,—That, for the purpose of levying a charge on the capital stock, which will have no par value, the Committee recommends that each share be deemed to be worth eleven dollars ($11.00).

Clauses 3, 4 and 5 were severally considered and adopted.

On Clause 6:

Mr. Fulton moved:

That paragraph *(a)* of Clause 6 of this Bill be amended by inserting after the words *pipe lines* in the 9th line thereof the following: "provided that the main pipe line or lines for the transmission or transportation of oil, shall be located entirely within Canada".

After discussion, and the question having been put, the said motion was agreed to.

Clause 6 as amended, Clauses 7 to 11 inclusive and the Title were severally considered and adopted.

The Bill, as amended, was adopted and the Chairman ordered to report the same to the House.

At 12.05 p.m. the Committee adjourned to the call of the Chair.

R. J. GRATRIX,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
MARCH 19, 1951.

The Standing Committee on Railways, Canals and Telegraphs met this day at 10.30 a.m. The Chairman, Mr. L. O. Breithaupt, presided.

The CHAIRMAN: Members of the committee, will you please be seated so that we may count you. We need a quorum. Gentlemen, we now have a quorum. I am sorry that we are starting a little bit late, but it could not be helped. We shall proceed with Bill M-1, that is, Bill 115 which was referred to this committee.

The preamble to the bill reads as follows:

> Whereas the persons hereinafter named have by their petition prayed that it be enacted as hereinafter set forth, and it is expedient to grant the prayer of the petition: Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

Mr. Laing introduced this bill to the House. Is it your wish that he appear before us here to explain the bill further?

Agreed.

Mr. Laing, would you please come forward?

Mr. LAING: Mr. Chairman and gentlemen of the committee: I intend to do nothing more this morning than to introduce to you the parliamentary agent, Mr. S. M. Blair, who has brought along with him a number of specialists in finance, legal affairs and engineering. I would like to say that Mr. Blair is the gentleman who, a very short time ago, made a report for the Alberta Government on the tar sands of Alberta. That report attracted a great deal of attention not only in Canada but in other countries. With him today are Mr. R. L. Bridges, who will deal with the question of finance; Mr. Ian Grant Wahn of Toronto, who will deal with legal matters; and two engineers in the persons of Mr. D. L. Roberts, who will deal specifically with engineering problems of this particular pipe line, and Mr. G. S. Colley, an engineer, who, I think, two or three weeks ago was in Iran. Mr. Blair will deal with the general situation in regard to the pipe line as a whole. I thank you and your members for the consideration you have given us today and if I may, I would now ask Mr. Blair to come forward. Thank you.

The CHAIRMAN: Is it your wish that Mr. Blair be heard?

Agreed.

Mr. Blair, will you please come forward?

Mr. Sydney Martin Blair, called:

The CHAIRMAN: Are you prepared to give us an outline of this bill and of the general aspects of the whole situation? If so, you may proceed after which the members of the committee might like to ask you some questions.

Mr. LENNARD: After Mr. Blair has finished?

The CHAIRMAN: Yes. We shall first hear Mr. Blair's statement and then ask him our questions.

The WITNESS: Mr. Chairman and gentlemen; I shall just give you a very quick outline of our proposal. We have with us here today a group of gentlemen who have already been mentioned, who are thoroughly familiar with the different subjects in connection with this development, and of whom you might like to ask questions.

Our proposal is to build the Trans Mountain Oil Pipe Line, which Mr. Laing has so thoroughly described for you previously. It is a line running from Edmonton to Vancouver via the Yellowhead Pass. It is an all Canadian line, of 24 inches in diameter, and approximately 715 miles in length.

The line will have an ultimate capacity of the order of 200,000 barrels a day, and the immediate capacity will be approximately 75,000 barrels a day.

If the proposal meets with your agreement and the different regulations are completed at a sufficiently early date, it is proposed to commence the line in July of this year and to complete it by the 31st of December, 1952.

In going over this subject thoroughly, there will be questions of route, engineering, costing, financing and so on as to which you will doubtless want more information. So I might say that we shall be happy to do our best to answer such questions that may be put to us.

The gentlemen who are here today are Mr. R. L. Bridges, who is a Director of the Bechtel Corporation. Mr. Bridges will be pleased to answer any questions on financing. Mr. D. L. Roberts, who is a Vice-President of Bechtel International Corporation. Mr. Roberts will be happy to answer any questions on engineering, route, or costing. Mr. G. S. Colley, a Vice-President of International Bechtel. I might say that Mr. Colley has just returned from the Middle East where he has been the executive in charge of all the work out there. He, of course, has had varied experience in pipe line work in general and he is present here today to answer any general pipe line questions that you might care to ask him, and that might assist you. And Mr. I. G. Wahn, who is a solicitor from Toronto. Mr. Wahn will be able to answer any legal questions.

If there are any miscellaneous questions respecting oil operations in Alberta, as to which I can be of assistance to you, I would be very happy to attempt to answer them.

The CHAIRMAN: Thank you very much, Mr. Blair. Now, before Mr. Blair retires and before we call on the other witnesses who are present, are there any questions you would like to ask on the general topic of the bill?

Mr. APPLEWHAITE: Might I ask, Mr. Chairman, why there is such a difference between the estimated initial capacity and the ultimate expected capacity. Is that due to marketing or what?

The WITNESS: Actually it is due to the initial demand and the engineering arrangements that are made for that line. When it first goes into operation it will have pumping stations designed to handle the immediate requirements, having regard to the estimated production from Alberta. The ultimate capacity would be obtained by the addition of further pumping stations on the line as the market requirements and production go up.

Mr. APPLEWHAITE: Both production and quantity?

The WITNESS: Yes, both production and quantity.

Mr. HERRIDGE: Might I ask the witness a question, Mr. Chairman?

The CHAIRMAN: Surely.

Mr. HERRIDGE: When we were discussing the Trans-Canada Pipe Line Company, the company in question agreed to an amendment of section 6, that it be provided for and stipulated that the main pipe line of the company would be

entirely within Canada. Might I ask the witness if he would be willing, when we come to section 6 of this bill, to have a similar amendment inserted at the appropriate place in this bill?

The WITNESS: We would welcome such an amendment, Mr. Chairman.

The CHAIRMAN: Are there any other questions?

By Mr. Fulton:

Q. Might I ask the witness whether he can tell us with what oil companies this particular company has any connection or affiliation? We have been told in the House that the Bechtel Corporation is behind the building of the line itself. I see the name of Stephen Davison Bechtel in section 1 of the bill. Could the witness tell us what oil company affiliations or connections exist with the present company?—A. The Bechtel Corporation has discussed the building of the line with a group of major companies, but no company has been asked formally to sign any agreement and it is not proposed to ask them to do so until the legislation which is now in the House is enacted. But the intention would be that there would be agreements with these companies which would be particularly affected by this operation. I do not feel I can go much further than that. It is simply being developed for the oil situation there as it exists at the present time and the companies that would be affected. However, I might add that the line would be a common carrier for any company which wished to ship through the line.

Q. As to financing and construction, is it contemplated that the Bechtel Corporation would actually carry out those arrangements itself, or is it contemplated to have oil companies assist?—A. As to the details of financing, I think Mr. Bridges would be happy to deal with them. But the intention is that the financing would be carried out by Bechtels, who naturally would be supported by any financing in the way of agreement they might have with other companies as to through-put.

Q. You say that you think Mr. Bridges will be in a position to answer my question?—A. Yes, I think Mr. Bridges will be able to answer your question.

Mr. FULTON: Mr. Chairman, I notice that the witness is standing.

The CHAIRMAN: Yes, but I gave him permission to sit down before you came in. And I might say that before you came in Mr. Laing told us that Mr. Blair would deal with the general aspects of the problem, because we have other witnesses here who will deal with financing, engineering, and so on.

By Mr. Murray:

Q. Mr. Chairman, does not defence have a great deal to do with the need of an oil line to the Pacific?—A. Yes.

Q. Would you follow the Canadian National main line to tide water?—A. The line goes through the Yellowhead Pass, and for a considerable distance in the same general route, it follows the Canadian National. But the latter part towards the west is not on the Canadian National route. However, Mr. Roberts, I think, will be happy to deal with the details of the route.

Q. It will be necessary to service those industries along the coast, let us say, at Prince Rupert and at Vancouver with oil depots and loading stations?—A. Yes. It would lead to the establishment of bulk terminals at Vancouver, at which point the oil would be under pressure for delivery to any refinery.

Q. Might I ask if the line goes to Prince George?—A. No. It would have to be a coastal shipment up there.

Q. But you go through the Yellowhead Pass?—A. Yes.

Q. Do you not think that the shortest route to Vancouver would be through Prince George and then down the Fraser River?

The CHAIRMAN: I wonder if we should not postpone that question for the engineer, subject to your consent?

Mr. MURRAY: Very well, Mr. Chairman.

Mr. MACDONALD: Mr. Chairman, I am very glad to see this company has its head office in the city of Edmonton, which is really the oil centre of Canada. And I am happy to see that they have chosen their route through the Yellowhead Pass. The economics of the Yellowhead route are well known to everyone in the west, and I am going to have an opportunity, I hope, to develop or to ascertain the fact that this route is definitely going through the Yellowhead Pass, the Blue River road, and Valemount.

There is another little point I would like to ask about, and I am sure that Mr. Blair can answer. Some time ago we had a firm in Edmonton, Bechtel, Price, Callahan, and I would like to know if this is the same Mr. Bechtel who was associated with that firm?—A. The same Mr. Bechtel.

Q. I can say for the benefit of the members of the committee that the firm was held in the highest regard in the city of Edmonton. They had very excellent people with them. The job they had to do at that time was completed with good results, and I am quite sure that the people of Edmonton would welcome him back with open arms.

Mr. APPLEWHAITE: May I ask one question?

The CHAIRMAN: Yes.

Mr. APPLEWHAITE: Will this trans-mountain company be in the business of buying and selling oil, or just carrying oil for other people?

The WITNESS: Its primary purpose is to carry oil.

By Mr. Robinson:

Q. I would just like to follow up the few questions asked by Mr. Fulton. As I understand your answers to Mr. Fulton's questions, you have no definite commitments with any oil companies at the present time?—A. May I put it this way: no signed commitments.

Q. No signed commitments, or signed contracts?—A. No.

Q. But you have approached a number of oil companies in that connection?—A. That is right.

Q. Would there be any objection to stating what companies you have approached?—A. May I answer that this way, sir? Through-put agreements are really part of the financing and I think it would be more appropriate to get that as part of Mr. Bridges' over-all story.

Q. That will be given to us later?—A. Yes, I am not avoiding the issue but it would work in most efficiently at that point, if you are agreeable.

Q. Following up the question Mr. Herridge asked, I understand that you contemplate the line will run from central Alberta to Vancouver, is that correct?—A. That is correct.

Q. And I understand your present intention is that the line shall end at Vancouver?—A. That is correct.

Q. Are you at the present time considering any plans for an extension of the line from Vancouver to Portland or Seattle, or other places?—A. No, it is our intention to go to the terminal at Vancouver.

Q. You have no plans and you have not considered taking the line further south in the States?—A. No, our present plans are entirely with respect to the bulk terminal at Vancouver—the other arrangements being in the future.

Q. Will you find the necessary refinery capacity at Vancouver?—A. That, you appreciate, will be the responsibility or the undertaking of the different

refining companies. There will undoubtedly be refinery expansion concurrent with pipe line construction, but what the refinery companies' plans are I am not in a position to say.

Q. Mr. Blair, should you in the future decide to run a line south of Vancouver and into the States, to serve Portland and Seattle, do you think the amendment, which you have said you would welcome with open arms, would prevent you?

The CHAIRMAN: I do not think that is in order. The amendment has not been submitted yet.

Mr. ROBINSON: Well, let me go a little further.

The CHAIRMAN: We can discuss that when the amendment comes in.

By Mr. Robinson:

Q. Perhaps I can lay the groundwork for it. Mr. Blair, are you familiar with the wording of the amendment which Mr. Herridge mentioned?—A. Yes, I am familiar with the wording as it was stated in the other hearing.

Q. And it is that wording you say you will welcome with open arms?—A. We welcome it for the reason that it in no way conflicts with our intention. Our intention is to build the line from Edmonton to Vancouver with the terminal there. The pipe line will be entirely in Canada and we will finish it in that manner.

Q. I would just like to get your idea of the effect of the amendment should your intention change in the future? Should your intentions in the future come to be along the line that you would like to extend your pipe line into the States, do you think, or would you consider that you would be bound by that amendment and that you could not do so?—A. I would understand that amendment, sir, as meaning that we were confining our operations to Canada, in accordance with our present plans. We do not visualize any pipe line outside of our own country.

Q. Let me put it this way. Suppose you want to go into the United States, do you think that you would have to come back to parliament and ask to have other powers? I just want to get your idea on how far the amendment would bind you?—A. I do not know that I am in a position to answer that legal question. We are just not planning that sort of development.

Q. Perhaps another witness would answer it for me.

The CHAIRMAN: I still think that the discussion is a little premature and, if you do not mind, we will postpone it until we come to the legal aspects, and until we actually have the suggested amendment.

By Mr. Murray:

Q. Mr. Blair, you have had something to do with the development of the Athabasca tar sands at Fort McMurray?—A. Yes, sir.

Q. How much oil do you consider is available there in the event of it being successfully developed?—A. Well, sir, the quantities are tremendous. We cannot put an ultimate figure on it because we do not know the boundaries of the formation, and we do not know the amount of void spaces within the area.

Q. It would be one of the greatest reserves in the world?—A. Yes.

Q. Yes. Is it possible that would be piped into this oil line?—A. Yes, it could be considered as an additional reserve or insurance against supplies.

Q. Would the present international situation with respect to oil influence you with regard to Fort McMurray tar sands?—A. It is a wide question, sir, but we are undoubtedly facing a very critical world situation. We have oil there and we know how to produce it in vast quantities.

Q. If the pipe line in Iran is taken over by the communists, would that not throw us back on Alberta and northern Canada for a supply of oil for the British Empire?—A. It would throw the spotlight on the reserves we have there.

Q. So it would be urgent that you get going as rapidly as possible on the construction of your line?—A. Yes, sir.

The CHAIRMAN: Well, are we ready for Mr. Bridges to give us the financial end of it?

Mr. ROONEY: Mr. Chairman, there is a note just being passed around advising of the passing of Mr. Karl Homuth from a heart attack in hospital here. I know how we all think of Mr. Homuth and I would just draw it to your attention at this moment.

The CHAIRMAN: Thank you, Mr. Rooney. I am sure that all the members of the committee will feel a great sense of personal loss and friendship at the passing of Mr. Karl Homuth. We will no doubt hear tributes in the House this afternoon so I imagine that in the meantime we will have to let it rest at that.

Are there any further questions now? If not, we will call on Mr. Bridges, the financial adviser.

Mr. R. L. Bridges, Director, Bechtel Corporation, called:

The CHAIRMAN: Mr. Bridges, you are prepared to answer questions with respect to the financial set-up of this company. Have you an initial statement to make as a basis for questions?

The WITNESS: No, I think I can probably better answer the questions of the members of the committee.

The CHAIRMAN: Are there any questions which you wish to ask of Mr. Bridges?

By Mr. Fulton:

Q. Mr. Chairman, may I ask Mr. Bridges whether he would be willing at this time to tell us what oil concerns the company has approached in connection with the ultimate use of this line when it is constructed?—A. I hesitate to speak of the oil companies without their consent. By and large the publicity that has come out in that respect has been pretty accurate.

Q. I did not catch that?—A. The publicity that has come out in the papers from other sources has been pretty accurate.

Q. You take the position that you would not care to give us a list of names in case it should be taken as committing them, or that it may be committing them, when they have not actually signed?—A. That is it exactly.

Q. I do not think I am concerned enough to press that particular point, but I am interested in following up the question asked regarding the construction of the line. I want to know whether it is contemplated that the oil producing companies and the refining companies will have a share in the financing? Or, is it the intention that the Bechtel Corporation itself will take charge of the financing—although I do not mean out of its own funds?—A. It is contemplated that the through-put guarantors, the oil companies, will share in the equity of the company. However, it will be the responsibility of the Bechtel organization to put the financing together as a whole. The through-put guarantors do not take the responsibility for any of the financing, other than what they themselves wish to subscribe for.

Q. I did not get that one word—something "guarantors"?—A. Through-put guarantors. Through-put guarantors are those who guarantee a certain amount of through-put of oil through the line.

Q. Have you at the moment any guarantees of oil from the oil companies?—A. We have not. We are not asking any of the oil companies to execute through-put agreements until Trans Mountain Oil Pipe Line Company is incorporated. After incorporation, if it is incorporated, and prior to appearing before the Transport Board, we would expect to have all of the through-put agreements executed.

By Mr. Rooney:

Q. Possibly, to save time, you could give us an outline of what the capital structure would be?—A. Yes.

Q. How many common shares, preferred shares, and bonds?—A. Yes. The total cost of the line is approximately $86,700,000.

Q. $86 million— —A. $86,700,000. At present the proposed financing, which may vary in some detail, would be $30 million of first mortgage bonds sold to institutional investors in Canada; $36 million U.S. dollars—

Q. The first one was $36 million?—A. The first one was $30 million. The second is 36 million U.S. dollars, first mortgage bonds, to be sold to institutional investors in the United States; and approximately $14 million of debentures and $7 million of common stock.

Mr. WHITESIDE: That would be sold anywhere—that last $21 million?

The WITNESS: Yes, there is to be made no public offering of any securities anywhere other than in Canada.

Mr. ROONEY: There will be no public offering?

The WITNESS: Of any securities, other than in Canada.

The CHAIRMAN: Except with regard to the $36 million in the United States which will not be offered publicly.

The WITNESS: Yes.

Mr. ROONEY: I suppose the principals will be picking up, with their associates, the largest part of that $7 million common stock?

The WITNESS: Yes. There again, and this is just a proposal you understand, the contemplation is that $3½ million of common stock will be subscribed by the Bechtel interests, and the balance by through-put guarantors.

The CHAIRMAN: Whom together will control the company?

The WITNESS: Initially. The debentures will carry warrants to purchase common stock, which means eventually they will come into a proportion of the control of the company.

The CHAIRMAN: Have you worked out the terms, or the proportion of common stock to which the debentures will entitle the debenture holders?

The WITNESS: No, we have not. One thing depends somewhat on another. The terms of the first mortgage bonds will depend upon the through-put agreements, and vice versa. They have to dove-tail. The function of the through-put agreements is to guarantee repayment of principal and interest to the first mortgage bonds. The requirements of the holders of the bonds will then, to a certain extent, condition the requirements in connection with debentures and with the common stock.

By Mr. Applewhaite:

Q. Have you any expectation, at the moment, of what one share of common stock will net the company when sold?—A. $10 is our present thought.

Q. In other words you do not need the whole 5 million shares to raise the necessary funds?—A. That is right.

By Mr. Rooney:

Q. In case of default here the company would go back to the $30 millian first mortgage bonds, I suppose?—A. In the case of default?

Q. Yes, of default? Suppose the company was not paying and could not keep up?—A. Yes, that is right. The total of the first mortgage bonds that will participate equally in the mortgage security.

Q. I was wondering what extra protection the $36 million of bonds sold to U.S. investors would have? They could come in under that?—A. All of the first mortgage bonds would be secured by a mortgage on the line itself. They would have no other security. However, the through-put that is guaranteed will net the company sufficient revenue so it can pay off the bonds. In other words it can pay interest and service the sinking fund to retire the bonds. The first mortgage bondholders look primarily to the through-put agreements rather than to the mortgage, because a pipe line is not worth much in the ground unless there is oil going through it.

Mr. FULTON: Could Mr. Bridges tell us what is the contemplated capacity of this line? You must have made a survey of that on which to base your operations?

Mr. MACDONALD: 200,000 barrels a day was the capacity figure given.

The WITNESS: It is contemplated initially that the through-put will be 70,000 barrels a day.

By Mr. Fulton:

Q. Capacity?—A. There will be a capacity, initially, of 75,000 barrels a day, and with the addition of additional pumping stations, it will go up to a total of 200,000 barrels a day, as demand requires it.

Q. Can you go so far as to tell us whether these contemplated agreements you have at the moment will secure you 70,000 barrels a day?—A. Yes, sir.

By Mr. Robinson:

Q. What about your markets in Vancouver; what would your markets amount to?—A. Our survey shows approximately 37,000 barrels per day in British Columbia as of today.

Q. Tell me, Mr. Bridges, can you say what the market in British Columbia would have been five years ago?—A. I am sorry, sir, I cannot answer that.

Q. Has it been increasing year by year?—A. I understand it has.

Q. And it is now about 37,000 barrels per day?—A. Right, that I believe was the 1949 figure. I am not sure what it is at this particular date.

Q. I have an additional question, Mr. Chairman. What do you contemplate doing with the excess, with the amount over the 30,000 barrels out of your prospective 70,000 barrels per day, which would be the capacity of your pipe line?—A. I think it would be exported.

By Mr. Murray:

Q. I think I am right in saying that the 37,000 barrels per day would be crude oil?—A. Yes.

Q. And that is the estimated consumption at the present time?—A. That is right.

Q. I believe there is a little more than that used in British Columbia, that includes gasoline, that is a refined product. Would that not make a difference?—A. I believe that takes into consideration the refined products that were used in 1949.

Q. And those refined products include gas, oil and so on?—A. I believe so.

Mr. LENNARD: Mr. Chairman, this company proposes—

The CHAIRMAN: I do not believe Mr. Murray had finished yet. Had you finished, Mr. Robinson?

Mr. ROBINSON: No, Mr. Chairman, I had not finished yet.

By Mr. Robinson:

Q. Mr. Bridges, I presume the excess would be exported; how would it be exported, by barge?—A. By tanker or barge.

Q. From what contemplated place?—A. You understand, it would be the oil companies doing this. We merely deliver the oil at the terminal, but we would assume that it would be going down into the States.

Q. And by tanker?—A. By tanker and barge.

Q. Not by an extension of your line?—A. Not in so far as the pipe lie company is concerned.

Q. You agreed in answer to a previous question that there was no intention of extending this line southerly to the United States?—A. We expect to have a marine terminal with an initial storage capacity of a million barrels at Vancouver. If our line can be developed to carry 200,000 barrels per day that storage capacity will necessarily increase.

The CHAIRMAN: Were you through, Mr. Murray?

By Mr. Murray:

Q. I just wanted to ask where his terminal was supposed to be, whether it would be at I.O.C.O.?—A. Mr. Roberts would have to answer on that point. I do not know whether the exact location of the terminal, the area, has been decided.

Mr. LENNARD: This company is going to be a common carrier which does not mean that there is going to be anything to prevent another company from picking up that oil at Vancouver—a company whose oil is not being transported over the pipe line—picking up that oil at Vancouver and taking it by pipe line to points in the United States.

The WITNESS: That has not been suggested.

By Mr. Applewhaite:

Q. Would this terminal at Vancouver be operated by you?—A. The terminal would be owned by the Trans-Mountain Oil Pipe Line Company. The oil would be delivered under pressure to the oil company, delivered under pressure to the pipe lines running to the refineries or aboard tankers.

Q. Now, I have this other question. Does this company contemplate going into marine transportation?—A. No, our contemplation is that we put the oil under pressure at the terminal.

By Mr. Fulton:

Q. Are you in a position to tell us what would become of the surplus oil your pipe line will be carrying? As I understand it, your present expectation is that you will have a requirement of 37,000 barrels per day, you are going to be able to transport 70,000 barrels per day; that will leave you with a considerable surplus right from the start. Would it be logical to assume that this surplus oil will be refined in Vancouver, or in the Vancouver vicinity, before it is shipped by barge or tanker; or, would the normal thing be to ship it in crude form to refineries elsewhere? I am referring to the surplus which is being exported by barge or tanker?—A. The tariff is normally higher on refined products than on crude oil so, to be economical, I think it would be pretty sure that the oil to be transported would for the most part be crude oil.

Mr. MACNAUGHT: Have you worked out any charge per barrel for the transportation for this oil? Can you tell us your contemplated charges?—A. Yes, we have a proposed tariff, per barrell, for transportation in the terminal at Vancouver and it is 45 cents per barrell.

By Mr. Murray:

Q. Would this witness say whether he would serve the Canadian navy at Vancouver, or the United States navy or the British navy?—A. We would furnish anyone who had need for crude oil there. Actually we would not own the oil, but we would do servicing within the capacity of the marine terminal.

Q. Well, if the middle East were tied up as a source of oil they would naturally turn to your supplies at Vancouver.—A. That is correct.

By Mr. Whiteside:

Q. Can you say how the rates you just gave the committee compare with the present rate for transportation of oil by the barrell?—A. I cannot.

By Mr. Applewhaite:

Q. Is the type of oil you are getting from Edmonton a type of oil that would be used for bunker fuel?—A. I will have to leave that to someone else to answer.

Mr. BLAIR: Part of the oil would make suitable bunker fuel.

The WITNESS: It would depend on what it was required for. If it were used as bunker fuel for a ship operating in Arctic waters it would normally not be supplied by a paraffin base oil. But, speaking broadly, the bulk of the fuel could be oil suitable for bunker fuel use.

Mr. FULTON: I would like to ask this witness, or some witness at the appropriate time, whether he can outline for us any of the advantages which might be expected to be available to communities along the route of this pipe line, to the smaller communities in British Columbia, on its way to the main terminal at Vancouver.

The CHAIRMAN: Can you answer that, Mr. Bridges?

The WITNESS: I can try. I think that if at any time refineries are built anywhere along the line it will be very easy to take off oil at that point, so that it will make possible the construction of refineries anywhere along the line. But, of course, the economics of refineries would be a matter for the oil companies.

Mr. FULTON: But there is no reason from the engineering point of view, so far as you know, why these pipe lines cannot be tapped at any point along the route?

The WITNESS: That is correct.

Mr. MACNAUGHT: That would depend upon the people for whom you are working; it could be done if they wished to do it.

The WITNESS: It is our customers' oil.

The CHAIRMAN: We are now getting into engineering problems which the next witness probably would be better able to answer. If there are no other questions on the financial end I would, with your consent, call Mr. Roberts, of the engineering staff.

Thank you very much, Mr. Bridges.

Mr. D. L. Roberts, Vice-President, Bechtel International Corporation, called:

The CHAIRMAN: As Mr. Laing pointed out, Mr. Roberts is vice-president of Bechtel International Corporation.

Mr. MACDONALD: I would like to ask Mr. Roberts if he brought a map showing the project?

The WITNESS: Yes, I have several copies of a small map we have had prepared. If you would like me to pass it around, I should be glad to do so.

Mr. APPLEWHAITE: Might I ask Mr. Roberts whether this company will accept oil from its customers' wells at one given point, or whether it will operate a sort of collection system of pipe lines in Alberta?

The WITNESS: We are planning, generally, to accept oil at one point, and I think it is the general practice that the oil companies would provide the lines to that point.

By Mr. Murray:

Q. At what point in the Vancouver area would you deliver this oil?—A. We have not determined the exact point, sir.

Q. The Imperial Oil company refinery, Ioco, is the largest manufacturing refinery west of the Rockies?—A. That is right.

Q. Would it not be natural that you would deliver a great deal of it there?—A. Primarily our purpose in connection with the marine terminal is in getting to deep water near open land. The cost to Imperial, for instance, of bringing in a short pipe line doesn't amount to much in the total cost; so it can be within, either way, five or ten miles, I should say, of their refinery.

Q. There is considerable congestion in the harbour of Vancouver and you might have to go to a place like Squamish?—A. We are surveying on both shores from Port Moody to the mouth—

Q. Of the Fraser River?—A. No, of the inlet.

Q. It would be outside of the city of Vancouver, it would not be inside the corporate limits of the city of Vancouver?—A. Probably they won't let us. That is a matter, of course, which would depend on their regulations.

Q. And that would exclude you also from Port Moody and Burnaby, and also from north Vancouver and west Vancouver.—A. That would depend on their regulations concerning the loading of oil.

Q. Would you consider a tank farm in the Fraser Valley some place?—A. We know we must be near deep water.

Q. Squamish might be a very desirable place for a tank farm; it is the terminus of the P.G.E. railroad.—A. Is that on the Fraser River?

Q. It is not on the Fraser River, it is on a straight line from the Fraser River, and it is served by a railway and deep water suitable for world shipping, which can come right in to the port of Squamish.—A. I would have to take your word for that. I have not investigated that part of the area.

Q. There is no question that there is great congestion in the city of Vancouver so far as industrial development around the harbour is concerned.—A. Yes.

Q. So that would be a very important point—to know where you should hit tide water.—A. That is right. We have three men investigating all of that locality at this time to determine the most suitable place for our terminal.

Q. The matter of defence would have to be a consideration. It would have to be a place easily defended in case of attack. I would like to say this further about the location of your terminal; that it would shorten your line or lengthen it according to the point in the Vancouver area which you reach. I wonder if

your lines should not go down the Fraser River directly from Prince George. That is the shortest route from the Yellow Head Pass; whether it would not be better for you to follow that route rather than the circuitous route which you show on the map. Prince George, of course, is north of Mount Robson, north and west; and from there to Vancouver you could follow the water route right around the Fraser River touching numerous populous centres.—A. I don't want to get too technical but the economics of a large diameter pipe line are such that generally the cheapest route is the shortest route. I think if you would look at a line from Edmonton to Vancouver you will see that it passes right through Kamloops, or a little south. It happens that the Yellow Head Pass gives as close to a straight line as any possible route we can find.

By Mr. Macdonald:

Q. Mr. Roberts, I am awfully glad to hear you make that statement. The route of the proposed pipe line will not be in the record unless I ask the witness some questions about it, and I will ask him if he will follow me and answer my questions in that regard. First I think the first valley is the Pembina River valley. Then through Evansburg; then through Edson and on up through the McLeod River valley; and you proceed then through the Athabaska Valley and Jasper; then you take the Yellow Head Pass; and then on to Tete Jaune Cache—is that correct?—A. That is correct.

Mr. MURRAY: This is in the electoral district of Cariboo.

Mr. MACDONALD: Then you proceed from there to Valemount—

Mr. FULTON: At this point I think I should take over.

Mr. MURRAY: Go ahead.

Mr. MACDONALD: I was over this route a couple of years ago and the honourable member for Kamloops, and many others were present and we had a very nice gathering; so I am slightly familiar with this route—it goes through the Tete Jaune Cache, down to Valemount; then down through Thunder River and Blue River, Cottonwood Flats, Clearwater—directly to Kamloops. Is that your plan?—A. That is right.

By Mr. Macdonald:

Q. Beyond Kamloops, I am not so worried about that. You can take over there, Mr. Fulton.

The CHAIRMAN: Do you want to ask a question now, Mr. Fulton?

Mr. FULTON: Yes.

By Mr. Fulton:

Q. I think Mr. Macdonald has got you to Kamloops, and from there on perhaps he would leave it to me. According to the map which is before us apparently the pipe line will follow approximately the route of Kamloops, Merritt road; and from there on to Brookmere; and it is not very far east of the main highway, which is known as the Hope-Princeton highway. I take it it would be your intention to follow the route of that highway down the Fraser Valley and so to Vancouver. Is that correct?—A. No, it is not correct. At Brookmere or from Brodie we plan to go through the Coquihalla Pass, and to follow the Canadian Pacific and the Kettle Valley down to Hope which, as you can see by the map, is considerably shorter than it would be to follow the line of the Hope-Princeton highway.

Q. So, in effect, you will be following the water level the greater part of your route?—A. That is right, except for the section between Kamloops and the Coquihalla Pass. We are primarily following water route.

Q. And I presume your engineers have surveyed that route and suggested it as the most desirable, but I think you will agree with me that there is a water level route there through a chain of lakes following down from there; also, there are no passes or difficult heights to get over. Your company has surveyed this route, has it not?—A. We have made reconnaissance surveys, that is, explorations by car, by rail, and on foot over the entire route.

Q. What can you tell us about the route in comparison with other pipe lines? No doubt you have seen the controversy there has been as to whether this is possible from an engineering point of view and from an economic point of view. Would you care to tell the committee about your findings?—A. We feel that it is entirely feasible from an engineering point of view. As I said before, it is the shortest route we were able to find between supply and market; and, economically speaking, we feel that it is also the cheapest.

Q. Your company has built a great many other pipe lines. In some of them you experienced comparable difficulty and in others you found the going much more difficult, did you not?—A. I would say that we have built pipe lines of comparable difficulty.

Q. Have you built pipe lines in Iran—I do not mean you yourself, but has your company?—A. No. We are at present building a pipe line from Iraq through Syria. Not in Iran.

Q. Might I ask if the altitudes to be surmounted on this route are greater or less than those of other pipe lines of which you have knowledge?—A. The altitudes on this route are, surprisingly enough, very light. The Yellow Head Pass at its highest point, has an altitude of slightly over 3,700 feet. We have gone over passes much higher than that in some of our pipe lines.

Q. What have you to say about the length of this route in comparison with the length of other routes which your company has built?—A. We have built longer pipe lines. We built the Trans-Arabian pipe line in Saudi Arabia. That portion of its length is 850 miles. The main line we are building between Iraq and Syria is 556 miles; and we have just finished a line in California which is over 500 miles in length. So you can see that the proposed line here is comparable with respect to length.

Q. Can you tell us what will be the actual length?—A. As we have it laid down, right now, it is approximately 715 miles.

Q. And what about the number of men employed in the construction of this route?—A. We have worked out a tentative figure and I think we can safely say it would be in the neighbourhood of 2,000 men.

Q. You mean, just for the actual construction of the line?—A. Yes.

Q. You are not taking into consideration the number of men who would be engaged in fabricating the steel, for example?—A. No. I meant the actual construction in the field, warehousing, and other things incident to the construction in Canada, but not with respect to manufacturing.

Q. And in respect to maintenance of the line after it is built, what estimate have you of a staff which you think would be necessary to manage it?—A. Approximately 150, but I am only speaking roughly.

Q. You say 150 men, and I take it that you mean an all the year 'round basis?—A. No; I mean some part-time and some all the year 'round. We will undoubtedly have much heavier maintenance at times. For example, during the winter months our men will not be able to cover as much of the line, so we would have to put more men on it.

Q. How many pumping stations do you think you will require along the length of the route?—A. For initial operation, three.

Q. And have you as yet tentatively allocated them?—A. Yes.

Q. Can you tell us where?—A. I can. The first pumping station, of course, will have to be at Edmonton, where we collect the oil. The second, as

it stands now, is in the approximate neighbourhood of Edson, but we have not tied it down definitely. And the third will be in the neighbourhood of Kamloops.

The CHAIRMAN: Is that all right with you, Mr. Fulton?

Mr. FULTON: I have not heard any objection so far, Mr. Chairman.

By Mr. Fulton:

Q. With respect to the figure you gave of 150 men, does that figure include men who would be at the pumping stations?—A. Yes.

Q. And then I suppose as the flow of oil increases, as Mr. Bridges said, from 70,000 barrels a day to start with upwards to let us say 200,000 a day, would it be necessary to have more pumping stations?—A. After you get up to 125,000 barrels a day it is necessary to add more pumping stations in order to develop 200,000 barrels a day.

Q. So you think it would increase proportionately with the amount of oil going through the line?—A. Yes.

Q. Can you tell us something with regard to the roads? I take it that it would be necessary—or perhaps I had better put my question this way: would it be necessary to build a road to construct this line, or could you do it by simply following the existing railway facilities?—A. In most locations we hope to get by with the existing railway facilities. You will appreciate that we have to clear what we call the right-of-way, in order to allow our equipment to go down the pipe line and to perform its various functions. It will be necessary to survey the area along the right-of-way and we may have to construct a tote-road in order to allow that equipment to get in and out.

Q. Are you familiar with the Blue River-Yellow Head road? Would that road serve your purpose, or would you have to make improvements to that road?—A. Generally I think that would serve our purpose. We may have to shore up a bridge or two to get equipment across, but just as a temporary expediency.

Q. Could you tell us something with regard to the possibility of tapping this line? I asked Mr. Bridges a question about it and we left the rest to yourself, speaking as an engineer, to enlarge on it. If market, financial, and economic conditions justify it, would it be feasible to establish cracking plants at various points along the main line?—A. As far as taking oil out of the line is concerned, yes, it would be feasible. I shall have to give you the same answer that Mr. Bridges gave concerning the economics. It is a question for the oil companies which own the oil, to determine whether it is a good thing to do, economically speaking.

Q. But if economic conditions should warrant it, there would be no engineering difficulty in the way?—A. No.

By Mr. Herridge:

Q. With respect to the maintenance of this line, I think you have told us that it would require an average of 150 men. No doubt there would be a considerable amount of supplies required throughout the year even for the maintenance of the line. What can you say as to the value of such supplies which would be required, let us say, for the maintenance of the line from its commencement to its end?—A. It is a difficult question to answer, sir. Taking it in terms of food for crews, etc., I do not know how far you want me to carry it down.

Q. Well, in connection with the line itself, not with maintenance of the crews.

The CHAIRMAN: I think he means materials.

The WITNESS: Generally, it will be very nominal. I would say probably less than $50,000 a year in terms of materials.

By Mr. Murray:

Q. Would you have to obtain rights-of-way from private owners along the way?—A. Yes.

Q. But for the most part would you not be on crown land, I mean crown land in the right of the province of British Columbia?—A. I think you are right, sir.

Q. Would you pay any rental to the crown then for the use of this land, or have you made any arrangement in that respect?—A. We have not discussed that subject.

Q. What do you consider the tax revenue would be to the treasury of British Columbia annually from the project?—A. I have to say that I do not know.

Q. Do you not think it would run into a good many hundred thousand dollars, if the same taxation were applied there as elsewhere? Would you not expect to have to pay a very large sum into the provincial treasury?

Mr. BRIDGES: I think I can answer. Several hundred thousand dollars sounds high, on a comparable tax rate.

Mr. MURRAY: You have no precise idea as to the figures?

Mr. BRIDGES: No, sir.

Mr. MURRAY: So you come under the same category as the British Columbia Electric, or any other corporation?

Mr. BRIDGES: That is correct, whatever it is.

The CHAIRMAN: If there are any questions, we certainly do not want to cut off discussion. Are there any other questions? If not, I think we are ready for a consideration of the bill.

Mr. FULTON: Just a moment, Mr. Chairman. We were told in the House that this company had made arrangements to secure supplies of steel for the construction of the line. Could this witness tell us about those arrangements?

Mr. BRIDGES: We have the steel under firm contract in the United States. Deliveries are to be made to the company at the end of June at the rate of 4,000 tons per month for the first two months, and then at the rate of 8,000 tons per month thereafter until all the steel is delivered. And we are sure of obtaining delivery in time to complete the line within the construction season of 1952.

Mr. FULTON: On that point, will you have a plant or will some concern have to erect a fabricating plant along the way? How is that material to be handled?

Mr. BRIDGES: For this diameter of pipe, it will have to be fabricated at the South San Francisco plant of the Consolidated Western Steel Corporation.

Mr. FULTON: And shipped in as pipe?

Mr. BRIDGES: Yes.

Mr. ROONEY: Even if you have steel under a firm contract, what assurance have you that you will be allowed to use that steel after you get it up here?

Mr. BRIDGES: That depends entirely upon a consideration of the value of this line to the economy of Canada and to the defence of Canada. You are quite right. We are entirely at the mercy of the government as to what they think is the best use of it.

The CHAIRMAN: Are you ready for the bill?

Agreed.

Does the preamble carry?

Carried.

Does clause 1 carry?

Carried.

Does clause 2 carry?

Carried.

Clause 3, capital:

3. The capital stock of the Company shall consist of five million shares without nominal or par value.

The CHAIRMAN: There is a matter here that we should consider just briefly. We have a declaration. At the outset I might explain that when this clause was under consideration it was pointed out by the Chief Clerk of Committees that we should have a motion adopted declaring for taxation purposes what the proposed non-par value capital stock should be deemed to be worth per share. So we have a declaration signed by Mr. Blair and I would ask the clerk to read it at this time.

The CLERK:

Province of Ontario
County of York

To Wit:

In the matter of the Pipe Lines Act:

And in the matter of an application for the incorporation of Trans Mountain Oil Pipe Line Company.

I, SIDNEY MARTIN BLAIR, of the Township of Albion, in the Province of Ontario, Engineer, DO HEREBY DECLARE:

1. That I am the parliamentary agent for the petitioners for incorporation of Trans Mountain Oil Pipe Line Company and as such have personal knowledge of the matters hereinafter deposed to.

2. That I have been instructed by the petitioners for incorporation of the said Company that the capital of the said Company consisting of five million shares without nominal or par value will not be issued for an aggregate consideration exceeding Fifty-five Million Dollars.

3. That I believe for the purpose of determining the fees to be paid with reference to the authorized capital of Trans Mountain Oil Pipe Line Company that the sum of Fifty-five Million Dollars should be fixed as the aggregate consideration for which the five million shares without nominal or par value may be issued.

AND I MAKE THIS SOLEMN DECLARATION conscientiously believing it to be true and knowing that it is of the same force and effect as if made under oath and by virtue of The Canada Evidence Act.

DECLARED before me at the City of Ottawa, in the Province of Ontario this 19th day of March, 1951.

(Signed) I. G. WAHN

A Commissioner, etc."

(Signed) S. M. BLAIR

The CHAIRMAN: In that connection Mr. Dan McIvor moves:

That, for the purpose of levying a charge on the capital stock, which will have no par value, the committee recommend that each share be deemed to be worth $11.00.

Is that satisfactory to you? All those in favour of this motion say aye. And those opposed?

Agreed.

Does clause 3, Capital, with that stipulation carry?

Carried.

Does clause 4 carry?

Carried.

Does clause 5 carry?

Carried.

Clause 6, Powers of company.

6. The Company, subject to the provisions of any general legislation relating to pipe lines for the transportation of oil or any liquid product or by-product thereof which is enacted by Parliament, may

(a) within or outside Canada construct, purchase, lease, or otherwise acquire, and hold, develop, operate, maintain, control, lease, mortgage, create liens upon, sell, convey, or otherwise dispose of and turn to account any and all interprovincial and/or international pipe lines, for the transportation of oil including pumping stations, terminals, storage tanks or reservoirs and all works relative thereto for use in connection with the said pipe lines; and own, lease, sell, operate and maintain aircraft and aerodromes for the purpose of its undertaking, together with the facilities required for the operation of such aircraft and aerodromes; and own, lease, operate and maintain interstation telephone, teletype and telegraph communication systems and, subject to *The Radio Act, 1938,* and any other statute relating to radio, own, lease, operate and maintain interstation radio communication facilities;

(b) purchase, hold, lease, sell, improve, exchange or otherwise deal in real property or any interest and rights therein legal or equitable or otherwise howsoever and deal with any portion of the lands and property so acquired, and may subdivide the same into building lots and generally lay the same out into lots, streets and building sites for residential purposes or otherwise and may construct streets thereon and necessary sewerage and drainage systems and build upon the same for residential purposes or otherwise and supply any buildings so erected, or other buildings erected upon such lands, with electric light, heat, gas, water or other requisites, and lease or sell the same, upon such terms and subject to such conditions as appear requisite, either to its employees or to others; and

(c) exercise as ancillary and incidental to the purposes or objects as set forth in this Act, the powers following, unless such powers or any of them are expressly excluded by this Act, namely, the powers set forth in paragraphs *(a)* to *(bb)* inclusive of subsection one of section fourteen of *The Companies Act, 1934.*

Mr. FULTON: I move, seconded by Mr. Herridge; "That paragraph *(a)* of section 6 of this bill be amended by inserting after the words 'pipe lines' in the ninth line thereof the following: 'provided that the main pipe line or lines for the transmission or transportation of oil shall be located entirely within Canada' ".

The CHAIRMAN: Gentlemen, you have heard the motion. Oh. Mr. Robinson, we cut you off some time ago. Do you wish to discuss the matter?

Mr. ROBINSON: No, Mr. Chairman, but perhaps the mover of the amendment might give us his reasons for moving it.

Mr. FULTON: Mr. Chairman, we have discussed at great length in the House the question of the principle of securing that this line would be built within Canada, so this is an amendment accordingly. Similar amendments were moved in the committee last year and my recollection is that they were rejected at that

time. Then again, this year in connection with another of these applications for incorporation before the committee an amendment was moved and was accepted unanimously.

I think this company has indicated that it is prepared to accept a similar amendment, in fact would welcome it, as we were told this morning. And although it is true that the map of their proposed route shows that the line is located entirely within Canada, nevertheless I think it important that this principle be incorporated in the bill. My seconder, Mr. Herridge, and I think that the principle should be inserted and incorporated in the bill so that parliament and the country as a whole will have the assurance that this company will be bound to construct its line in Canada. In fact they will be compelled to do so, even if they might want to make a change and went before the Board of Transport Commissioners to seek approval for some other route. I refer now to line 9, in clause 6 paragraph (*a*), which in fact is line 25 of the draft bill before us.

The CHAIRMAN: I would ask the clerk to read the amendment which Mr. Fulton and Mr. Herridge have provided.

The CLERK:

> Moved by Mr. Fulton: that paragraph *(a)* of section 6 of this bill be amended by inserting after the words 'pipe lines' in the ninth line thereof the following:—'provided that the main pipe line or lines for the transmission or transportation of oil shall be located entirely within Canada.'

Mr. MURRAY: According to the map, the main pipe line would be in Canada until it got to Abbotsford which is right on the American boundary. So I do not think the amendment would be of very much value. But if Mr. Fulton would consider amending at that point: "provided that the main pipe line or lines pass through the Yellowhead Pass", I think that would protect us amply.

The CHAIRMAN: My good friend the engineer here says the line is really north of the border. So you would not need to worry on that point.

Mr. MURRAY: But the line has not been surveyed fully.

The CHAIRMAN: That is right.

Mr. MURRAY: Under the amendment we are delivering to the main line south of Abbotsford, practically at the United States border, and while the suggestion is that we are to have everything within Canada, yet we would then have a pipe line within Canada that was delivering oil to the United States without any thought of Vancouver.

Mr. WEAVER: With respect to this amendment, I think it is a very minor point. It seems a small matter, but does it not purport to deal with something which is not within the power of the committee, but rather with something that parliament itself should decide? However, in spite of the fact the company is willing to accept the amendment, I would like to record myself as being against it.

Mr. FULTON: Mr. Chairman, similar amendments were moved last year to the bills then before the committee, yet the question was not ruled out of order on the ground which is now raised by Mr. Weaver. It was moved on Thursday, March 8, 1951, in this same committee in connection with the Trans Canada Pipe Line application for incorporation and it was accepted unanimously by the committee. Moreover the bill has been before the House for third reading and the amendment was approved, and the amendment has been passed.

The CHAIRMAN: The amendment is quite in order. Do you want to have it changed in any way?

Mr. MURRAY: We are dealing with entirely different geographical factors. These other pipe lines were proposed across the Rocky Mountains at other points, and the one with respect to which the amendment was inserted dealt with a pipe line that had nothing to do with the Rocky Mountains. It went east of Montreal, over the prairie provinces and Ontario.

The CHAIRMAN: Do you take the stand that the amendment does not prove to be satisfactory?

Mr. MURRAY: I think it places us in the position of permitting them to export the whole of production at Sumas, below Abbotsford.

The CHAIRMAN: Do you wish to propose an amendment to the amendment?

Mr. MURRAY: The amendment to the amendment would be—"provided that the main pipe line or lines are located through the Yellow Head Pass."

The CHAIRMAN: Would that be agreeable?

Mr. FULTON: It certainly would not.

Mr. APPLEWHAITE: It does not have any better effect and, if amendments are going to be introduced, I think that as far as possible, as a matter of good practice, they should be standard.

Mr. FULTON: May I point out in this connection that, while I appreciate Mr. Murray's point, I do not think it would have the effect he wishes, because Abbotsford is nine miles from the border. He says that he wants an amendment which will make it impossible to defeat the original intention, that will make it impossible for them to have the line run down to the States at that point. May I say that an amendment having the line go through the Yellowhead Pass does not achieve that end, because, at any point after the Yellowhead Pass, they would be free to go through the States. However, the present amendment calls for the line to be located entirely within Canada.

Mr. MURRAY: They would have a merry time of it.

The CHAIRMAN: It is very difficult, gentlemen, for this committee to say just where the line will go in detail. We are dealing with the principle and reporting the bill to the House. If your suggestion goes through, Mr. Murray, another member may want the line to go through some other point, and we will get into endless details, don't you think?

Mr. MURRAY: Well, you can easily amend it and say that the entire line—

Mr. FULTON: It says: "the main pipe line or lines for the transmission or transportation of oil shall be located—"

The CHAIRMAN: Would you be willing to use the word "entire"?

Mr. FULTON: You would have the word "entire" in twice. I think the amendment in the present form meets the point.

The CHAIRMAN: All we are trying to do is to make some progress. I do not think we are very far apart. The amendment is: "Provided that the main pipe line or lines for the transmission or transportation of oil shall be located entirely within Canada." I think that covers it.

All in favour?

Mr. ROBINSON: Before you put the question, Mr. Chairman, I would like to record a general objection to this amendment. I do not think that in its present wording it means a great deal, or protects the very things which the sponsor of the amendment has mentioned. In other words, I do not think the wording of this amendment gives the protection which he seems to feel it might give to the interests which he has mentioned.

Further than that I feel that under the over-all Pipe Lines Act, questions of this kind are within the jurisdiction of the Board of Transport Commissioners,

and that perhaps we, in parliament, having passed the over-all Pipe Lines Act in 1949, should leave questions of this kind to the body which we indicated in the Act should deal with them.

Further than that, I might point out that there have been incorporated several companies which have applications pending before the Board of Transport Commissioners. Those companies are not hampered, or helped possibly, by similar amendments, and I would just like to record that general objection to this particular amendment.

The CHAIRMAN: All in favour of the amendment?

Carried.

Shall clause 6 as amended carry?

Mr. FULTON: I would like to ask a general question with respect to clause 6*(b)*. I realize that the company is not, at the moment, in a position to say exactly what its plans are, but can you tell us whether you visualize the owning of any properties or the setting up of any little accommodation centres for your men and so on? Is the purpose of clause 6*(b)* for both construction and maintenance of the line?

Mr. BRIDGES: Yes, we do not now contemplate any purchases of property other than in connection with the construction and operation of the line.

Mr. FULTON: I see you are giving yourself power to subdivide lands "into building lots, and generally lay the same out into lots, streets, and building sites for residential purposes—"

Mr. BRIDGES: That is copied from the other Pipe Lines Acts which have gone through.

The CHAIRMAN: Shall clause 6 as amended carry?

Carried.

Clause 7?

Carried.

Clause 8?

Carried.

Clause ?

Clause 9?

Carried.

Clause 10?

Carried.

Shall the title carry?

Carried.

Shall I report the bill as amended?

Carried.

There is nothing further before the Chair at this time, gentlemen.

Thank you.

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

CHAIRMAN—MR. L. O. BREITHAUPT

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Bill No. 117 (Letter L-1 of the Senate), intituled "An Act to incorporate Canadian-Montana Pipe Line Company".

WEDNESDAY, APRIL 4, 1951

WITNESS:

Mr. J. E. Corette, Jr., Vice-President, Montana Power Company, Butte, Montana, U.S.A.

OTTAWA
EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1951

ORDERS OF REFERENCE

TUESDAY, 13 March, 1951.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 117 (Letter L-1 of the Senate), intituled, "An Act to incorporate Canadian-Montana Pipe Line Company".

Attest.

LEON J. RAYMOND,
Clerk of the House.

82531—2

REPORT TO THE HOUSE

WEDNESDAY, April 4, 1951.

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

FIFTH REPORT

Your Committee has considered Bill No. 117 (Letter L-1 of the Senate), intituled: "An Act to incorporate Canadian-Montana Pipe Line Company" and has agreed to report it with amendments.

A copy of the proceedings and evidence taken is appended.

Clause 3 of said Bill No. 117 provides for Capital Stock consisting of five hundred thousand shares without nominal or par value. Your Committee recommends that, for taxing purposes, under Standing Order 93(3), each share be deemed to be worth $10.00.

All of which is respectfully submitted.

L. O. BREITHAUPT,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 4, 1951

The Standing Committee on Railways, Canals and Telegraph Lines met at ten thirty o'clock a.m. this day. Mr. L. O. Breithaupt, Chairman, presided.

Members present: Messrs. Applewhaite, Bonnier, Bourget, Byrne, Cannon, Conacher, Darroch, Follwell, Garland, Green, Harrison, Hatfield, Healy, Hodgson, James, Lennard, Macdonald *(Edmonton East)*, MacNaught, McCulloch, McIvor, Mott, Murray *(Cariboo)*, Noseworthy, Stuart *(Charlotte)*, Whiteside.

In attendance: Mr. C. E. Bennett, M.P.; Mr. D. K. MacTavish, K.C., Parliamentary Agent; Mr. J. McL. Pritchard, President, McColl-Frontenac Oil Company Ltd., Montreal, P.Q.; Mr. J. E. Corette, Jr., Vice-President, Montana Power Company, Butte, Montana, U.S.A.

The Committee commenced consideration of Bill No. 117 (Letter L-1 of the Senate), intituled: "An Act to Incorporate Canadian-Montana Pipe Line Company".

Mr. C. E. Bennett, M.P., sponsor of the Bill, addressed the Committee and introduced Mr. MacTavish, Parliamentary Agent for the Petitioners.

Mr. MacTavish was called, explained the purposes of the Bill and was questioned.

Mr. Corette was called, heard and questioned regarding the project contemplated in the Bill.

The Preamble and Clauses 1 and 2 were severally considered and adopted.

On Clause 3:

On motion of Mr. McCulloch:—

Resolved, —That, for the purpose of levying a charge on the capital stock, which will have no par value, the Committee recommend that each share be deemed to be worth ten dollars ($10.00).

Clause 3 was considered and adopted.

On Clause 4:

Mr. Green moved:

That sub-clause (2) of Clause 4 of this Bill be amended by inserting after the word *place* in the first line thereof the words "within Canada".

After discussion, and the question having been put, the said motion was agreed to.

Clause 4 as amended, and Clause 5 were considered and adopted.

On Clause 6:

Mr. Green moved:

That paragraph *(a)* of Clause 6 of this Bill be amended by inserting after the word *hydrocarbons* in the 30th line thereof the following: "provided that the main pipe line or lines of this Company either for the transmission or transportation of gas or oil, shall be located entirely within Canada".

82531—2½

After discussion, and the question having been put, the said motion was agreed to.

Clause 6 as amended, Clauses 7 to 11 inclusive and the Title were severally considered and adopted.

The Bill, as amended, was adopted and the Chairman ordered to report the same to the House.

At 11.20 a.m. the Committee adjourned to the call of the Chair.

R. J. GRATRIX,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 4, 1951.

The Standing Committee on Railways, Canals and Telegraphs met this day at 10.30 a.m. The chairman, Mr. L. O. Breithaupt, presided.

The CHAIRMAN: Gentlemen, will you please come to order. We have a quorum and as it is a little after 10.30 I think we should get started.

Mr. Colin Bennett, M.P., is the sponsor of Bill 117 (Letter L-1 of the Senate) an Act to incorporate Canadian-Montana Pipe Line Company. If you are agreeable I will ask Mr. Bennett to introduce the witnesses and their solicitor who will handle the details.

Mr. BENNETT: Mr. Chairman and gentlemen, as I explained to the House on the second reading of this bill, the incorporators of this bill are the chief executive officers of the McColl-Frontenac Oil Company Limited, which is well known in Canada, and of the Montana Power Company. We have with us today —and I should like to introduce them to the committee—Mr. John McLary Pritchard, president of the McColl-Frontenac Oil Company, Montreal, P.Q.; Mr. John L. Corette, Jr., vice-president of the Montana Power Company, of Butte, Montana; and Mr. Duncan MacTavish, K.C., of Ottawa, who is well known to all of you, I am sure. I believe Mr. MacTavish is the first witness.

The CHAIRMAN: Following the usual custom, we will have a statement from Mr. MacTavish in connection with the bill and its purposes.

Mr. Duncan K. MacTavish, K.C., called:

The WITNESS: Mr. Chairman and honourable gentlemen, the bill which is now before you is similar in form to the pipe line bills under the general pipe line legislation that was passed here a year or two ago by this parliament. It is designed to give capacity, but capacity only, to the persons mentioned therein to construct a pipe line for the transmission of gas. The area which is involved is in the southeastern part of Alberta, known as the Manyberries field, the Pendant d'Oreille field, and the Smith Coulee field. The gas in these fields, gentlemen, is owned by the McColl-Frontenac company and Union Oil Company of California which are interested in this legislation to establish a pipe line to carry gas from these fields; and this will be brought down to join the system of the Montana Power Company, whose vice-president, Mr. Corette, is here today to give evidence and to answer any questions which you gentlemen may wish to put. Mr. Pritchard, the president of the McColl-Frontenac Company, is here for the same purpose.

As I said, the bill only gives capacity. In that connection I should like to refer, if I may at this time, to something that many of you have seen in the press; presently in the committee stage and well advanced in committee stage I believe, with very strong prospects of being passed today, is legislation of the province of Alberta to permit export to the United States of the gas I am speaking about now in order to service the Anaconda Copper Company in Montana, which has been declared by Mr. Charles E. Wilson, director of defence mobilization for the United States, a defence work of sufficient import-

ance to justify him, Mr. Wilson, in making the request for that legislation. That, as I say, is in process of passing through the Alberta legislature.

There is in the Edmonton *Journal* of Thursday, March 22, a long article—which I will not, of course, trouble to read to you in full—but if I may refer to it; it is headed, "U.S. Asks Alberta Gas 'For Defence'—Copper plant seeks supply". And it goes on to say that: "Premier Manning said the export permit being sought would be for a 'limited period of five years and the gas can only be used to insure essential defence production of the Anaconda company'. The company produces 25 per cent of the zinc and 90 per cent of manganese used in the U.S."

In that connection it would obviously be necessary to satisfy Mr. Wilson of the necessity of having gas in the quantities that thus can be made available go to the Anaconda company, that was done on the basis of representation made by the Montana Power Company; and, if the honourable gentlemen wish for detailed information on that, then Mr. Corette is here, and he took part in the negotiations which resulted in Mr. Charles Wilson making the arrangements which he did. Mr. Manning went on to say:

> The request for the export originated with Charles E. Wilson, U.S. director of defence mobilization.
>
> The premier said Mr. Wilson had refused to entertain numerous "pressure requests by U.S. industry to obtain Alberta natural gas on the excuse it was essential to defence", until the specific "crisis" facing Anaconda Copper arose, through failure of gas reserves in the Montana Power Company's field. "That is to Mr. Wilson's credit", said Mr. Manning.

Mr. Corette can confirm that when he visited Mr. Wilson's office first he had difficulty in convincing them that he had a valid case for them. He did however convince them of that, because the fact is that Montana Power Company can establish that it is not in a position to service Anaconda Copper in the quantities they require, and hence Mr. Wilson's request to the Premier of Alberta and the legislation, which I have before me, and which also I think it is not necessary to read in its entirety. The Act is entitled "Bill No. 90 of 1951" and its title explains, I think, exactly what I have said: "A bill to permit the temporary export of gas to Montana for essential defence production", and it goes on to provide the terms and conditions pursuant to which the export will be permitted.

In case it may be of interest to you gentlemen—I know you are interested in the possibilities of having the capacity which you are empowered to grant to this company implemented by action,—and on that phase of the matter I would very briefly like to say that the group, the McColl-Frontenac Company, which of course is well known to you gentlemen, Union Oil Company, a very large company in the United States, and the Montana Power Company are all large organizations. Montana Power Company will be advancing the first moneys that are required for construction—I think you gentlemen have certainly heard enough about pipe lines to know that they are very expensive projects and require substantial funds for construction—and the balance of the money other than that immediately being advanced by the Montana Power Company will be raised by financing with the backing of the group which I have mentioned. Another point which may be of interest to you is the question of whether they can with that financing and with the capacity which we hope will be given to them by parliament proceed, having regard to the shortage of steel, and on that point I can tell you that the steel pipe has been purchased in Canada and is already on the ground so that there is no problem of that kind whatsoever.

I think I need not detain you further. These gentlemen who are here with me are willing and anxious to answer any questions, and if there are any

points I have not covered I would be very glad to do so. I should add in closing, as a matter of interest, that the length of the pipe line and of the gathering lines amount, in Canada, to about seventy-eight miles. That is the magnitude of the operation that we are discussing, in Canada.

The CHAIRMAN: Gentlemen, I assume that Mr. MacTavish is through making a general statement and he is now ready and willing to be questioned.

The WITNESS: Yes, sir.

By Mr. Green:

Q. We were told when the bill was before the House that the line was only to be built to the border by this company. That is correct?—A. That is correct.

Q. And then from the border to the Montana Power Company's lines, it will be built by the Montana Power Company. Is that correct?—A. I believe so, yes.

Mr. PRITCHARD: The distance is only twenty-six miles from the field to the border, that is all it is. What Mr. MacTavish is trying to say is that all the gathering pipes and the pipe line to the border would amount to about seventy-eight miles in all.

The CHAIRMAN: We will call on Mr. Pritchard later for details.

By Mr. Green:

Q. This Canadian company is only to build to the border?—A. That is correct. I think that is all that it is asked within your jurisdiction, so to speak, to grant capacity for.

Q. Then the gas is really to supplement gas already being produced by the Montana Power Company in the State of Montana?—A. That is correct. It will be all gathered together.

Q. Am I to understand that the Alberta government has imposed two conditions, in the first place, that their permit will only be for a period of five years, and secondly, that the gas must be only used by the Anaconda Copper. Are those the two conditions which have been imposed?—A. Yes. Perhaps in fairness I should add that there is also a limitation on the quantity. Section 7 of the bill reads:

> The maximum quantity of gas that may be removed from the Province under the permit shall not exceed,—
>
> (*a*) ten billion cubic feet in any year; and
>
> (*b*) forty million cubic feet in any day.

As you raise the question of the conditions I thought it was only fair that I should point that out.

By Mr. Hatfield:

Q. You mentioned the McColl-Frontenac Co. What have they to do with this pipe line?—A. They are part owners, sir, of the reserves which we are discussing in many various fields in the Pendant d'Oreille field and the Smith Coulee field.

Q. I did not think they had anything to do with gas.

The CHAIRMAN: Do you wish to ask any other questions of Mr. MacTavish before we call on other witnesses? By the way, we forgot to welcome Mr. Byrne to the committee; I notice he is taking the place of some other member.

Are there any other questions? Mr. MacTavish is prepared to answer them now. If not, we will call on Mr. Corette.

Mr. John Earl Corette, Vice-President and Assistant General Manager, Montana Power Company Limited, called:

The CHAIRMAN: Would you state Mr. Corette's office?

Mr. MACTAVISH: He is vice-president and general counsel of the Montana Power Company and is also an applicant in connection with this bill.

The CHAIRMAN: Would you care to make a brief general statement?

The WITNESS: If you so desire, Mr. Chairman.

The CHAIRMAN: A brief general statement would be acceptable.

Mr. LENNARD: I do not think that it need be too long.

The CHAIRMAN: I emphasized the word "brief".

The WITNESS: I think I can make it very brief.

In the event that there are either lawyers or engineers on your committee I should clarify my position a little. I am vice-president and assistant general manager of the Montana Power Company but I am not an engineer and I am no longer general counsel for the company.

I can say very briefly that first of all the amount of gas which this company is interested in exporting is very small compared to that which is involved in the other applications for the export of gas from Alberta. The amount is in the neighbourhood of only 10 or 15 per cent of what is involved in the other applications. The Montana Power Company is an electric and gas utility serving practically all of Montana with electricity, and serving part of Montana with gas, including the large defence loads for mining and smelting at Butte, Anaconda, and Great Falls. It owns the greater part of the Cutbank oil and gas field in Northern Montana.

For many years the Montana Power Company has been searching for additional sources of gas in Montana and Wyoming, without any particular success. There have been no discoveries except small ones which would not help the defence situation in the United States.

Because of the shortage of reserves of that company, or the shortage of gas in Montana, last year the Montana Power Company agreed to purchase from McColl-Frontenac and the Union Oil Company of California the reserves of the Pakowki Lake area. That gives you a background of the present application for the incorporation of a pipe line in Canada. I might say that the defence situation in Montana is that at Butte, Montana, the copper, manganese, and zinc mines of the Anaconda Copper Company are located, and at Anaconda, and Great Falls, the smelters and reduction works of that company are located. For twenty years they have all been using gas and a great part of their metallurgy is designed for using gas. They do not even know if other fuel could be used if it were available. They do know that it is not available in that area.

When this situation developed to a certain point, we thought it should be reported to Mr. Charles E. Wilson, director of mobilization. That was done, and, as a result, representations were made to the government of Canada. The exact contents of those representations I do not know because my knowledge stops at the presentation to Mr. Charles E. Wilson.

I might say, in connection with Montana Power Company's ability to finance this new company, that because primarily it is an electric business it is a rather large utility for a plains and mountainous state. It has approximately $150 million of assets and its securities are owned by 26,000 stockholders spread throughout the United States, Canada, and the rest of the world. The company has been in business for about seventy years. It has been in the gas business for the past twenty years and has highly experienced crews in the fields of operation, production, transmission, and distribution of gas.

Is that a sufficiently general statement, Mr. Chairman?

The CHAIRMAN: I think so.

The WITNESS: I wanted to keep within your request that it be brief.

The CHAIRMAN: Are there any questions?

Mr. APPLEWHAITE: I would like to ask one question. In the event that this legislation passes here with reasonable speed, at what time would the consumers get the benefit of this gas?

The WITNESS: The consumers would get the benefit of the gas this fall, sir. It would be essential that we complete our pipe line to the point of interconnection with the Montana Power Company pipe line, which is at Cutbank, Montana.

We would have to complete this red line this fall so that gas would be available to the Anaconda Copper Company this winter. Otherwise there would be a very serious curtailment in their operations this coming winter.

By Mr. Hatfield:

Q. What is the Anaconda Company going to do with this gas?—A. Well, they will use it at their mine in connection with their heating and processing plants, and also at their smelters in connection with the roasting of the ore and the smelting process of the ore which is all produced right there in that locality.

Q. I know that the ore is produced there, but cannot that work be done at some place in Canada?—A. I should think, sir, from the standpoint of the economics of the question, it could not. The smelters and reduction work was located at the present point because of its close proximity to the natural resources and to the supplies of ore which are there. Hundreds of millions of dollars are invested in those facilities, and with the ore located there, I think that the possibility of removing the reduction plants and smelters to some place in Canada would not even be a remote possiblity.

By Mr. Green:

Q. You are asking for this gas simply as a temporary measure?—A. I could not say that the bill which is presented here for incorporation of this new company is not in connection with a temporary matter. It is a bill to incorporate a company which could transmit to Montana gas which the Montana Power Company has contracted to purchase from McColl-Frontenac Company, and the gas purchased would come from southeastern Alberta, let us say approximately four hundred million cubic feet. But since this bill was introduced, defence plans have developed to a point where now, should this company be incorporated, it would immediately proceed to transmit gas to Montana for defence purposes.

But our application is for a general permit to transmit the gas to Montana for general use in connection with the system of the Montana Power Company. It is still pending in Alberta. So, if the company were incorporated, and if the temporary export permits were granted, then if later on a general export permit were granted, everything would be carried out by this company.

Q. I take it that you hope eventually to get all this gas from this particular area?—A. Naturally, yes, all that we have purchased.

Q. Indefinitely?—A. Yes, to the extent of the reserves which are there.

Q. You hope to take all the gas from that reserve?—A. That is right. We have asked for a twenty-five year permit, and our requirements would approximately exhaust the reserves in that twenty-five year period.

Mr. MOTT: That would be the general effect?

The WITNESS: Yes.

By Mr. Green:

Q. But would that not very seriously affect the chances of Canada getting any of that gas?—A. I would not be qualified to answer your question because I am not sufficiently familiar with the requirements of the other lines, and with the various applications which are pending for export. I do realize that the Oil and Gas Conservation Board of Alberta as well as your dominion boards have quite a problem in deciding which projects are possible and what gas should be exported from Alberta to the other provinces of Canada or to the United States. So I do not think I could possibly hope to give an answer to your question which would be satisfactory to you.

By the Chairman:

Q. You have already said that Mr. Charles Wilson contacted the federal government. Now, did he actually contact the federal government or the Alberta government in connection with the export? Does that not rest with the Alberta government?—A. I was speaking purely on the basis of an excerpt from an Edmonton newspaper stating that Mr. Charles E. Wilson had contacted the Honourable Clarence Howe and that the Honourable Clarence Howe had contacted Premier Manning.

Q. Who in the final analysis would have the say as to whether or not this gas should be exported?—A. My understanding is that in addition to obtaining permission from Alberta we would also have to have a permit from the Board of Transport Commissioners.

Q. That is right.—A. Of the dominion. So it would involve both the dominion and the provinces.

Q. Your situation is well protected from all angles, as far as Canadian interests are concerned. Are there any other questions?

Mr. GREEN: That remains to be seen, Mr. Chairman.

The CHAIRMAN: I do not see how you can figure that any other way.

Mr. HATFIELD: If we supply gas for defence purposes, and if we export all our gas from Canada to some other country, we would have a situation where our workmen in Canada cannot get employment in the factories of those other countries.

The CHAIRMAN: That is not the point.

Mr. MURRAY: I do not think it is quite correct. Montana is full of Canadians, is it not?

The WITNESS: I have so many Canadian friends in Montana that sometimes I think I am in Canada. And I might say that most of them come from Prince Edward Island.

Mr. MACNAUGHT: And darned good friends they are, too!

The WITNESS: In fact, the president of our company is a former student of McGill University, and he has spent a considerable part of his life in Canada.

Mr. HATFIELD: That does not make it right.

By Mr. Byrne:

Q. What percentage of your present consumption is your company using for domestic purposes?—A. About 50 per cent, sir. Anaconda Copper and Mining Company is using 20 million cubic feet of consumption, and housing needs 10 million cubic feet a year.

Q. Would the effect of the reserves becoming depleted in Montana indicate that fate for the field in Canada as well?—A. I can see no relationship between the two, at all. Geologists are quite satisfied that there is no connection or association between the gas in the Montana field and the gas seventy-five miles from there in the Canadian field.

By Mr. Stuart:

Q. What percentage of the amount exported would be used for defence purposes?—A. Under the temporary bill it is limited for five years to 50 billion cubic feet. That is the estimated requirement of the Anaconda Company in that five year period, without giving consideration to any possible increase in their load as a result of war activities.

By Mr. Green:

Q. In other words, the Alberta government is willing to take on all the requirements for the Anaconda Copper Company for a period of five years?—A. That is right..

Q. But you are getting no permanent permit from them for the export of the gas?—A. Not at the present time.

By Mr. Whiteside:

Q. What is the size of the pipe?—A. It would be a sixteen inch pipe from this field to Cutbank, Montana, and our line from Cutbank to Butte, Montana is a twenty inch line.

By Mr. Green:

Q. So in fact you would be supplying your domestic consumers with Montana gas?—A. Yes.

By Mr. Byrne:

Q. Let us suppose that coal were to be used for domestic purposes to the extent that you have said. You have been selling 50 per cent of your gas for domestic purposes. Would there not be a reduction, if domestic consumption were to use coal, which would provide sufficient gas to carry on your defence requirements?—A. We have 35,000 customers who are using gas primarily for heating purposes and it would mean a conversion of gas appliances in connection with those 35,000 customers, if we were to change back to coal. It would require the total elimination of the domestic consumption in order to make gas available for the Anaconda Company. And in addition, from the standpoint of our company, if we tried to cut off 35,000 individual customers, even if it meant the supplying of defence industry, I think we might find ourselves run out of the country. You must realize that we have the same climate that you do, that our people are accustomed to using gas for fuel, and have done so for twenty years. I really think they do not know how to use anything else. And moreover, there is no coal production in that area. It would have to be developed. I think it would be impossible.

The CHAIRMAN: Well, gentlemen, unless there are any further questions, are we ready to proceed with the bill? I do not believe it is necessary to call on Mr. Pritchard unless the members have some questions to ask him.

Mr. APPLEWHAITE: Mr. Chairman, would you not consider it wise to get some information from some witness upon which to base the valuation of the shares for taxation purposes?

The CHAIRMAN: Well, it is up to the committee. I am in the hands of the committee.

Mr. MACTAVISH: Mr. Chairman, we filed a declaration of $10 a share.

The CHAIRMAN: That is under clause 3?

Mr. MACTAVISH: Yes.

The CHAIRMAN: For taxation purposes?

Mr. MACTAVISH: Yes. It was filed in the usual way.

The CHAIRMAN: We shall consider the bill, then.

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Q. But would that not very seriously affect the chances of Canada getting any of that gas?—A. I would not be qualified to answer your question because I am not sufficiently familiar with the requirements of the other lines, and with the various applications which are pending for export. I do realize that the Oil and Gas Conservation Board of Alberta as well as your dominion boards have quite a problem in deciding which projects are possible and what gas should be exported from Alberta to the other provinces of Canada or to the United States. So I do not think I could possibly hope to give an answer to your question which would be satisfactory to you.

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The CHAIRMAN: For taxation purposes?

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The CHAIRMAN: We shall consider the bill, then.

Mr. MURRAY: Before we do so, Mr. Chairman, I do not think the defence needs of this project have been amply explained. Is there not some board here which deals with the matter of joint defence between Canada and the United States which could give us a word of instruction on the matter?

Mr. CONACHER: Mr. Chairman, would not that all have been decided before the bill got to this stage?

The CHAIRMAN: I think it is self-evident.

Mr. MURRAY: If it is self-evident then we should expedite the project.

The CHAIRMAN: Yes, and that is why I asked the question whether the Hon. Mr. Howe had been in touch with the situation.

Mr. MURRAY: If General MacArthur should make a statement that he wanted that gas, it would make an entirely different picture.

Mr. GREEN: That is not quite the picture because here the last witness has said that the Anaconda Copper Company is to get all its gas not only for war production but for ordinary production from this field. I am not quarrelling with their getting help for their war production, but in addition to that they are getting it all for ordinary requirements.

Mr. HATFIELD: They are going to drain the field.

Mr. MURRAY: It would be quite in order to do so if it is essential for defence needs.

The CHAIRMAN: We have heard the evidence concerning Mr. Wilson who is the top man in that department in the United States.

Mr. MURRAY: Well, Mr. Chairman, I do not think that a statement from the Edmonton *Journal* is necessarily an official statement as to Mr. Wilson's policy and as to the desire of President Truman.

The CHAIRMAN: You can hardly bring Mr. Wilson or the Hon. Mr. Howe here. I do not think we need to have the Hon. Mr. Howe come here as a witness in that connection. What is your thought?

Mr. MURRAY: I mean there is a joint defence commission which easily could be heard from.

The CHAIRMAN: Mr. MacTavish, can you enlighten us on that?

Mr. MACTAVISH: I think perhaps the answer to your question, sir, is this, that here you are being asked to give only capacity to this group. Now, the thing that has to be done, notwithstanding what the province of Alberta has done, is that first we must go to the Board of Transport Commissioners in any event, and having done that, then we come back to Mr. Howe's ex-department, so to speak, the Department of Trade and Commerce, and there we have to get a specific permit, under the federal statute with respect to the export of fluids, gas and that sort of thing, so that at that time, sir, the question of the necessity of urgency defencewise will have been established beyond peradventure of all doubt so far as the Canadian authorities are concerned. So far, we have established in a very satisfactory way that Mr. Wilson, who is the specific person charged with the highest authority in the United States with defence mobilization has made a request through Mr. Howe, who at that time was Minister of Trade and Commerce and in whose department the matter will lie before we are ready to treat with the Board of Transport Commissioners, and he in turn through Premier Manning of Alberta, is implementing that important phase of the matter, which is the export of the gas from the area in which it lies, so that I think that the defence problem will inevitably be solved to the entire satisfaction and complete protection of Canadian interests before any gas can be exported.

Mr. HATFIELD: The export lies with the provincial government of Alberta?

Mr. MacTavish: Yes, from the point of view of availability for export, but that is not sufficient for our purposes as we still have to go to the federal board.

Mr. Hatfield: That is where our final protection is.

Mr. MacTavish: I think it is complete protection.

The Chairman: Are you ready to consider the bill?

Shall the preamble carry?

Carried.

Clause 1:

Carried.

Clause 2:

Carried.

Clause 3:

3. The capital stock of the Company shall consist of five hundred thousand shares without nominal or par value.

In connection with the valuation of the common stock in Clause 3, I believe Mr. McCulloch has a recommendation to make.

Mr. McCulloch: I move that for the purpose of levying a charge on the capital stock which will have no par value the committee recommend that each share be deemed to be worth $10.

Agreed to.

The Chairman: It is necessary that a value be put on the no par value stock, as has been done previously as honourable members will recall.

Shall Clause 3 carry?

Carried.

Clause 4.

4. (1) The head office of the Company shall be at the city of Calgary, in the province of Alberta, which head office shall be the domicile of the Company in Canada; and the Company may establish such other offices and agencies elsewhere within or without Canada as it deems expedient.

(2) The Company may, by by-law, change the place where the head office of the Company is to be situate.

(3) No by-law for the said purpose shall be valid or acted upon until it is sanctioned by at least two-thirds of the votes cast at a special general meeting of the shareholders duly called for considering the by-law and a copy of the by-law certified under the seal of the Company has been filed with the Secretary of State and published in the *Canada Gazette*.

Mr. Green: In clause 4 I notice that under subclause (2) there is power given to the company by by-law to change the head office of the company. In the other bills there have been included the words "within Canada", which meant, of course, that the head office would be within Canada, but that is omitted in this particular bill. I think that the company should ask for an amendment to provide that the head office must be in Canada.

Mr. MacTavish: There are no objections to that from the company's point of view.

The Chairman: There are no objections to that being inserted?

Mr. Green: In the Trans-Canada Pipe Lines Bill a similar section reads:

The Company may, by by-law, change the place within Canada where the head office of the Company is to be situate.

Mr. MacTavish: I think there is no intention of having the head office anywhere but in Canada.

The Chairman: All in favour of the amendment "within Canada" added after the word "place"?

Clause 4 as amended:

Carried.

Clause 5:

Carried.

Clause 6:

6. The Company, subject to the provisions of any general legislation relating to pipe lines for the transportation of gas or oil or any gaseous or liquid products or by-products thereof which is enacted by Parliament, may

(a) within the province of Alberta and/or internationally outside Canada construct, purchase, lease, or otherwise acquire and hold, develop, operate, maintain, control, lease, mortgage, create liens upon, sell, convey or otherwise dispose of and turn to account any and all international pipe lines and all appurtenances relative thereto for gathering, processing, transmitting, transporting, storing, and delivering, natural and artificial gas and other gaseous or liquid hydrocarbons, and purchase, or otherwise acquire, process, transmit, transport, and sell or otherwise dispose of and distribute natural and artificial gas and a mixture thereof and other gaseous or liquid hydrocarbons, and own, lease, sell, operate, and maintain aircraft and aerodromes for the purpose of its undertaking, together with the facilities required for the operation of such aircraft and aerodromes; and own, lease, operate and maintain interstation telephone, teletype and telegraph communication systems and subject to *The Radio Act, 1938*, and any other statute relating to radio, own, lease, operate and maintain interstation radio communication facilities;

(b) purchase, acquire, hold, lease, sell, improve, exchange or otherwise deal in real property and any interest and rights therein, legal or equitable or otherwise howsoever, and deal with any portion of the property so acquired, and may subdivide the same into building lots and generally lay the same out into lots, streets and building sites for residential purposes or otherwise and may construct streets thereon and necessary sewerage and drainage systems, and build upon the same for residential purposes or otherwise, and supply any buildings so erected, or other buildings erected upon such lands, with electric light, heat, gas, water or other requisites, and lease or sell the same, upon such terms and subject to such conditions as appear requisite for the purposes of the undertaking, either to its employees or to others;

(c) exercise as ancillary and incidental to the purposes or objects set forth in this Act, the powers following unless such powers or any of them are expressly excluded by this Act, namely, the powers set forth in paragraphs *(a)* to *(bb)* inclusive of subsection one of section fourteen of *The Companies Act, 1934*.

Mr. Green: Mr. Chairman, on Clause 6, I would like to move that there be added after the word "hydrocarbons" in line 30, the following:

> provided that the main pipe line or lines either for the transmission or transportation of gas or oil shall be located entirely within Canada.

The evidence both here and in the House has made it perfectly clear that it is the intention of the company only to build to the Canadian border, so they should have no objection to an amendment of that kind being inserted. If it is

not inserted, then we may find that in a year from now or perhaps in five years from now it will turn out that this company proposes to pipe gas via the United States to the west coast. They may turn out to be a competitor of other companies which are prepared to supply gas to the west coast through Canada, and I think it would be unfair that they should not be subject to this same restriction with regard to their main line as has been written into two of the other bills. I hope that the company would not object to an amendment of that kind.

The CHAIRMAN: Can we have the amendment in writing?

Mr. GREEN: It is exactly the same as in the other bills.

The CHAIRMAN: You have it right there. Would you mind reading it again?

Mr. GREEN: "Provided that the main pipe line or lines either for the transmission or transportation of gas or oil shall be located entirely within Canada".

The CHAIRMAN: It is the same as in the other two bills?

Mr. GREEN: Yes.

The CHAIRMAN: How would you feel about that, Mr. MacTavish?

Mr. MACTAVISH: If I could just consult one moment.

The CHAIRMAN: Your amendment, Mr. Green, would cover gas only, or gas or oil?

Mr. GREEN: It would cover both.

Mr. MACTAVISH: If the amendment made it clear that the pipe lines referred to are the pipe lines of this company, we have no objections because there is no intention of doing anything even in the future other that what we have said, that is, so far as this bill is concerned, to take the pipe lines down to the border.

Mr. GREEN: It obviously could only apply to this company because it is only this company's bill that is being amended.

Mr. MACTAVISH: Generally speaking, the amendment comes within the general scope of what I said previously with respect to capacity. Actually those are matters generally in the purview, I think, of the Board of Transport Commissioners—such matters as routes, et cetera. But we have no objection to the amendment provided it limits it to this company.

The CHAIRMAN: Is the amendment as read satisfactory?

Mr. MACTAVISH: I wonder if I could read the amendment? Would you have any objection if we added after pipe line or pipe lines the words "of this company"? It makes it abundantly clear.

Mr. GREEN: Yes, that is all right.

Mr. MACTAVISH: Is that acceptable? Under those circumstances we have no objection whatsoever.

The CHAIRMAN: I think the clerk has the clear wording of the amendment now and I think it will be possible to have him read it as it is so there will be no error.

The CLERK: In Clause 6, line 30, after the word "hydrocarbons" inserting the following:

> provided that the main line or lines of the company for the transmission or transportation of gas or oil be located entirely within Canada.

Mr. GREEN: The main pipe line or lines.

The CLERK: "The main pipe line or lines for the transmission or transportation . . ."

Mr. GREEN: "Either for the transmission or transportation of gas or oil shall be located entirely within Canada."

The CHAIRMAN: Shall paragraph (*a*) of clause 6, as amended, carry?
Carried.

Paragraph (*b*) of clause 6?
Carried.

Paragraph (*c*) of clause 6?
Carried.

Clause 7?
Carried.

Clause 8?
Carried.

Clause 9?
Carried.

Clause 10?
Carried.

Clause 11?
Carried.

Shall the title carry?
Carried.

Shall the bill as amended carry?
Carried.

Shall I report the bill?
Carried.

Gentlemen, that is all that is before the committee and a motion to adjourn is in order.

Mr. FOLLWELL: I so move.

The meeting adjourned to the call of the chair.

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

CHAIRMAN—MR. L. O. BREITHAUPT

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

BILL No. 116 (Letter E of the Senate)

Intituled: "An Act Respecting British Columbia Telephone Company"

THURSDAY, JUNE 7, 1951

FRIDAY, JUNE 8, 1951

WITNESSES:

Mr. Sherwood Lett, K.C., Counsel for the British Columbia Telephone Company, Vancouver, B.C.;

Mr. Gordon Farrell, President, British Columbia Telephone Company, Vancouver, B.C.;

Mr. James Hamilton, Senior Vice-President, British Columbia Telephone Company, Vancouver, B.C.

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1951

MINUTES OF PROCEEDINGS

THURSDAY, June 7, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at 10.00 o'clock a.m. Mr. Breithaupt, Chairman, presided.

Members present: Applewhaite, Beyerstein, Byrne, Browne (*St. John's West*), Carter, Darroch, Dewar, Ferguson, Fulton, Green, Healy, Herridge, Hodgson, James, Jones, Laing Lennard, MacDougall, Macdonald (*Edmonton East*), MacInnis, MacNaught, McGregor, Mott, Murphy, Riley, Robinson, Shaw, Stuart (*Charlotte*), Whiteside, Whitman.

In attendance: Mr. Duncan K. McTavish, K.C., Parliamentary Agent for Petitioners Ottawa, Ont.; Mr. Sherwood Lett, K.C., Solicitor for Petitioners, Vancouver, B.C.; Mr. Gordon Farrell, President, British Columbia Telephone Company, Vancouver, B.C.; Mr. James Hamilton, Senior Vice-President, British Columbia Telephone Company, Vancouver, B.C.; Mr. Lionel Kent, C.A., of Riddell, Stead, Graham & Hutchinson., Chartered Accountants, Auditors of British Columbia Telephone Company, Vancouver, B.C.; Mr. Charles Brakenridge, Parliamentary Agent for the City of Vancouver, Vancouver, B.C.

The Committee commenced consideration of Bill No. 116 (Letter E of the Senate), intituled: "An Act respecting British Columbia Telephone Company".

Mr. Applewhaite, M.P., sponsor of the Bill, introduced Mr. Sherwood Lett, K.C., Solicitor for Petitioners.

Mr. Lett was called, outlined the purposes of the bill and was questioned.

Mr. Farrell, President of the Company, was called, heard and questioned.

On motion of Mr. Healy:

Resolved,—That Mr. Whitman be Deputy-Vice-Chairman of the Committee.

At 1 o'clock p.m. the Committee adjourned to meet again at 8.30 p.m. this day.

EVENING SITTINGS

THURSDAY, June 7, 1951.

The Committee resumed at 8.30 o'clock p.m. Mr. Whitman, the Deputy Vice-Chairman, presided.

Members present: Applewhaite, Byrne, Carter, Conacher, Darroch, Ferguson, Fulton, Gillis, Goode, Green, Healy, Herridge, Hodgson, James, Jones, MacDougall, Macdonald (*Edmonton East*), MacInnis, McIvor, Mott, Riley, Robinson, Shaw, Smith (*Queens-Shelbourne*), Stuart (*Charlotte*), Whiteside.

In attendance: Same as indicated for the morning session.

83630—1½

The Committee resumed consideration of Bill No. 116, An Act respecting British Columbia Telephone Company.

It was agreed to hear Mr. Lett in relation to certain questions asked at the morning session. Mr. Lett was heard and questioned.

The examination of Mr. Farrell continued.

A discussion arising on the question of amending the Charter of the Company to the effect that the Board of Transport Commissioners shall take into consideration the fairness and the reasonableness of the charges levied against the company by its affiliated companies and of the amounts which are payable by reason of agreements between them, and a point of order being raised by Mr. Applewhaite that such discussion was out of order, the Chairman ruled that the point was well taken on the ground that such a question was beyond the Order of Reference of the Committee.

Mr. Lett was further examined.

It was agreed that Mr. James Hamilton, Senior Vice-President of the Company, would be the first witness called at the next meeting of the Committee.

On motion of Mr. Macdonald (*Edmonton East*):

Resolved,—That the Committee meet at 10 o'clock a.m., Monday, June 11, 1951, and that the first order of business be the two pipe line bills referred to the Committee, namely:

Bill No. 269, An Act to incorporate Independent Pipe Line Company, and

Bill No. 321, An Act to incorporate Champion Pipe Line Corporation Limited.

At 11 o'clock p.m. the Committee adjourned to meet again at 3.30 p.m., Friday, June 8, 1951.

FRIDAY, June 8, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at 4.00 o'clock p.m. Mr. Whitman, Deputy Vice-Chairman, presided.

Members present: Applewhaite, Byrne, Browne (*St. John's West*), Conacher, Fulton, Goode, Green, Harrison, Herridge, James, Jones, Laing, MacDougall, Macdonald (*Edmonton East*), MacInnis, McIvor, Mott, Murphy, Robinson, Rooney, Stuart (*Charlotte*).

In attendance: Mr. Duncan K. McTavish, K.C., Parliamentary Agent for Petitioners. Ottawa, Ont.; Mr. Sherwood Lett, K.C., Solicitor for Petitioners, Vancouver, B.C.; Mr. Gordon Farrell, President, British Columbia Telephone Company, Vancouver, B.C.; Mr. James Hamilton, Senior Vice-President, British Columbia Telephone Company, Vancouver, B.C.; Mr. Lionel Kent, C.A., of Riddell, Stead, Graham & Hutchinson, Chartered Accountants, Auditors of British Columbia Telephone Company, Vancouver, B.C.; Mr. Charles Brakenridge, Parliamentary Agent for the City of Vancouver, Vancouver, B.C.

The Committee resumed consideration of Bill No. 116, An Act respecting British Columbia Telephone Company.

Mr. Green tabled for distribution copies of a document, dated February 9, 1951, being a letter addressed to the Mayor and Council of the City of Vancouver dealing with the application for a private bill by the British Columbia Telephone

Company, and having attached thereto excerpts from a report made by Messrs. D. E. McTaggart and C. Brakenridge to the Mayor and Council of the City of Vancouver, dated December 8, 1950, in connection with the judgment of the Board of Transport Commissioners on the application by the Company for an increase in rates which was heard in January of 1950.

On motion of Mr. Green:

Resolved,—That the said document and attachment be printed as *Appendix A* to the report of this day's proceedings.

It was agreed to hear Mr. Lett in relation to certain questions asked at the last meeting of the Committee. Mr. Lett was heard and questioned.

On motion of Mr. Green:

Resolved,—That the chart showing Inter-Corporate Relationship of the British Columbia Telephone Company, together with a statement showing subsequent changes be printed as *Appendix B* to the report of this day's proceedings.

Mr. Lett tabled for distribution copies of a Chart entitled: "Total Stations B.C. Telephone Co.", showing the number of stations and the held applications from the period 1938 down to 1951.

It was agreed that the said chart be printed as *Appendix C* to the report of this day's proceedings.

Mr. Farrell was further questioned and retired.

Mr. Hamilton was called.

Mr. Hamilton tabled for distribution copies of two documents entitled: "Exchange Service Rates (in cents per month) British Columbia Telephone Company", and "Exchange Service Rates (in cents per Month) Bell Telephone Company".

It was agreed that the said documents be printed as *Appendix D* and *Appendix D-1* respectively to the report of this day's proceedings.

Mr. Hamilton then tabled for distribution copies of a document entitled: "British Columbia Telephone Company Summary of Proposed Expenditures by Areas".

It was agreed that the said document be printed as *Appendix E* to the report of this day's proceedings.

Mr. Hamilton was heard and questioned.

At 5.45 o'clock p.m. Mr. MacDougall moved that the Committee sit tonight.

After some discussion and the question having been put on the motion of Mr. MacDougall, it was resolved in the negative on a standing vote.

At 5.55 the Committee adjourned to meet again at 10.00 o'clock a.m., Monday, June 11, 1951, in pursuance of a resolution passed by the Committee on June 7, 1951.

R. J. GRATRIX,
Clerk of the Committee.

ORDERS OF REFERENCE

FRIDAY, April 13, 1951.

Ordered,—That the name of Mr. Browne *(St. John's West)* be substituted for that of Mr. Adamson on the said Committee.

TUESDAY, May 29, 1951.

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

Bill No. 116 (Letter E of the Senate), intituled:
An Act respecting British Columbia Telephone Company.

Bill No. 269 (Letter D-8 of the Senate), intituled:
An Act to incorporate Independent Pipe Line Company.

WEDNESDAY, May 30, 1951.

Ordered,—That the name of Mr. Jones be substituted for that of Mr. Noseworthy on the said Committee.

Ordered,—That the name of Mr. MacInnis be substituted for that of Mr. Thatcher on the said Committee.

THURSDAY, May 31, 1951.

Ordered,—That the name of Mr. Laing be substituted for that of Mr. Cannon on the said Committee.

MONDAY, June 4, 1951.

Ordered,—That the name of Mr. MacDougall be substituted for that of Mr. Thomson on the said Committee.

That the name of Mr. Goode be substituted for that of Mr. Weaver on the said Committee.

Attest. LEON J. RAYMOND,
Clerk of the House.

EVIDENCE

HOUSE OF COMMONS,
JUNE 7, 1951.

The CHAIRMAN: Gentlemen, if you will please come to order, we have a quorum. I would like to start these meetings as nearly on time as possible. We have before us bill No. 116, bill E of the Senate, an Act respecting the British Columbia Telephone Company, which has been referred to this committee.

Mr. Applewhaite, sponsor of the bill in the House is here and it would be in order to hear him at this point if it is your wish.

Agreed.

Mr. APPLEWHAITE: Mr. Chairman and gentlemen, the main provisions of this bill were outlined on the second reading in the House. We have in attendance today Mr. Duncan K. McTavish, K.C., Parliamentary Agent; Mr. Sherwood Lett, K.C., Solicitor; Mr. Gordon Farrell, President, Mr. James Hamilton, Senior Vice-President, both of the British Columbia Telephone Company; and Mr. Lionel Kent, C.A. of the firm of Riddell, Stead, Graham and Hutchinson, the company's auditors. With your permission, Mr. Chairman, and with the approval of the committee I would like to call on the counsel for the company, Mr. Sherwood Lett, to outline the case and to call witnesses.

The CHAIRMAN: Is that your pleasure, gentlemen?

Agreed.

Mr. Sherwod Lett, K.C., Solicitor, City of Vancouver, called:

The CHAIRMAN: Would you kindly outline the provisions?

The WITNESS: Mr. Chairman, and members of the committee, the sponsor of this bill in introducing it in the House of Commons did, I think, give a very concise and very complete account of the purposes and objects of the bill, so I thought it might meet the wishes of the committee if I gave a very brief statement of the purposes of the bill, and as the sponsor undertook in the House, the senior officials of the company are here, as he has mentioned: Mr. Gordon Farrell, the president, and Mr. James Hamilton, the senior vice president and Mr. Lionel Kent, the Company's auditor. Our plan is that we would have Mr. Farrell available to give you some evidence and then to answer such questions as might be asked by members of the committee, and Mr. Hamilton and Mr. Kent will also be available to give such information as may be desired by the members.

Mr. Chairman, the purposes of the bill are five. The applicant, as you know, is the British Columbia Telephone Company which serves the Province of British Columbia, provides telephone service to approximately ninety per cent of the telephones in existence in that province. The purposes of the bill are, to increase the authorized capital of the company from $25 million to $75 million, that is an increase of $50 million.

Mr. HODGSON: That is an increase of 200 per cent?

The WITNESS: That is an increase of 200 per cent; and secondly, to provide for the issue hereafter of preference or preferred shares of a share value of

either $25 or $100 each. The present Act provides for the issue of shares of $100 in the terms of the preference. Thirdly, to make provisions for the subdivision of any outstanding preference or preferred shares of a par value of $100 each into shares of a par value of $25 each if deemed advisable by the directors and subject always to the consent of at least seventy-five per cent of the par value of the holders of each class of such preference or preferred shares proposed to be subdivided. Fourthly, to enable the company to pay a commission on the sale of those shares. Fifthly, to subdivide the present outstanding ordinary shares of a par value of $100 each into shares of a par value of $25 each and to provide that all subsequent issues of ordinary shares shall be of a par value of $25 each.

Those are the five purposes of the application, and the main purpose is No. One or No. A shown in the bill, and that is to have the authorized capital, not the issued capital, but the authorized capital of the company increased from $25 million to $75 million. If I may say a word on that point first, Mr. Chairman, in 1947 this company came to parliament and petitioned for an increase of authorized capital from $11 million which it had been to $25 million and that was approved by parliament.

The CHAIRMAN: When was that?

The WITNESS: In 1947, Mr. Chairman.

Now, at that time it was estimated that that increase would be sufficient for the company's purposes for a considerable length of time. Now, today, approximately four years later, the company has issued all of its authorized capital, the whole $25 million has been issued subject, of course, to the approval of the Board of Transport Commissioners as the issue was made. The last of that was issued within the last few weeks, since this application has been made, and since 1947 the company has issued not only the balance of the $15 million of authorized stock but it has also issued some $8 million worth of bonds and $5 million in the form of 15-year four per cent notes in the form of security. Now, in 1947 the company submitted to this committee and to the Senate committee, a program of expansion. That was this postwar program of expansion in which it planned for a period of five years and took it from 1947 to 1951. That program of expansion called for an estimated expenditure of $35 million and in the company's thinking that $35 million would have carried it, should have carried it, through from 1947 to 1951. That was the five-year expansion program.

Well, now, what has happened to that plan? We are in the fifth year or we have completed four years of that expansion program and they have actually committed $33¼ million in that period, the actual figure is $33,268,000, I think, and in the fifth year, that is this year, our commitments will require approximately $14 million instead of the $5 million or $5½ million which was estimated for the year 1951. Now, at the time the company came before parliament in 1947 it had applications for telephones, for telephone service—they call it in the telephone business unfilled applications—of 19,792. That is roughly 20,000 applications. That was thought to be the backlog of the war years, due to lack of materials and supplies and so on, and it was in fact deemed and treated as a backlog of the accumulation of the war years. From the first of January 1946 to the 31st of December 1950, the company provided, Mr. Chairman, additional telephones to the number of 83,000—83,351 additional telephones. That represented an increase of over 50 per cent down to the period of December 31, 1951. Well, one would have thought we would have caught up with the unfilled applications but as of April 30th of this year, that is 1951, there were approximately 23,000 held applications, unfilled orders for telephones. The actual figure was 22,781 as of April 30, 1951. Of course, Mr.

Chairman, in addition to supplying telephones there is the need for the upgrading and improving of existing services which the company must also take into its consideration, not only in the urban areas but also in the rural areas where it is admitted a good deal remains to be done. Now, the explanation of this continued extraordinary demand for telephone service lies, I think it is quite clear, in two factors. One is the extraordinary increase in the population of British Columbia and the second one is, which I am sure it is not necessary to emphasize with this committee, the unprecedented economic development and expansion of the province of British Columbia in the last five or ten years. Now, I do not propose, Mr. Chairman, to burden the committee with population statistics but I would like to say that in the ten-year period from 1940 to 1950, taking it in June of each year which I believe is the Bureau of Statistics date, the average population for all the provinces including Newfoundland was 21·7 per cent—21·7 per cent. Now, that of British Columbia for that same period.

Mr. MURPHY: That is the increase you are speaking about?

The WITNESS: Yes, that is the increase. 21·7 per cent increase. Now, that of British Columbia for the same period, 1940 to 1950 was 41·4 per cent, 41·4 per cent as against the average for all of Canada, including Newfoundland, of 21·7 per cent. That is the first factor which we have to face in connection with the provision of telephones. Now, on the economic development I do not think it is necessary too, as I said, to go into that in detail with this committee. It is recognized in the past ten years there has been a tremendous expansion in British Columbia, and an economic expansion which is still continuing and about which Mr. Farrell will give figures, if the committee desires, later on. But the result is this company, which is operating 90 per cent of the telephones in use in the province of British Columbia today, must expand and enlarge that five-year expansion, the postwar program, which it drew up in 1947. Now, in the next three years, that is 1951, including the present, 1952, and 1953, this new program of the company calls for expenditures of approximately $35 million. When we were before the Senate committee that figure was given as $33 million. It is now approximately $35 million. That is more than $10 million a year. Now, those estimates are based on the 1950 cost levels which were the firm cost levels at the time. This application was prepared on the basis of the 1951 cost level. We will have at least 20 per cent more to add to those figures which I have just given you. On the basis of the present demand, Mr. Chairman, and the economic development of British Columbia, it was estimated, and we think it was reasonably estimated, that the company's capital expenditures would average about $10 million per year for the next ten years. That is a total of $100 million. Now, that estimate was prepared on the basis of the 1950 cost levels; on the basis of the existing cost levels, our 1951 cost levels, so far and as we can take them in effect today, that is a 20 per cent increase, and the amount of $100 million will last us between seven and eight years. That is, on that basis, making no provision whatever for any increase there may be again in the cost of materials not only in the years 1952 and 1953 but whatever might happen after that which is difficult to foretell.

Of the $100 million which the company estimates will be its minimum, or $120 million, the present proposal is that $50 million of that will be available from capital stock, that is the $50 million for which this application is made, and $50 million of it would be available from bonds or other forms of securities of different types. May I make two comments, Mr. Chairman, on that. One of the honourable members points out the percentage for which the application is made, an increase of 200 per cent. I would just like to make two brief comments on that. In 1948 the largest telephone company in Canada serving largely the provinces of Ontario and Quebec, applied to parliament and was granted an increase in authorized capital of 230 per cent or 3⅓ times its capital. With

authorization from parliament it increased its authorized capital from $150 million to $500 million. That was in 1948. The population increase of the province of Ontario according to the same source for the same period 1940 to 1950 was 20·4 per cent. That of Quebec for that same period was 21·3 per cent. That company serves very largely those two provinces. Now, the population increase of British Columbia as I have already mentioned, Mr. Chairman, as against 20·4 and the 21·3 is 41·4 per cent, so that with that population increase and no evidence that it is going to decrease, the British Columbia Telephone Company is asking not a 230 per cent increase as was asked by the other company but is asking a 200 per cent increase or, as has been mentioned by the honourable member, three times its present authorized capital as against three and a half times the amount which parliament has already granted to the other large companies. There is just one other point, Mr. Chairman, that I would like to mention and I do not think I need to dwell on it, and that is the fact that more and more in this country and certainly in British Columbia a telephone is being looked upon as a necessity rather than as a luxury. Now, it is for those reasons that the company is asking for this authorized increase to $75 million. That is a sum which the company estimates, and we think reasonably estimates, it will need to meet requirements of the company in the foreseeable future, based upon its own experience in the past and the best estimate it can make of the population trends and the economic developments facing us in the province of British Columbia. Just one other point and then I will close, Mr. Chairman, and it is this. I would like to point out that when we ask for an increase of authorized capital it does not mean that we are at liberty to go and issue that capital stock at will. As the members of this committee know, this bill provides—and it has been in the charter of the company as it has in that of all other telephone companies—that no issue of stock can be made without the authority and approval as to the rate and all the various terms of that stock. So that the fact that parliament might see fit to grant us an increase in capital it does not mean that we can issue that capital, any part of that capital without reference to the Board of Transport Commissioners in whose control are the complete terms relating to the issue of that capital.

The CHAIRMAN: Mr. Lett, for the benefit of the members of the committee who are not from British Columbia, what percentage of British Columbia did you say your company covers?

The WITNESS: I said, Mr. Chairman, that it provides service for approximately 90 per cent of the telephones of British Columbia. There are, I believe, and Mr. Farrell can correct me on this, some 20 or 30 telephone companies altogether; there are a number of smaller telephone companies in British Columbia serving various parts of the province, but this company is the largest telephone company there and I am told that it serves about 90 per cent of the telephones in British Columbia.

The CHAIRMAN: The balance is covered by smaller companies, is it?

The WITNESS: Yes, sir, smaller companies. The Dominion government also provides service into some parts of British Columbia, as I understand it. There is the Okanagan Telephone Company which serves the Okanagan Valley, and there are a number of other smaller companies, plus the government service.

The CHAIRMAN: What hookup is there with the Bell Telephone Company? It is only a long-distance set up, is it?

The WITNESS: They are members of the Trans-Canada setup. The British Columbia Telephone Company operates in connection with the Trans-Canada telephone system.

The CHAIRMAN: Are there any questions on the part of members of the committee?

Mr. APPLEWHAITE: I would just like to ask Mr. Lett before he concludes—he mentioned that any issue of stock has to be submitted to the Board of Transport Commissioners for their approval as to the terms of sale, commissions and so forth. Would he tell us whether that involves the Board of Transport Commissioners as satisfying themselves that the money is needed and what it is going to be used for and so on.

The WITNESS: Mr. Chairman, if I may speak from experience on that, I have been before the Board of Transport Commissioners on such an application and I can assure you that they like to know, they insist on knowing certainly, the amount, why the money is required, how it is proposed to do that financing, and in my experience they go into it very fully before they authorize any issue or authorize the price at which that issue should be made.

By Mr. MacInnis:

Q. Might I ask Mr. Lett if the Board of Transport Commissioners has ever refused to grant a request made by the telephone company either as to the amount or as to rates?—A. Mr. Chairman, I am afraid I could not answer that question. I know of no case where they refused it. I could not answer that question of the honourable member.

Q. Is it not practically automatic that the Board of Transport Commissioners will grant any requests made to them by the British Columbia Telephone Company because they do not know anything about what the situation in British Columbia is except what they are told by the representatives of the British Columbia Telephone Company?

The CHAIRMAN: I think they would make it their business to find out.

Mr. MACINNIS: I am asking the witness if in his experience that is not true.

The CHAIRMAN: The witness says he does not know.

Mr. MACINNIS: He should know, he represents the company, he appeared before them with the applications. Did they ever refuse any applications that he made?

The CHAIRMAN: That he made?

The WITNESS: Any application that I know of has not been refused. On the second point of Mr. MacInnis, if I may answer, he suggested that the company put the information before them. Actually there is a form to be followed, a requirement. Service of notice of this application has to be made and certainly in the experience of the British Columbia Telephone Company—I do not know what is required of other companies—the city of Vancouver and various parties are served with notice of every application, and it is advertised, I believe, and anyone has the right to go down there and protest the matter.

Mr. FERGUSON: Do you think it has any bearing on the proceedings before this committee that the Board of Transport Commissioners are going to pass on something afterwards? It is a duty placed on this committee to go into details thoroughly and to decide one way or the other on the evidence that will be brought forward in this committee. Our consideration of this will be quite irrespective of any assurances you may make that the Board of Transport Commissioners has to pass on something in connection with this afterwards. As far as their function is concerned, I do not think it has anything to do with the duties of the members of this committee. I do not think anything you say along that line will have any bearing on the subject here today.

Mr. HERRIDGE: Mr. Chairman, I would like to ask for the advantage of all members of the committee and the gentlemen of the press, would you ask the members of the committee to rise when they are speaking? Otherwise, it is just a regular rumble.

The CHAIRMAN: If it is the wish of the committee members will rise. It is usually more informal than that.

Any other questions?

By Mr. Green:

Q. Mr. Lett, is the British Columbia Telephone Company subject to any control by the Public Utilities Commission of the province of British Columbia? —A. Mr. Chairman, as far as I am aware the British Columbia Telephone Company is not subject to the control of the Public Utilities Commission of the province of British Columbia. It is subject to the Board of Transport Commissioners for Canada.

Q. By what provision in its Act does the British Columbia Telephone Company get into the position where it is not subject to the provincial Public Utilities Commission?

Mr. MACDOUGALL: It has a federal charter.

Mr. GREEN: No.

The WITNESS: My understanding of that, Mr. Chairman, is that by its original charter it was declared a work for the general benefit of Canada. If you would look at section (2) of the charter of the company you will find it says:

> The works hereby authorized are hereby declared to be for the general advantage of Canada.

Being in that position, with a federal charter, my understanding is that it then became subject to certain provisions of the Railway Act and thereby subject to the jurisdiction of the Board of Transport Commissioners in respect to the reasonableness and so on of rates, and by its own charter it is subject to the jurisdiction of the board in the matter of the issuing of stocks. That appears in subsection (3) of section 6: "The company shall not have power to make any issue, sale, or other disposition of the capital stock or any part thereof without first obtaining the approval of the Board of Transport Commissioners for Canada of the amount, terms, or conditions of such issue, sale, or other disposition of such capital stock."

So, as I understand the situation, being declared a work for the general advantage of Canada and being under the jurisdiction of the Board of Transport Commissioners for Canada it does not fall within the jurisdiction of the Public Utilities Commission of British Columbia.

By Mr. Green:

Q. You are referring to Chapter 66 of the Statutes of 1916 entitled an Act to Incorporate the Western Canada Telephone Company, is that correct?—A. Yes, the one I am reading is chapter 36 of 1940-41.

Q. I have here the original Act which I think is chapter 66 of 1916, and the sections which you claim takes the company away from any control by the Provincial Utilities Commission is this section, which reads:

> The works hereby authorized are declared to be for the general advantage of Canada.

That is correct, is it not?—A. That is my understanding of it. There may be some other provision in the Railway Act which brings us within the jurisdiction, I am not sure.

Q. The only check on the company then is the check of the Board of Transport Commissioners and whatever check there may be when the company comes to parliament for an amendment to its charter. Is that correct?—A. The only check in relation to what?

Q. The only bodies which have any check on the operations of the company are the Board of Transport Commissioners and parliament.—A. Yes. The Board of Transport Commissioners is the regulatory body, as I understand it, which has the jurisdiction in regard to rates of this company. Parliament has the jurisdiction as to authorizing capital, so in that sense I would say the answer to the question is yes.

Q. Then you mention the increase in capital which was granted to the Bell Telephone Company in 1948. Do you not think it would be fairer to compare that increase in 1948 which as you said, was from $150 million to $500 million with the increase which will have been granted to this company if it gets its request in the present bill plus what this company got in 1947, just one year before the Bell Telephone Company got their authorization. In 1947 the authorized capital of your company was increased from $11 million to $25 million and now it is asking for an increase from $25 million to $75 million. That in all is an increase of practically seven times. Now, do you not think that it would be more fair to make the comparison starting with the $11 million than to ignore the fact that this company got an increase of $14 million in 1947.—A. Mr. Chairman, I certainly have no intention of making an unfair comparison and I think I did mention we had applied in 1947 and had been granted that increase. I think I mentioned that, Mr. Green.

Q. You said that the British Columbia Telephone Company is now asking for an increase of 200 per cent whereas the Bell Telephone Company got an increase of more than 200 per cent. Now, I am suggesting that the fairer comparison would be to include what this company got in 1947 practically just one year before the Bell Telephone Company got theirs.—A. I can see the point of argument, Mr. Green, but I do not know what the previous increase of the Bell Telephone Company was. I do not know how long that was prior to 1950.

The CHAIRMAN: It had not been increased for 25 years.

The WITNESS: Well, on that basis it would be fairer to take that into consideration. It did not mean to be unfair in eliminating it at all, in fact, I have had it in my notes.

By Mr. Green:

Q. Then you mentioned that other small telephone companies operate in British Columbia. You are referring, I presume, to independent companies, those companies which are not affiliated with the British Telephone Company, because I believe there are several small companies which are either its cousins or brothers or are both controlled by the same parent company, is that not right?—A. Yes; Mr. Farrell can give the information on that. There are two or three I think.

Q. For example, Chilliwack Telephones Limited, Kootenay Telephone Company Limited, the Mission Telephone Company Limited, the North-west Telephone Company Ltd., are all companies which are controlled by the same company which controls the British Columbia Telephone Company, are they not?—A. As far as I know, Chilliwack, Mission, Kootenay are three telephone companies which are controlled by the same company.

Q. That is, they are controlled by the Anglo-Canadian Telephone Company?—A. Yes, which did control the British Columbia Telephone Company. The North-west Telephone is, I believe, but I am not sure, a connected company, but whether it is a subsidiary of the Anglo-Canadian, Mr. Farrell can answer that, if it is relevant to the matter.

Q. You say that Anglo did control the British Columbia Telephone Company. What do you mean by that? It still does, does it not?—A. I do not know.

Q. Well, you should be able to find out.

The CHAIRMAN: Probably that question, if it is relevant, could be asked of Mr. Farrell.

The WITNESS: I do not profess to be instructed in all of the details of the company. That is why other witnesses are here today. We will be glad to answer questions relative to this issue. I have the witnesses here.

By Mr. Green:

Q. You brought that on yourself, Mr. Lett, because you said that Anglo-Canadian "did". You used the word "did" instead of the word "does". Does Anglo-Canadian control the British Columbia Telephone Company now? Is there any significance in the use of that word "did"? I think it is admitted, as far as everybody knows, that Anglo does still control the British Columbia Telephone Company.—A. I used the word "did" at the time another application was made, when the Anglo-Canadian Telephone Company was shown to be the principal holder of the common shares. Now, since that time this company has done a considerable amount of financing. I do not know myself if Anglo-Canadian controls the British Columbia Telephone Company but I am sure there are gentlemen here who would be able to answer that question and give you the facts on it.

Q. So as far as you know, then, at least you do not know of any change in control from Anglo-Canadian Telephone Company to the public or some other group, is that right?—A. I would not answer yes or no to that. There has been a change in the number of shares, the number of shareholders of common shares. That, I take it, represents the control of the company.

Q. But the point is, who controls the majority of those shares? My arithmetic makes the Anglo-Canadian still firmly in the saddle, but if they are not I think the committee should know.—A. Mr. Chairman, the member may be right. I am not in a position to say who controls the company. I do not know the number of shares held by Anglo. I can give the total number of shareholders of the common shares.

The CHAIRMAN: It might be interesting information to have but is it relative to the question of increasing the capital of this company?

By Mr. Green:

Q. It certainly is very relevant. I will ask Mr. Farrell that.

You said there had been some shares issued recently. I believe at the time that you first applied for this increase in capital there was some $5 million capital which had not been issued, is that right?—A. That is correct, yes.

Q. And since your application has been made to parliament you have issued or are in the process of issuing this $5 million in shares?—A. That $5 million, I think, has been issued and sold.

Q. And of that $5 million, $1 million is in preferred shares and $4 is in common shares, is that correct?—A. Well, I think that is correct. Mr. Farrell will be able to answer that.

Q. And at what price were these common shares sold to the public? I believe they are of a par value of $100. At what price have they been sold to the public? —A. Mr. Farrell can answer that, too, Mr. Chairman.

Q. You must know because you applied to the Board of Transport Commissioners for permission to sell them. You must have had to tell the Board of Transport Commissioners at what price you were going to sell them. Now, surely you know at what price these shares were sold to the public?—A. Mr. Chairman, in that particular application I did not apply to the Board of Transport Commissioners. It was other counsel who did that. I did not make that application.

Q. Well, were there any share rights issued in connection with $4 million in common shares?—A. Mr. Chairman, I am not in a position to answer. It is not that I do not want to answer Mr. Green, but I did not have to do with that application.

Q. Pardon?—A. I did not have to do with that application before the Board of Transport Commissioners. I think I know what they are issued at but I have not the evidence firsthand.

Q. You are the solicitor for the company?—A. Yes.

Q. And these share rights have to be drawn up by some solicitor. Did you work them out?—A. No.

Q. Who did that?—A. When you say I am the solicitor for the company, I am solicitor for the company in this application, and I have done bits of counsel work for them.

Q. Well, Mr. Lett, you have seen the advertisements in the papers, at least, with regard to these share rights and with regard to the price at which these shares were being sold, have you not?—A. Yes, I saw them at the time. I think I saw a copy of the prospectus issued at that time.

Q. There is really no dispute about these terms, about these prices, is there?—A. I am not disputing. You are asking me to give evidence on matters with which I am not familiar. I am perfectly willing to give evidence on matters I am familiar with, on which I can give you facts, but I do not like to be guessing at things on which I have no personal knowledge.

The CHAIRMAN: That seems reasonable. Could not these questions be delayed for Mr. Farrell to answer?

Mr. GREEN: I will ask Mr. Farrell, yes.

By Mr. Green:

Q. You spoke now of the company planning in the future to finance on a basis of 50 per cent by way of share capital and 50 per cent by way of bonds or notes or securities of that type. Am I correct in that statement that you mentioned the proportion of 50-50?—A. I did mention the proportion of 50 per cent stock and 50 per cent bonds or other securities.

Q. In other words, if you wanted to raise $100 million you would raise $50 million by way of capital and $50 million by way of bonds or notes? That is now the plan of the company?—A. That, as I understand it, is the plan at the present time, to get on a 50-50 basis.

Q. Well, Mr. Lett, that is a very drastic change from the plan which the company has followed in the past, is it not?—A. It differs very materially from the ratio which the company has had in the past.

Q. What has the ratio been in the past?—A. Well, there again I do not know the exact ratio. There are two witnesses here who will be glad to give you that information. It varies, Mr. Green, over a period.

Q. I have here the annual report of the company for 1950. I have no doubt you have seen that. At that time the ratio, as I make it, was about 38·3 per cent capital and 61·7 per cent bonds and securities of that type. This is the company's last annual statement. Now, that would make it certainly a 40-60 ratio; in other words, it was not a greater percentage of capital than 40 per cent to 60 per cent bonds and so forth, is that correct?—A. I would accept your arithmetic in the matter, certainly. The actual ratio from time to time through the period of 1947, 1948, 1949, and 1950, I think they followed—there are certain provisions in the terms of preference regarding the limits of stock, but what the ratios were I do not know. I will be willing to accept Mr. Green's figures subject to correction.

Q. In recent years, I do not think I am being unfair when I say in recent years, the ratio would be approximately 40 per cent raised by capital and 60 per cent raised by bonds, so that if that same ratio were followed by the

company during these next years about which you have spoken, then for every $40 you raised by way of capital you could raise $60 by way of bonds or similar securities.—A. If that ratio could be maintained I assume you could do that. Whether you could keep that ratio and still sell your securities is another matter.

Q. You have not had any trouble in selling your securities yet?—A. I could not answer that either.

Q. You have paid 8 per cent on the common shares?—A. They have paid $8 on the common shares for a number of years.

Q. Practically all those shares were held by Anglo-Canadian, and I would guess they did not pay more than $100 a share for them.—A. That I could not answer.

Q. In any event, the dividend on the common shares is still 8 per cent?—A. No, not 8 per cent. The dividend on the common shares has been $8 a share.

Q. The shares are of a par value of $100?—A. The shares have a par value of $100, but the issue price of those shares as approved by the Board of Transport Commissioners is not $100.

Q. What is it?—A. I think it was $132.50.

Q. Why did you not say that before?—A. Because you asked me what the dividend rate was. I am not trying to hedge on it at all. The witnesses are here who will give you the facts.

Q. We know that the authorized issue price was $132.50 and we also know that there were share rights sold for another $8 and some cents.—A. I think there were but I am not competent to answer that.

Q. And most of those share rights would go to Anglo-Canadian as they held most of the common shares. Is that not right?—A. I do not know, Mr. Green. At that time I understand they did hold most of the common shares—at that time.

Q. The public had to pay $140 and some cents for each of these $100 shares, just a few weeks ago.—A. I have an idea it was $139 and some cents. I do not know what the actual price was.

Q. In any event the company is now planning to change from its 40-60 basis to a 50-50 basis. In other words, 50 per cent by capital and 50 per cent by securities.—A. My instructions are that that is the basis they are endeavouring to reach.

Q. Of course, you know, Mr. Lett, that that has a serious effect on the people who pay the phone bills because on this bonded indebtedness the interest that is paid on the bonds is an expense not subject to corporation taxes whereas dividends paid on the common shares are paid subject to the corporation tax. Now, that would make a difference to the rate payer telephone users in British Columbia.—A. Very definitely. It makes a very definite difference to the company and to the subscriber as to the type of security and the cost of that money, whether it is bond money or share money, but, of course, there is a limit to the amount of bond money that one can raise.

Q. If this plan of the company of putting the financing on a 50-50 basis is followed, then the phone users will have to pay higher rates because you will apply to the Board of Transport Commissioners to be allowed to show the extent to which your costs have been increased by paying these dividends, as an expense which should be met by the phone rates.—A. Well, Mr. Chairman, I am not competent to answer that question. I am not a rate expert. I do not know whether that will follow. It might, but there may be other factors.

Mr. HERRIDGE: Mr. Chairman, I would like to ask a question of the witness. I must say the gentleman representing the company as counsel is performing his duty in a very able manner, and I want to compliment the company on engaging excellent counsel for presenting their case.

I am particularly interested in all people who need telephone service in British Columbia and more particularly people in Kootenay West needing service. I want to ask Mr. Lett this question: Would he say that the company, in view of present legislation and its operations in British Columbia, has in effect what could be considered a monopoly of telephone service over the area that it serves.

Mr. FULTON: Have you been instructed on that?

The WITNESS: That is a difficult point, Mr. Chairman. The company is the largest telephone company operating in British Columbia and as I said serves approximately 90 per cent of the telephones in use in British Columbia. If that constitutes a monopoly then the company has a monopoly to that extent but I am not in a position to say whether the company is a monopoly in British Columbia. I certainly know there are other telephone companies in that area.

By Mr. Herridge:

Q. For instance, in my district your company serves the greatest part of the district. It has a monopoly in virtue of the fact that no other company can operate and serve smaller places. In other words no service can be rendered to these smaller places unless it is given by your company.—A. Well, I could not answer that, Mr. Chairman, I am not competent to answer whether it is a monopoly or not. Certainly, in certain areas it is the only one in the district. In other areas there are others, but if in the district it is the only one that is operating then it constitutes a monopoly in that district.

Q. I think the committee will agree that by virtue of the service it gives in the greater part of the district where it is profitable to give service, it is a monopoly, because no other company could give service to the smaller communities because these smaller communities would have to be served at a loss. I am very interested in the smaller districts. I recognize the improved service your company has given in the interior in recent years and I give the company credit for that, but we have a number of smaller districts that are not receiving good service, important districts, and we have a number of districts receiving no service at all. Some of these districts have, through organizations of representative people, asked for improved service or where service did not exist for an installation of a telephone service. Would the witness tell me in cases where the company refuses to improve or extend service to any district asked for by representatives of responsible organizations, what authority in British Columbia or in Canada can compel the company to install that improved service or to extend their service?—A. I do not know whether the Board of Transport Commissioners has power to compel a company to provide service to a community or not. I do not know of any body in British Columbia which has the authority to compel this company to give service.

Q. Mr. Chairman, just one more question. Would the witness say in his opinion a public utility such as a telephone company should come under some form of public control similar to the control exercised over power companies, which come under the control of the Public Utilities Commission, in order to protect the public?—A. Mr. Chairman, as counsel for the company I do not like to be expressing opinions on which experts disagree but I would point out as a matter of fact, not as a matter of opinion, that telephone companies in British Columbia such as the smaller companies that are there are subject, the same as power companies are, to the control of the Public Utilities Commission of British Columbia as to their rates and so on. This company is not, as I have said. It is subject to the Board of Transport Commissioners. Now, whether it should be or not is a matter on which I have no opinion.

Q. Would the witness say that in this case of incorporation by federal charter it works out for the general advantage of the company as well as for the general advantage of Canada?—A. Is that a question to me?

Q. Yes.—A. I could not answer that. I do not know whether it is to the general advantage of the company or not. It comes under a regulatory body here which governs its operation.

The CHAIRMAN: I find that there are questions being asked of the witness that I think properly should come before the solicitor for the Board of Transport Commissioners. I would suggest that you confine your questions to the witness in a reasonable way so that he can be expected to answer. If members desire to ask these general questions I think we should arrange at our next sitting to have the solicitor of the Board of Transport Commissioners in attendance.

Are there any other questions now?

By Mr. Laing:

Q. I would like to ask Mr. Lett a couple of questions, and they will not be questions having to do with wife beating. I would like to know the number of telephones at present in service. I think it is a quarter of a million. Is that correct? Let us go back to 1947 when the capitalization of the company was $11 million. I rather assume from the figure that he gave us of new installations in the five-year period between 1946 and 1950, of 83,351, that there were about 165,000 phones in operation in 1946. Mr. Lett has indicated that this application is an application for a capital increase for what he describes as the foreseeable future. I would like if he could give us more explicit details as to what he considers the foreseeable future and what will be the result of the $100 million or $120 million expenditures contemplated in the next ten years? He gave us an indication that, as of April 30th some 23,000 unfilled applications are on hand. If this contemplated expenditure can be explicitly foreseen, might I ask what the contemplated installations, new installations and increases in the same period would be? I assume there is some projection of that as well as projection of contemplated expenditure. Can these two be related?—A. Mr. Chairman, I cannot answer that. Mr. Farrell in dealing with the plans could probably give you that information as to how fast that backlog can be taken up but I have not information on that point.

By Mr. Ferguson:

Q. First of all I would say that questions asked by the committee should not be described as questions about beating wives. I think everybody is entitled to ask questions if they want information, with the motive in mind to extract information that will be beneficial to the people of Canada and particularly to the people of the province of British Columbia. You will probably take this before the Board of Transport Commissioners with a request for an increase in authorized capital. You will probably be the solicitor?—A. I would not know; I would not answer that.

Q. Well, I will say you are a good witness. I do not know about counsel but you are well trained as a witness. I can see that through your experience as counsel you have turned out to be a good witness.—A. May I say that this is only the second time in my life I have ever been a witness. I am usually counsel.

Q. You have witnessed much litigation and many witnesses.

The Anglo-Canadian Company on this increase in stock will receive so many shares corresponding to the shares they now own. Is that right—they

will receive rights?—A. You are speaking of stocks that may be issued in the future?

Q. That may be issued to increase your capitalization.—A. I do not know what might happen in the future.

Q. You do not think the present stockholders will receive any rights, the present stockholders including the Anglo-Canadian? Will they not receive rights?—A. On future issues?

Q. No, on this particular issue.—A. Mr. Chairman, perhaps I did not make it clear to the honourable member, this is an application for an increase of authorized capital. There is no application at the present time to my knowledge for the issue of any of this stock. All of the authorized capital of the company has now been issued.

Q. The motive of your company in asking for this increase is so that you will be in a position to issue stocks and bonds. Is that right or wrong?—A. That is not quite right.

Q. Well, how far off the mark is it?—A. We are asking here for additional authorized capital which over a period will become issued capital.

Q. But what is the motive? The motive is to secure authorization to issue stock, is that right or wrong?—A. The first part is right, but the second is wrong.

Q. Then you do not intend to issue any stock or bonds?—A. Oh, yes. I have no doubt that they intend within the course of ten years to issue all of this stock, but this application is in connection with authorization for stock. A further application would have to be made to issue the stock.

Q. But the motive in obtaining this authorization is to later ask for authorization to issue further stock?—A. That is correct.

Q. That is all right. That is one way to get around it. That is the answer to my question. Now, the Anglo-Canadian Company will receive so many shares on the basis of the amount of stock they now hold. Is that right?—A. I do not know.

Q. Does the company intend to make fish of one and fowl of another?—A. Mr. Chairman, it is quite customary as I understand it in public utilities financing to issue rights to existing shareholders. Whether that will be the method of financing in any particular issue is a matter which the directors and management and the financial people decide. I do not know whether that will happen or not.

Q. As far as we are concerned we are being asked to authorize an increase in capital stock. Now, I want to know if the Anglo-Canadian Company is going to be given rights to any of the stock? As far as your evidence is concerned, we cannot get the motive for wanting this increase. Who is going to receive rights from you. Do you know that? Is Anglo-Canadian going to receive rights from your company?—A. Mr. Chairman, I do not know whether any rights will be issued.

Q. The answer is you do not know this. Is that right?—A. The answer is I do not know what rights will be given on future issues of stocks.

The CHAIRMAN: Order, gentlemen. I think that questions are being asked of the witness on subjects with which he is not familiar. He is the solicitor of the company and you as head of a company, Mr. Ferguson, know that your company can make decisions and ask your solicitor to carry them out. I think these questions would properly come before the president of the company and if we are through with the general outline as covered by Mr. Lett in a very able way, I would say that, if it is the wish of the committee, I will call on Mr. Farrell the president of the company.

Mr. FERGUSON: If he did not know he could have said he did not know, and I would not have gone any further.

By Mr. Fulton:

Q. May I ask Mr. Lett if the Board of Transport Commissioners ever, to your knowledge, required an improvement or extension of service from the company?—A. Not to my knowledge, no.

Q. Are you in a position to say, as solicitor for the company, whether or not they have the power to make such a requirement. I will confine it to this: if you are before them with an application for an increase in rates or for authority to issue stocks would you care to express the opinion as to whether or not they have in the course of that application the power to attach conditions with respect to improvements or extensions of service, as a condition of granting the application.—A. I would not care to express an opinion. The chairman suggested that the solicitor for the Board of Transport Commissioners would be the proper person to answer such a question.

Mr. STUART: I have got the impression from the discussion that has taken place here that in British Columbia the Public Utilities Commission has no control over the telephone company, that the only control over the telephone companies is that of the Board of Transport Commissioners. Can the witness give an idea as to the rates in British Columbia, on telephones, as compared with other provinces in Canada, under similar conditions. I know there are different kinds of telephones, business phones, residence phones and so forth, in towns and cities and so on. I want to know how the rates in British Columbia, which are apparently controlled by the Board of Transport Commissioners, compare with the telephone rates in the other provinces.

The WITNESS: I would not attempt to answer, Mr. Chairman, I do not know.

By Mr. Herridge:

Q. I would just like to ask one more question. When replying to Mr. Ferguson, Mr. Lett said the company intends in the next eight or ten years to issue all this stock. Does he mean by that that $50 million increase in capital will not be issued before the next ten years?—A. My recollection is that in answering the honourable member I said the company may issue the whole of the stock within the next seven or eight or ten years.

Q. My point then is: is it necessary to ask for a $50 million increase if that $50 million will cover a period of eight or ten years?

The CHAIRMAN: I think he said that probably on the basis of 1951 costs or higher it would last perhaps seven or eight years.

By Mr. Herridge:

Q. No, I think the witness has said the company intends in the next eight or ten years to issue all of the stock?—A. I do not think I said that. With respect, my thought was the company may issue the whole of it. I was asked if this was an application to issue this stock and I was pointing out it was not application for issue. Then I was asked if the company was not going to issue the stock, and my reply was that the company may issue the whole of the stock in the next seven or eight or ten years.

Q. My point is whether this $50 million can take care of the company's developments for eight or ten years?—A. I would not think so. The proper man to answer is Mr. Farrell, or one of the operating people. You are leaving out the question of bonds and the method of financing altogether.

By Mr. Shaw:

Q. The witness has indicated that since April 1st, 1951 the company has had 23,000 unfilled orders. Does that represent communities presently served by

the company or does it represent communities such as referred to by Mr. Herridge which are not now being served?—A. I could not answer that. There are just so many unfilled applications and what the breakdown is I do not know.

Q. Possibly we could get that later.

By Mr. Byrne:

Q. The question of the Bell Telephone has been brought in for comparative purposes to show where precedent has been established for the granting of a 230 per cent increase. There is some confusion, following Mr. Green's question, as to what the ratio is going back to the 1947 application, and I would like to have that verified for the record. Also, you have made some study of the Bell Telephone finances. It has been said that they had not made an application for a capitalization increase in twenty-five years. How did they manage to finance for that length of time with all their huge development in Ontario and Quebec—without making such an application? I would like to have that clarified too? —A. I cannot answer that either. I do not know enough about the Bell Telephone Company. Mr. Farrell may be able to throw some light on it. The statement in regard to the twenty-five years was made by the chairman and not by myself.

By Mr. Browne:

Q. May I ask some questions? What increase in the preference stocks are you looking for?—A. I do not quite understand the question.

Q. Do you not? How much preference stock has the company now?—A. The company has outstanding as at May 31st, 1951, $13 million.

Q. How much?—A. $13 million of preference and preferred shares.

Q. How much authorized stock has the company which it could issue? —A. The company had a total authorized capital of $25 million.

Q. You mean in preference stocks?—A. No, you asked me for the total authorized capital.

Q. Yes, but including preference and preferred stocks what was the total amount authorized that could be issued?—A. Parliament does not give this company authorization in the form of preference, and preferred, or common, it gives it authorization in the form of stock, some portion of which may be issued as preference or preferred stock.

Q. Well, do you know the answer to the question. How much preference and how much preferred stock was this company authorized to issue?—A. No, I cannot answer that question because I do not think the question is applicable.

Q. Well, that is another point—whether you think it is applicable—do you know how much was authorized to be issued?—A. There was a total of $25 million worth of shares. That was the authorized capital. The Act does not break it down into authorized, preference or authorized ordinary shares.

Q. I see, that is the total. It is not $25 million of each?—A. No, no, the total capital is $25 million under the statute.

Q. Is that preference or preferred?—A. It is not broken down into preference or preferred. The total authorized capital is $25 million. Some of it is issued as preference, some preferred, and some ordinary.

Q. How much has been issued in ordinary shares?—A. As of the 31st of May, 1951, 120,000 ordinary shares have been issued—which is $12 million.

Q. What date?—A. As of May 31st, 1951.

Q. Now, as of the 31st of December, 1950 what was the figure?—A. As of the 31st of December, 1950, there was $12 million of preference and preferred and $8 million ordinary shares—of $100 each.

Q. That was $20 million altogether?—A. That is correct.

Q. It was increased, then by May 31st to how much?—A. There have been further issues of $5 million worth of stock.

Q. And how much common stock was issued between January 1st and May 31st of this year?—A. The figures at December 31st were $8 million common, and at May 31st $12 million—that is a difference of $4 million.

Q. Who took up that $4 million?—A. Well, I could perhaps give you that. The total number of ordinary shareholders as at May 31st is 2,658.

Q. What was the number at December 31st?—A. I am sorry, I will have to get that figure for you. I think it was approximately 1,100—but that is just a guess.

Q. When you spoke of the Anglo-Canadian Telephone Company controlling the B.C. Telephone Company, is it not a fact that the Anglo-Canadian Telephone Company owned almost 100 per cent of the common shares?—A. There was a time when, as I explained to Mr. Green, that I understand that Anglo-Canadian Telephone Company was practically the sole shareholder of the ordinary shares of the capital stock of this company.

Q. How much did they hold?—A. That question was asked me but I did not know the answer.

Q. How much?—A. I do not know the answer. I do not know how many shares they held although the total shareholders are here; but I have not got it broken down.

Q. Do you know the percentage? You have the number of shareholders but it does not matter how many shareholders there are if they only hold one or two shares each. The Anglo-Canadian Telephone Company substantially holds most of the stock does it not?—A. That is what Mr. Green suggested.

The CHAIRMAN: Why not let Mr. Farrell tell you that?

By Mr. Browne:

Q. Well, the authorized capital is now $25 million. Is that completely issued?—A. That is all issued now, yes.

Q. Well, I have here Moody's Investment Annual with the statement for the British Columbia Telephone Company and the Anglo Canadian Telephone Company. According to their statement Anglo-Canadian Telephone Company controls 59,998 shares out of 60,000. It is their latest report and there were only two common shares held by anybody else.—A. What date would that be?

Q. 1950?—A. Based on what annual report?

Q. Based on the report for 1949? Now here is another question I want to ask you. It states here authorized, all classes—$25 million?—A. That is what is authorized, yes.

Q. 6¾ per cent cumulative preference authorized, all classes, $25 million. You mean to say that covers preferred and preference?—A. That $25 million is the total stock authorized. It includes preference, preferred and ordinary shares.

Q. Under British Columbia Telephone Company 4¾ per cent cumulative redeemable par value $100, there are 35,000 shares authorized?—A. Obviously those figures are not up to date. The figures which I have put on record are correct—and I would be glad to give them again as of the 31st of May.

By Mr. Hodgson:

Q. In 1947 your capitalization was $11 million. Then you had it increased to $25 million—was that at the end of 1947?—A. We increased from $11 million, that is correct, to $25 million in 1947.

Q. Would you tell the committee how the division was made of the increase from $11 million to $25 million at that time? How was the division in your stock made?—A. You mean the division as between preferred and common?

Q. Yes, when you got the increase from $11 million to $25 million in 1947?—A. Well, Mr. Chairman, that division takes place as and when the stock is issued.

The company decides how much common and how much preferred will be issued. I do not know what the division was on each application. Mr. Farrell or one of the others can give you that information.

Mr. FULTON: Could you give the net result or the end result?

The WITNESS: Yes, the end result is that we now have $1 million 6 per cent preference shares; $4½ million preferred shares of 6 per cent; $7½ million of 4¾ redeemable preferred shares. At one time in 1950 they had $8 million ordinary shares—80,000 shares, but as of May 31st they have $12 million of ordinary shares.

Mr. GREEN: Only the holders of the ordinary shares have a vote?

The WITNESS: Except that I think the provisions in the various terms of preference are uniform in this respect. When dividends are in arrears then the holders of preferred shares acquire certain voting rights on matters affecting the terms and privileges of their shares.

The CHAIRMAN: How long would they have to be in arrears? If you have not got that we can get it again?

The WITNESS: I do not even know if they have to be in arrears.

Mr. HODGSON: Can you tell us how Anglo-Canadian figured in the division at that time?

The WITNESS: At what time?

Mr. HODGSON: At the time you got the increase in 1947?

Mr. FERGUSON: How much stock did they receive?

The WITNESS: I do not know. You see, we did not issue it immediately in 1947. Subsequent to coming to parliament application was made to the Board of Transport Commissioners. What Anglo-Canadian got or what they took I do not know.

By Mr. Hodgson:

Q. You made some comparisons, I believe, betweeen the Bell Telephone Company and your company as to rates. You cannot give it to us now, I understand, but could you get for the next meeting the rates of the Bell Telephone Company in comparison with yours, both rural and urban?—A. Mr. Chairman, I will endeavour to get any information which the committee desires —that the committee feels is relevant to the application. If we can get comparable rates and the committee feels that is a matter of necessary information, we will do our best to get what information we can.

Q. Can you tell me if there have been any of the profits of this company turned back into construction or assets of the company?—A. Well, I would rather let Mr. Farrell answer that question.

The CHAIRMAN: Any company that does not do that ought to have their heads examined.

By Mr. Fulton:

Q. So that we may keep it all on the record in one place, I would like to ask Mr. Lett to give us a breakdown of the various types of preference shares now outstanding, and the interest rate which they carry, and whether or not they are non-redeeemable?—A. I can give part of that at least, Mr. Chairman. As of May 31, 1951, the issued capital was 10,000 six per cent preference shares of $100 each—that is a total of $1 million. There were 45,000 six per cent preferred shares of $100 each.

Q. 4½ million?—A. Yes.

Q. Yes?—A. And 75,000, or $7,500,000 of 4¾ per cent redeemable preferred shares—$100 each.

Q. Of the first two categories, the six per cent preference and the six per cent preferred, are they redeemable or non-redeemable?—A. That I do not know.

Q. Would anyone?—A. Yes, Mr. Farrell can give the answer. My understanding is that they can be redeemed but that they can be redeemed only by way of a reduction of capital. I have never had occasion to go into that, but I think Mr. Farrell would be able to give the answer.

Q. Do all three classes carry a fixed cumulative rate of dividend?—A. Now, if I may read from the terms of reference here which I have before me in the prospectus issued and dated sometime in May, 1951:

> The description of respective voting rights, preferences, conversion and exchange rights, rights to dividends, profits or capital of each class of shares, including redemption rights, and rights on liquidation or distribution of capital assets is as follows:
>
> "The resolution of shareholders creating the ten thousand 6 per cent cumulative preference shares provides as follows:" . . .and I am quoting:
>
> "That the company be and is hereby authorized to create and issue 10,000 cumulative preference shares of $100 each. The said cumulative preference shares shall carry a fixed cumulative preferential dividend at the rate of six per cent per annum on the capital on the time being paid up thereon . . ."

I think that answers your question. That one is cumulative according to these instructions.

Then the resolution covering the 45,000 preferred shares reads as follows:

> That the directors be authorized to issue capital of the company to the extent of $4,500,000 as preferred stock in addition but subordinate to the $1 million of preference stock already authorized by resolution of the ordinary shareholders of the company of 2nd September, 1922, and that such stock be issued in the form of six per cent cumulative preferred shares of $100 each—

And I think that answers your question on that.

Reading again from page 7 of the prospectus:

> A summary of the principal rights, privileges and restrictions attaching to the 4¾ per cent cumulative redeemable preferred shares is as follows—that is the preferred class, and I shall read line 1 of the paragraph which says:
>
> The 4¾ per cent cumulative preferred shares shall carry a fixed cumulative preferred dividend fixed at the rate of 4¾ per cent per annum.

So. all three classes are cumulative.

Q. So you have in effect $5,500,000 preference and preferred shares of the first two classes which carry a fixed cumulative rate of dividend of six per cent? —A. That is correct.

Q. The $7,500,000 total par value shares carry a cumulative dividend of 4¾ per cent?—A. That is correct as far as I know.

Q. Now, Mr. Chairman, I do not wish to go into the detail of the bill so I would ask at this point, whether when we come to consider the bill it may be possible if necessary or desirable to recall the witness? If so, I will not need to go into further detail now.

The CHAIRMAN: All right. At this point we will call Mr. Farrell. We seem to have covered the ground fairly well and Mr. Farrell can answer some of the questions in the minds of some of the members of the committee. Mr. Farrell is the president of the British Columbia Telephone Company and no doubt can

answer many questions which have cropped up in connection with the structure of the company and related items.

Do you wish to make a brief statement, Mr. Farrell.

Mr. Gordon Farrell, President, British Columbia Telephone Company, called:

The WITNESS: Just before answering any questions I would like to go through a few things which have happened in British Columbia since we put forward our application for an increase in the authorized capital.

The enormous growth in our province is almost staggering and sometimes alarming.

The Aluminum Company have announced a project in which they say they will spend $500 million, which will undoubtedly be a project that will develop a townsite of from 10,000 to 20,000 people. While it is not in our definite area we certainly would be the ones called upon to give service to that area as soon as it is established. In any case, there will be a tremendous lot of long distance required in the meantime by the construction people and we will have to take care of that.

There is the Elk Falls Paper and Pulp Company at Duncan Bay, which is going to spend another $30 million—which will mean an additional community in the Campbell River area.

The H. R. MacMillan Company are doubling their sulphate plant by a process of spending $19 million—at least they hope it will only be that much.

We have the oil and gas pipe lines which everybody has heard a good deal about—

Mr. GREEN: We hope we are going to get it.

The WITNESS: Undoubtedly they will come down through British Columbia and they will want service, and we will have to take care of them.

There are various considerable estimates in the minds of the Defence Department which have to be taken care of by ourselves. Consolidated Mining and Smelting Company have announced since the first of the year a program of $60 million in various projects in their territory—which will mean more people and more telephones required.

Mr. Lett has dealt with the question of the depreciated dollar which now buys about 20 per cent or less equipment, and while our estimates at that time did look forward to this $50 million of capital running for about ten years, we definitely have underestimated our requirements. On a ten year basis, we feel now that we probably should have asked for $100 million capital rather than $75 million.

That is all I have to say about the additional development since this application was put forward in January.

The CHAIRMAN: Are there any questions at this point gentlemen?

By Mr. Fulton:

Q. May I ask Mr. Farrell a question with reference to the statement made that you have approximately 23,000 actual applications for telephones unfilled as of April 30. Are you in a position, Mr. Farrell, to tell the committee what improvements and extensions of service, apart from those actual installations and the necessary lines necessitated if any by the installations—the major ones I mean—have to be paid out of this present increase in capital for which you are asking authority?—A. It is a little difficult to break that down, Mr. Fulton. We are endeavouring to be impartial in our expenditures all over British Columbia and to try and take care of the growth and backlog in proportion to each area. We are spending money in every area. We are trying to spend it in

proportion until we get caught up in relation to the backlog and demand. The major portion of course is spent in the larger areas, but not any greater percentage in proportion.

Q. I was not seeking to start a quarrel as between various areas of British Columbia or anything of that sort, but I was wondering if you have any agreed projected extensions or improvements at the moment of which you can tell us; or is this just a general estimate that to meet your requirements you will require $100 million? Is that just based on past experience, or are you able to say that we have such and such a project here which will take so much, and another proposal there which will take so much? Can you give us an outline of that sort? If you cannot I will quite appreciate why, but I wonder if you can do that?—A. I cannot offhand, but we could get that for you. Mr. Hamilton our operating vice-president is familiar with all the operating details and he certainly could get a breakdown if you are interested. I have a general breakdown if that is of service. I have a breakdown as at the end of 1950.

Q. Yes?—A. And we have a 1951 program which of course is additional. We have buildings, $755,000; central office equipment, $3,300,000—I am leaving out the odd dollars.

Q. Yes?—A. Outside plant—that is cable plant and toll lines—$2½ million; substation equipment and private branch exchange equipment, $217,000; toll line plant and equipment, $1,900,000. That totals up to approximately $8,700,000. Our program this year, including that, is $625,000 for buildings—

Mr. GREEN: Which year was that you have just given? For what year was that?

The WITNESS: These are present commitments left over from 1950—to which we committed ourselves in 1950, and that were left over from the 1950 program. We make up our estimates from year to year but there is always an overlap.

These are all based, I might say, on the basis of 1950 prices: buildings, $625,000; central office equipment, $7,300,000; outside plant, $1,200,000; substation and private branch exchange equipment, $2,100,000; toll plant and equipment, $710,000; making a total of approximately $12 million.

By Mr. Fulton:

Q. I would take it Mr. Farrell, from the form of your answer that your program for future development is not broken down by areas which you could give us, but it appears rather in the way of types of equipment on which you are spending money?—A. We will have every detail if you are interested, Mr. Fulton, but we have not got it just before us. I might have to get it from Vancouver.

Q. Please do not misunderstand, I am not asking for great detail, I am simply wondering whether you are in a position to tell us that you have a program of extension in the Kootenays for a certain area which is going to cost you so much, or is anticipated to cost you so much; or that you have undertaken to extend up the North Thompson Valley which will cost you so much—I wonder whether you are in a position to give that sort of information? If you are not, I will be satisfied.—A. I am not in a position to do so, but Mr. Hamilton can get it for you if he has not it already. I do not think he has it with him right now, but we can get it.

Q. I think it would be interesting and useful, so that we might know what is the actual outline of the program you have in mind for which you are asking this authority to increase your capitalization.—A. We will be very glad to try and get it for you.

Q. Thank you, and then could you also tell us at that time whether or not you contemplate extending your services in such a way as to take over some of the services presently being operated by the dominion government telephone

service.—A. Well, that is a very difficult question, Mr. Fulton. We are always looking to take over parts of the dominion government service but we have not been successful in the last few years.

Q. When you say you have not been successful, Mr. Farrell, what do you mean?—A. They prefer as a matter of policy to operate them by themselves but I understand they are sending out one of their top flight men to go over all the British Columbia situation this summer with the idea of asking us to take over certain parts of it.

Q. Are you in a position at the moment to reveal the plans?—A. We have not any idea what they have in mind but they are going to make a study of it with our people and go into the whole matter.

Q. May I ask you then—it is a very general question I appreciate—have you under contemplation a program of extension of service from the point of view of development and opening up new services, new areas, or are you restricted in your approach to that entirely in the future to those areas in which you can foresee a profit at the time at which you take over such service.—A. Oh, no, we have been restricted in going into areas which would require a large additional expenditure for a small number of stations in these times because we must stretch our equipment to the absolute limit. That has been the difficulty up to now but when we catch up we will do as we did in the past, go into every part that it is reasonable to go into in our territory, that is, contiguous to our territory.

Q. Just to be sure, I understand the meaning of your answer is that at the present time owing to the difficulty of obtaining equipment you have not been able to undertake any development unless it was in connection with an existing service that would produce a return on the expenditure.—A. Not necessarily. My point is we try to use our equipment to the best availability and when we go into an area and put a long pole line in to serve some sparsely settled areas it takes a big capital expenditure for a small number of people and it takes a lot of equipment which used in another way would be of greater advantage, and we have followed that policy up to now.

Q. You do intend, however, if and when you receive this authorization you intend and anticipate that you will be able to undertake more developments in opening up areas not presently served. Do I understand that is your answer?—A. As soon as equipment becomes available.

Q. It was in the light of that particularly that I was asking for this information in my earlier question and that Mr. Hamilton is trying to get.

With regard to preference shares could you tell us whether the first two classes referred to, both of which carry a six per cent rate, are redeemable or not redeemable?—A. I think Mr. Lett answered that they are redeemable but only by a reduction of capital. They are not redeemable, as the four and three-quarter per cent might be, by simply calling. We would lose that number of shares if they are redeemed.

By Mr. Ferguson:

Q. Did I understand rightly when it was said that there is a 20 per cent reduction in the value of your dollar when purchasing material?—A. Since the first of this year.

Q. Even since the first of the year. It is the same with most commodities we are buying throughout Canada. The depreciation to the average purchaser is even greater than 20 per cent in many commodities due to taxes and so on. —A. In a great many instances, yes.

Q. What proportion of the controlling stock of this company is held by Anglo-Canadian?—A. Just over 50 per cent.

Q. Over 50 per cent. You do contemplate issuing various types of stocks and bonds if you are granted this authority to increase your capital, is that right?—A. Well, we will have to if we are going to progress.

Q. You will have to! The Anglo-Canadian stockholders as a group will receive rights on so many shares, according to the number of shares they now own. Is that right?—A. Well, that is a matter for the directors to decide, as to what is the best thing to do.

Q. That will be decided after this committee passes on your application for an increase in capital. It will then be in your hands to decide what to do?—A. The directors, yes.

Q. Just so that all the members of this committee will realize that after they pass on this application what the directors are going to do and the privileges they are going to give to Anglo-Canadian stockholders will be out of their hands entirely, from now on.—A. Any issue of stock in the company is in the hands of the directors.

Q. I believe that is so, but nevertheless you could, the directors could, give these Anglo-Canadian stockholders the right to purchase stock at $100.—A. Well, I think we would have quite a holler from 2,500 shareholders who were not given the same offer, including myself. I am also a large shareholder.

Q. Whether your holler would be listened to or not—yours probably would! —I am trying to get at what the Anglo-Canadian Company is going to receive. What rate of interest would you say they would receive on the purchasing price they would pay for the new stock they will receive through their rights, what rate of interest would they receive?—A. I am afraid I do not quite understand. It would depend on what prices it was thought would be fair and at what price the public would be interested.

Q. Well, of course, it is a monopoly, this telephone company is a monopoly, and we are confronted here with the constant increase in the cost of living. If the return is going to be 8 per cent when you can secure plenty of money at 4¾ per cent, as you said you have done, owing to the fact that your company is a monopoly, no doubt about it, it would be unfair to the public of British Columbia to pay a telephone charge that would result in the payment of 8 per cent on money invested. Yet, this will be in the hands of the directors as to how many shares this company will receive. You have not any idea of the rate of interest you will be able to give to the stockholders?—A. The market at that time would indicate what we should sell our stock for, be it preferred stock or common stock.

Q. Have you any idea of the rate of interest you would be satisfied with, as the president of this company? Have you any idea what the cost of the stock would be, what the value of it would be, in order to give you a reasonable return, supposing it is a monopoly?—A. I would say this as president of the company that we will sell our stock at the highest possible price the market will take it at every time. We are competing in the money markets of Canada for our money and we are going to sell it at the highest price we can get for it. —Q. I am trying to find out if Anglo-Canadian, the controlling factor of this company, are going to receive a yield so that they can come back here to the Board of Transport Commissioners and say our rates are not adequate, we cannot pay this guaranteed amount and we therefore want to increase our rates to the buying public, and I believe I personally am more interested in the buying public than I am in this increase. I am interested in the company getting this increase. I am delighted to hear of the terrific expansion in the province of British Columbia because the benefit of that expansion is reflected throughout the dominion of Canada. I am trying to see that the users of the telephone through the granting of this increased capitalization are not going to pay an exorbitant or a high rate for the usage of this privilege, because that also will be a big factor contributing to the increased cost of living for the

people of British Columbia. That is my motive. I want to try and find out what the Anglo-Canadian Telephone Company stockholders are making or might make through this increase of capital and what the users would have to pay after, and what is going to happen when it later comes before the Board of Transport Commissioners and what will happen when it is in the hands of the board of directors of your company. Those are some of the things we should know and by questioning we should try to bring them out, so we will know exactly whether you people should receive this grant or if you should receive more. I am sure this committee will do everything in its power to see that you get it but not if the costs are going to be much higher than they are now, to the users of the telephone. It is in our power to take those things into consideration and we should bear all these things in mind.

Mr. APPLEWHAITE: May I ask the witness one question following Mr. Ferguson? Is it not a fact that the price for which shares shall be sold to the public and the rate of interest which those shares shall pay are set by the Board of Transport Commissioners at the time you apply for the issue of the shares?

The WITNESS: Absolutely.

Mr. GREEN: But they were sold at a higher price.

By Mr. Hodgson:

Q. I think we should know something of the past history of this company. That is why I asked for the figures going back to 1947. If you increase your rates of interest I would not be inclined to favour this application. But if you show us what you did in 1947 and show that you did not increase your rates to the buying public of your telephone system that would be in your favour, but if you show us where you paid 8 per cent and increased your rates to do so, I would say I am not in favour of your bill. But what I want is the past history of your company in that connection.—A. I do not know how to answer that. As new capital is introduced naturally that capital would have to support itself with new installations. We put in last year 20,000 new telephones. Well, 20,000 new telephones at so much a month, naturally that is supposed to take care of the increased capital; those 20,000 telephones would have to pay our wage costs, taxes and everything else.

Q. I asked Mr. Lett about the issue in 1947. What change took place in the rates to the subscribers then?—A. That would have nothing to do with it.

Q. It would have something to do with it in my mind. I want to know the past history of this company, to know if they paid 8 per cent and if they did, I would not be so much in favour of this bill.—A. Well, we pay $8 per share, but the last four million shares were sold at $132.50.

By Mr. Green:

Q. $140 and something, was it not?—A. $130.40 is what the company got for the shares.

Q. And what did the public have to pay?—A. They were underwritten; the rights were sold and the public were offered the rights. The existing shareholders, and we had a thousand of them including the Anglo-Canadian Telephone Company, all got the same offer, $132.50, from the company, but the Anglo-Canadian Telephone Company sold their rights for 75 cents a share.

Q. What did they make on that?—A. 75 cents a share.

Mr. FERGUSON: That would be a capital gain, would it not, to them?

The WITNESS: Yes.

Mr. GREEN: What did it amount to altogether?

The WITNESS: Well, there were 60,000 shares, $45,000.

By Mr. Ferguson:

Q. So the price paid by the user of the telephone to the Anglo-Canadian was included in those rights. Anglo-Canadian Telephone Company makes a nice juicy capital gain.—A. I did the same thing, and a thousand other people with me.

Q. As long as the people have to pay who use the telephone. I would be happy to own stock in that company, but in this committee I have a different duty to perform than I would have if I were a shareholder in your company. —A. As a matter of fact that issue was pretty sticky. We got into a bad market.

Q. Yes, but it was not sticky enough to stick to their hands. They sold it for a capital gain. What was it that made those rights worth that amount of money? There was a capital gain there of the difference between $100 to $140.—A. But you could not have sold all that stock at $140 to the company. It costs money to distribute stock.

Q. But the other people bought it at $132.50. Did you sell your stock at $132.50? Probably that is too personal a question? I do not think you did.—A. I could have sold my rights if I had wanted. I did not sell my stock, though, neither did Anglo-Canadian.

Q. I thought you said they did.—A. Anglo-Canadian sold their rights.

Q. Not at $132.50. They were able to get rights at $132, is that right?—A. They were able to get the right to subscribe.

Q. At $132?—A. At $132.

Q. And they sold their rights, not for $132?—A. Rights and shares are entirely different propositions.

Q. They sold rights to buy the shares, but the people who bought the rights paid more than $132?—A. The people who bought the rights paid money for the rights and after they bought the rights they subscribed for stocks out of the treasury of our company at $132.50.

Q. They bought them at $132.50?—A. From us.

Q. The people who bought the rights from Anglo-Canadian were able to buy their shares at $132?—A. Plus what they paid the broker for the rights.

Q. Have you any idea what the broker received on handling that stock, per share?—A. I think I already told you, sir, that the Anglo-Canadian sold their rights at 75 cents a right. Those rights were sold by the brokers at $4, which had nothing to do with the telephone company.

Q. No, but the rights are well worth buying due to the operation of the telephone company; those rights are made valuable by the rates charged to the users of telephones, and they are made valuable by the exorbitant rates.—A. No, it is a method of guaranteeing. However, you have to pay the brokerage or the underwriting. Or you offer your shares to the existing shareholders at a little less than the market.

Mr. Browne: Who are the brokers who sold those rights for $4?

The Witness: W. C. Pitfield and Company was the underwriting banker. It was a group of brokers all across Canada.

The Chairman: Gentlemen it is practically one o'clock but before adjournment it is desirable due to the multiplicity of committees and the many meetings we have that we have a deputy vice chairman of this committee. I think Mr. Healy has a motion.

Mr. Healy: I move that Mr. F. P. Whitman be the deputy vice chairman of this committee.

The Chairman: Have you heard the motion? Those in favour? Opposed? Carried.

Is it the wish of the committee to meet again today?

Mr. FULTON: Let us meet tomorrow morning?

Mr. APPLEWHAITE: Mr. Chairman, I move we meet this evening.

Mr. FULTON: Let us meet this evening, then.

The CHAIRMAN: We will meet at 8.30 tonight.

The committee resumed at 8.30 p.m.

The Deputy Vice-Chairman, Mr. Whitman, took the Chair.

The DEPUTY VICE-CHAIRMAN: Order, gentlemen, we have a quorum and we will proceed with the meeting.

Mr. APPLEWHAITE: I understand that Mr. Lett has some information which he was asked for this afternoon but which he was not able to give at that time. I would suggest, with your permission, that he be recalled to give that information now.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee that we hear Mr. Lett again?

Mr. Sherwood Lett, K.C., Solicitor, for British Columbia Telephone Company, recalled:

The WITNESS: Mr. Chairman, I was asked at the morning session to give the detail of the issue of preferred shares and common shares from 1948 to 1951. I did not have the information available then but I have it now.

In 1948 there were 3½ million preferred shares issued and 1½ million ordinary shares. In 1949 there were no preferred and no ordinary shares issued; in 1950 3 million preferred and 2 million common or ordinary shares were issued; in 1951, 1 million preferred and 4 million common shares were issued. The total of those is 15 million, of which 7½ million were preferred and 7½ million were common.

The second point about which I was asked was if I had a comparison—I had given the total number of ordinary shareholders as at May 31st, 1951 as being 2,658 holding 120,000 shares—and I was asked the corresponding number as of December 30th, 1950. The corresponding number of total shareholders of ordinary shares as at December 30th 1950, was 1,054, holding 80,000 ordinary shares.

The third point on which information was requested by one of the honourable members was if we could give a comparison of exchange rates as between the British Columbia Telephone Company and the Bell Telephone Company. That information is now available. Mr. Hamilton has it and it will be put in a form which will perhaps make it easier for members to compare. It is not yet completely typed and will probably not be ready until tomorrow morning.

The last point on which we were asked for information was concerning information regarding the amounts being expended in the various areas. I think it was Mr. Fulton who particularly inquired about that, and Mr. Hamilton has obtained the information from Vancouver by long distance telephone.

The DEPUTY VICE-CHAIRMAN: Shall we proceed?

By Mr. Fulton:

Q. May I ask Mr. Lett at this point if he has the information which I believe was specifically requested as to the number of shares presently held by Anglo Canadian Company? I think that was asked. Do you have that at the moment?

—A. Mr. Chairman, and Mr. Fulton, we have not got that information yet. We have an approximate idea but we have not got it exactly. We can get the information and we will be happy to get it for you.

The DEPUTY VICE-CHAIRMAN: Then shall we recall Mr. Farrell?

Agreed.

Mr. Gordon Farrell, President, British Columbia Telephone Company, recalled:

By Mr. MacInnis:

Q. Mr. Chairman, in answer to some questions asked by Mr. Fulton in regard to the amount of the program of building extension and improvements, you gave figures for the end of 1950 I think, and as of this date too I believe. For the end of 1950 I think you gave a figure of some $8 million odd, is that correct? —A. Yes.

Q. And as of this date, some $12 million or approximately that?—A. On 1950 pricing.

Q. What was that?—A. On 1950 price figures.

Q. Oh, that was the same figure for 1950 at the 1951 price figures?—A. Yes.

Mr. FULTON: That is not the way I understood it.

Mr. MACINNIS: It is not the way I understood it either.

By Mr. Fulton:

Q. You told me you had commitments outstanding at the end of 1950 of approximately $8 million, and you had a program for 1951 of approximately $12 million including that $8 million not spent in 1950?—A. No, no, it was additional.

Q. In addition? So we have $20 million and then you said that was a $20 million program at the 1950 price level?—A. That is right.

Q. That is the way I understood it.

By Mr. MacInnis:

Q. Now I am confused. I thought you told me just a moment ago that the figure of $12 million would be the cost of the $8 million if it were done now?—A. No, no. That is additional.

Q. That is additional?—A. Yes.

Q. That is what I wanted.—A. The $8,700,000 was left over from the previous year and the $12 million is this year's estimates at the 1950 pricing level.

Q. You said there might be some overlap. Is there any part of that $8 million included in the $12 million?—A. Not a nickel.

Q. My other question is on what particular phase of the operations of your company does the Board of Transport Commissioners exercise control? You have to come to this parliament, of course, for changes in the Act and for extensions of capital. For some other purposes such as tolls and other things, you have to go to the Board of Transport Commissioners?—A. They have jurisdiction over rate and charges and certain other things in regard to our extensions and so on. I do not know exactly whether it is laid down specifically that they can compel us to extend into any particular area, but if we do not the matter is referred to them and it is then taken up with the company.

Q. I am asking this because I wrote to the Board of Transport Commissioners here and it was on a rather small matter that was referred to me from British Columbia where the Utilities Commission was approached. The Utilities Commission said they had no jurisdiction in the matter and the reply I received

from the Board of Transport Commissioners was that they had no jurisdiction in the matter either. So, apparently, there is no body or authority to which the people served in British Columbia by the British Columbia Telephone Company can go, except upon about three points you have already covered: rates; the issue of stock; and perhaps one other thing that is under the control of the Board of Transport Commissioners?—A. What was the particular difficulty?

Q. It was in connection with a complaint concerning an area in Burnaby—a residential area that was not getting telephone service or not able to get allocations of telephones.

Mr. GOODE: The Suncrest subdivision.

By Mr. MacInnis:

Q. Yes. After the matter had been referred to the British Columbia Utilities Commission it was turned down and it was said that the Utilities Commission had no authority. It was then sent to me in order to take the matter up with the Board of Transport Commissioners. I am sorry that I have not got the letter from the Board of Transport Commissioners here although I can find it and let you see it. The Board of Transport Commissioners said they had no authority in the matter at all so, from that, I gather that as far as the British Columbia Telephone Company is concerned, excepting in a few matters already referred to, there is no control whatsoever over its operations by any authority?—A. I think it would have been fairer, Mr. MacInnis, if you had told me what the actual complaint was and what the Board of Transport Commissioners said—because I am afraid I cannot answer your question otherwise.

Q. I am sorry if I interjected this at the wrong place but I will bring all the facts to your attention and then you can answer?—A. What did the company say?

Q. Evidently the company had refused an allocation of telephones to—what is the name of the place?

Mr. GOODE: The Suncrest subdivision in Burnaby.

The WITNESS: I presume it was just an impossibility at that time to proceed with that new work. I do not know, I am just guessing.

By Mr. MacInnis:

Q. Well, evidently your public relations were not good enough to satisfy the people that there was some difficulty, because I assume if they had been, they would have left it there?—A. Of course, all little groups like that are self-centered in what they would like us to do for them, and it does not matter what we do somewhere else.

Q. I am not even suggesting that there might not have been good reasons for not doing it. You see, you talk about little groups being self-centered but they say something similar about big groups like the British Columbia Telephone Company.

By Mr. Fulton:

Q. May I ask Mr. Farrell a question which I asked of Mr. Lett, and to which he answered that he preferred I ask another witness? Have the Board of Transport Commissioners to your knowledge ever required an improvement or an extension in your service?—A. Well, I cannot answer that. I do not remember. We have had plenty of requests from the Board of Transport Commissioners to look into this or that or do this or that—which I think we have done at their request.

Q. Well I would like to follow that up in a minute but I was thinking of such circumstances where you go before them with an application for an increase

in rates or with an application for the issuance of further capital shares. Have they ever, under those circumstances made the increase in rates or granted the authority to issue shares conditional upon the rendering of certain services?—A. No, not to my knowledge.

Q. Could you elaborate a little please on these references to them by you to investigate certain things which you have just mentioned? How would that come to your attention? In what form would that be referred to you and would there be any instructions attached to it?—A. Well, I really cannot remember much of the detail about these matters. We have had matters from time to time. I would like you to ask Mr. Hamilton who has been very closely in touch with that detailed operation of the company.

Q. Perhaps I can wait until Mr. Hamilton comes on, and I understand we are going to have the solicitor for the Board.

The DEPUTY VICE-CHAIRMAN: Yes, if it is the pleasure of the committee to call him.

By Mr. Goode:

Q. Mr. Chairman, I am very sorry that I have not been here before but, because of the extended meetings of the Veterans Affairs Committee I could not be in two places at once.

I have been instructed, if a member of parliament can be instructed, to oppose this application on behalf of the municipality of Burnaby. That does not, however, direct what I am to do on this committee. What the municipality of Burnaby considers and what I consider after hearing the evidence are two different and distinct things. However, I would like to know whether the municipality of Burnaby, through its council, have made any formal request to you to reduce the capitalization of this issue?—A. I think they just wrote us a blanket letter saying they did not like it, and it was too much, but I just do not remember.

Q. Could Mr. Lett add anything to that?

Mr. LETT: Mr. Chairman, I do not remember receiving a letter from Burnaby. I think we did receive a letter from a municipality somewhere else. I can check that up. It was not a very objective letter.

Mr. GOODE: I think the municipality was rather worried about whether the rates would go up on a capitalization jump of from $25 million to $75 million. Frankly, I think a lot of us in British Columbia are worried about the same thing.

Mr. MACDOUGALL: Not me.

Mr. GOODE: Perhaps not you but most of us are.

By Mr. Goode:

Q. Would it be a fair question, and I wish you would rule on this before I ask Mr. Farrell about it, would it be a fair question to ask whether the British Columbia Telephone Company expects to increase their rates because of this increase in capitalization?—A. I would say definitely no. Any increase in rates would be on account of increased operating costs to the company and would have nothing to do with the authorized capital at all.

Q. There is an application at the moment, and I may be repeating something that someone else has said because I have not been here, but there is an application before the Board of Transport Commissioners at the moment?—A. Yes.

Q. Would it be a fair question, and I hope I am being fair, to ask you if a percentage of that increase is granted by the Board of Transport Commissioners—and I expect it will because our experience with the Board is that they grant most increases—would you think that increase sufficient to cover the year 1951? You would not expect to ask for another increase this year?—A. Well, not unless we have increased operating costs which we cannot control.

Q. You would think it was fair not to expect another increase from the Board this year on top of the one you already have?—A. I do not think so.

Mr. MacDougall: I think it is fair to say that I happen possibly to be on the spot with respect to this bill as much as any member from British Columbia, if not more so. I say that for the simple reason that the city hall in the city of Vancouver is in my riding, and so is the Fairmont exchange, against which I personally have a little grievance. The city hall receives its telephonic communications from that particular exchange and they likewise were possibly a bit annoyed because I think it is fair to say that the service on the Fairmont exchange has not been what most people on the exchange had anticipated that it ought to be.

As a result of that dissatisfaction the city hall has forwarded a brief, ostensibly against the granting of the increase in capitalization from $25 million to $75 million. Actually, when we take this brief and study it—as I know that most members from British Columbia in particular have done—the only criticism that is being offered in five of its major points is with respect to the increasing of the authorized capital of the company from $25 million to $75 million. That is the only objection that the city hall has raised with respect to this bill.

Mr. Green: That is not correct.

Mr. MacDougall: Well, I have it right here.

Mr. Green: And I have it right here.

Mr. Jones: Could I ask a question? You mention that most British Columbia members have had the brief. Two of us here have not seen it. Is the brief to be presented to this committee?

Mr. MacDougall: No, no. I possibly should have said Vancouver members rather than British Columbia members.

Mr. Jones: Oh.

Mr. MacDougall: Clause (*b*) of that brief does not object to it and it reads as follows:

> To provide for the issue hereafter of preference or preferred shares of a par value of either twenty-five dollars or one hundred dollars each.

And (*c*) reads:

> To make provision for the subdivision of any outstanding preference or preferred shares of a par value of one hundred dollars each into shares of a par value of twenty-five dollars each if deemed advisable by the directors, and subject always to the consent of at least seventy-five per cent in par value of the holders of each class of such preference or preferred shares proposed to be subdivided.

And clause (*d*) reads:

> To enable the company to pay a commission on the sale of its shares;

And clause (*e*) reads:

> To subdivide the presently outstanding ordinary shares of a par value of one hundred dollars each into shares of a par value of twenty-five dollars each and to provide that all subsequent issues of ordinary shares shall be of a par value of twenty-five dollars each.

Now, further on, the criticism is made with respect to item (*a*) that I have mentioned:

> Your committee—that is the city hall committee—would accordingly recommend that the city should at this time oppose the application of the company to obtain such an excessive increase in capital authorization (from twenty-five million to seventy-five million dollars) as provided for in the bill now being presented.

That goes back to my original statement which was made at the commencement of my remarks. Despite the fact these people in the city hall are on a line of service that is muchly overloaded, their main objection is to what they call an "excessive" increase.

Now, in all fairness both to the city hall and to the company, and even to those members of us who are here and who are opposed possibly to this so-called excessive increase, the fact still remains that I do not think that there is any member of the House in receipt of this brief from the city council who can find any other fault in the brief—other than the so-called excessive increase in capitalization. In my own riding I know this to be a fact.

Mr. FULTON: Mr. Chairman, with deference, I think in fairness to the witnesses who are here I might suggest that my understanding was that we were to be questioning the witness and then we might argue amongst ourselves. I know I want to ask Mr. Hamilton some questions and it might speed up our proceedings if we asked questions only now.

The DEPUTY VICE-CHAIRMAN: I think your exception is well taken, Mr. Fulton. I think we have witnesses here and that we should question them.

Mr. MACDOUGALL: I will be able to have my say later.

The DEPUTY VICE-CHAIRMAN: Yes.

By Mr. Green:

Q. Mr. Chairman, there are a few questions I would like to ask Mr. Farrell. In the first place, Mr. Farrell, I understand that you are the president of the British Columbia Telephone Company?—A. Yes.

Q. And also vice-president of the parent company, Anglo Canadian Telephone Company in Montreal?—A. Yes.

Q. And vice-president of an affiliated company known as Chilliwack Telephones Limited?—A. No, I would like to correct you there, I am the president. Do not underrate me.

Q. The president, oh, I apologize. You are the president of Chilliwack Telephones Limited?—A. Yes.

Q. And Kootenay Telephone Company Limited?—A. Yes.

Q. Mission Telephone Company Limited?—A. Yes.

Q. And North-west Telephone Company?—A. Yes.

Q. Those are companies smaller than the British Columbia Telephone Company and each one of them operates in British Columbia. For example, Chilliwack Telephones Limited and the Mission Telephone Company I presume cover most of the Fraser Valley?—A. Just little areas around the cities involved.

Q. And the Kootenay Telephone Company covers East Kootenay?—A. No, Cranbrook and Fernie, and places in that district.

Q. Kimberley?—A. Kimberley is in the Kootenay Telephone Company.

Q. I think the member for Kootenay East will agree with me that the Kootenay Telephone Company Limited would cover practically all of East Kootenay?—A. Yes, East Kootenay.

Q. And North-west Telephone Company covers the northern part of British Columbia?—A. It is primarily a radio company but we have exchanges in Prince George and Powell River.

Q. It covers the coast above Vancouver?—A. Yes.

Q. And each one of those companies is, like the British Columbia Telephone Company, a subsidiary of Anglo Canadian Telephone Company?—A. Yes.

Q. And of course any increase in the capital of the British Columbia Telephone Company would not be required for any expansions in the areas covered by these other companies, is that correct?—A. That is correct.

Q. Now, I want to ask you two series of questions along the line of the two grounds of complaint which are advanced by the counsel of the city of Vancouver.

I do not agree with my friend, Mr. MacDougall, that there is only the one ground of complaint and I would refer him to the bottom of page 3 of the letter from the committee appointed by the city council—

Mr. FULTON: Are you going to put that on the record?

By Mr. Green:

Q. —dated February 9 of this year, which was forwarded with excerpts from a report dated December 5, 1950, made by Mr. D. E. McTaggart, and Mr. C. Brakenridge, to his worship the mayor and members of the city council.

Incidentally, Mr. Brakenridge is here and will be giving evidence for the city.

My first ground of complaint is, as you know and will admit, Mr. Farrell, I think, that on the application before the Board of Transport Commissioners a little over a year ago, the city of Vancouver had associated with it the city of Victoria, the union of British Columbia municipalities, the municipality of Burnaby, and the provincial government of British Columbia. They all joined to fight your application for an increase at that time, did they not?—A. How could you expect them to do anything else, Mr. Green?

Mr. GREEN: Well, I did not expect them to do anything else. I was very glad they did it, and I hope they will do it again this year on your present application. I think you will also admit that one ground of complaint by the city of Vancouver is the amount of the increase of capital now being sought by the company, and the objection is based primarily on the fact that the supervision that parliament exercises when an application is made for a change in your charter to increase your capital is a very valuable restraint in the interest of the phone users of the city.

The WITNESS: Are you trying to put words into my mouth?

Mr. GREEN: No, I am asking you, will you admit that is the ground they have raised?

The WITNESS: Well, I don't know why I should admit anything in regard to that.

Mr. LETT: May I say a word on the subject?

The DEPUTY VICE-CHAIRMAN: Mr. Green, do you want to hear Mr. Lett?

Mr. GREEN: Yes.

Mr. LETT: I may say, Mr. Green has suggested that the objection of the city of Vancouver is based on certain things. As I understand the purpose of the committee, if a party opposes an application, it normally files a petition or some document letting the parties know the grounds on which the opposition is based. I think the rules provide for that, and while I realize the rules are in the hands of the committee, I think it might be fairer, in putting questions to Mr. Farrell, that at least the committee should know the basis of the objections of the city, and that perhaps we might be advised of the basis of those objections. We have been supplied with a copy of the brief which was sent, as Dr. MacDougall has said, to, I understand, the Vancouver members, but that brief, as I read it, said they had one main objection, and that was to the increase of capital. If there are other bases for the objection, then, with great respect, Mr. Chairman, I would suggest it might be fair to the witness and to the applicants to have the city place before us the bases of their objections, if there are other bases than the one which has already been referred to.

Mr. GREEN: You said you have had this brief from the city, and I presume you have had a letter with the brief which reads as follows, at the foot of page 3:

> If the council concurs in the views advanced in the foregoing four paragraphs your committee would further recommend that the city take all possible steps to endeavour to have presented to parliament the

onerous nature of the contracts to which the B.C. Telephone Company is now subjected, when the private bill of the telephone company is under consideration, in an endeavour to obtain relief or amelioration from the adverse consequences of such contracts.

You have had that?

Mr. GOODE: Mr. Chairman, these two gentlemen are talking about something the rest of the committee know nothing about. I think, if we are going to talk about the city of Vancouver brief, then we should have a copy in front of us.

The DEPUTY VICE-CHAIRMAN: I think we have a witness here on the stand whom we are supposed to question, and bring out any evidence you wish to bring out. Do you want to bring the counsel for the city of Vancouver, or go ahead with this witness?

Mr. GREEN: I asked a question of Mr. Lett, who got up and made a statement, and having done so, I am entitled to ask him questions.

The DEPUTY VICE-CHAIRMAN: Mr. Farrell is our witness.

Mr. GREEN: Mr. Lett intervened and asked to make a statement, and I am questioning him on the statement he made.

Mr. GOODE: I am going to insist in this for a moment, Mr. Chairman, because I do not think it is right for an examination of this type to be held between Mr. Green and the witness without the rest of the committee knowing what this brief consists of, and I do not think this line of questioning should be continued until the rest of the committee are in possession of the brief.

Mr. GREEN: If Mr. Goode had been here this morning, he would not have raised that point, because we had cross-examination this morning.

The DEPUTY VICE-CHAIRMAN: We did not have cross-examination on this brief. The first I heard of this brief was when Mr. MacDougall brought it up this evening. That brief was first brought in tonight. I think we should go ahead with your questioning of Mr. Farrell.

Mr. GREEN: Mr. Lett has said he received this brief and, as I understand it, that there was nothing in it except the complaint against the increase of capital. Did you or did you not get this letter?

Mr. LETT: I received a copy of the report—not a brief—I received a copy of the report unsigned, apparently made by the chairman of the Utilities and Airport committee and the council dated February 9, 1951, made to His Worship the Mayor and the members of the city council. That was sent to me by the corporation counsel, Mr. Lord, under date of a letter dated February 13, 1951, and in which he said that "a report had been prepared and presented to the city council and at its meeting yesterday they approved of the recommendation contained therein. For your information I enclose a copy of the special committee's report. Copies of the report have also been forwarded to all Vancouver members of parliament. A special committee of the council have power to decide whether the city will send representatives to present its objections when the bill is being considered in committee. No decision on that point has yet been made."

Now, that is on February 13. I assumed, Mr. Chairman, that if there were to be formal objections to the bill that the usual procedure, out of respect for the members of the committee, would have been followed. As I understand the procedure, a person in opposition to a private bill files a petition giving his objections and the grounds of his objections, so that, as I understand it, for the convenience of the committee and also for the convenience of the applicant, so that he knows the nature of those objections and has an opportunity to

meet the objections, and also that the committee may have an opportunity to know what the contest is about. As I understand the report of the city of Vancouver, they deal with the five points which have been mentioned by Mr. MacDougall, and they go on to state—and I quote:

> Your committeee consider that the outstanding feature of this 'application' is contained in item (*a*), whereby the company seeks to obtain power to increase its authorized capital from the present limits of twenty-five million to a new limit of seventy-five million dollars, which would thereby treble the present limit.
>
> Then, on page 3: "your committee would accordingly recommend . . "

The DEPUTY VICE-CHAIRMAN: Mr. Lett, I am in the hands of the committee here, but I do not think this conversation which you are carrying on here now should be carried on. The members of the committee do not have that brief before them. I think some of the Vancouver members may have it, but most of us do not, and you are discussing something we know nothing about. I think, Mr. Green, if you go on with your questioning, when we come to the preamble we can go on with that brief.

Mr. GREEN: Well—

Mr. MACDOUGALL: If I may be permitted—

Mr. GREEN: I am just replying to you, Mr. Chairman, and Mr. MacDougall should not interrupt.

The DEPUTY VICE-CHAIRMAN: Mr. Green has the floor.

Mr. MACDOUGALL: If Mr. Green will read on—

The DEPUTY VICE-CHAIRMAN: We are not going to discuss that any further. Is that the feeeling of the committee?

Mr. MACDOUGALL: It is throwing a stinger on the remarks I made, which I want to correct. I want to show Mr. Green on page 4 of the so-called brief: "In reference to the other proposed amendments or additions to the powers of the company as outlined previously under sub-headings (*b*), (*c*), (*d*) and (*e*) your committee see no reason to advance any serious objections to same."

That is why I say that the only objection presented in this brief is of the increased capitalization, and the other subheadings I stated—

Mr. GREEN: Read the paragraph immediately preceding it.

The DEPUTY VICE-CHAIRMAN: I wonder if that is not out of order. Will you gentlemen sit down for a minute? I believe the city of Vancouver counsel could bring that brief forward at the proper time. You may make your statement Mr. MacDougall.

Mr. MACDOUGALL: I have made it.

The CHAIRMAN: Is that the feeling of the committee?

Some Hon. MEMBERS: Yes.

Mr. GOODE: Mr. Chairman, I move that each member of this committee be provided with a copy of the Vancouver city council brief.

The DEPUTY VICE-CHAIRMAN: That motion is not in order because we have not any brief before us. I expect when the time comes the counsel will bring it in.

Mr. GREEN: There is one point raised by Mr. Lett which I think should be dealt with: I believe he has taken the position he has not been given notice of the stand taken by the committee, but he does admit having had all this material on February 13, four days after the date of the material, and I believe it was also—

The DEPUTY VICE-CHAIRMAN: Are you discussing the brief again, Mr. Green? I must ask you not to discuss the brief any further.

Mr. LETT: Mr. Chairman, may I—

The DEPUTY VICE-CHAIRMAN: No; wait until we get the brief.

By Mr. Green:

Q. Mr. Farrell, apparently the plan submitted by the telephone company for expansion originally was based on an expected expenditure of $10 million per year for ten years; is that correct?—A. Yes.

Q. Those are the correct figures?—A. At that time, yes—the first of the year.

Q. Pardon?—A. That was at the first of the year.

Q. Those were the figures given by Senator King when he spoke on the second reading of the bill in the Senate. He said it at page 61 of the Senate *Hansard*.—A. That is right.

Q. That is correct?—A. Yes.

Q. And those are also the figures given by Mr. Applewhaite when he spoke on the second reading of the bill in the Commons on March 9; is that not correct? —A. That is right.

Q. Are you standing by those figures, or are you wishing to change them? —A. If you will hold prices, Mr. Green, I will stand by them.

Q. No; but those were the figures less than two months ago.—A. I have already said that our $12 million figure is now $14 million for the 1951 program.

Q. No; but the figures submitted by your representatives—by the sponsor of this bill in the Senate and the sponsor in the House of Commons—were $10 million a year for the next ten years.—A. Based on 1950 prices.

Q. When did you decide to change those figures—or are you changing them? Are you standing today on those figures of $10 million for a period of ten years?—A. That was our estimate, but we cannot control prices, Mr. Green. We have already stated that since the first of the year they are up 20 per cent.

Q. No; this figure was not given at the first of the year—this figure was given by Mr. Applewhaite on March 9—A. You cannot make—

Q. Pardon?—A. You cannot revise your figures from week to week.

Q. Are you still standing on that figure of $10 million, or—A. I have already told you 1951 will be $14 million instead of $12 million: $10 million will be the minimum.

Q. Pardon?—A. $10 million will be the minimum.

Q. You now want to put it in that way that $10 million will be the minimum per year for the next ten years?—A. That is our estimate.

Q. That would amount to $100 million for the period of ten years?—A. Yes.

Q. What were your expenditures for 1950, figured in the same way that you figure this $10 million per year?—A. Well, I gave you that already: $6,400,000, I think was the figure, $6,400,000.

Q. So that the comparable figures for 1950 were $6,400,000?—A. We had $8,700,000 left over.

Q. No; I am wanting to know what figure you set, worked out in the same way that you work out this figure of $10 million a year for ten years; you have given us your figure of $10 million for the ten years commencing 1951?—A. Yes.

Q. I want to have the comparable figure for 1950.—A. Well, we actually spent $6,400,000.

Q. And in 1949 how much did you spend?—A. Well, you have the figure, Mr. Green—$6,700,000.

Q. So that the figures for 1949 were $6,700,000, and for 1950 were $6,400,000; that is correct?—A. Yes.

Q. Are you yet running up against the difficulty of getting equipment and materials?—A. Not much more than we have been.

Q. Well, are you— —A. We are always hoping.

Q. Are you not expecting to be hampered in your expansion programs by the shortages of certain materials?—A. We hope not.

Q. If you are, would that or would it not affect the amount of capital that you would require for these expansions?—A. Yes, well, naturally if we were cut down, but we would just have to catch it up later. This thing is not going to go on forever.

Q. Then, I would like to come to the question of the capital that you would have available for these ten years: you already have $5 million of capital which was not issued until this year of 1951, have you not?—A. We have no capital unissued now.

Q. No, but which, I say, was not issued until this year?—A. Yes.

Q. There was $5 million issued this year?—A. Yes.

Q. And on $4 million of that $5 million, which was issued in the form of common shares, you got a premium of $32.50 per share, did you not?—A. Right.

Q. So that the company really got an extra $1⅓ million because of the fact that those shares realized $132.50 per share?—A. Well, we got the premium, certainly.

Q. And on your remaining $1 million of preferred shares you also got a small premium?—A. No.

Q. Well, they were sold at $102?—A. Well, who pays the broker?

Q. $102 per share?—A. Who pays the broker?

Q. What did you realize?—A. We cannot sell our stock less than par; we got par for it, and the broker sold it for par, as a matter of fact, and lost $2 every share he sold.

Q. So that you got $1 million for the preferred shares?—A. Yes.

Q. And you got $5 million and approximately one-third of a million dollars on the common shares?—A. Right.

Q. Then, you are now asking for a further increase of $50 million?—A. Yes.

Q. So that that would give you, with the 6⅓ million that you have received from the shares, that you have just issued recently, at least a total of $56 million from these shares?—A. Well, you are rather underrating us. We hope always to sell our common stocks at a premium.

Q. Well, how much capital would you get now from those?—A. It depends on the market.

Q. How much capital do you estimate you will get from the $50 million shares?—A. I am not a soothsayer.

Q. Pardon?—A. I cannot look into a crystal ball and tell you. The market will absolutely govern it.

Q. Well, even taking it that you just get par for it?—A. We might not even get par.

Q. Well, if you got par that would be an additional $55 million?—A. Yes.

Q. An additional $50 million. You have been financing for some time on the basis of 40 per cent by capital—by shares—and 60 per cent by bonds or similar securities, have you not?—A. Yes.

Q. That has been the practice of the company?—A. Not practice. We just took advantage of the market. Bonds were readily saleable, and we sold bonds.

Q. Have you continued on that basis?—A. We do not intend to.

Q. You are trying to switch; I realize that that is one of the problems, but if you continued on that basis you would be able to raise an additional, I think it works out at an additional $74 million?—A. Well, I cannot do it in my head, Mr. Green. If your figures are correct, I suppose it is correct.

Q. That would give you a total, with the $56⅓ million by way of share capital, of something over $130 million?—A. Well, I do not know. I have not—I cannot make the figures up.

Q. I think that should be $84 million instead of $74 million: I have done myself in the eye here to the extent of $10 million; I think it should be $140 million.—A. We talk about millions as though they were thousands.

Q. That is right. That should be $140 million. If you continued to finance on the basis of 40 per cent shares and 60 per cent bonds you would have available for these ten years a total of approximately $140 million?—A. You could not sell your common stocks at $132.50 if you did that, Mr. Green.

Q. Over the period of ten years?—A. Equity would be too thin.

Q. Let us take it on the basis of an increase of $25; that could work out at, I think, approximately $77 or $78 million, if you got an increase of $25 million and continued your present method of financing—40 per cent and 60 per cent. Then, Mr. Farrell—

Mr. LETT: Mr. Chairman, I am not questioning my learned friend's arithmetic, but I think it should be checked before it goes on the record.

Mr. GREEN: Well, let us get it right; I want it right on the record.

The DEPUTY VICE-CHAIRMAN: I thought I understood you to say this afternoon that 40 and 60 was elastic—it did not go that way every year?

Mr. LETT: If my friends would ask the question, I think Mr. Farrell could answer that.

By Mr. Green:

Q. As a matter of fact, Mr. Farrell, the figure has been even a larger percentage of bonds than 60 per cent, has it not? It has been running between 60 and 65 per cent?—A. We only had one shareholder then, Mr. Green. You cannot sell shares at a fair market price with a thin equity.

Q. Well, you have just sold shares—the public have just bought shares and paid $140?—A. We are on a 50-50 basis now.

Q. You are not on a 50-50 basis now?—A. 51·9 bonds and 48·08 stocks.

Q. That is since you have sold these shares?—A. Yes.

Q. But at the time you put the shares on the market you were on a 60-40 basis?—A. Which shares?

Q. At the time you put this $5 million in shares on the market?—A. This sweetened it up.

Q. You say now you are on a 49-51 basis?—A. Yes, it sweetened it up to that extent.

Q. That was not the position at the time you sold them?—A. No, but that was going to be the position.

Q. By the way, on the sale of these common shares, what price did the Board of Transport Commissioners set for those shares?—A. $132.50.

Q. The Board of Transport Commissioners said that they could be sold at $132.50: did the Board have any interest in the actual selling price of such shares to the public?—A. No.

Q. Pardon?—A. Well, I presume they discussed—we discussed what the market possibilities were, certainly.

Q. But you got an order authorizing to sell at $132.50, but the public paid $140.50 for these; how did that come about?—A. Well, common shares that are offered to the shareholders are usually offered at less than the market.

Q. No, but these were not?—A. So that the rights are worth something, which ensures you getting the money.

Q. Did the Board of Transport Commissioners know that there were these rights involved?—A. There are always rights involved.

Q. Did the Board of Transport Commissioners know there were to be these $8 rights involved?—A. What $8 rights are you speaking of?

Q. The difference between $132.50 and $140.50 was made up by rights? The shareholders, the existing shareholders got these rights apparently and then the rights were sold for $8 for two rights, bringing the figure—it took two rights to buy a share from $132.50 up to $140.50. Was that plan placed before the Board of Transport Commissioners?—A. The Board of Transport Commissioners knew that the existing shareholders were going to be offered these shares at $132.50.

Q. Did the Board of Transport Commissioners know anything about those rights?—A. Well, the shares at that time were $145 on the market.

Q. The shares which were then outstanding?—A. Certainly.

Q. I want to find out just what check the Board of Transport Commissioners made with regard to the sale of these new shares? Did the Board of Transport Commissioners take into consideration at all the fact that there were to be rights issued?—A. Why certainly.

Q. That was placed before the Board of Transport Commissioners.—A. When the Bell Telephone Company ask for an increase in capital what do they do? They sell their stock at a price considerably below the market to their shareholders. The rights were traded backwards and forwards. It is a method of distributing your shares.

By Mr. Conacher:

Q. Does not the stock exchange insist upon those rights in trade when your stock is listed?—A. Our stock is not listed.

Q. Home Oil ran into trouble the same way.—A. It is the usual practice even if you are not listed.

By Mr. Green:

Q. Of the company shares which were out at the time of this new issued, the Anglo Canadian company held 60,000 and 20,000 were held by the public, is that not right?—A. That is right.

Q. So that the Anglo Canadian company got $\frac{3}{4}$ of all the rights?—A. Well, they got the rights on 60,000 shares.

Q. They got the rights on 60,000 shares, and the public shareholders got the rights on 20,000 shares, and then Anglo Canadian sold most of those rights?—A. Yes.

Q. They advertised them for sale, the rights to cover 27,800 ordinary shares, and I believe it required two rights to buy one share so that that would be 55,600 rights were sold by Anglo, is that correct?—A. Yes, they sold them, they sold them all as advertised in the circular, yes.

Q. That would leave Anglo with enough shares to control the British Columbia Telephone?—A. They would still have 50,000 plus this small amount which they took up.

Q. That retains control in Anglo Canadian?—A. Yes.

Q. And these rights were all sold to the public in any event at $4 per right, were they not?—A. Yes.

The Deputy Vice-Chairman: Was that a special price, $4 per right?

Mr. Green: That was the advertised price, I think.

The Witness: They were bought by W. C. Pitfield and Company and a group of brokers for 75 cents a right.

By Mr. Green:

Q. 75 cents a right, and then they were sold at $4 a right?—A. And W. C. Pitfield and Company guaranteed if they were not all sold they would take up all the balance of the common shares that were not taken up.

Q. Were the rights all sold?—A. Yes, all but 526 shares, I think.

Q. They were all sold at $4 a right?—A. Well, I do not know about that. I think some of them sold for less.

Q. Is there any interlocking of directorates between Anglo Canadian and W. C. Pitfield Company Limited?—A. Interlocking directorates?

Q. Yes?—A. Well, Mr. Tory of W. C. Pitfield and Company is one of our directors.

Q. One of your directors and a director of Anglo Canadian.—A. Yes.

Q. And by the way is Mr. Tory also a director of this Chilliwack Telephones Company Limited and Kootenay Telephone Company Limited and Mission Telephone Company Limited?—A. I think he is, yes.

Q. And also of the North-west Telephone Company?—A. Yes. No, they tell me he is not.

The DEPUTY VICE-CHAIRMAN: He is a director of Abitibi Power and Paper Company and several other companies.

The WITNESS: I have not got those balance sheets here, Mr. Green.

By Mr. Green:

Q. He certainly is a director of the British Columbia Telephone Company and my understanding is he is also a director of the Chilliwack Company, the Kootenay Company, the Mission Company and the North-west Telephone Company.—A. I am not sure, to tell you the honest truth.

Mr. LETT: We can find it; I do not know myself.

Mr. MACDOUGALL: Well, what if he is?

Mr. GREEN: You are a great advocate for the city of Vancouver, Mr. MacDougall!

The CHAIRMAN: Carry on with your questioning, Mr. Green.

Mr. GREEN: To come back to the other question with regard to the fairness of the charges made as beween these interrelated companies, these affiliated companies. These charges, I understand, are, I think, taken into consideration in the setting up of rates by the Board of Transport Commissioners.

Mr. APPLEWHAITE: I want to rise on a question of order, Mr. Chairman. I regret having to do it but I think it is in the interest of the committee as a whole. Mr. Green will know what I am getting at, if we settle this point now. I understand that Mr. Green wishes to bring into the argument, into the question, the matter of the operating contracts which have been referred to in various applications before the Board of Transport Commissioners on rate applications. I do not want to argue this at length, though I could. I would like to point out that whether or not those contracts which he is referring to are legitimate or justified is a matter of *res judicata*. It is a matter which has been decided on by a judicial body, the Board of Transport Commissioners, and to use their own words, you cannot take advantage of the fact that the application is being made to parliament for the increase in capital in order to attack the operating contract even if they were not ruled legitimate and in this case they are, because the operating contracts admittedly affect the balance sheet of the company and therefore they affect the rates which it is necessary for the company to charge for telephone service, and the company telephone rates are fixed by the Board of Transport Commissioners. These operating contracts do not affect the need of the company to increase its capital for capital expansion and development. They are not germane to or part of this application. No decision which this committee could arrive at as to the legitimacy or otherwise of those contracts could affect the question of increasing the capital, for capital expansion, because if those contracts were held by the Board of Transport Commissioners or other judicial bodies to be unreasonable the result would not be an increase in the service of the company, it would be a decrease in the telephone rates which are

based on the operations of the company. I think I am safe in saying that the company has no desire to avoid as full and complete an examination into its affairs as this committee sees fit to make with regard to the application, which it is making, but I do submit that the matter of the operating contracts has been decided by the Board of Transport Commissioners and that decision is binding until appealed in the proper way, and second, that we will be taking up unnecessarily a lot of time of this committee on matters which do not concern the application.

Some Hon. MEMBERS: Hear, hear.

Mr. GREEN: Mr. Chairman, on a point of order, this company has come here asking to have its charter opened and an amendment made to that charter. Now, one of the provisions of that charter is contained in paragraph 16, subsection (1) clause (*k*) and it reads as follows:

> No toll or charge shall be demanded or taken until it has been approved of by the Board of Transport Commissioners for Canada, which board may also revise such charges.

Now, with the charter opened up, as it has been, I personally intend to ask that there should be an amendment added to that clause of the charter to the effect that the Board of Transport Commissioners shall take into consideration the fairness and the reasonableness of the charges levied against this company by its affiliated companies and of the amounts which are payable by reason of agreements between them. Now, that does not in any way seem to upset the judgment which has been made by the Board of Transport Commissioners but it would direct the Board of Transport Commissioners to take into consideration—

Mr. FULTON: In the future.

Mr. GREEN: —in future, the fairness of the charges made as between these companies. Now, if the Board of Transport Commissioners are not able to do that then there may be the greatest unfairness as against the people who pay the phone rates.

Mr. APPLEWHAITE: They have already done it. Their judgment deals with that in full.

Mr. GREEN: In the judgment, in two respects they refused to interfere with amounts charged against the British Columbia Telephone Company and which the British Columbia Telephone Company in turn charged to the phone users. Now, I am going to ask that there be an amendment to direct the board to take into account the fairness of these charges and I would be surprised actually if the phone company opposed such an amendment because it is only taking in the reasonableness of the charges. Now, that is clearly in order. If we cannot consider the terms of the charter when it is opened up then the committee, I submit, Mr. Chairman, is absolutely restricted beyond all reason in considering the whole situation. Here is a situation which has come up recently. It is a defect which should be met and it has got nothing to do with the upsetting of the judgment at all, but of considering the terms of the charter itself.

Mr. MACINNIS: On a point of order, Mr. Chairman. As this is an application for an increase of capital by the company, I cannot understand what effect any decision by the Board of Transport Commissioners can have on matters in this House of Commons or in this committee. The Board of Transport Commissioners can deal only with such matters as come before them when an application is made for an increase in rates. Any decision they may make on that is a decision only so far as it applies there. It does not enter into any deliberations in this House of Commons or in this committee, and I think it would be going beyond all reason to say that this committee, when the debate is in the House of Commons, is not free to investigate everything in connection with the British Columbia Telephone Company, the whole of its business,

because in no way can we find out if the increase of capital is justified or not. You cannot shut off this discussion on the point of order raised by Mr. Applewhaite.

The DEPUTY VICE-CHAIRMAN: This bill before us is bill E of the Senate. I do not know, Mr. Green, where this amendment would come in. I suppose it would come in in the preamble. We are considering a bill here. We are not considering a charter. It is an amendment to the charter, and I would be inclined to think that unless you wanted to amend this bill that is before us you cannot go back and bring in the rates that were charged this year or to be charged next year by the British Columbia Telephone Company.

Mr. GREEN: There is the provision in their charter now about the charging of tolls.

The DEPUTY VICE-CHAIRMAN: But not in our bill.

Mr. GREEN: But it is in the charter, Mr. Chairman, and the bill is seeking to amend the charter. Now, this, of course, is the one vital point that affects the people of Canada, the question whether they are going to be charged fair or unfair rates, and parliament in 1916 put in that section, that no toll or charge shall be demanded or taken until it has been approved by the Board of Transport Commissioners of Canada, which board may also refuse such tolls and charges. Now, here is a new situation which has come up during the intervening years. There are various affiliated companies, and the companies are not dealing at arm's length, and unless there is some provision that their charges must be fair then they can simply bill the British Columbia Telephone Company and the ratepayers have got to pay the shot. For example, this Anglo Canadian company which controls the British Columbia Telephone Company has a licensing contract, the charges on which are based on gross revenue. They have to pay, I think, it is now one per cent on gross revenue. It was one and one-half per cent.

Mr. APPLEWHAITE: That is the discussion I am claiming is out of order, Mr. Chairman.

The DEPUTY VICE-CHAIRMAN: You are quite right.

Mr. GREEN: We have got the right to consider this charter when the company comes in and asks for changes in the charter. They have asked that the charter be opened up.

The DEPUTY VICE-CHAIRMAN: May I read to you and other members of the committee the rules and forms of Beauchesne:

> 785. It is the power of the committee to make alterations in the preamble, either by striking out or modifying such allegations as may not have been substantiated to their satisfaction, or by expunging such as the promoters may be desirous of withdrawing; but no new allegations or provisions ought to be inserted, either in the preamble or the bill, excepting such as are covered by the petition and the notice, as proved before the Standing Orders Committee—unless the parties have received permission from the House to introduce such additional provisions, in compliance with a petition for leave. Every material alteration in the preamble must be specially reported to the House, with the reasons therefor.

I think that is quite clear in its statement that we are considering a bill, and if you wish to bring in an amendment it will have to be brought in when the preamble is being taken up. At the present time I think we should go on with our questioning.

Some Hon. MEMBERS: Hear, hear.

The DEPUTY VICE-CHAIRMAN: And desist from bringing in some new matter that is not contained in this bill.

Mr. GREEN: I might not be able to bring in an amendment to this but that is quite a different thing from being able to discuss this question of the fairness of these charges as between the companies. That rule you quoted simply says that I could not bring in an amendment.

Mr. MACINNIS: Not at this stage.

Mr. GREEN: Not at this stage. I am not trying to bring in an amendment at this stage. I am simply trying to discuss this question which comes up in the opening up of the charter, and I submit to you even though I cannot bring in an amendment I can discuss this question.

The DEPUTY VICE-CHAIRMAN: Have you anything to say on this, Mr. Lett?

Mr. LETT: I will say this, that I think the honourable member's premise, as I gather it, is this, that the board is not able to do certain things relating to certain contracts which he has mentioned. I would like to mention to the committee that the board has done just those things, it has investigated those contracts; evidence was given on the contracts—

Mr. GREEN: It refused to deal with two of them at all; it said they were questions of management.

Mr. LETT: Perhaps my friend would read the judgment or let the judgment to be read in relation to this contract. I think it is not quite fair to put words into the mouths of the Board of Transport Commissioners. The Board of Transport Commissioners is, as I understand it, a regulatory and judicial body set up by parliament itself, and when it gives a judgment it is usually very meticulous in the way that judgment is given. Now, for the honourable member to say that the Board refuses to deal with it, may I, on this point of order, Mr. Chairman, just give a brief reference as to what the Board did say.

Mr. MACDOUGALL: Let us have it.

The DEPUTY VICE-CHAIRMAN: Is it the wish of the committee to have it?

Agreed.

Mr. GREEN: If Mr. Lett has the right to do that I think I have the right to refer to all those points.

Mr. MACINNIS: Mr. Chairman, let us be quite clear in what we are doing. Mr. Applewhaite and Mr. Lett, speaking for the company say that this committee of parliament dealing with a bill to amend a charter of the British Columbia Telephone Company are not allowed to discuss certain things in this committee. Now, the whole thing was discussed in the House and the rules that apply in the House apply in committee, and if we are going to gag the committee this way we might as well go home.

Mr. APPLEWHAITE: I do not think my friend, Mr. MacInnis, intended to accuse me of gagging the committee, but I could raise the same point if I were a private member of the committee. I can assure you I have no interest in the outcome of this matter; all I am suggesting is that the matters we are discussing are controversial, lengthy, and can have no bearing whatever on the outcome of our decision, for two reasons: One, that they have no application, and secondly, they have already been ruled upon by a judicial body.

Mr. FERGUSON: I just cannot see Mr. Applewhaite's contention. If during the discussion of this bill something is brought out that would firmly convince members of this committee that they should vote one way or another—after discussion on a certain point, irrespective of whether the Board of Transport Commissioners made a decision—then I cannot see but what these men are going to vote as they see fit. There is no doubt about that, irrespective of any judgment rendered by the Board of Transport Commissioners.

Mr. MACINNIS: Mr. Chairman, Mr. Applewhaite has said that we cannot discuss a decision made by the Board of Transport Commissioners because we

cannot affect what has been done—the judgment that has been made by the Board of Transport Commissioners. We are not trying to affect what has been done by the Board of Transport Commissioners, we are dealing with an application for an increase in capital, and what was said there may affect our decision as to how we are going to deal with the application. So, because of that, we must be allowed to discuss everything in connection with the financial structure and operation of the British Columbia Telephone Company.

Mr. APPLEWHAITE: I agree with you on that portion.

Mr. GREEN: On that point, we debated these very facts in the House of Commons, and your honour, as chairman of the committee, is bound by the same rules as apply in the House of Commons.

Mr. APPLEWHAITE: They were not ruled on?

Mr. GREEN: They were not ruled out; they were discussed by everyone who spoke.

Mr. APPLEWHAITE: They were not ruled out.

Mr. GREEN: If we were unable to discuss them in the House the chairman would not hesitate to rule that we could not discuss them in committee.

Mr. LETT: On a point of order, I would like to make it clear that I made no such suggestion as intimated, in regard to the gagging of the committee on these contracts. Quite the contrary. My suggestion was that the matters to which Mr. Green referred had been fully dealt with in the judgment. I agree with Mr. MacInnis that this parliament has certain duties in relation to the bill which is before it and that the Board of Transport Commissioners had certain duties in connection with the application which was before that body; but I say that when it has been stated that the Board of Transport Commissioners could not and did not deal with these particular matters, the judgment itself shows to the contrary—that the Board of Transport Commissioners did deal with the matter and considered all of these contracts within its jurisdiction; and they did not say they had not any power to deal with it, as Mr. Green states. They dealt with them specifically and it appears in the judgment.

I do not for a moment suggest the committee should be gagged on any matter. All I was suggesting was that the matters had been fully dealt with, evidence had been given in full, the contracts were examined by the Board, witnesses were cross-examined, figures were given, and information to the fullest was given on all the contracts. After all that consideration, after days of sitting and lengthy evidence on these contracts, the Board of Transport Commissioners arrived at certain definitely stated conclusions, and those are contained in its judgment.

Now, Mr. Applewhaite suggested these were matters which as the lawyers say, are *res judicata*. My contention is contrary to Mr. Green's when he says the Board has no power. The Board did the very thing for which he is suggesting that he would propose an amendment. If he would read the judgment instead of giving his interpretation of the judgment I think it would make it clear to the members of this committee precisely what the Board did in connection with this.

Mr. CONACHER: Let us hear it.

The DEPUTY VICE-CHAIRMAN: I am in the hands of the committee here and we have got to do what the committee says but I wonder if we could not carry on with the cross-examination. We will hear any exceptions that are taken and if necessary we will rule on them, but I suggest that you go ahead, Mr. Green.

Mr. GREEN: Mr. Farrell, I have here a chart showing the incorporated relationships of the British Columbia Telephone Company. Would you have a look at that and see if it is correct?

Mr. LETT: Is my friend filing this as an exhibit? We have not seen it before. I again point out that my friend is bringing up other points which, as I gather, are mentioned in the brief of the city of Vancouver. I thought the chairman had ruled that out. I do not want to stop the committee getting the fullest evidence but I do feel, in fairness to the witness and in fairness to the applicants, that we might be advised of the nature of the opposition which Mr. Green is presenting.

By Mr. Green:

Q. Is that the Mr. Gary who is a director of the British Columbia Company? —A. Mr. Gary is dead.

Q. Theodore S. Gary is now dead?—A. That is the same family, yes.

Q. Theodore S. Gary of this family is a director of the British Columbia Telephone Company?—A. He is a grandson.

Q. Where does Associated Telephone and Telegraph Company fit into this? —A. It does not, as far as the British Columbia Telephone Company is concerned. Associated is owned by Theodore Gary and Company.

Q. It is another of the Gary companies?—A. Yes.

Q. There is also mention of a Canadian Syndicate Incorporated. Does that have any control over Anglo Canadian?—A. Well, that is an intermediary company.

Q. An intermediary company?—A. Which goes between Anglo and Theodore Gary and Company.

Q. What is the full name of the parent company?—A. Theodore Gary and Company?—A. Theodore Gary and Company.

Q. Is it a Delaware corporation?—A. I cannot tell you.

Q. The headquarters is in Kansas City?—A. In Kansas City.

Q. Does it also control Phillips Electric Works Limited?—A. Associated Telephone and Telegraph Company do.

Q. I see, Theodore Gary and Company controls Associated Telephone and Telegraph Company, and Associated Telephone and Telegraph Company in turn controls Phillips Electrical Works Limited?—A. Yes.

Q. And then Anglo Canadian Telephone Company controls these three district telephone companies to which I referred: Chilliwack Telephones Limited, Kootenay Telephone Limited; Mission Telephone Limited; and also— —A. North-west.

Q. The radio company on the coast—North-west Telephone Company?—A. That is right.

Q. And does Anglo Canadian also control a company known as Canadian B.C. Telegraphs and Supplies Limited?—A. Yes.

Q. And another company known as Dominion Directory Company Limited? —A. Yes.

Q. Where are the offices of these companies?—A. The head office is at Vancouver. You are referring to each company?

Q. And the supply company and the directing company?—A. The head office is in Vancouver.

Q. Are they with the offices of the British Columbia Telephone Company?— A. No. Some are and are not.

Q. They are all like the British Columbia Telephone Company; they are controlled by the Anglo Canadian Company?—A. Yes.

Q. I wonder if you could have this chart checked before the next meeting to see whether or not it is accurate.

The DEPUTY VICE-CHAIRMAN: Is it your desire to have it checked, Mr. Green?

Mr. GREEN: Yes, I want to table it.

The WITNESS: I do not know if I am in a position to check it. I can tell you about it to the best of my ability. But I know I am not in possession of all the facts in regard to the Phillips Electric Company and all those other companies.

By Mr. Green:

Q. No, but you have already given me all the information that is on this chart concerning the Phillips Electrical Works Limited. That is controlled by the Associated Telephone and Telegraph Company.

The DEPUTY VICE-CHAIRMAN: Is it your desire to leave this chart and let the officials look it over and rule on it?

Mr. GREEN: Yes.

The DEPUTY VICE-CHAIRMAN: Would you mind saying what it is?

Mr. LETT: Perhaps my friend would tell us where he got that chart. There were charts filed in the proceedings before the Board of Transport Commissioners. This may be one of those charts.

Mr. GREEN: I have this copy of it.

Mr. LETT: If this is a copy of one of those charts, we would be in a position to check it.

Mr. GREEN: This is a copy of the chart filed with the Board of Transport Commissioners.

Mr. LETT: You say it is a copy of a chart filed with the Board of Transport Commissioners. All this information was given by the company to the Board of Transport Commissioners, if this is that chart. My friend says this is a copy of that chart. Am I correct in that?

Mr. GREEN: I believe so. Perhaps you had better check it to make sure.

The WITNESS: No. Maybe you had better check it to make sure.

The DEPUTY VICE-CHAIRMAN: Just a minute. He is asking for the company to check it.

Mr. LETT: Mr. Green produces a chart. He does not know if it is a chart filed in the proceedings and he is asking the company to have it checked.

Mr. GREEN: I am asking if it is correct. The facts are in the knowledge of some of the officers of the company, so before I file this chart I am giving you an opportunity to make sure there is no incorrect information in it.

Mr. LETT: Is my friend asking the company to have this chart checked? If that is the question, we will be happy to do our best.

The DEPUTY VICE-CHAIRMAN: I think that is correct. You want to have the chart checked before it is filed, Mr. Green?

Mr. GREEN: I want to know if the company's officers are going to question any of the facts which are set out in the chart.

Mr. LETT: On this chart, in addition to the names which have been mentioned, there are certain holdings of shares in various items. I am not sure that anyone of the representatives of this company can check that. My friend asked to have it checked before the next session. He is asking to have the share holdings checked with respect to various Delaware corporations. This is the British Columbia Telephone Company's application and as the sponsors of it understood, we would have our officials here to give you all the information we can about the British Columbia Telephone Company. Now, my friend brings in a chart and he does not know where it came from, and he does not know about the information on it and he is not in a position to verify it. Yet he says: Have this chart checked by tomorrow morning.

Mr. GREEN: I am quite willing to file the chart as it is with the committee. But as a matter of courtesy to the company I have said: Do you wish to go over it to see if there is any quarrel with the information set out on it? You are at liberty to do so.

Mr. LETT: Mr. Green is not asking me to check it. He says that he will file it and that I can check it or not as I like. Is that it?

The DEPUTY VICE-CHAIRMAN: Is it the wish of the committee to have this chart filed?

Mr. APPLEWHAITE: I want to know, Mr. Chairman, if it is going to be filed, who is assuming the responsibility for it?

Mr. FULTON: I think this might be settled on a point of order. Mr. Green says: Here is a chart which I believe correctly represents the corporate nature of the British Columbia Telephone Company and I want to have it on the record. Now, if the company wishes to raise any objection to it before I put it on the record, they can do so, and I shall not file it until tomorrow morning; and if they wish to check it in the meantime, here it is and I am prepared to file it. It is up to the company to say whether or not they wish to check it before Mr. Green files it.

Mr. LETT: I do not want to prolong the discussion, Mr. Chairman, but as I understand it Mr. Green tenders this chart and he says: This is my information; does it set up correctly the relationship between these corporations? And he asks me to have it checked before the next morning. I would like to have it made clear on the record. If my friend, as he now suggests, is going to file this chart as an exhibit, then I am going to object to the exhibit being filed for what it is worth. But for anyone to come along and say: I do not know where this information came from; I do not know if it is correct or not, but I would like to file it; I think that is rather a low standard of evidence for my friend to be putting in. But if my friend will adhere to his original request and say: Here is a chart. Will you have it checked and tell me if it is correct or not? I am sure we would not hesitate to examine and to the best of our knowledge and ability accommodate him. That would be a fair request; but not to bring it in upon five minutes' notice.

Mr. GREEN: That would be quite satisfactory.

Mr. LETT: We will do our best to check the chart and if there are errors in it, we will call them to your attention and show them to you.

Mr. GREEN: I do not wish to quarrel about it.

Mr. FERGUSON: Mr. Green or any other member of the committee has the right to bring in a document without any notice, be it five minutes or anything else, and without notice to any witness at any time.

The DEPUTY VICE-CHAIRMAN: That is quite correct. If Mr. Green wants it filed, that is his responsibility and it will be filed. And if Mr. Green wants the company to check it and tell him if it is correct, it may be tabled.

Mr. BYRNE: Mr. Chairman, is this to be a question period or not? I suggest that Mr. Green ask the witness in each and every one of these cases if that is so; he can ask questions as to whether that relationship is so and the witness can say "yes" or "no". That would definitely settle it.

Mr. GREEN: I do not think that Mr. Farrell can be expected to do that. And when going over the chart I have asked him about the main parts of the family tree. But there are other facts set out in the chart that he could not speak about at the moment.

The DEPUTY VICE-CHAIRMAN: Would it be agreeable to the committee to let this chart rest until tomorrow morning when the officials will be prepared to say whether or not it is correct? If that policy is adopted, then it will not be tabled until further discussion.

Mr. LETT: There may be some information on it which I doubt is available to us here in Ottawa. But as far as we can, we will check the chart between now and tomorrow morning.

Mr. JAMES: Mr. Chairman, might we ask who prepared this chart, or anything of that nature?

Mr. GREEN: Well, I believe this is a copy of the chart which was filed by the city at the hearing last year, and to which the telephone company agreed.

Mr. LETT: I do not know. It looks like a chart we gave to the province of British Columbia counsel here.

The DEPUTY VICE-CHAIRMAN: Could we go on with our questioning now?

By Mr. Green:

Q. Mr. Farrell, there is what is called a licensing contract, apparently, between the British Columbia Telephone Company and Anglo Canadian Telephone Company under which 1 per cent of the gross revenue is paid to Anglo Canadian Telephone Company each year under a service contract; is that correct?—A. Yes.

Q. For what services is that payment made?—A. Financial and technical.

Q. What would that include—financial and technical?—A. Assistance in regard to all our financial matters.

Q. And that amounts to quite a substantial sum, does it not, in the years?—A. Yes, it is a similar contract that every large American telephone company has with the parent company.

Q. For example, in 1950 your annual report shows that your operating revenue was over $16 million; would this fee of 1 per cent be charged on that $16 million for 1950?—A. Approximately, yes.

Q. That would be about $160,000?—A. Yes.

Q. And Anglo Canadian is, in effect, really an investment company?—A. Yes.

Q. I have your report for 1950 in which it is described as an investment company; that is correct?—A. Well, if you have read it, it must be.

Q. No, but that is an actual fact, that it is an investment company—it is not an operating company?—A. No.

Q. And this fee of $160,000 last year is paid to Anglo Canadian under this so-called licensing contract?—A. Yes.

Q. How long has that rate been 1 per cent?—A. I could not tell you, Mr. Green. It used to be 1½ per cent, but it was reduced.

Q. It was reduced shortly before the hearing before the Board of Transport Commissioners last year?—A. We have had so many dates lately, I could not tell you.

Q. Perhaps we could find out?—A. Well, you probably have the date there yourself, and you could tell me.

Q. Well, I am not sure whether you would accept that statement or not.

Mr. LETT: Mr. Chairman, the date is set out in the judgment of the Board of Transport Commissioners, if my friend would like to read it.

By Mr. Green:

Q. The Board of Transport Commissioners held that that was a management fee, did they not?—A. We spent many hours on evidence and cross-examination of it, yes.

Q. That fee of $160,000 is included in the amounts levied against the phone users as rates?—A. Oh, yes.

Q. And then, the British Columbia Telephone Company has a contract with Canadian B.C. Telephones and Supplies Limited?

Mr. LETT: I do not want to interrupt, but my friend has read a statement into the record that the Board of Transport Commissioners has held this to be a management fee.

Mr. GREEN: No; a matter of management.

Mr. LETT: I beg your pardon.

Mr. GREEN: A question of management.

Mr. LETT: I am sorry, but would my friend care to read what the Board of Transport Commissioners said on it? I am rising on a point of order.

The DEPUTY VICE-CHAIRMAN: Do you want that read in?

Mr. GREEN: It is all set out in this brief.

The WITNESS: Oh, no it is not.

Mr. GREEN: There is a contract also with this supply company?

The WITNESS: Yes.

Mr. LETT: Have we dealt with the point of order? I do not want to be a nuisance to my friend, or interrupt him, but I do think in fairness to the members of the committee, if he is going to say what the Board of Transport Commissioners said, then I think he ought to say what they said, and not give his interpretation of what the Board of Transport Commissioners said, and then base a question to the witness on that. The judgment is a document of record, Mr. Chairman, and is available. If my friend does not want to read it—

Mr. GREEN: I do not mind reading the whole thing—and a whole lot of things that the Board have said. The point is that this charge to the parent company was recognized by the Board of Transport Commissioners.

Mr. LETT: Yes.

Mr. GREEN: And they refused to hold it was not a proper charge.

The WITNESS: What did you say?

Mr. GREEN: The Board of Transport Commissioners refused to hold that it was not a proper charge—in other words, they took it into consideration.

The WITNESS: I think they held it was a proper charge.

Mr. GREEN: Well, I said the same thing in reverse.

The WITNESS: You are always doing that.

Mr. LETT: It would be simple and more helpful if you read what the Board of Transport Commissioners said.

The DEPUTY VICE-CHAIRMAN: Is it the wish of the committee we should hear that?

Some Hon. MEMBERS: Yes.

Mr. LETT: Speaking of the service contract first, I would like to read this extract of what the Board said: I refer to the judgment of the Commissioners on page 222:

> A contract between the company and the Anglo Canadian Telephone Company was filed as Exhibit J-1. The contract is commonly referred to as the "Service Contract" and by its terms the Anglo Company grants patent rights, and furnishes expert advice on all phases of telephone matters. The contract provides for payment by the company of one and one-half per cent of gross telephone revenue, which payment was reduced by mutual agreement to one per cent on January 1, 1949.

That is the date my friend asked for.

Mr. Hamilton stated that the service received under the contract was of valuable assistance to the company; that it was a common type of agreement to other telephone companies; that the Bell Telephone Company of Canada had offered a similar, but limited, type of agreement which was not acceptable in preference to that now in effect; that the chief value of the contract is in the assistance given in solving problems and the economies effected thereby; that the company did not maintain a research staff or laboratory, and to do so would involve heavy cost. On cross-examination Mr. Hamilton pointed out that the board had approved a similar type of contract in the 1927 Bell case; that the company secured full protection under the contract against any claims of infringement of patents; that the payments under the contract were not allowed as an expense by the dominion income tax authorities only because such contract had not received the approval of the board; that the reduction in the rate of payment was effected by negotiation having in mind the increased revenue which would accrue to the Anglo Company as a result of the proposed rate increase; that the automatic increase in payment which would result from a rate increase was similar to what would occur in payments to the City of Vancouver for use of streets.

That is the extract from the summary of the evidence.

This is the judgment dealing with the service contract, and I am quoting from page 239 of the judgment of the Board in the proceedings of October 16:

I do not propose to go extensively into the matter of the so-called service contract, which has been objected to by respondents to the point where it is suggested the expense incurred by the company should be disallowed for rate-making purposes.

Mr. GREEN: This is the Anglo Canadian contract?

Mr. LETT: This is the service contract.

Mr. GREEN: With the Anglo Canadian?

Mr. LETT: Yes.

The contract which is set out in Exhibit J-1 is similar in all terms to that of the Bell Telephone Company of Canada with the American Telephone & Telegraph which was dealt with extensively in 1927 case (Vol. 16, J.O.R. & R., p. 245), except that the Bell contract includes the performance of certain work and that here involved does not.

The contract is also similar to service contracts, or licences, in the United States. Witness Magill laid some stress upon disallowance—

I might explain witness Magill was the expert witness retained by the city of Vancouver to assist Mr. Brakenbridge and Mr. McTaggart in their deliberations.

—of at least two such contracts, i.e., Oregon and California where the regulative bodies had rejected them and required that payments thereunder be no more than reasonable cost incurred in rendering the service. It was shown that the Oregon decision was chiefly founded upon the specific requirements of the relevant statute—a condition not here existent; and it was also stated that the California decision was under appeal. Subsequent to the close of the present case—

That is the British Columbia Telephone rate case.

—the decision of California Supreme Court has been handed down and it reverses the decision of the Public Utilities Commission. The probative value of these two cases is therefore doubtful.

The only matter we have to consider, in my opinion, is whether a reasonable and necessary service is obtained from the expenditure incurred

by the company. It is suggested that the payment of money by the company to Anglo Canadian Telephone Company far exceeds the amount paid in turn by that company to the affiliates who actually provide the service.

I may say, Mr. Chairman, the evidence showed Anglo did not render this service itself, but it did have affiliates which did render service.

This, in my opinion, goes far beyond the board's jurisdiction. A witness for the Anglo Canadian Telephone Company testified that laboratory services were available to the company under the contract, that a staff of technicians and experts were at the company's command, that certain costs of maintaining these facilities were incurred and, in turn, defrayed by the contributions received under the contracts.

Responsible and admittedly honest and sincere officials of the company testified to the unqualified value of the service to the company, that it was difficult to place a dollar value on such service, and that it was essential to the successful continuance of providing telephone service.

As opposed to this testimony we have only the opinion by Mr. Magill, witness for the City of Vancouver, that he would doubt the expenditure for the provision of the service that he believed the company, with its staff and technical information available, could operate "without payment of a percentage of its revenue to some parent company".

The conditions of, and the objections made to, the contract here under review are so similar to those discussed in our 1927 Bell Telephone Company judgment that they hardly require further discussion.

In my opinion, the contract is bona fide and is a means whereby the company obtains valuable patent rights, and export service.

Then they go on to say witness Magill admitted on cross-examination, and so on. Now, I quote from the bottom of page 240:

Objection also is taken to the automatic increase or decrease in the aggregate payment under the contract by reason of the basis of one per cent of gross telephone revenue. It would be reasonable to expect that in the absence of the contract the use of patented devices would entail royalty payments. The usual basis of such payments is related to the value obtained therefrom and are consequently fluctuating. Payments for technical and expert advice on a professional fee basis could easily exceed the payment provided by the contract, and if it did I doubt the ability of the respondents, or the board, to measure precisely the value of the service received by the payment demanded.

Under the contract the company receives the service and rights it requires for a maximum sum which can be approximately estimated and provided for.

Upon consideration of all that has been placed before us I find no reason to disallow for rate-making purposes the payments under the contract and consider they are legitimate and necessary expenditures by the company for the service rendered and are properly chargeable to the operating expenses of the company.

That is what the Board said.

Mr. GREEN: May I ask, Mr. Lett: it is clear from that judgment that these services rendered were not actually rendered by Anglo, but by the other companies? I understood that.

Mr. LETT: I think it is quite clear.

Mr. GREEN: What was the figure given as the fee which was paid by Anglo to these other companies for the service?

Mr. LETT: I cannot remember that. I do not think it is in the judgment. It was 1 per cent of the gross revenue, paid by B.C. Telephone to Anglo.

Mr. GREEN: Yes, but what did Anglo in turn pay to its parent company for the service?

Mr. LETT: Anyway, it was a very small amount for these services.

Mr. GREEN: About $3,000.

Mr. LETT: It might have been $3,000.

Mr. GREEN: I thought the British Columbia Telephone Company paid over $100,000.

Mr. LETT: Yes. The board dealt with that in the judgment.

Mr. GREEN: I want to get that fact clear.

By Mr. Green:

Q. Then, Mr. Farrell, there is also a contract between the British Columbia Telephone Company and Canadian British Columbia Telephone and Supplies Limited, is there not?—A. Yes.

Q. What is the arrangement between those two companies?—A. That is a matter of detail on which I would ask Mr. Hamilton. He is the operating vice president and he has those details at his finger tips. I would have to refer to the contract itself.

Q. You are not in a position to explain?—A. No.

Q. And also there is a contract between the British Columbia Telephone Company and the Dominion Directories Company Limited?—A. Yes.

Q. What is the basis of that contract?—A. That also is an operating matter and the details of that I would like you to ask Mr. Hamilton for.

Q. You do not know about that?—A. In generalities, yes, but he can give you the detail quickly.

Q. And, Mr. Farrell, would you have, you must recognize this, you realize that the position that there are these affiliated companies having contracts between each other. Would you have any objection now, as president of the company, to there being a provision written into your charter that the Board of Transport Commissioners should take into consideration in arriving at a rate the reasonableness of these contracts between the affiliated companies—would you have any objection to that?—A. That being a legal matter I would have to discuss that with my attorneys. I could not give you any offhand judgment on that. I do not know what position would result.

Q. I am not asking and I understand the city has never asked anything beyond having it perfectly clear that the board should consider the reasonableness of these contracts between the affiliated companies.—A. They certainly have done that.

Q. I beg your pardon?—A. They have put us right through the hoops and they have done that.

Q. For example, the contract with the directory company, did they deal with the reasonableness of that charge?—A. I think so, definitely.

The DEPUTY VICE-CHAIRMAN: Are you talking about the one that was just read?

Mr. GREEN: No, the other one.

Mr. LETT: The board's judgment deals very fully with it, Mr. Chairman, and whether it deals with the reasonableness of the—I do not know what my friend is talking about—the reasonableness and prudence and propriety of the contract are the very things that the board has taken into full consideration and that is what it points out in the judgment. When my learned friend asks if this judgment dealt with that, I think the judgment ought to speak for itself.

Mr. GREEN: Perhaps, Mr. Farrell, you could give some consideration to my question as to whether or not the company would have any objection to such a provision being written into their charter?

Mr. LETT: Could you repeat that, Mr. Green?

The DEPUTY VICE-CHAIRMAN: Would you repeat that provision you were asking for?

Mr. GREEN: Whether the company would have any objection to there being a provision written into their charter, for example, as an addition to paragraph 16, section (1), clause (*k*), which deals with the setting of tolls, to the effect something like this, "and the said board in determining any such toll or charge shall take into account the reasonableness of any amounts paid or payable by the company to an affiliated company."

The DEPUTY VICE-CHAIRMAN: Before that is answered, Mr. Green, I think I should point out that it is not within our order of reference and I do not think you should ask Mr. Farrell that question.

Mr. GREEN: I am simply asking Mr. Farrell whether the company has any objections to a provision of that kind.

The DEPUTY VICE-CHAIRMAN: I do not think Mr. Farrell should answer that question. I do not think it is within our order of reference at all.

Mr. GREEN: Well, would Mr. Farrell take that into consideration or would he not?

The WITNESS: We would be glad to consider it.

The DEPUTY VICE-CHAIRMAN: Are there any other questions of the witness?

Mr. FERGUSON: Mr. Chairman, I think that we are spending a lot of time here on matters that have been before the Board of Transport Commissioners or are going to go there. This company has been before them and their rates have been very thoroughly gone into. I want to be fair—

Mr. BYRNE: Is this a question period now?

Mr. FERGUSON: I want to be frank about this matter. We are asked to reject this proposal or recommend it. As members of this committee we have heard very little evidence to show that anybody is objecting to it. We have had very little information to be able to pass on this matter.

Mr. BYRNE: I would like to ask a question.

Mr. FERGUSON: It simply comes down to the fact that we are just about rubber stamps.

The DEPUTY VICE-CHAIRMAN: I must object to that, Mr. Ferguson. We are hearing evidence at this time and we cannot make up our minds until we have heard all of the evidence that is going to be given. Yours is a rather far fetched statement and I do not think you should make it.

Mr. FERGUSON: I will withdraw it, because I did not mean it in that manner. I do say a majority of the members of this committee know very little about this.

Mr. BYRNE: I would like to ask a question. There is something I would like to know.

Mr. FERGUSON: There is no doubt about that we do not want this telephone company to believe that we are trying to impede the progress that apparently this company is making in the province of British Columbia. So far I have not heard a great deal, I must be frank in saying it, to convince me that we should not simply say these men know their business—

Some HON. MEMBERS: Hear, hear.

Mr. BYRNE: It is not quite clear to me yet. It appears that $3,000 is all that was required by the Anglo Canadian Company to pay for the relevant information required to carry out their commitments to the British Columbia Telephone Company of Canada, yet they did receive $160,000 for that. There must be some explanation.

Mr. MacInnis: It was $181,000.

Mr. Byrne: There must be some explanation for the difference between $3,000 and $181,000.

The Deputy Vice-Chairman: Once again, I think the Board of Transport Commissioners is quite explicit there when they stated that whatever it was sufficient and apparently desirable. I do not think we should go into that any further.

Mr. Green: They refused to go into the question of how much Anglo Canadian had paid to the senior company.

Mr. MacInnis: Personally, I am not speaking about that, but I do not think the Board of Transport Commissioners are God Almighty and that we cannot question anything that they say.

I rose to question Mr. Farrell at the opening of this session on a matter I took up with the Board of Transport Commissioners in regard to the regulation or jurisdiction of the British Columbia Telephone Company. I have the material now and I will state it as quickly as possible.

There was a petition from the residents of Forest and Garden streets in southeast Burnaby. A letter from the spokesman for the residents of those streets was sent to Mr. E. E. Winch, M.L.A. at Victoria. I will read the first paragraph of the letter or, if you want me to file it I will be glad to do so. It says:

> Dear Mr. Winch:
>
> Attached is a petition signed by fifty-two residents of Forest and Garden streets in South Burnaby, B.C. This petition is for the immediate institution of steps for the establishment of telephone service to the residents of this area. It is signed by all but four of the residents, one of whom has a telephone, another a B.C. telephone employee, and two who were unavailable for signature.

I think that is enough. Mr. Farrell says he did not know anything about this but in the letter it says that:

> A signed copy of this petition is being forwarded to the company and to the chairman of the Public Utilities Commission under even date.

It is signed by Mr. A. Munroe MacLean for the petitioners.

Mr. Winch sent the petition and a copy of the letter to the chairman of the Public Utilities Commission in Victoria and he got this reply:

> Ernest E. Winch, Esq., M.L.A.,
> Legislative Assembly,
> Buildings.
>
> Dear Sir:
>
> In reply to your letter to the Chairman of February 28th, I am directed to advise that B.C. Telephone Company is under Dominion jurisdiction.
>
> Mr. A. M. MacLean, who sent to the Commission the petition from residents of the Forest and Garden streets area, has been so informed and the petition has been returned to him.
>
> Yours truly,
>
> (Sgd) A. B. JACKSON, Secretary,
> Public Utilities Commission.

Following that, Mr. Winch sent the petition to me and I sent it to the secretary of the Board of Transport Commissioners with the following letter:

Dear Mr. Baillargeon:

I am enclosing herewith copy of a letter and petition which was forwarded to Mr. E. E. Winch, M.L.A., by residents of Forest and Garden Streets in South Burnaby, British Columbia. The letter is self explanatory and in brief alleges discrimination by the B.C. Telephone Company in allocating residential telephones.

Mr. Winch forwarded the letter and the petition to the Chairman of the Public Utilities Commission at Victoria. The Public Utilities Commission informed him that the Commission had no authority in the matter as the B.C. Telephone Company is under Dominion jurisdiction. I do not know if the Board of Transport Commissioners has any authority in the matter complained of. However, I am forwarding the petition to you as the Board of Transport Commissioners has jurisdiction over the B.C. Telephone Company.

Yours sincerely

Signed by myself. That letter was dated March 16th, 1951, and under date of March 19th I have the following reply from the acting secretary of the Board of Transport Commissioners addressed to myself at the House of Commons, Ottawa:

Dear Sir:

I am directed to acknowledge receipt of your letter of the 16th instant, enclosing copy of petition from the residents of South Burnaby, B.C., regarding allocation of residential Telephone, which is returned herewith.

I would point out, for your information, that the Board has never considered that its powers with respect to telephone companies extend to the matter of furnishing or dealing with telephone service. Such powers as the Board possesses are limited to matters affecting the tolls charged for the service.

Under the circumstances the Board is unable to be of any assistance.

The petition, according to the letters I have read, was sent to the company, and what I would point out is that there seems to be no body, no governmental body of any kind, that has any jurisdiction over the operation of the British Columbia Telephone Company excepting the Board of Transport Commissioners in the matter of rates.

The DEPUTY VICE-CHAIRMAN: Are there any other questions to be asked of this witness? If not, can we have the next witness?

Mr. GREEN: I move that we adjourn; we have got to get into the House.

The DEPUTY VICE-CHAIRMAN: Could we just call the next witness?

Mr. JONES: Before we call another witness it seems to me that the whole discussion so far has revolved around the business of the increase in the capitalization and we have been relating the increase to the present capitalization. I was wondering if it would not be fair to the committee if we could have the relation of the increase to the total net assets of the company.

The DEPUTY VICE-CHAIRMAN: Do you want to ask a question?

Mr. JONES: I would like to know the total assets of the company at the present time in relation to the increase—

Mr. MACDOUGALL: On a percentage basis?

Mr. JONES: We could work that out.

The DEPUTY VICE-CHAIRMAN: When shall we meet again?

The WITNESS: I did not understand your question, Mr. Jones.

Mr. JONES: My question is with respect to the net assets of the company at the present time; I mean the capitalization and the gross value of the company.

The WITNESS: You mean the plant value?

Mr. JONES: Everything, yes, your assets as shown on the balance sheet.

The WITNESS: The fixed assets you are referring to, as of the 31st of December, 1950, were $61,290,386.59; and about $2 million of stores would have to be added to that figure as well.

Mr. FULTON: Could you give us the main subdivisions of the balance sheet showing what your assets consist of?

The DEPUTY VICE-CHAIRMAN: Do you want him to file the balance sheet of the company? Would you like to file a copy of the balance sheet?

Mr. FULTON: If it is filed it would take about two weeks to be printed.

The DEPUTY VICE-CHAIRMAN: Have you got enough copies of that balance sheet down here for distribution to the members? Can it be made available to them by tomorrow morning?

The WITNESS: We can have some copies of it struck off right away.

Mr. LETT: Possibly I might read the items into the record. I would be glad to read them.

Mr. JONES: I think it would give us a clearer picture if we got your present assets and the capital needed for expansion rather than tying it up with the $25 million nominal capital.

The WITNESS: Shall I read all the items on the balance sheet?

Mr. FULTON: No. Just read the headings.

The WITNESS: The fixed assets are as I have given them, $61,290,386.59.

There is a sinking fund deposit with trustee for redemption of fifteen year 4 per cent notes in the sum of $129,767.42. The current assets consist of cash in bank, $4,750,690.57; Dominion of Canada bonds at cost $3,988,000; Accounts receivable, less reserve for doubtful accounts, $1,295,205.22; Material in stores at cost; physical inventories last taken September 30, 1950, $1,996,012.42; Unmatured interest receivable, $14,056.37; Deferred charges, $676,366.60; Prepaid expense, $357,226.02, making a grand total of $74,497,711.21.

Mr. LETT: As at the 31st of December, 1950.

The WITNESS: Yes, as at the 31st of December, 1950.

The DEPUTY VICE-CHAIRMAN: Are there any more questions? May we decide before we go what witnesses we will have tomorrow morning? Do you propose to carry on with Mr. Hamilton of the company? Or yould you rather have counsel for the Board of Transport Commissioners?

Mr. HERRIDGE: Mr. Chairman, I think that one or two of us wanted to ask a few questions and I think I heard the name of Mr. Hamilton mentioned as being the operating director. So could we have Mr. Hamilton as the witness at our next meeting?

The DEPUTY VICE-CHAIRMAN: If that is the wish of the committee, it is agreed. Mr. Hamilton it will be, then.

Mr. FULTON: Perhaps you could have the solicitor for the Board of Transport Commissioners present as well, if it is not too much of an imposition.

The DEPUTY VICE-CHAIRMAN: I wonder if we should not have him later on? Do you want him to be here while the company is giving their evidence?

Mr. FULTON: I think it is conceivable that we might finish with Mr. Hamilton and then we could go right on with the solicitor for the Board of Transport Commissioners.

The DEPUTY VICE-CHAIRMAN: I think we could get him, but we have another witness from the city and I think we could take these witnesses as we go along. However, if the committee wishes it, we can have the counsel for the Board of Transport Commissioners and we can call him, if you want him tomorrow, or at the next sitting of the committee with the executive vice-president of the company. I think that will be quite satisfactory.

Mr. SMITH: Mr. Chairman, what time shall we meet tomorrow?

The DEPUTY VICE-CHAIRMAN: Yes, what time shall we meet tomorrow?

Mr. SMITH: There is a caucus at 11:00 o'clock in the morning.

Mr. MACDOUGALL: Yes, and it will be held in this very room.

The DEPUTY VICE-CHAIRMAN: I suppose the quickest we can meet here will be at 3:30 tomorrow, and we are not making very fast progress on this thing. We should get along as rapidly as possible. Perhaps we could get another room.

Mr. MACDOUGALL: It is not necessary we have such a large room as this.

Mr. GREEN: There are 60 members on the committee.

The DEPUTY VICE-CHAIRMAN: We have got to have space for them all, if they all come.

Mr. FULTON: Is not room 420 big enough?

The DEPUTY VICE-CHAIRMAN: Yes, but the time is not convenient. There is a government caucus tomorrow.

Mr. FULTON: It is a Liberal party caucus: They have often had committee meetings when we have been having a caucus.

The DEPUTY VICE-CHAIRMAN: We have another question coming up on Monday morning: It has been suggested there are two pipeline bills which I think are non-controversial and it has been suggested we could meet on Monday at 10 o'clock and get those two bills through in an hour, and then come back to this one. If that is the wish of the committee, we can do that.

Mr. FULTON: I do not think it is fair to keep the B.C. Telephone officials here from now until Monday without having another meeting, and if it is really felt we cannot meet while the Liberal party is having a caucus tomorrow, we should surely meet tomorrow afternoon.

The DEPUTY VICE-CHAIRMAN: It was suggested we meet tomorrow at 3:30 or 4.

Mr. APPLEWHAITE: I think 3:30 would be agreeable to everybody.

The DEPUTY VICE-CHAIRMAN: Is it the wish of the committee to meet tomorrow afternoon at 3:30 here?

Carried.

EVIDENCE

HOUSE OF COMMONS,

June 8, 1951.

The DEPUTY VICE-CHAIRMAN: Gentlemen, a quorum having assembled we will carry on with our business.

Mr. APPLEWHAITE: Mr. Chairman, if I may, as I did yesterday, I would like to recall Mr. Lett to answer some of the questions which were asked yesterday and for which answers were not available. I understand Mr. Hamilton will follow as a witness.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee to hear Mr. Lett now?

Agreed.

Mr. GREEN: Before we go on with that, there was the request made yesterday that a copy of the documents sent down to the Vancouver members by the city council of Vancouver should be distributed. They are now available here for distribution to the members. I would move that they be printed as an appendix to today's proceedings.

The DEPUTY VICE-CHAIRMAN: Any objections?

Mr. APPLEWHAITE: I have no objection but I would like to ask whoever is sponsoring the distribution of these documents to indicate what they are. I understand they are not a brief to this committee. I understand, subject to correction, that they are a report made to the City Council by a subcommittee appointed by that council, and I would ask Mr. Green if he would put in the record just what these are so we would know if they are official or unofficial and if they are directed to this committee or directed to the city of Vancouver city council.

Mr. GREEN: The documents consist of a report from a committee appointed by the Vancouver city council to the mayor and council, and then in addition to that there is what is described as excerpts from a report dated December 8, 1950, made by Messrs. D. E. McTaggart and C. Brakenridge to His Worship the Mayor and the members of the City Council. These two documents were sent to the Vancouver members of the House and I understand Mr. Lett said yesterday that they were also sent to him. Now, strictly speaking, I do not suppose it could be called a brief, but that is the explanation of what these documents are.

Mr. APPLEWHAITE: I would like to ask one more question, Mr. Chairman. I do not think Mr. Green will object. The second report to which you referred, dated, I believe you said, some time in 1950, was in connection with what—with this application or some other application?

Mr. GREEN: What do you mean by the second one?

Mr. APPLEWHAITE: You said this was a report and attached to it were excerpts from another report. I understand that the second report from which excerpts were taken was not made in connection with this application. Is that right?

Mr. GREEN: As I understand it, the letter to the mayor and council was dealing with the application for a private bill by the British Columbia Telephone

Company, and attached to that letter were these excerpts from a report which had been made previously by Mr. McTaggart and Mr. Brakenridge.

Mr. APPLEWHAITE: In connection with what?

Mr. GREEN: That report from which these excerpts were taken was in connection with the judgment of the Board of Transport Commissioners on the application for an increase in rates which was heard in January of 1950.

Mr. GOODE: Actually then, Mr. Chairman, following those remarks of Mr. Green, this is not an official submission from the mayor and council of the city of Vancouver, is it?

The DEPUTY VICE-CHAIRMAN: I do not know. Mr. Green, is this an official submission to us?

Mr. GOODE: It is not signed by the mayor.

The DEPUTY VICE-CHAIRMAN: Is it from the city of Vancouver?

Mr. GREEN: These papers were sent to each of the Vancouver members.

The DEPUTY VICE-CHAIRMAN: Who sent them?

Mr. GREEN: The Vancouver city council.

The DEPUTY VICE-CHAIRMAN: Did the Vancouver city council ask to have this brief submitted to this committee?

Mr. GREEN: These documents were sent to the members from Vancouver, and yesterday Mr. MacDougall read from these papers and Mr. Lett mentioned them and read from them, and I read from them, and the members of the committee asked that each member be given a copy.

The DEPUTY VICE-CHAIRMAN: Is there any objection to having this brief tabled and printed as an appendix?

Mr. GOODE: Mr. Chairman, I do not see the value of this, actually. What this is is a committee report to the Vancouver city council. We have no evidence whatsoever that it has been adopted by the city council of Vancouver; is that right?

Mr. MACDOUGALL: Yes.

Mr. GOODE: Then, anyone can submit a brief, if you call it a brief, of this type, on any matter at all. It has no official significance at all.

Mr. MACINNIS: Mr. Chairman, I believe this material came to each member for the city of Vancouver, from the legal department of the city of Vancouver with a covering letter signed by Arthur E. Lord, who, I think, is corporation counsel, and it is my understanding—I have not got the authority at the moment in my hands in writing—that this has been approved by the Vancouver city council and is sent here as the attitude of the Vancouver city council towards the application for the bill to be presented by the British Columbia Telephone Company, and as such I think it would be very unwise of this committee not to allow this communication to be tabled here for the information and guidance of the members of the committee. Each member is his own judge in the matter as to what value or weight he wishes to give it, but it surely would be tabled.

Mr. GREEN: May I read the letter from Mr. Lord?

The DEPUTY VICE-CHAIRMAN: Just a minute before you read that. Is this brief on which we have your views, this paper which I have just been given, to be presented by somebody else later on? Is that to be presented later on by one of the other witnesses, and is this to be used as the basis of argument in this committee?

Mr. GREEN: Mr. Brakenridge can substantiate that. I have a letter here which was written to me forwarding the brief.

Mr. MacInnis: I think that should be read.

Mr. Green: This letter is dated the 13th of February, 1951.

The Deputy Vice-Chairman: Before you read the letter, will you tell me if this brief is to be presented by somebody from the city of Vancouver or are you presenting it as an argument for yourself?

Mr. Green: I will take the responsibility for filing it on my own, if you wish.

The Deputy Vice-Chairman: I do not think there is any objection to that.

Mr. Green: I would like to read this letter into the record.

The Deputy Vice-Chairman: Mr. Murphy, have you something to say?

Mr. Murphy: I think the time to discuss the admission of this brief was when someone first referred to it yesterday.

The Deputy Vice-Chairman: We stopped that discussion yesterday.

Mr. Murphy: It has been the practice in committee, when any document is referred to, that that document must be tabled; and as to what the brief contains, that is a matter for the committee, and for those who are going to consider the evidence, to determine at a later date. I think in all fairness to the members of the committee that now that the brief has been referred to by different members of the committee three times yesterday, you have no alternative but to accept the submission, or whatever it might be called, into the evidence.

The Deputy Vice-Chairman: Mr. Conacher.

Mr. Conacher: May I ask if the city of Vancouver is sending down any witnesses or any representations to further their cause which is covered by this brief or this thing that is so contentious.

The Deputy Vice-Chairman: This is not contentious, Mr. Conacher. Are witnesses coming down from the Vancouver city council, Mr. Green?

Mr. MacInnis: Mr. Chairman, we should tell the members that there is a representative from the city of Vancouver here who will present the case for Vancouver in due course.

The Deputy Vice-Chairman: We have a brief here which, as far as I can see, it is all right to accept and to print as an appendix. If that is the wish of the committee we will accept it and print it as an appendix.

Mr. Lett: Before that question is put, Mr. Chairman, may I say a word? I, of course, would not presume to object to any document presented by any member of this committee because I understand the Chairman will accept this, but I would like to add a word to the chairman's remarks and ascertain precisely the status of this document. Mr. Green as I understand, says he takes the responsibility for filing or distributing this document to the members of this committee. Now, it is not primary evidence. Without being technical, what I would like to know is who is taking the responsibility for the statements which are in this brief, which is now before the committee? If Mr. Green is taking the responsibility for those statements as well as for the distribution and for the relevancy or accuracy of those statements then I think perhaps the course he suggests might well be open to objection, but if he is not taking any responsibility for this document, which I understand is unsigned, then I feel, Mr. Chairman, before the committee accepts it they might know at least who is going to take the responsibility for the relevancy or accuracy of the statements in this document.

Mr. Green: I submit, Mr. Chairman, that it is not within Mr. Lett's prerogatives here to raise a question of that kind.

Mr. Applewhaite: I object.

The Deputy Vice-Chairman: That is correct.

Mr. Green: I have here a letter with which these papers were forwarded to me.

The DEPUTY VICE-CHAIRMAN: Does the committee wish to hear this letter? Agreed.

Mr. GREEN: It is dated February 13, 1951 and addressed to myself. I will read it.

Dear Mr. Green:

Re B.C. Telephone Company: Application for Private Bill

The B.C. Telephone Company's application for a private bill which would allow for an increase of their authorized capital from twenty-five million dollars to seventy-five million dollars has had the consideration of the council of the city of Vancouver.

I enclose herewith a report of Alderman Fisher, chairman of the Utilities and Airport Committee, and myself. The recommendations contained therein were approved—

And this is significant, the recommendations contained therein were approved by the council.

—by the council and I draw your attention to the last paragraph.

So that you will have a fuller understanding of the reference to the licence, supply and directory contracts, I am enclosing excerpts from a report prepared by Mr. D. E. McTaggart, K.C., former corporation counsel, and Mr. Charles Brakenridge, former city engineer, and presented to and approved by the city council following the delivery of judgment by the Board of Transport Commissioners respecting the telephone company's application in 1950 for rate increases.

The council has considered the advisability of sending one or more representatives to appear when the bill is being considered in committee, but no definite decision has yet been arrived at.

Yours truly,

(Sgd.) Arthur E. Lord,
Corporation Counsel.

Now that clearly shows the authenticity of this paper, and, as I said before, Mr. MacDougall read extracts from it, and I submit it is only reasonable the whole document should be on the record rather than a paragraph here and a paragraph there, especially as there was dispute as to what it contained.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee to accept this document and have it attached to the report of the committee as appendix A, on Mr. Green's presentation?

Mr. MOTT: Mr. Chairman, in reference to the letter which Mr. Green has just read, I note it is from the committee appointed by the council, and the letter is worded from a solicitor of the city council. It is not sent direct from the city council signed by the clerk of the Vancouver city council. That letter is a letter from the committee.

Mr. GREEN: No, no.

Mr. MOTT: Yes, it is—signed by a solicitor.

Mr. GREEN: It is a formal letter from the corporation counsel of the city of Vancouver enclosing the documents, and outlining that the city had approved what is contained—

The DEPUTY VICE-CHAIRMAN: Regardless of that, Mr. Green is asking us to accept this brief, or letter, as appendix A on his authority, and, if it is the wish of the committee, we will accept it.

Mr. MOTT: I still cannot understand, and I wish Mr. Green could tell us, why the mayor of the city of Vancouver, if this is an official document, did not

sign it instead of the legal adviser who has evidently left the committee. Why did not the mayor of Vancouver sign it?

Mr. BYRNE: Mr. Chairman, I think in this regard there is no question in the world that it was the intention of the city of Vancouver to be represented by this document. This was their view. It may be inaccurate or wrong, but, as Mr. MacInnis has said, it is up to the individual members of this committee to assess the value of the document. There is no question in my mind because it was forwarded with some letter from the city solicitor—

Mr. GREEN: Corporation counsel.

Mr. BYRNE: Yes, and all Mr. Green is asking is that the information sent to the Vancouver members be likewise distributed.

Mr. ROONEY: Mr. Chairman, as an accountant, and having read this, I cannot see objection to having this before us and attached as a brief, or a document, because we naturally will do what we think is proper, and I cannot see any objection to this at all.

The DEPUTY VICE-CHAIRMAN: I think it could very well have been presented by counsel for the city of Vancouver, but since it has not been and since it has been referred to two or three times, I think the best thing to do is to accept it.

Mr. APPLEWHAITE: As sponsor of the bill, we are not objecting. Once the status is established, we are not objecting.

The DEPUTY VICE-CHAIRMAN: Is it the wish of the commitee to accept it?

Agreed.

(Documents appear as Appendix A.)

The DEPUTY VICE-CHAIRMAN: Mr. Lett, do you have a statement to make in reply to the requests for information asked for yesterday?

Mr. LETT: Mr. Chairman, gentlemen, certain information was asked for yesterday which we did not have available, and that is now available. Certain questions were also asked which I believe I can now answer, and there are certain other ones which Mr. Hamilton will also answer if it is the wish of the committee, immediately after.

Mr. Fulton asked the number of shares presently held by the Anglo Canadian Telephone Company. According to the records, I am informed there are 62,200 shares of Anglo Canadian Telephone Company and the British Columbia Telephone Company out of 120,000; that is ordinary shares: 62,200 out of a total issue of 120,000.

The second question asked was by Mr. Green in his questioning last night of Mr. Farrell. He produced this chart, Mr. Chairman, which he asked to have checked. I am informed that this chart has now been checked. It is a photostat of an exhibit—exhibit 20—which was filed by Mr. T. G. Norris, K.C., counsel for the province of British Columbia, in the company's rate application of 1949, with one minor change, which apparently came in, which is not material. This chart was checked by the company at that time and is correct as at the date shown on the chart.

Mr. GREEN: What date is that?

Mr. LETT: There are several dates. I will refer to them in a minute. The date of the hearing was in January, 1950; that is when I believe it was checked by the company, but there have been a number of changes such as the one I have just mentioned in answer to the previous question—that is, the holdings of those shares.

Mr. GREEN: The shares of the British Columbia Telephone Company?

Mr. LETT: Yes, held by the Anglo, which I have given in answer to the question of Mr. Fulton. A number of changes which have occurred in these

share holdings as shown by the chart between the first of March, 1948—that is the principal date shown here—and the present time. For example, the one I have just mentioned. We would be pleased, Mr. Chairman, to furnish the details to Mr. Green of these changes so that he can bring his chart up to date before he files it formally as an exhibit.

The DEPUTY VICE-CHAIRMAN: Do you want to file that, Mr. Green?

Mr. GREEN: Yes, I would like to.

Mr. LETT: Would Mr. Green like to have it brought up to date? We will make that available; it is being typed now and could be made available, but if it is going in as an exhibit it would be our wish it would go in in proper form.

Mr. GREEN: It is only fair that it should be brought up to date first. I would ask that that be printed too.

The DEPUTY VICE-CHAIRMAN: As an appendix?

Mr. GREEN: As an appendix.

The DEPUTY VICE-CHAIRMAN: I need a motion for that.

Mr. GREEN: I will move it.

The DEPUTY VICE-CHAIRMAN: Moved by Mr. Green that this chart showing Inter-Corporate Relationship of the British Columbia Telephone Company, be printed as an appendix B when brought up to date.

Mr. GREEN: Yes, or that memo attached showing the changes. I think perhaps it would be better to have the memo showing the changes, rather than changing the chart.

Mr. LETT: I take it the memo showing the changes could be part of the exhibit which is going to be attached to the transcript.

Mr. GREEN: Yes.

The DEPUTY VICE-CHAIRMAN: All right.

(Chart and memo appear as Appendix B).

Mr. LETT: The first point: One of the honourable members asked yesterday the question regarding the total number of telephones of the company at different times, and I think it was in relation to the number of, what were called "held applications" or "unfilled orders". If it is the wish of the committee, there is a chart here we can file. It is just a graph showing the number of stations and the held applications from the period 1938 down to 1951, and contains an estimate for 1952. Have you any objection to that?

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee to have that filed as another appendix—C?

Carried.

(Graph appears as Appendix C).

Mr. LETT: There is one more: Mr. Green asked Mr. Farrell last night if he would be prepared to accept an amendment on jurisdiction. I am not sure it is the honourable member's intention that that should be dealt with at this time, and if it is not the wish of the committee—

The DEPUTY VICE-CHAIRMAN: That request is not in order. We ruled that out of order yesterday. Section 537 of Beauchesne's Rules and Forms, the third edition, distinctly states:

> A committee can only consider these matters which have been committed to it by the House. A committee is bound by, and is not at liberty to depart from, the order of reference. In the case of a select committee upon a bill, the bill committed to it is itself the order of reference to the committee, who must report it with or without amendment to the House.

Mr. GREEN: Well, Mr. Chairman, there has been discussion in the House concerning the charges made as between the inter-related companies, and there also has been discussion permitted in the committee of that same question, and you ruled yesterday it was in order to discuss it. I was simply asking Mr. Farrell whether the company would have any objection to an amendment being made that would, in my opinion, meet that situation. I simply asked him whether they had any objection to such an amendment. I was not moving an amendment. I only asked him whether the company would have any objection to there being an amendment. A question of that kind, as distinct from an actual motion, I think, is in order.

The DEPUTY VICE-CHAIRMAN: Yes, I would rule that question in order if—

Mr. APPLEWHAITE: May I speak, Mr. Chairman, to that: I hope that at least so far I have not indicated that I am trying to be very technical in these meetings, but in this particular instance permission is asked to ask a question of the witness which involves the doing of something which, according to your ruling, we have not the power to do, and therefore I submit, with respect, that we cannot have it both ways.

The DEPUTY VICE-CHAIRMAN: As I understand it, Mr. Green can ask any question he likes, but the witness does not need to answer or make any statement. The question is in order, but the witness need not answer; but we are bound, as you know, gentlemen, by this bill we have before us, and any amendments must be placed on this bill, and this bill only. We cannot go amending something else when this is our order of reference. That is all. I do not mind—you may ask that question, and it can be answered or not, as the witness desires. Do you want to make a statement on that, Mr. Lett?

Mr. LETT: In view of the ruling, no. Our recollection is that the witness answered the question yesterday.

The DEPUTY VICE-CHAIRMAN: No, he did not.

Mr. GREEN: No, he did not answer it. It ended up when I asked whether he would take it into consideration.

The DEPUTY VICE-CHAIRMAN: Do you want an answer now?

Mr. GREEN: If I may.

The DEPUTY VICE-CHAIRMAN: Mr. Farrell, would you care to answer?

Mr. FARRELL: I do not care to answer that question.

The DEPUTY VICE-CHAIRMAN: That is all then. Anything else?

Mr. LETT: No: Mr. Hamilton has the other information.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee to call Mr. Hamilton?

Mr. GREEN: Before Mr. Hamilton is called, there is one matter which I think should be straightened out. Last night Mr. Lett read from the judgment of the Board of Transport Commissioners with regard to this service contract under which Anglo Canadian is paid a commission of one per cent on the gross revenue of British Columbia Telephone Company. I have checked this report of last nights proceedings, and Mr. Lett omitted quite an important part of that particular judgment—of the findings on that service contract, and I would like to read that part into the record today. He read the first six paragraphs of those findings on the service contract, and then he read the beginning of the seventh, but he did not read it all, and he did not read the eighth at all. I am going to read the seventh and eighth paragraphs. Paragraph seven reads as follows, and this is from the deputy chief commissioner's judgment:

> In my opinion, the contract is bona fide and is a means whereby the company obtains valuable patent rights, and expert service. Witness Magill admitted on cross-examination—

And this is a quotation from the witness Magill which Mr. Lett did not read.

> —that there are occasions when you need technical and expert advice . . . but I do not believe that it is necessary for the British Columbia Telephone Company to rely on any particular service organization for that service. (P. 1230, Transcript).
>
> Reference has been made to the disallowance of the payments under the contract as an expense deduction for income tax purposes. The company stated that this disallowance was due to lack of approval by this board. This may well be the case inasmuch as it is the board's understanding no such disallowance occurs with respect to the similar contract of the Bell Telephone Company. In any event it is not this Board's functions to determine the reasonableness of tolls based upon whatever rulings may be applied by other legislation.

That paragraph refers to the fact that the income tax authorities had refused to allow this one per cent as a deduction for income tax purposes.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee that we call Mr. Hamilton now?

Mr. MOTT: Mr. Chairman, before you call Mr. Hamilton, I think there was a question asked last night which we should have cleared up. I think Mr. Green last night asked a question of Mr. Lett concerning the $160,000, as to how much of that sum was received from the subsidiary company. I think Mr. Lett mentioned the amount of $3,000. Thereupon Mr. Byrne asked a question with regard to the remainder of that amount of $160,000, and what did the Anglo Canadian Company receive it for. I think that question should be answered and I wondered if Mr. Lett was going to answer it.

Mr. LETT: Mr. Chairman, I am sorry, but I did not look that up. I shall have to go through the transcript and find the exact figures. They are in the transcript which we have at the hotel.

Mr. MOTT: I think you should reply to it because there was the thought mentioned that it was for certain patents and one thing and another. But just $3,000 was paid to a subsidiary company, while the rest was paid to the Anglo Canadian Company.

Mr. MURPHY: Mr. Chairman, before you call another witness—

Mr. GREEN: The point or significance of it was that the British Columbia Telephone Company paid a certain amount to the Anglo Canadian Company. I think it was about $181,051; and the Anglo Canadian Company had no facilities for rendering this particular service. And then it came out in the evidence that the Anglo Canadian Company only paid to its parent company $3,150 for the same kind of service.

Mr. APPLEWHAITE: Mr. Chairman, was Mr. Green answering that question on behalf of the British Columbia Telephone Company?

The DEPUTY VICE-CHAIRMAN: I do not know.

Mr. MURPHY: Mr. Chairman, before we call another witness, I do not think it appears on the record yet as to the number of times that the company applied for permission to sell stock.

The DEPUTY VICE-CHAIRMAN: The number of times the company applied for permission to sell stock?

Mr. MURPHY: Yes, Mr. Chairman. Can you give us that information, Mr. Lett, and also tell us the price that was granted for the sale of the stock?

The DEPUTY VICE-CHAIRMAN: I thought we discussed that matter last night.

Mr. LETT: I think I read that information into the record yesterday.

Mr. MURPHY: I want to know the various times that you made application to sell stock.

Mr. LETT: Yes, Mr. Chairman. I have it here. Would you like me to read it again?

The DEPUTY VICE-CHAIRMAN: Not if it is already in the record.

Mr. MURPHY: I understood there was this last application. I was not here for the last meeting.

Mr. LETT: I gave the amount of preferred and common which was issued in 1948, 1950, and in 1951. There was none of either issued in 1949. And I gave the amount of each.

Mr. MURPHY: Did you give the dates when you made application for permission to sell stock, and did you state how many shares you were authorized to sell and at what price?

Mr. LETT: Those are the actual issues for which application was made, and I might say that the applications were granted.

Mr. MURPHY: Did you state the price at which the stock was to be sold?

Mr. LETT: No, I did not.

Mr. MURPHY: I wish we could have that information made available to us.

Mr. LETT: Yes, I could get that information for you.

The DEPUTY VICE-CHAIRMAN: We can get that for you later on in this session.

Mr. BYRNE: Will there be a witness who is in a position to answer questions relative to this brief which was presented to us just now? There are many questions I think which will arise out of this brief.

The DEPUTY VICE-CHAIRMAN: I believe we shall have a representative here from the city of Vanvouver.

Mr. BYRNE: This brief is an opinion of their representative but will we be in a position to ask questions of the applicants with respect to this opinion?

The DEPUTY VICE-CHAIRMAN: We shall make time available for it.

Mr. BYRNE: I have one question, Mr. Chairman.

The DEPUTY VICE-CHAIRMAN: Not at present, Mr. Byrne. We shall get to that brief later.

Mr. BYRNE: While Mr. Lett is available I want to draw attention to the judgment in the telephone rates case. I would like to have it understood that this is simply a commentary on the judgment, and not the judgment.

The DEPUTY VICE-CHAIRMAN: Shall we call Mr. Hamilton now?

Mr. GREEN: Mr. Chairman, last evening either Mr. Farrell or Mr. Lett gave us figures of 51 per cent and 49 per cent. I am not clear whether that was applicable to the percentages of common shares and preferred shares, or whether it was applicable to share capital and bonds and notes. Can we have that point cleared up now?

Mr. LETT: Mr. Chairman, the figures in question were given in evidence by Mr. Farrell and I think he can explain them now.

The DEPUTY VICE-CHAIRMAN: Very well. Mr. Farrell?

Mr. FARRELL: Mr. Chairman, that percentage was made up as of bonds to capital; the value of the capital being the market value of the capital, not the par value.

Mr. GREEN: Well, Mr. Farrell, of course, that I think would distort the whole picture because, looking into the future, you would have to consider also the market values; and if your shares sell, let us say, at $130 for a $100 share, or perhaps even at $200 for a $100 share, that fact would have to be taken into consideration in deciding what capital the company obtained. I think that the

proper way to arrive at what the percentages would be, is to take the actual figures in your balance sheet which are not around 51 per cent and 49 per cent at all.

Mr. FARRELL: What are they on the par value then?

Mr. GREEN: Well, according to your balance sheet as at December 31, 1950—

Mr. FARRELL: My figures were as of this date.

Mr. GREEN: Your figures are based on the market value, but your balance sheet is not.

Mr. FARRELL: We had to issue $5 million of stock, and that balance sheet does not take it into consideration.

Mr. GREEN: Here is the position, and Mr. Lett can check me as I give the figures.

Mr. FARRELL: The figures which I gave you were with respect to today's capital.

Mr. GREEN: Oh yes; but during any discussion of this percentage, or this method of financing by a certain percentage of bonds and a certain percentage of shares, the figures were based throughout on your balance sheet.

Mr. FARRELL: My figures were not, Mr. Green.

Mr. GREEN: I point out that your balance sheet as of December 31, 1950, shows an issued capital of $20 million; your first mortgage bonds are shown at $27,500,000; and your fifteen year 4 per cent notes are shown at $4,687,000. And those figures add up to an issued capital of $20 million as against capital raised on bonds and notes of $32,187,000; and the percentages, as I figure them, are 38·3 per cent share capital, and 61·7 per cent bonds and notes. Since then you have issued a further $5 million by way of share capital.

Mr. FARRELL: That is right.

Mr. GREEN: So with that change, with that additional $5 million in share capital, the percentages become, as I figure them, approximately 43 per cent share capital and 57 per cent bonds and notes. A good deal of our discussion on this point has been based on these percentages. I think that those are accurate figures as of today; namely, that it is approximately 43 per cent issued share capital and 57 per cent bonded indebtedness. And of course, if you should next issue bonds or notes rather than new shares, this percentage of bonded indebtednses would go that much higher.

Mr. LETT: Mr. Chairman, may I comment on this?

The DEPUTY VICE-CHAIRMAN: Yes.

Mr. LETT: The honourable member suggests that the evidence given by Mr. Farrell was distorted.

Mr. GREEN: I did not say that it was distorted. I said that it distorted the picture.

Mr. LETT: You said that it distorted the picture. So I trust there was no suggestion that there was any intentional distortion of the figures.

Mr. GREEN: Oh, no.

Mr. LETT: If the honourable member will ask for the percentage that he wants, based on the capital at the date that he wants and not on the prior value of the market, we will be happy to give him those figures.

But if I understood Mr. Farrell's answer correctly, it was given to your question which was: What is the ratio? And he gave it as he calculated it. But if what you wanted was an answer as of the date of December 31, 1950, the question should have been stated that way in fairness to the witness.

Mr. MURPHY: Mr. Chairman, I think that both sets of figures should be given.

Mr. LETT: Prior to that we had given the shares and securities outstanding as of May 31, 1951; and that is what Mr. Farrell presumed that Mr. Green was asking for.

Mr. GREEN: Mr. Farrell's figures were based on market value and not on the par value; whereas all the other figures you submitted before the Board of Transport Commissioners were based on the par value.

The DEPUTY VICE-CHAIRMAN: We have both sets of figures. I think they have been very thoroughly examined and that there will be no doubt in the evidence as to which figures are intended. Is it now the wish of the committee that we call Mr. Hamilton?

Mr. FULTON: Mr. Chairman, may I ask a question of Mr. Farrell? Last night he gave to the committee the actual expenditures for the years 1949 and 1950 so that we might compare them with their estimates and thereby assess the estimates of projected expenditures. Can you now give us the estimate of capital expenditures for the years 1949 and 1950, that is, the estimated expenditures rather than the actual?

Mr. GOODE: Mr. Chairman, may I again stress what I suggested last night. Mr. Green spent some little time in making a statement and at the end of his long statement he asked a question. Did you not rule last night that questions were to be directed to the witnesses at this time and that Mr. Green could make his comments at some other time? Mr. Green took about 15 minutes to ask a question which could have been asked in about 1¼ minutes.

Mr. FULTON: I have asked, Mr. Chairman, if we could have an estimate given of the expenditures in 1949 and 1950?

Mr. FARRELL: I thought that I was through as a witness, so I have not got my papers with me today; but I could get that information for you.

Mr. FULTON: Thank you, Mr. Farrell.

Mr. ROONEY: I cannot understand what value there would be in a comparison of market values on any statement. The only value I could realize a figure on would be the book value, in order to base any constructive figures on it and come to an opinion. I understand that Mr. Green has asked for both types of figures, that is, the book and the market values. But the market values mean nothing because you cannot go by any market value on anything today.

The DEPUTY VICE-CHAIRMAN: Mr. Rooney, I think we have both sets of figures on the record explained in regard to market value and book value.

Mr. BYRNE: Before Mr. Lett leaves the stand, will there be anyone in a position to answer questions in relation to this document that has been presented —even though it is a document of opinions and not of facts.

The DEPUTY VICE-CHAIRMAN: I think we should have a discussion on it later, yes.

Mr. BYRNE: It is presented now and it goes on the record as of this date, but some of the opinions may be fallacious—we do not know. They will appear as statements and there are some questions I would like to ask at the present time.

The DEPUTY VICE-CHAIRMAN: It would be my intention to go on with the witnesses this afternoon and take up the brief later.

Mr. APPLEWHAITE: Can we recall the witnesses if desired?

The DEPUTY VICE-CHAIRMAN: That would be the intention. Now, can we call Mr. Hamilton?

Agreed.

I believe it is Mr. Hamilton's intention to make a short statement about some questions that have been asked, and then there will be an opportunity for further questioning when he is finished.

Mr. James Hamilton, Senior Vice-President, British Columbia Telephone Company, called:

The WITNESS: I believe during Mr. Farrell's testimony or appearance as a witness he was asked about the comparison of rates approved by the Board of Transport Commissioners in Ontario and Quebec—as compared with British Columbia. Those are the two organizations that come under the Board. Mr. Farrell said we would be pleased to supply that and I have the information here. I have a few copies.

The DEPUTY VICE-CHAIRMAN: Are there enough to go around the committee?

The WITNESS: I believe there will be and if not I can get more.

Mr. LETT: If it is the wish of the committee we could file these. The member did ask for a comparison between the rates for the Bell Telephone Company and the British Columbia Telephone Company.

The DEPUTY VICE-CHAIRMAN: I think it was Mr. Fulton who asked the question.

Mr. FULTON: No, it was either Mr. Hodgson or Mr. Ferguson.

The WITNESS: I might say these are extracted from the judgments of the Board approving these schedules. They are exact copies.

The second item I have here concerns a question raised by Mr. MacInnis. He mentioned a document containing certain names that have ben submitted, and I believe he did say he understood they had been submitted to the company. I got in touch with our department in Vancouver which handles that and we can find no record of ever having received that document.

I will be very pleased indeed to take that petition and advise Mr. MacInnis, in connection with every name, what treatment we have given and what we have advised the people in regard to their applications.

I believe they will all have been informed as to the nearest possible date on which we will be able to give service under the plans we have for general capital expenditure, while trying to apportion the facilities and the material available over the area we have got to serve. I believe that is fairly well shown in one of the statements that was produced here for the information of the members.

If it is satisfactory to Mr. MacInnis I will be very pleased to see that he is furnished with full information as soon as I get that list.

Mr. MACINNIS: That will be satisfactory. My information is, and I read it from the letter I had, that one copy of the petition was sent to the head office in British Columbia.

The WITNESS: It may have been sent there but we can find no trace of it, sir.

During the course of Mr. Farrell's evidence mention was made of contracts and I believe he referred to me as being able to answer those questions. All I can say in regard to contracts is that at the hearing before the Board of Transport Commissioners we gave every evidence that was required and submitted full particulars. After that had been submitted the Board made the ruling. In connection with one contract they made certain disallowances and we have acceded to the ruling of the Board and have negotiated and entered into a new

contract giving full effect to the Board's ruling. The other contracts are similar. All other contracts, as submitted and dealt with before the Board, have been approved by the Board and are associated with the judgment.

Now, the fourth item was in connection with a question asked by Mr. Fulton.

The DEPUTY VICE-CHAIRMAN: Before we leave these rates, is it the pleasure of the committee to have these tables entered as appendices in the report of our proceedings?

Agreed.

(See Appendices D and D-1.)

Mr. LAING: These are current rates in both instances?

The WITNESS: These are rates extracted from the latest judgment on file and in our operation today, sir.

The DEPUTY VICE-CHAIRMAN: All right, let us go ahead.

The WITNESS: In discussing the matters that were submitted by the company, and information used by the sponsor of this application in the Senate and also in the House, certain figures were submitted as being some evidence of the necessity for the increase in capital which the company is applying for. I might say that these figures and estimates, which are modest, were prepared last fall. You will appreciate that there was a great deal of work involved and they had to be accumulated over a period. I think the date on the information was January 12th.

Mr. MURPHY: Are you speaking of these two statements?

The WITNESS: No, I was speaking of the matters referred to when Mr. Farrell was giving evidence in answer to questions asked by Mr. Fulton.

Now, I have been able to get the further information asked for. Mr. Fulton asked whether I could split our proposed expenditures instead of giving it for the company as a whole. He asked whether I could readily split it into the divisions as shown on another statement here which shows the districts referred to.

Mr. FULTON: Yes.

The WITNESS: I got in touch with the office in Vancouver and, fortunately, our data was in such shape that we could get this out and I think it is fairly reasonably accurate. I would pass that along to Mr. Fulton.

The DEPUTY VICE-CHAIRMAN: It will be produced for the committee itself?

The WITNESS: Yes, but I would like to ask if it is in the form Mr. Fulton would like. I can probably read this as I have not sufficient copies to go around. The answer to the first question raised by Mr. Fulton—and I suppose he had particularly in mind the Kamloops district—is that the tabulation shows that we have present commitments, estimates approved and under way with some nearing completion, of $133,775 at the moment. We have a proposed program of $89,000 for the balance of the year and on most of it—I would say probably 100 per cent of it—firm orders have been placed. Our plans call for commitments this fall or early next year in the amount of $147,000. Up to the end of 1952 the total amounts in round figures to $370,000. Does that answer your question, Mr. Fulton?

Mr. FULTON: Yes, Mr. Hamilton, it answers the question in the form in which I asked it. There will be certain matters arising out of the information which I would like to follow up when you have completed your statement. Could I suggest, Mr. Chairman, that a copy of that be filed so it will be available,

because Mr. Hamilton's statement answers my question as to the proposed expenditures by areas, and I know that other members of the committee will be interested in that information.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee to accept this table as Appendix E?

Agreed.

The WITNESS: You will notice that I did not go beyond 1952, because it is quite a chore.

When Mr. Farrell was giving you our commitments for 1951 and estimates for 1952 someone asked how we know that we will need approximately $10 million to $12 million a year for the next four or five years thereafter. I have given you information on the number of unfilled applications for telephone service but there are some other material factors which have not been taken into consideration in the estimates here, and I will deal with them.

During the war and after, when equipment was in short supply, the company's policy, in line with that of all other telephone companies in Canada and in the United States, was to give some kind of service to as many people as possible. We gave them telephone service of some kind. The result was and is overcrowding of lines and service which was not up to our pre-war standard. We felt that policy was sound and in the best interests of people who wanted some kind of telephone service under these particularly difficult conditions. People have put up with that class of service but they are demanding and are entitled to a better class of service, and I might add here that I know of no telephone company that is not doing every last thing they can to meet those demands, scraping and getting their materials and personnel to meet those demands. Now, in that regard Mr. Farrell, I think, and counsel, Mr. Lett, have drawn to the attention of this committee the unprecedented growth of population in these areas which proportionately demands additional communication facilities. Now, in addition to the unfilled applications, we have at least at this time 30,000 subscribers who are waiting to take an improved service as soon as we are able to provide it, that is people on a two-party or a multi-party line and other types of service. As I said, we endeavoured to spread out as far as we could, to give some kind of a service to as many people as we could with the facilities we had available to us. Some day we have to take care of that and I wish it was tomorrow. Now, to upgrade that service and also—to put it in telephone parlance—to provide the necessary plant margins, you gentlemen can realize it is necessary to be on your toes, as you would say, so that the average subscriber in a reasonable location within an exchange area such as Mr. MacInnis referred to here in Burnaby, can be given service within a reasonable time. I might say that in 1939, the year before the war, and for several years before the war that our average time to complete an installation from the moment the request came in to the moment it was completed was five days, and that is good service in any man's language.

Mr. FULTON: What is it now, about five years under the present circumstances?

The WITNESS: No, it is not. We might have certain individuals in certain particular locations who may have been waiting two or three years but they are very few. The policy of the company is whenever these materials are available to take care of them on the first-come-first-served principle as closely as we can follow it, always taking into consideration to give a preference to business, to doctors, to civil service departments, to cases of sickness particularly, and to the cases of individuals incapacitated, blind or otherwise. We go around and find out what the condition is and these get a high priority. I think that is only fair, and I might say that that type of priority pretty well follows what was laid

down by this government during the war years in the matter of priorities. Now, that again brings up the question that there is another form of service we have to take care of and that is our long distance service. In the general economy and demands of the public that has developed at a tremendous rate. With the tremendous development that has taken place and that we see ahead of us in British Columbia you gentlemen can visualize what is going to be involved in taking care of these major developments in what has hitherto been known as the hinterland of British Columbia.

Mr. MacDougall: Hear, hear.

The Witness: I could say a great deal on this but I think the members from British Columbia probably have better knowledge of what we are faced with in the way of meeting the demands to take care of the industrial development. Every week there come announcements of some new industry or some new element that has come in there and that is going to create employment and bring a tremendous additional population into the province. Had these come in ten years ago, I think we would have gone out and had a public holiday declared.

In connection with our long distance service I would just make one or two little comparisons which probably will convey to you gentlemen, what I mean. In 1939, our official records show that 92·9 per cent of requests for long distance telephone calls were completed by the company without the subscriber being required to take the telephone from his ear. That is C.L.R. service. That is good service in anybody's language. Today, that has dropped down to 86·6 per cent which is about what we are doing or have been doing in the last few months. Now, that might only show a difference of about six or seven per cent but considering the volume of calls and so forth it is a big item, and we are struggling as fast as we can to take care of that. I have no doubt that many of the members are aware that we have a big program going on in order to obviate interference. Take, for example, the Hope-Princeton highway. We have undertaken to build a new toll line over there so that we can get better service in and out of British Columbia. There are other routes coming. And that will call for additional sums of money. Now, I am going to make a statement and I will say this that to take care of our held order situation, not our held order situation but to take care of our upgrading, to satisfy the 30,000 or 40,000 people who want a better class of service and to put in the plant margins to permit us to meet their reasonable demands fast, I would say a very conservative figure, not included in any of these figures, would amount to not less than $12 million. In order to check this I called our chief engineer and the gentlemen who are competent to give me an opinion on this, and that is their statement, and it is not one that was just picked out of the air, but is based on a fairly good idea of day to day knowledge of what is going on there. Now, if I were asked a question—I probably should not ask myself a question, but I am and I am going to answer it.

Mr. Fulton: You may as well start, there are probably going to be lots of others.

The Witness: Mr. Farrell gave reasons yesterday as to why our estimate of $100 million for ten years would be cut back and we would use that up in seven or eight years.

Mr. Green: I think it was Mr. Lett who said that.

The Deputy Vice-Chairman: I think it was Mr. Farrell.

The Witness: Now, my information is that Mr. Farrell's estimate of the time it will take to use that up is modest, because of the expansion the company is going to be called on to make.

Mr. Laing: You think it will take less?

The Witness: It will take less time to use it. Now, there is one other thing that I will touch on. You all know that there are very extensive plans

being worked on by the Department of National Defence. I am not at liberty to mention anything about that in any detail, but I do know and I am sure you gentlemen know probably more about it than I do, that is the importance of communications in British Columbia—and on top of all this I have requirements handed to me by the Department of National Defence that will add several millions to those requirements to provide facilities in this area that we have to provide for the government on terms to be worked out with the proper departments of government.

Mr. GOODE: Mr. Hamilton, before you go on; that work naturally takes priority over domestic service, does it not?

The WITNESS: Very high priority. It is number one on our list. Now, from what I have said and what has been put forward here you will realize we will have very very heavy expenditures. I do not know that there is anything more that I can add. That is a general explanation.

Mr. HERRIDGE: Mr. Chairman, this bill is of very great interest to the people I represent because I am sure Mr. Hamilton will realize that the telephone service in the type of country we live in is very essential and very important. I might say they have taken a very great interest in two types of private bills since I came to this House, the first are the various pipeline bills and second, his British Columbia Telephone bill. I may say when the bill was introduced into the House I wrote various organizations throughout my constituency and asked for their opinions and their suggestions and their complaints and I received a good number of suggestions and a good number of complaints. These people have asked me to take this opportunity today to present certain of these complaints to the witness, and to ask him certain questions in connection with those complaints. Now, Mr. Chairman, I presume Mr. Hamilton knows the Kootenay area fairly well as the result of visiting it frequently. Will Mr. Hamilton say he would agree with me it is very necessary in Canada this year to increase production for the economic welfare of the Canadian people? Has Mr. Hamilton heard that the greatest per capita production in Canada is in the Kootenay? If we take the total production of manufacturing firms in east and west Kootenay and divide by the population, we have the greatest per capita production there is today. There is a large number of mines, there is lumbering and agriculture. In that connection, Mr. Hamilton would admit that his company has a great responsibility as a telephone company to provide the best service possible to that area. I presume Mr. Hamilton's nods mean "yes".

Mr. HAMILTON: I nodded when he mentioned the importance of communications in the economic life of the province. We are certainly seized of that.

By Mr. Herridge:

Q. Mr. Hamilton, has your company any complaints from the city of Trail, or requests for the installation of a dial system?—A. Yes.

Q. You are very well aware of the great importance of that industry to our defence at this time, and to the economy as a whole. Could you tell me how many unfilled applications there were for telephone installations at the end of last year, December 31, 1950, in Trail?—A. In Trail, yes, sir: There were 206 unfilled applications in Trail as of December 31, 1950, out of total stations in operation at that time of 4,328: a little over 5 per cent, but I think Trail has been fairly well taken care of.

Q. What do you intend to do with regard to requests of the people of Trail which were fairly well indicated in an editorial in the Trail *Times* of recent date? What do you intend to do in regard to applications for installation of dial telephones, and when will you be able to complete such a program?—A. Trail is very definitely on our program for automization as and when the

equipment becomes available, but it is not number one, two, or three priority from a standpoint of held orders or inability to give reasonable service with the facilities we have now as against some other areas, and it will certainly be given its place in the picture as fast as we possibly can.

Q. Thank you. Mr. Hamilton, now I want to refer to a letter I received from the Rossland Board of Trade: I might say most of my communications came from Boards of Trade, which are accepted as responsible bodies of business men and farmers, and so on. Rossland is a residential city with a great history in mining; a residential city for the Consolidated Mining Company employees, and there are still large reserves of gold ore in the mountains near untouched. I have received this letter from the secretary: "However, at last night's meeting the matter was brought up and I can give you the suggestions as handed to me. First of all, I might say that the Rossland Board has been dealing with B.C. Telephone Co. officials during the past year complaining about the service here in Rossland and at that time we were given to understand that if this proposed bill went through for authorized capital, the Rossland service would be on the program for an improved system. Naturally, then, we are in favour of the proposed bill."

The suggestions were as follows:

(1) Installation of a new up to date system in Rossland as we have been given to understand that the present party line system is carrying its maximum load and cannot be extended.

(2) That if improvements are contemplated, consideration be given to the installation of a modern dial phone system.

and then they go on thanking me for my efforts, and so on.

Q. Mr. Hamilton, what can your company do in connection with those suggestions on the part of the Rossland Board of Trade?—A. Before I answer that, I think I would like to give this committee some of the information in regard to what we have done for Rossland.

Mr. FULTON: Hear, hear.

The WITNESS: At the end of the war in 1945 Rossland had 457 stations in service.

Mr. FULTON: That is a technical word: by "stations", does that mean a subscriber?

The WITNESS: It means a telephone instrument; an outlet anyone can talk from or to.

Rossland at the end of the war, on May 31, 1945, had 457 stations in operation. On the 31st of December it had 1,021, a gain in stations since the end of the war that we have provided for of 564.

Mr. FULTON: The 31st of December what year?

The WITNESS: 1950. At the end of December 1950 we had 25 unfilled applications for service in Rossland. Now, we appreciate that Rossland has a need of telephone service, but there are other areas that have harder or tougher situations than Rossland at the moment, but it is our definite intention as soon as we possibly can—I might say I can give you the same answer for Rossland as I gave you for Trail—to give it the attention it deserves and requires, as and when we can.

Mr. HERRIDGE: Mr. Chairman, I would like to point out that Rossland people are above the average of Canadians in their progressive spirit, and no doubt want to be as modern as possible quickly.

The WITNESS: They say a creaky wheel always gets first grease.

Mr. BYRNE: Mr. Chairman, I do not think we should have all this in this committee; we got this last week in the House. I thought this was a question period. If we all do this we are going to be here a month. I have situations too, and I could bring hundreds of them.

Mr. HERRIDGE: Mr. Chairman, I have been sitting here for three meetings of this committee and listening to other members ask questions with respect to certain aspects of this bill on which I am not so well informed, but I am well informed about the complaints of my constituents, and I intend to present them here.

Mr. GOODE: Mr. Herridge may intend to present a lot of things, Mr. Chairman, but you ruled last night that this was a question period, and in fairness to Mr. Green, you stopped him from making certain statements. I think Mr. Herridge should enjoy the same privilege.

The DEPUTY VICE-CHAIRMAN: I think Mr. Herridge is in order.

Mr. GREEN: Mr. Herridge is clearly in order.

Mr. HERRIDGE: I have been asked by these organizations to ask these questions at this committee's meetings, and I intend to do just that.

The DEPUTY VICE-CHAIRMAN: Go ahead.

By Mr. Herridge:

Q. I am going to try to be as brief as possible. Has the company received a number of requests from the city of Nelson in regard to the dial telephone system?—A. Yes, I am sure we have. We have had them from mostly every other place else.

Q. But what will be done if the company obtains the $50 million increase? You realize the city of Nelson is the commercial centre of my constituency, from which all telephone lines radiate.—A. Because of the extreme difficulty we are experiencing today in getting operating personnel—that is, operators—we have to move, in self preservation, to automatic to take care of that, because the offers for employment of young ladies in British Columbia have widened out to the point that we have got severe competition, and that is one of our service difficulties today—our ability to secure competent operating help, and any of you gentlemen who are in business and most of you are—can appreciate the difficulty in British Columbia today from the point of view of getting help, and competent help, almost in any line of endeavour; mining, in the woods—everywhere.

Q. What would be the number of unfilled applications at the end of the year, December 31, 1950, for Nelson.—A. We had 45 out of a total stations in operation at the end of December of 3,191.

Q. That is very good. Mr. Chairman, I do want to say that the people of Castlegar appreciate very much the fact that they have recently had an automatic dial system installed, and the only complaint I have from that area is that in Castlegar there are a considerable number of unfilled applications for telephones. Could Mr. Hamilton give me the number?—A. Castlegar, we engineered the necessary facilities to take care of the Castlegar situation some two or three years ago, and very recently we cut that into service, but by the time we cut it into service Castlegar had grown to almost three times what it was when we made the original study and placed the original order. We are now endeavouring to get the additional equipment in line with the rest of our operations to take care of 305 unfilled orders in Castlegar.

Q. I think it is the fastest growing small community in British Columbia.—A. Fastest? It is running so hard—

Q. Well, it is phenomenal.—A. It is.

Mr. HERRIDGE: Mr. Chairman, I do want to bring to the witness' attention a situation I think he knows of in connection with the Salmo Telephone System. I have had a recent communication from the Board of Trade asking me to bring it to the attention of the officials again. Salmo has produced a great deal of wealth: There is the Hudson Bay mine and several others, and the Federal government has recently purchased the Emerald mine, and the Emerald mine will be the first tungsten producer in Canada to re-open since the war and will be a major supplier for the United States, Britain and Canada. So you can see the importance of that mining community, and in addition to that, the Central Mortgage and Housing Company, I am informed, are going to build a large number of houses in Salmo, and in the near future we are going to find a similar situation in Salmo as you experienced in Castlegar. I have a letter here from the secretary of the Salmo Board of Trade, from which I will read a couple of paragraphs:

> Please be advised that this Board is not at all satisfied with the telephone service now being provided in the Salmo area. At present, the B.C. Telephone Company provides line service to the exchange in the Salmo Post Office and to the F. R. Rotter Lumber Company, but does not operate a service in the area itself. This service is managed on an individual proprietor basis by Mr. L. H. Lund, the present postmaster. This Board has set up a special committee to go into the whole problem of improving the telephone service in the area.
>
> On numerous occasions in the past, the officials of the B.C. Telephone Company at Nelson have been contacted with a view to interesting them in providing a service for this area. The present holder of the phone franchise, Mr. Lund, has invited the company to make him an offer for his exchange, lines and equipment. This the company has refused to do, explaining that the equipment is valueless to them and that therefore they cannot reasonably pay him anything for it.
>
> This Board takes the position that, as a public utility, the B.C. Telephone Company has an obligation to provide an improved phone service in this area, regardless of whether or not they can expect a profit from operations in the region. Their profits from operations in larger centres would assuredly take care of any operating deficit in this area.

Then they go on to say that they want me to bring this to the attention of the committee and: "We feel that the expansion going on in this area justifies consideration of such a step by the company in any event".

I am sure, Mr. Chairman, that the witness is well acquainted with this small mining village; and I would like him to inform us as to what his company will do, if it receives this $50 million expansion in capital, in the way of providing modern telephone service to that very important area?

The WITNESS: The Salmo area for many years has been provided with service through a little local company there, with which we have not interfered. And up until this very recent development that is being started in the Salmo area, the facilities provided there have been reasonably adequate for its development.

But with this new spurt that is only one small part of what is happening throughout the whole of the province, we would certainly be glad to give the consideration to it which it should have in line with what we have to do throughout the rest of the province.

I realize that the Consolidated Mining and Smelting Company has just announced an expenditure of several million dollars in the Salmo area to develop

some large mining properties there. And there is the fact that a tungsten mine there which belongs to the government is to be revived, so that even another operation is under way.

These are only very recent developments. I think something has been said about the Lardo district. The Lardo district has become alive after being quiet for many years. I think you would agree with that statement, Mr. Herridge.

Mr. HERRIDGE: Yes, sir.

The WITNESS: And you mentioned something about communications in that area. I would be very glad to go up through that area and inspect them. I realize the importance of mining development in British Columbia economy, and I shall give it every possible consideration.

Mr. HERRIDGE: I am very pleased to hear Mr. Hamilton say that, because the Lardo area is one which contains about 16,000 acres of land suitable for settlement and some 500 million to 600 million feet of timber. But development there has been retarded because of the lack of communications. The provincial government intends to build a road from Kaslo to Lardo. All that is required now is a telephone service.

Mr. LAING: How many telephones are there at Salmo?

The DEPUTY VICE-CHAIRMAN: There is a question with respect to how many telephones there are at Salmo, Mr. Hamilton.

The WITNESS: We have only a toll line into Salmo; there are two or three toll stations in there.

Mr. LAING: How many?

The WITNESS: We do not operate in Salmo. Those are little local private stations and we are connected with them by toll line.

Mr. LAING: Yes. The postmaster runs it in his spare time.

The WITNESS: Yes sir.

By Mr. Herridge:

Q. Referring again to the Lardo situation, I have mentioned the fact that a road is being built. There was a telegraph line running from Kaslo to Gerard. It was turned over to the provincial government in 1941, but they have operated it in only a very half-hearted way. However it is a very necessary development. I took the matter up with the Minister of Transport, and while technical assistance has been tendered, there has been no financial assistance given. Is it not the responsibility of your company to provide a telephone service for that Lardo area?—A. We would certainly meet our obligations in any part of the province where development warranted, as we have done in the past and up to 1939. When we were able to meet those situations, we certainly did it.

Q. I am very pleased to hear that.—A. I just want to say thank you for boosting us, and I think you should add another $50 million to our application

Q. I thought that was going to be the result of my questioning. Some of the eastern members were snickering when mention was made of the Lardo area. But in fact it is as big as some of the counties in Ontario; so I think I am perfectly justified in bringing to your attention the possibilities in that district.

I have only another couple of cases to cite. The hon. member for Vancouver South apparently snickers at the scarcity of the population in that district. But I think the result of their work greatly exceeds that of the people he represents, per capita.

Now I come to the question of the Slocan area which recently boomed as did other places. It is a very important mining area. Some of the mines were closed down for some years because of the price of silver. But now they

are booming again. I may say that the local Boards of Trade are largely composed of mine operating officials and local businessmen and they are very concerned about the telephone service there.

I wish to read an extract from a letter I received from the Slocan district Board of Trade. It is signed by N. F. Brookes, Secretary, and the extract I shall read is as follows:

> We have been in correspondence recently with the B.C. Telephone Co. requesting a regular 24-hour service in the New Denver exchange, but as yet have received no satisfactory reply. There is also a pressing need for more lines to Silverton, the present 36 phones in that thriving base-metal mining community being served by only 6 multi-party lines. The number of telephones in Slocan City should also be increased, but we are not prepared at this time to recommend what form the improvement to service in that centre should take.
>
> This district has received excellent service and co-operation from the company's district agent at New Denver, in spite of the fact that her work has been made most difficult due to the overcrowding of lines, shortage of adequate help due to the fact that the present emergency service set-up precludes a regular shift schedule being followed, etc. As a matter of fact, this lady is now under medical care at the coast, following a nervous breakdown.
>
> We certainly hope that something can be done to bring the telephone service here into line with present-day business demands, as we feel that this is one part of the province where the increase in demand for telephones approximates the increase in capitalization being requested by the telephone company.

Mr. FULTON: The whole $50 million?

Mr. HERRIDGE: And then they wired me as follows:

> Re Telephone Company memorandum we are willing to forego 24 hour service until New Denver exchange reaches usual size for such service. Four private lines to Silverton urgently needed to serve two mining companys and two large businesses. This should release sufficient party line outlets to accommodate present demand. Petition recently circulated in Slocan City by this Board of Trade bears signatures of 46 householders and six businesses. . . .

And then they go on to urge for some improvement in that area as a whole.

Now, Mr. Chairman, I would like to ask Mr. Hamilton what he thinks his company can do, if they receive this additional capital, to improve the telephone service in the Slocan area?

The WITNESS: I take it that New Denver is the place you are referring to. It had 77 telephones in 1945; and it has 166 telephones today. We have taken care of 89 installations as at the end of December, and we have 5 held. Therefore I do not think in a situation such as that, at this particular time and having regard to the operator shortage, we should be called on to give a full round the clock 24 hour service in that area. But we have made provision in the New Denver area for a longer service of an extra hour or two at night. In that area normally there would not be more than one or two calls all night, and I think the same situation would apply to a number of these places.

We too have received requests from these Boards of Trade to do something about the service down there because of the growth and development of the country, asking us to enlarge the service because of the shorter hours which are applicable to these small stations. But that is a situation which is common to almost every operating telephone company across Canada.

Mr. LAING: Does the company make any money out of these remote stations?

The WITNESS: Do not ask me to give away state secrets. We do not keep accounts by offices; but I can say there are places in such areas as that which do not pack their load. But that would not be the case with respect to New Denver which is a little compact place, and there are no telephone lines beyond a mile or so from the centre. So it probably would be carrying its load. However, there are other places where the population is scattered over a wider area and they would not carry their load. Does that answer your question?

Mr. HERRIDGE: I would like to refer to one more community, Nakusp, my own community where I went to school in the early days. So naturally I am very interested in it. This village and district has a population of about 1,000 people; yet those 1,000 people last year produced 562 carloads of lumber and over 600 carloads of cedar poles, in addition to considerable agricultural production, and quite a considerable amount of other forest production. As again I stress there is a considerable agricultural production, fruit production, and production of forest products. You can see that it is an important producing community.

Mr. LAING: My people would produce that much in a day.

Mr. HERRIDGE: To indicate its permanence, according to the best estimates of the cruisers of the Provincial Forestry Branch, this area can produce an annual crop of 40 million feet of lumber. So you can see that it is a permanent community which will rapidly expand. In addition to that, there are interested parties out looking for a location in that area for the building of a $22 million pulp mill; and if they decide to build it, of course there will be very large industrial activity.

Mr. MACDONALD: Mr. Chairman, are we all to be given an opportunity to talk about the beauties of our constituencies and their products?

Mr. HERRIDGE: I am just placing the facts before the committee. Your trouble is that you have nothing to talk about. I have received this letter from the Board of Trade.

> Dear Mr. Herridge:
>
> In reply to your letter *re* the B.C. Telephone Company which came to hand last week, would advise you that at our regular meeting held on Tuesday 20th, I was asked to give you the following points for consideration in the matter:
>
> 1. 24 hour service.
> 2. Individual lines in town, or at least for business premises.
> 3. Fewer 'phones on existing party lines.
>
> These are matters which we have been tackling for some time but we just get promises and no action.
>
> Hoping something can be done in this direction in the near future.
>
> Yours truly.

I might say, before the witness answers, in fairness to the company, that there has been a considerable improvement in the telephone service there but there has been complaint because there is not a twenty-four hour service. We have to go and wake somebody up in a private house. There are often urgent calls for Nelson and other points—hospital calls and so forth.

I would like Mr. Hamilton to tell me what the company intends to do to improve the situation if it receives the $50 million?—A. I believe I dealt with spreading out the service as being company policy, but it might be of interest to

know that at the end of the war the total number of telephones in service in that portion of Nakusp was 42. When the war started there were only 36. At the end of December we were giving service to 183 stations and we supplied that demand because of the growth you have portrayed in Nakusp—by installing 141 stations since the end of the war. According to our records at the end of December 1950 we had only 7 held applications. I do not think it is reasonable to ask, with that number of stations, for full round-the-clock service. I do not know of any place else where it is done. If, as and when we become automatic you will get the service. This is one place again in which, in due course and in order of priority as these things become available, we will install those services.

Q. Just one final question. What is the policy of your company in regard to making decisions when you receive petitions from responsible bodies urging an improvement in service? Does a senior official visit the district and make a decision or is the decision left to the local officials?—A. The decisions are left to the senior management, of course.

Q. For instance, in the case of the interior, would you or some senior official be travelling through the district at times meeting the local people and making recommendations to your directors with respect to improvements?—A. The operating officials who report to me are going through the province every day. There are some of them in the districts every day and I personally visit at least once or twice a year practically every area in which we operate. As far as time will allow I contact the local people, get in touch with the local public people, boards of trade, councils, and so forth, to discuss these matters.

I think there are gentlemen here who have been in civic life who know I do that. I am looking at Mr. Mott, the ex-mayor of New Westminster. I think he can verify my statement.

Q. If you should be in the Lardo Valley, will you contact the Lardo Valley Board of Trade?—A. I will contact you first.

By Mr. Jones:

Q. May I ask a brief question about Osoyoos. Have you a record there of the number of telephones still to be installed—the requests made?—A. Did you say Osoyoos?

Q. Yes, or south of Oliver to the border.—A. In Osoyoos we have just recently installed an automatic exchange, I think, and the number of stations in service at the end of December 1950 was 270. I do not see any record of held applications.

Q. How many applications?—A. I have no record of held applications at Osoyoos.

Q. Have you the figures for Princeton as well?—A. Yes. At Princeton we have no held orders. Princeton had 180 stations at the end of the war; it has now 400 stations and the growth there is that we have taken care of 220 stations. It was one of the lucky places where we just happened to have facilities because it had gone down and then come back.

Q. I am only asking for information, I have actually had very few complaints.—A. These figures are available—and I think most members have them. There are copies here.

Q. In fairness to the company, the complaints I have had I have taken up with the man in Kamloops who attended them very quickly. There is one other thing, and whether it is possible I do not know. The telephone books for Osoyoos are issued in Kamloops. In Kamloops you get the Osoyoos telephones, but Kamloops is 150 miles from Osoyoos, whereas Penticton is only 40 miles away. I know that Penticton is on another service but I was wondering if the two companies could not get together and try to work Osoyoos, Oliver, and Penticton into one book?—A. A combined directory?

Q. It is useless as it is.—A. There may be some sound commercial reasons and operating reasons why it is not feasible but I will certainly look into it.

Q. It would help the company and it definitely would help the people in the south end of the valley.—A. If you will drop me a note when I get back and when we are away from this atmosphere here—

Mr. MacInnis: What is wrong with this atmosphere?

The Witness: It is too hot.

Mr. Mott: I would like to ask Mr. Hamilton some questions. I have asked him many questions on other occasions but this is a good time to ask him some more.

I think we all realize this expansion program that you have—from looking at this chart and also comparing the rates of growth of the population, especially in the lower mainland, besides in other places in British Columbia—is going to take considerable money. I want first to ask you a question in regard to the automatic system. You know we have been pressing for years from New Westminster for an automatic system. I fully agree with you in your answer to the question asked by my friend about automatic systems. We are right alongside the nerve centre of communications, twelve miles away, but we have not been able to get that system. There is no doubt it is in the program to extend the automatic system throughout Burnaby, New Westminster, and the thickly populated areas of the communications centre which is Vancouver. In this $50 million is there an allowance so that we may expect in time, before this $50 million is all spent, to have the automatic system in those particular areas? —A. If you will not pin me down to absolute figures I will say there is somewhere between $4½ million and $5 million for the improvement and replacement of the existing services in the New Westminster area. I think it was when you were in office in New Westminster, just shortly before the war, that we were going to proceed to take it up and we purchased the necessary property—the site—for the new automatic exchange. That is one item that is very definitely there. I would say that has about No. 2 priority on the list of exchanges for reconversion.

Q. I am very glad to hear you say that, Mr. Hamilton. With all due deference to what Mr. Green says in respect of this bond issue or where the profits are going, the main complaints I get throughout my part of the Fraser Valley and also from New Westminster, concern the service and the requirements at the present time for telephones. Every time I go home there are calls asking that even for business they should try to get telephones in. I speak of places they should try to get telephones in. I speak of places such as White Rock, Crescent Beach and those places.—A. Well, since the end of the war we put in a complete new office at Newton.

Q. Yes?—A. The Cloverdale and Surrey area covers a very substantial part of the province from the international boundary to within a short distance of New Westminster. We put in a new office to take care of those requirements in the Newton area, but because of the tremendous growth it is entirely inadequate today.

We have on order and we are proceeding to install completely automatic service at Cloverdale. Cloverdale is probably one of the most acute spots because all those elements have come to the point where they impinge and we are just frustrated and cannot do another thing. It is an old magneto board, but up until 1939 it admirably served the demands of the Cloverdale area. At White Rock, some years ago, we did put in a complete automatic exchange connecting Cloverdale and Newton but the same applies there. White Rock has gone crazy, as far as growth is concerned. I do not know where they come

from, but it just seems they come from every place. However, we have on order now the necessary additional facilities to at least begin to take care of the demands.

Q. That particular area has grown to 10,000.—A. Well, you have the figures and I do not need to quote them.

Q. I wish to ask you another question. I notice in one of the leading papers that of late you have spent $62,000 or $85,000 in Yarrow which is in the Fraser Valley member's constituency. That was for a new automatic exchange, and also I think $85,000, or $65,000 will be spent in Chilliwack. Are those fully automatic systems?—A. Yes, that is to take care of the growth.

Mr. GREEN: That is not under the British Columbia Telephone Company? —A. No, but I have to do with the operation of it. Chilliwack has become a very, very fast growing area. As we have those conditions there, we are apportioning out the available equipment throughout the province irrespective of which company is operating.

By Mr. Mott:

Q. I suppose if this $50 million is granted it means faster movement in getting these services through, and continued employment for the members of your company. Is that not so?—A. Yes.

Mr. MACDOUGALL: You meant $50 million, not $15 million?

Mr. FULTON: He said $50 million.

By Mr. Mott:

Q. In my constituency there are a considerable number of your employees and I am interested in knowing whether the plans you have for extension in that particular area indicate that employment will be provided for some time to come. Can you give me any idea, with your knowledge, how long this extra $50 million will carry you through?—A. I think I just remarked on that a few moments ago when Mr. Farrell had said that instead of taking ten years to use the full $50 million that we would probably use it up in seven or eight years, and I think I commented on and gave some additional reasons why that time may be very well further reduced. I do not think I need to enlarge on that.

Mr. MOTT: That is fine, thank you.

Mr. MACDONALD: Mr. Chairman, I have listened this afternoon for two and a half hours to testimony and cross examination of witnesses. Instead of placing questions as to the number of 'phones that will probably be needed in a community members have gone into this in great detail. Now, I cannot talk on the British Columbia Telephone Company as that company does not serve the area in Canada which I represent, but I know that the problems relating to the telephone companies are not confined to the British Columbia Telephone Company. These problems are met with by even the very fine city-owned telephone system we have in the city of Edmonton. If we are going to proceed in this manner we are going to be here all summer. If one or two members of the committee are going to have the privilege of talking about their constituencies or areas, we are going to be here a long time. I have nothing to offer in that regard. We are here to determine whether this company requires additional capitalization. I think the questions should be more relevant to that matter and kept within some limits of a direct question and a direct answer.

Mr. HERRIDGE: Let me say in reply to that, that the question of services to be supplied is directly related to the question of whether this $50 million additional authorized capital is required.

By Mr. MacDougall:

Q. I have a short question to ask Mr. Hamilton. I think, as has already been stated, that there are approximately 30,000 in British Columbia that require an upgrading in their telephone service, I might say I am one of that 30,000. I would like to ask Mr. Hamilton, if he has before him the figures as to the unfilled orders or unfilled aplications in the city of Vancouver?—A. Yes, sir, 10,426 as of the end of December, 1950.

Q. 10,426?—A. Yes, at the end of December 1950, we were operating 139,178 stations and there were held orders amounting to 10,426.

Q. Thank you very much.

By Mr. Laing:

Q. That is within the city?—A. That includes—

Q. Richmond?—A. No, that includes the university area and a great deal of Burnaby. You see Vancouver exchange area stretches out into Burnaby and there is another portion attached to New Westminster for service reasons.

The DEPUTY VICE-CHAIRMAN: It is now five minutes to six. We apparently have not finished with Mr. Hamilton. Would it be in order for an adjournment now?

Mr. APPLEWHAITE: Will we meet tonight?

The DEPUTY VICE-CHAIRMAN: Do you want to meet tonight?

Mr. GREEN: On the question of when we sit again, some of us have to be in the House from eight to nine o'clock tonight and I do suggest because there are now so few able to attend, and there will be fewer this evening, that we adjourn until the first of the week.

Mr. APPLEWHAITE: I am in the hands of the committee. I am not going to make an issue of it. I do think we understand Mr. Green's position and this committee should not be asked to sit between eight and nine. In the interests of getting somewhere sometime I would like that we sit tonight.

Mr. MACDOUGALL: I so move.

Mr. GREEN: I must point out to Mr. Applewhaite that the city of Vancouver feels so deeply about this question that they have sent a representative here. Now, I do not think it will be fair to the city and to the half million people who are in the greater Vancouver area, let alone the others who are involved in this question of phone rates, if their representative is forced to go on and give evidence tonight with ten members, with a bare quorum, here, and everybody tired out. Really the result will be that he has no fair opportunity to present the city's case. That should be borne in mind by the members of the committee.

The DEPUTY VICE-CHAIRMAN: Mr. Green, you are away ahead of me. I did not think we were going to get through with this witness so quickly this afternoon; if we all took as much time as Mr. Herridge I thought we would be here a day or so.

Mr. HERRIDGE: Mr. Chairman, on a point of order, I would like to point out that I have not taken one-sixth of the time taken by some other members.

The DEPUTY VICE-CHAIRMAN: I will withdraw my remark, Mr. Herridge.

Is it the wish of the committee that we sit tonight at any time? If you wish we can hold the other witness over until a later date, Mr. Green.

Mr. MACINNIS: Mr. Chairman, if there is any possibility of finishing tonight I would be very glad to sit. If there is not any possibility of that I do not think there is very much to be gained be meeting tonight say from nine to eleven o'clock. That is what we would have to do.

The DEPUTY VICE-CHAIRMAN: We might finish with one more witness. However, there is a motion. Mr. MacDougall has made a motion that we sit tonight. Is it the wish of the committee that we sit tonight? All in favour say yes, opposed nay.

We do not sit tonight.

Mr. APPLEWHAITE: Mr. Chairman, may I make a suggestion or rather ask the feeling of the committee on this? I am going to suggest, first, that this committee sit tomorrow morning as so many of its members are not in a class who go away for the week-end; but whether or not we sit tomorrow morning, I would like to have an expression of opinion now, please, as to whether it will meet with the approval of the committee if Mr. Farrell, the president of the company, were not available next week. In other words, we have both the president and the operating vice-president here and if we could let one of them go back to the scene of operations it would be of assistance to the company in its operations, it seems to me, but I feel the wishes of the committee should be taken into consideration.

The DEPUTY VICE-CHAIRMAN: I am sure we do not want to mess up the operations of the British Columbia Telephone Company. What is the opinion of the committee?

Mr. GREEN: I do not think any of us want to make it awkward for Mr. Farrell. He has given his evidence and been cross-examined. As far as I am concerned I am not asking that he be kept here. I believe that is the wish of the committee and of the representative from the city of Vancouver.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee that Mr. Farrell be now excused?

Agreed.

Mr. APPLEWHAITE: When do we meet again?

The DEPUTY VICE-CHAIRMAN: When shall we meet again? Do you want to make a motion, Mr. Applewhaite?

Mr. APPLEWHAITE: I am not going to make a motion but I would like to have the feeling of the committee as to whether they think it desirable to meet on Saturday.

The DEPUTY VICE-CHAIRMAN: Is it the desire of the committee to meet tomorrow?

Some Hon. MEMBERS: No, no.

Mr. APPLEWHAITE: There is no use carrying a motion, Mr. Chairman, if there is no certainty that we will get a quorum tomorrow.

Mr. MACDOUGALL: I would make a motion, Mr. Chairman, that we meet at 9.30 on Monday morning.

The DEPUTY VICE-CHAIRMAN: We have a meeting at 10 o'clock on Monday morning.

APPENDIX A

FEBRUARY 9, 1951.

His Worship the Mayor and
Members of the City Council,
City Hall, City.

Lady and Gentlemen:

Re Application for Private Bill—British Columbia Telephone Company

The notification served on the City by the Solicitor for the British Columbia Telephone Company that the Company intended to apply to the Parliament of Canada for an Act amending its Act of Incorporation was referred by Council on January 15, 1951, to the Chairman of the Utilities and Airport Committee and the Corporation Counsel for consideration and report.

Brigadier Sherwood Lett, Solicitor for the Applicant, has forwarded to the City copies of a document marked "Advance Copy": "An Act respecting British Columbia Telephone Company", with a statement that while this advance copy is not necessarily final, no appreciable change is anticipated.

An examination of the "Advance Copy" reveals that the following amendments or additions to the powers of the Company are being applied for:

(*a*) To increase the authorized capital of the Company from twenty-five million to seventy-five million dollars;

(*b*) To provide for the issue hereafter of preference or preferred shares of a par value of either twenty-five dollars or one hundred dollars each;

(*c*) To make provision for the subdivision of any outstanding preference or preferred shares of a par value of one hundred dollars each into shares of a par value of twenty-five dollars each if deemed advisable by the directors, and subject always to the consent of at least seventy-five per cent in par value of the holders of each class of such preference or preferred shares proposed to be subdivided;

(*d*) To enable the Company to pay a commission on the sale of its shares;

(*e*) To subdivide the presently outstanding ordinary shares of a par value of one hundred dollars each into shares of a par value of twenty-five dollars each and to provide that all subsequent issues of ordinary shares shall be of a par value of twenty-five dollars each.

Your committee consider that the outstanding feature of this "application" is contained in Item (*a*), whereby the Company seeks to obtain power to increase its authorized capital from the present limit of twenty-five million to a new limit of seventy-five million dollars, which would thereby treble the present limit.

The justification for so large an increase in authorized capital is explained by the Company as being due to the substantial population increase in the territory served having produced an extraordinary public demand for telephone service. This demand has made it necessary for the Company to extend its program of expansion and modernization inaugurated in 1946.

There appears to be no question that the Company is faced with a very substantial program of expansion and modernization in the years ahead, especially if this Province continues to experience a growth in population similar to that prevailing in the past decade.

Nevertheless, serious consideration should be given regarding the wisdom of allowing the Company to obtain such substantial increase in authorized capital, that might well enable it to carry on for another twelve to fifteen or possibly even twenty years before requiring to come before Parliament again for amendment to its Act.

It should be remembered that this Company, although providing a vital public utility service within the limits of the Province, does not come under the close and continuing scrutiny of the B.C. Public Utilities Commission as would be the case if the B.C. Telephone Company had not obtained original incorporation by an Act of the Parliament of Canada.

The expansion program outlined by the Company at the 1950 rate enquiry indicated an anticipated expenditure on capital account at a rate of approximately ten million dollars per year up to 1952 and such a figure would appear to provide for a very optimistic program in the years ahead.

Actually the Company still have a margin of five million dollars available for capital expansion under the present authorization of twenty-five million dollars, so that if the limit were raised from twenty-five to seventy-five million this would provide a margin of fifty-five million dollars.

This margin of fifty-five million dollars would enable the Company to raise say one hundred and ten million dollars if future financing were carried out on a basis of fifty per cent debt capital and fifty per cent stock capital. To this total should be added the large sums likely to be available to the Company from the Depreciation Reserve, so that it appears reasonable to anticipate the margin of capital authorization now sought by the Company would provide for a liberal expansion program for from twelve to fifteen years, or even longer if the growth of population and business activity should encounter some curtailment or set-back.

Our attention has been directed to another possible aspect of this proposed large increase in authorized capital. There appears some likelihood the Company may be seeking to increase substantially the proportion of Common Stock in their capital structure. At the time of the 1950 rate enquiry the Company placed great stress on the desirability of attaining a capital structure made up of two-thirds stock and one-third debt and presented a voluminous brief and testimony from an outstanding economist that such an objective was the optimum. Counsel for the Company also advocated very strongly that such a capital structure should be aimed at, as compared to the then prevailing structure of thirty-six per cent common and preferred stock and sixty-four per cent debt.

If the main reason for the large increase requested in capital stock authorization is due to the contemplated action by the Company to attain a capital structure limited to one-third debt, then serious apprehension should be felt as to the substantial increase in the cost of new capital likely to be entailed, the burden of which would inevitably be reflected in increased costs in rates and services to the telephone customers. Not only would such a policy involve the extra cost of new money due to the large increase in proportion of common stock, calling for much higher yields than would have to be met for funds raised in the form of debt capital, but the exemption from Income Tax enjoyed by bond interest payments would also be lost to the extent involved.

Your committee would accordingly recommend that the City should at this time oppose the application of the Company to obtain such an excessive increase in capital authorization (from twenty-five million to seventy-five million dollars) as provided for in the Bill now being presented.

Your committee further consider that the City should take advantage of the opportunity now being afforded, when the application of the British Columbia Telephone Company to obtain extra powers comes before Parliament, to press for some relief from the oppressive policies now being carried on by the Company.

Reference is made particularly to the situation disclosed in the report of the Special Committee re Telephone Rates which was adopted by Council on December 27, 1950, relating to the Licence, Supply and Directory Contracts now in effect between the British Columbia Telephone Company and its parent and affiliated companies.

These contracts are all dealt with at some length in the report on the Judgment relating to Telephone Rates presented to the City Council by Messrs. McTaggart and Brakenridge under date of December 8, 1950, and it does not seem necessary to repeat the particulars already familiar to the members of Council.

At this time it is only necessary to recall that substantial profits made by the affiliated Supply and Directory Companies are diverted from B.C. Telephone Company operations to the coffers of the parent company, Anglo Canadian Telephone Co. of Montreal, thus depriving the B.C. Telephone Company of income which should be considered as an integral part of its operations. The Licence Contract is on a somewhat different basis and entails a flat payment by B.C. Telephone Company of one per cent of its annual gross revenue to the parent company, Anglo Canadian Telephone Co., for certain services alleged to be furnished by the parent company, although it is admitted that any such services rendered are obtained through another American group of telephone companies. Obviously this Company should not be permitted to detach lucrative sources of income from its own operations for the benefit of the Anglo Company.

If the Council concurs in the views advanced in the foregoing four paragraphs, your committee would further recommend that the City take all possible steps to endeavour to have presented to Parliament the onerous nature of the contracts to which the B.C. Telephone Company is now subjected, when the Private Bill of the Telephone Company is under consideration, in an endeavour to obtain relief or amelioration from the adverse consequences of such contracts.

In reference to the other proposed amendments or additions to the powers of the Company as outlined previously under subheadings (*b*), (*c*), (*d*) and (*e*) your committee see no reason to advance any serious objections to same.

Your committee would offer the suggestion that if this report is adopted by Council copies of same be forwarded to all the Vancouver Members of the Parliament with a request that they lend their fullest assistance towards obtaining the objectives therein advocated by the City Council.

Respectfully submitted,

.....
Chairman, Utilities and Airport Committee

.....
Corporation Counsel

Excerpts from report dated December 8th, 1950, made by Messrs. D. E. McTaggart and C. Brakenridge to His Worship the Mayor and Members of the City Council.

Re: Judgment—Telephone Rates

(1) *Contracts—Licence, Supply and Directory*

These three Contracts or Agreements were subjected to the strongest possible attack, particularly by Counsel for the Province and the City of Vancouver. The evidence disclosed a most remarkable set-up whereby the Telephone Company was obligated to pay out large sums for services, which there appeared every reason to claim, could be performed by itself at a very substantial reduction in cost.

A brief outline indicating the adverse nature of these arrangements as affecting the subscribers for British Columbia Telephone Company service follows:—

Licence Contract: This contract provides for an annual payment by the B.C. Telephone Co. of one per cent of its gross operating revenues to the parent

company, Anglo Canadian Telephone Company of Montreal. This Montreal company is a holding company and through its ownership of Common Stock controls the following companies operating in British Columbia:—

British Columbia Telephone Company
Canadian (B.C.) Telephones & Supplies Ltd.
Chilliwack Telephones Ltd.
Dominion Directory Co. Ltd.
Kootenay Telephone Co. Ltd.
Mission Telephone Co. Ltd.
North-west Telephone Company.

The annual payment by the B.C. Telephone Co. purports to be compensation to the parent company under this contract whereby the Anglo Company furnishes, or causes to be furnished, technical advice and assistance both general and specific in matters relating to operating, engineering, plant, traffic, commercial, accounting, patents, administrative and other departments of the Company. A further proviso calls for expert advice and assistance in any financing which the B.C. Telephone Co. requires for the extension, development or improvement of its telephone system and services.

It is significant to note that this annual payment under the Licence Contract was reduced from 1½ per cent to 1 per cent of gross operating revenues, effective January 1, 1949, just a short time prior to the B.C. Telephone Co. filing its application for an increase in rates.

For the year 1948 payment at the prior rate of 1½ per cent was $181,051.00.

For the year 1949 payment at the current rate of 1 per cent was $129,711.00 (estimated).

It was brought out at the Hearing that the Anglo Canadian Telephone Co. being a holding company, had no staff available to render the extensive type of administrative, professional and technical services called for under this contract, but it was claimed that through the agency of the parent company of Anglo, The Associated Telephone and Telegraph Company (incorporated in Delaware, U.S.A.), the required services were available from a group of affiliated companies known as the "Gary" group controlled by Theodore Gary Co., a Missouri Corporation.

Nevertheless the fact remains that while the B.C. Telephone Co. paid to the Anglo Company for services under this contract for the year 1948 the sum of $181,051.00, the amount Anglo in turn paid to its parent, the Associated Company for such service for the same year only amounted to $3,150.00.

Actually the B.C. Telephone Co. maintain their own staff of competent officials and while there may be times when a special problem arises that calls for expert outside assistance, it is difficult to see how any justification exists for the payment to the parent company of such large sums every year, and more particularly so when such payments are based on a set percentage of gross operating revenue.

Notwithstanding the evidence and argument presented against this particular type of contract and also the fact that payments made to Anglo under this contract had been disallowed as expenses by the Dominion Income Tax officials, the Board ruled that the contract was bona fide and a means whereby the B.C. Telephone Co. obtains valuable patent rights and expert service.

Supply Contract: This contract, while not directly with the parent company like the Licence Contract, is only one step removed, as it is with a wholly-owned subsidiary of the parent company, viz: The Canadian (B.C.) Telephone and Supplies Limited.

Under the contract the B.C. Telephone Co. practically turns over to this subsidiary the purchasing of all supplies, custody of all stocks, installation of

telephone exchange equipment and execution of repair work. These various services call for payment by the B.C. Telephone Co. to the subsidiary at stipulated rates. In the case of supply purchasing, the commission is now set at 5 per cent but here again this rate was reduced from a prior rate of 6 per cent to one of 5 per cent, effective from November 1, 1948.

Evidence at the Hearing established that many of the supplies are purchased from other affiliated companies of the group and in one case purchases pass in turn through two such affiliated companies thus involving three separate commissions or profits.

At the Hearing opposing Counsel forcefully contended that if this Supply Contract and the Directory Contract (to be later dealt with) could not be revoked, the B.C. Telephone Co. should not be allowed to charge to operating costs, on account of these two contracts, any more than a reasonable return on the money invested in the respective subsidiary enterprises.

On the basis of an allowance of 5 per cent return on net invested capital it was shown that the Canadian (B.C.) Telephone and Supplies Ltd. had made an excess profit of $150,176.00 for the year 1948.

In the case of this so-called Supply Contract the judgment indicated that the Board did not think it was within their power to direct the B.C. Telephone Co. to withdraw from the contract and establish its own facilities. However, the Board did rule that the expenses incurred under such contract were excessive and disallowed an amount of $117,000 without giving any indication how this particular figure was arrived at.

Directory Contract: This contract, like the foregoing Supply Contract, is an arrangement between the B.C. Telephone Co. and another wholly-owned subsidiary of the parent company called the Dominion Directory Co. Ltd. whereby the Directory Company solicits and writes all advertising contracts for the space in the classified section of the B.C. Telephone Co. directories.

For these services including the furnishing of all necessary cuts, mats, plates, etc., a commission of 35 per cent on the total amount received from the advertising contracts sold, is paid to the Directory Company.

Evidence was brought out to show that the staff of this Directory Company is actually located in the head office building of the B.C. Telephone Co. and that even in the U.S.A. where the American Telephone and Telegraph Co. control all the various Bell companies across the nation, most of the respective Bell companies produce and handle directly their own advertising section of the telephone directory.

On the same basis as referred to previously in dealing with the Supply Contract, the earnings of this subsidiary company (Dominion Directory Co. Ltd.) for the year 1948 show an excess profit of $57,903 and in addition a further sum of $12,000 was paid to the parent company (Anglo Canadian Co.) as a so-called Management Fee.

In the judgment the Board stated that the method by which the company conducts its arrangements for securing advertising is entirely a management question and accepted the method now in operation as representing a proper exercise of managerial discretion.

Your advisers consider that approval of the foregoing three contracts by the Board as a proper exercise of managerial discretion by the B.C. Telephone Co. constitutes one of the most serious aspects of the judgment.

It will be readily apparent that as the scope and revenue of the Telephone Co. increase the sums involved in pay-outs from the revenues collected from telephone subscribers become increasingly larger. In fact, as was brought out in argument at the hearing, if this type of contract is to be approved then

what is to prevent the Telephone Co. from entering into similar arrangements with other subsidiary companies who could own and rent to the Telephone Co. the exchange buildings and even the equipment in such buildings as well as many other activities now carried on directly by the company.

(4) *Capital Structure*

The B.C. Telephone Co. in their endeavour to defend the intercorporate set-up of parent, subsidiary and affiliated companies, placed great emphasis on the somewhat exceptional capital set-up of the company, consisting of 64 per cent bonds, 20 per cent preferred stock and only 16 per cent common stock.

It was claimed that had the parent company, Anglo Canadian Telephone Co., not been prepared to supply all the common stock capital, then, in view of the heavy proportion of debt, common stock could not have been sold on the market at anything like the 8 per cent dividend, which had prevailed for a number of years.

An expert economist, specializing in public utility regulation, was retained by the Telephone company and presented a very voluminous brief in support of the above-noted contention, as well as on certain other features involved in the case.

Counsel for the opposition brought out the fact that the low proportion of common stock in the capital structure had been most advantageous to the parent company, as it had enabled them to retain complete control of the B.C. Telephone Co. with only the limited investment of 16 per cent of the total capital involved.

The B.C. Telephone Co. recently (November 1950) placed on the market the first issue of common stock ever offered to the public and the $2,000,000 issued was quickly oversubscribed by the public at a price to yield slightly over 5·75 per cent on an 8 per cent dividend rate. This transaction clearly indicates how little reliance can be given to hypothetical prognostications of what the market will demand, even when advanced by experts.

In the judgment reference is made to the somewhat exceptional composition of this particular capital structure and it is reasonable to assume the Board were impressed by the evidence of the expert economist.

(5) *Surplus Earnings*

Some controversy centered around the claim of the B.C. Telephone Co. that over and above their need for sufficient earnings to meet all fixed charges, operating expenses and reasonable dividends, an additional sum of $440,201 should be allowed as surplus in order that the company could attract and obtain the additional capital required to finance their large expansion program. It was stated by the company that this amount represented less than one per cent of the investment.

The opposing Counsel contended that when dealing with a public utility company, enjoying the protection of a monopoly and providing so essential a service as telephone communication under regulation, there was not much justification for surplus earnings, and particularly of so large an amount.

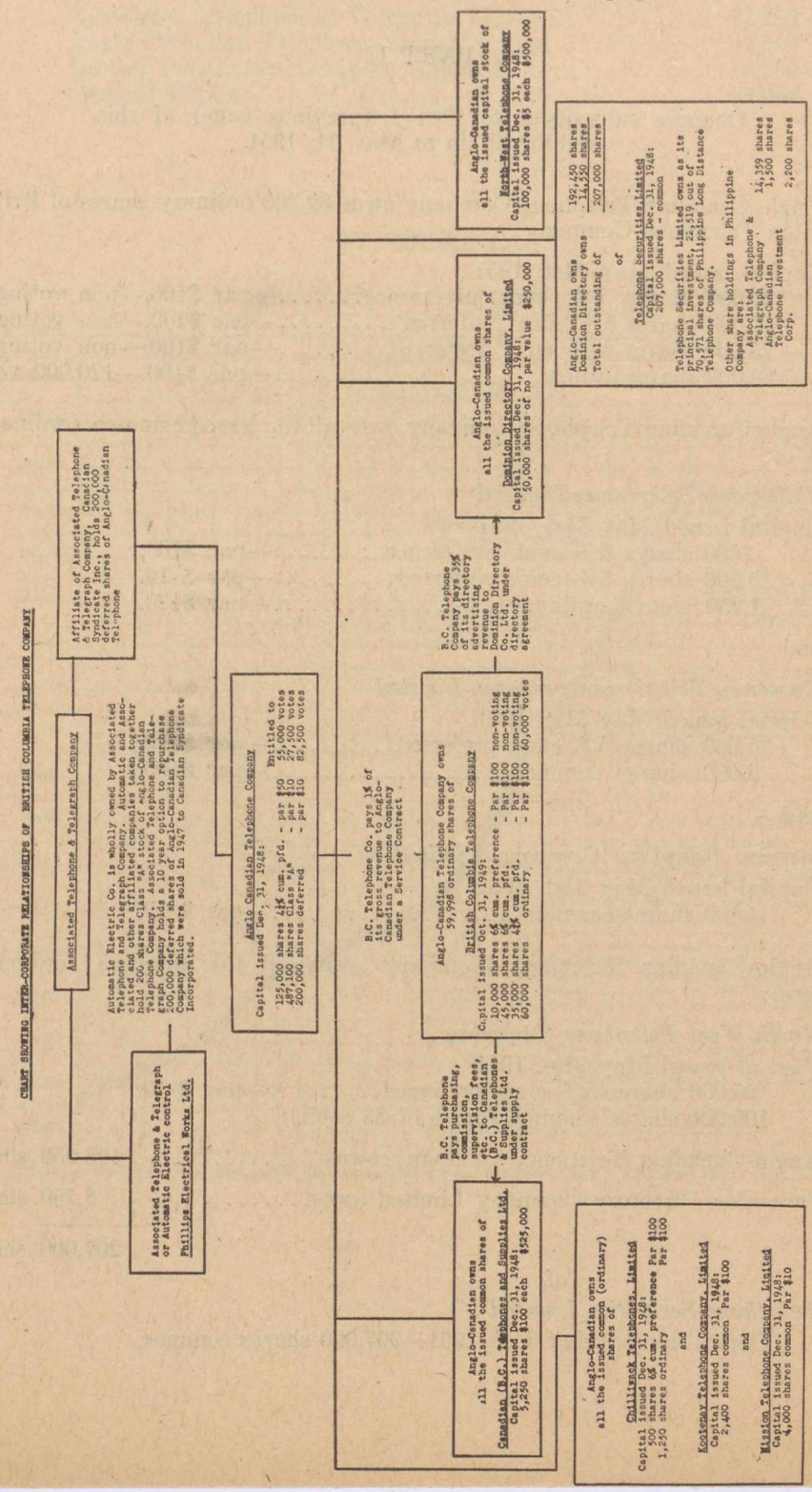
In the judgment, the Board have approved of this extra allowance for surplus earnings and apparently have accepted the statement of the company that it represents an amount of less than one per cent of the investment.

Actually, on the basis that the surplus accrues to the benefit of the common shareholders, the sum allowed, $440,201, represents an additional 7 per cent to such shareholders over and above the 8 per cent dividend recognized as a fair rate of dividend.

APPENDIX B

PART I

For subsequent changes to May 31, 1951, see Part II (next page) of this Exhibit B.



APPENDIX B

PART II

Changes subsequent to Part I (previous page) of this Exhibit B up to May 31, 1951

Anglo Canadian Telephone Company owns 62,200 ordinary shares of British Columbia Telephone Company

Capital issued May 31st, 1951.

10,000 shares 6% cum. preference.....—par $100.—non voting
45,000 shares 6% cum. preferred.....—par $100.—non voting
75,000 shares 4¾% cum. preferred.....—par $100.—non voting
120,000 shares ordinary .....—par $100.—120,000 votes

Anglo Canadian Telephone Company owns all the issued common (ordinary) shares of:

Chilliwack Telephones Limited

Capital issued May 31st, 1951

500 shares 6% cum. preference.....—par $100.
15,000 shares 5% cum. preferred.....—par $ 10.
1,250 shares ordinary.....—par $100.

and

Kootenay Telephone Company, Limited

Capital issued May 31st, 1951

15,000 shares 5% cum. preferred.....—par $ 10.
3,000 shares common.....—par $100.

and—

Mission Telephone Company Limited

Capital issued May 31st, 1951

4,000 shares common.....—par $ 10.

Anglo-Canadian Telephone Company owns all the common (ordinary) shares of:

North-West Telephone Company

Capital issued May 31st, 1951

25,000 shares 5% cum. preferred.....—par $ 10.
100,000 shares common shares of $5 each.

Anglo-Canadian Telephone Company owns	198,250 shares
Dominion Directory Company Limited owns.....	8,750 shares
	207,000 shares

of

Telephone Securities Limited

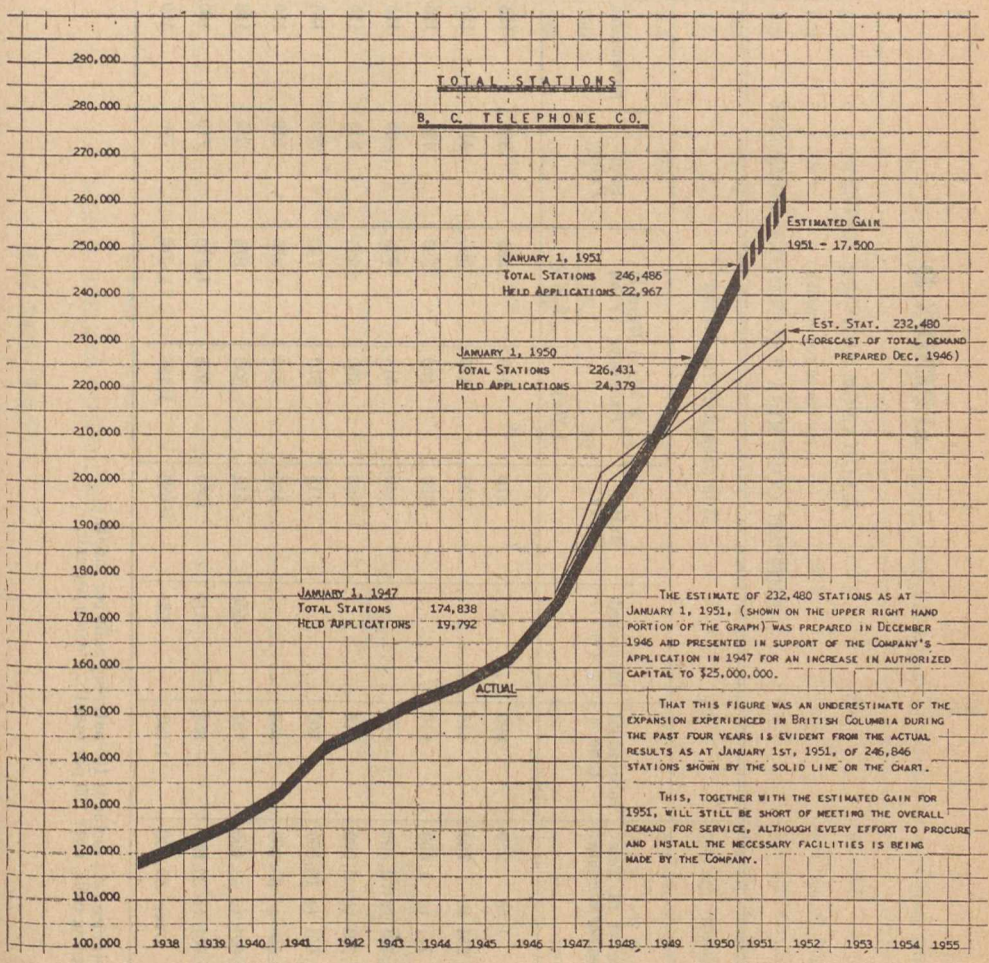
Capital issued May 31st, 1951—207,000 shares common

Telephone Securities owns as its principal investment 22,519 out of 70,571 shares of Philippine Long Distance Telephone Company

Other share holdings in Philippine Company are:

Associated Telephone & Telegraph Company	14,358 shares
Anglo-Canadian Telephone Company	1,500 shares
Insular Investment Company Limited	2,200 shares
General Public	29,994 shares

APPENDIX C



APPENDIX D

EXCHANGE SERVICE RATES

(in cents per month)

BRITISH COLUMBIA TELEPHONE COMPANY

Grouping		Business Service Rates							Residence Service Rates			
Group No.	Number of Telephones per Exchange	Individual Line	Measured (*)	Multi-Party	Private Branch Exchange Trunk		Semi-Public	Extensions	Individual Line	Two-Party Line	Multi-Party	Extensions
					1 Way	2 Way						
1	1 to 250	390	.....	270	440	535	390	125	245	195	185	75
2	251 to 750	415	.....	295	465	560	415	125	255	205	195	75
3	751 to 1,500	440	.....	320	490	585	440	125	265	215	205	75
4	1,501 to 2,500	465	.....	340	515	635	465	125	275	225	215	75
5	2,501 to 5,000	515	.....	365	560	685	515	125	295	235	225	75
6	5,001 to 10,000	560	.....	415	610	755	560	125	320	250	240	75
7	10,001 to 20,000	635	.....	465	710	855	610	150	340	270	255	100
8	20,001 to 40,000	735	465	515	830	975	660	150	365	295	270	100
9	40,001 to 80,000	880	515	585	975	1,170	710	150	400	320	285	100
10	over 80,000	1,025	585	685	1,125	1,370	780	150	440	340	305	100

*Measured service rate includes 100 outgoing calls per month.
Excess outgoing calls, over 100 per month, 4 cents per call.

APPENDIX D-1

EXCHANGE SERVICE RATES

(in cents per month)

BELL TELEPHONE COMPANY

Grouping		Business Service Rates					Residence Service Rates			
Group Number	Number of Telephones per Exchange	One-Party Line	Message Rate Service	Two-Party Line	Private Line	Trunk Line for Private Branch Exchange or Order Turret	One-Party Line	Two-Party Line	Rural Line	Trunk Line for Private Branch Exchange or Order Turret
			$							
1	1 to 500	400	.....	325	275	600	275	245	225	350
2	501 to 1,000	450	.....	375	300	675	290	255	235	375
3	1,001 to 2,000	500	.....	425	325	750	305	265	245	400
4	2,001 to 5,000	550	.....	475	350	825	325	275	255	425
5	5,001 to 10,000	625	.....	525	375	925	350	285	265	450
6	10,001 to 20,000	700	.....	575	400	1,050	375	300	275	475
7	20,001 to 50,000	800	5.50	.....	425	1,200	400	325	285	500
8	50,001 to 100,000	950	6.00	.....	475	1,400	425	350	300	550
9	100,001 to 250,000	1,075	6.50	.....	515	1,600	450	360	310	575
10	Over 250,000	1,200	7.00	.....	550	1,800	575	375	325	600

* 7—Message Rate Service includes 75 outgoing calls per month; each additional Message 5 cents.
8— " " " 80 " " " " " " 5 "
9— " " " 85 " " " " " " 5 "
10— " " " 90 " " " " " " 5 "

APPENDIX E

BRITISH COLUMBIA TELEPHONE COMPANY

Summary of Proposed Expenditures by Areas

Areas	Present Commitments	Proposed 1951 Program	1952 Estimated Program	Total
	$	$	$	$
1. Greater Victoria and Saanich Peninsula	1,517,660	838,050	965,000	3,320,710
2. Balance Vancouver Island and Gulf Islands	250,994	300,960	349,500	901,454
3. Greater Vancouver and New Westminster	3,861,489	9,419,415	7,431,000	20,711,904
4. Lower Fraser Valley	750,228	421,150	394,000	1,565,378
5. Kamloops	133,775	89,075	147,000	369,850
6. Kootenay	309,757	210,650	257,500	777,907
Toll Plant and Equipment	1,891,866	710,800	612,000	3,214,666
	8,715,769	11,990,100	10,156,000	30,861,869

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman—MR. L. O. BREITHAUPT

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

Bill No. 269 (Letter D-8 of the Senate);
An Act to incorporate Independent Pipe Line Company.

Bill No. 321 (Letter U-6 of the Senate);
An Act to incorporate Champion Pipe Line Corporation Limited.

MONDAY, JUNE 11, 1951

WITNESSES:

On Bill 269: Mr. R. A. Brown, Jr., President, Federated Petroleum Limited, Calgary, Alberta; Mr. J. B. Weir, Director, Federated Petroleum Limited, and Home Oil, Montreal, P.Q.; Mr. J. L. Culbertson, Consulting Engineer, Tulsa, Oklahoma.

On Bill 321: Mr. Arthur L. Wadsworth, Vice-President, Dillon Read & Co., New York, N.Y., U.S.A.; Mr. V. V. Jackomini, Vice-President, Hudson Engineering Corporation, Houston, Texas, U.S.A.

OTTAWA
EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1951

87952—1

ORDERS OF REFERENCE

TUESDAY, May 29, 1951

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 269 (Letter D-8 of the Senate), intituled: "An Act to incorporate Independent Pipe Line Company".

FRIDAY, June 1, 1951.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 321 (Letter U-6 of the Senate), intituled: "An Act to incorporate Champion Pipe Line Corporation Limited".

MONDAY, June 11, 1951.

Ordered,—That the name of Mr. Weaver be substituted for that of Mr. Conacher on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MONDAY, June 11, 1951.

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

SIXTH REPORT

Your Committee has considered the following Bills and has agreed to report the said Bills with amendments, viz:—

Bill No. 269 (Letter D-8 of the Senate), intituled: "An Act to incorporate Independent Pipe Line Company".

Bill No. 321 (Letter U-6 of the Senate), intituled: "An Act to incorporate Champion Pipe Line Corporation Limited".

Clause 3 of Bill No. 321 provides for Capital Stock consisting of two million shares without nominal or par value. Your Committee recommends that, for taxing purposes, under Standing Order 93(3), each share be deemed to be worth $10.00.

All of which is respectfully submitted.

F. P. WHITMAN,
Deputy Vice-Chairman.

87952—1½

MINUTES OF PROCEEDINGS

MONDAY, June 11, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at 10 o'clock a.m. Mr. Whitman, Deputy Vice-Chairman, presided.

Members present: Messrs. Applewhaite, Byrne, Browne (*St. John's West*), Darroch, Fulton, Goode, Gourd (*Chapleau*), Green, Harrison, Hatfield, Herridge, Jones, Laing, MacDougall, Macdonald (*Edmonton East*), McIvor, Mott, Murphy, Murray (*Cariboo*), Rooney, Shaw, Smith (*Queens-Shelburne*), Stuart (*Charlotte*).

In attendance: Mr. J. W. Welbourn, M.P., Sponsor of Bill No. 269; Mr. R. A. Brown, Jr., President, Federated Petroleum Limited, Calgary, Alberta; Mr. J. B. Weir, Director, Federated Petroleum Limited, and Home Oil, Montreal, P.Q.; Mr. J. L. Culbertson, Consulting Engineer, Tulsa, Oklahoma; Mr. Hugh O'Donnell, K.C., Parliamentary Agent, Montreal, P.Q. Mr. R. R. Macgillivray, Solicitor for Department of Transport, Ottawa, Ont.

Pursuant to the resolution passed at the meeting of the committee on June 7th, the Committee commenced consideration of Bill No. 269 (Letter D-8 of the Senate) intituled: "An Act to incorporate Independent Pipe Line Company".

Mr. Welbourn, M.P., Sponsor of the Bill, addressed the Committee and introduced Mr. Hugh O'Donnell, K.C., Parliamentary Agent for the Petitioners.

Mr. O'Donnell was called, explained the purposes of the Bill and was questioned.

Messrs. Brown, Culbertson and Weir were called, heard and questioned regarding the project contemplated in the Bill; its practicability from a construction and engineering point of view; potential markets in the area to be served, and the proposed methods of financing the undertaking.

The Preamble and Clauses 1 to 3 inclusive were severally considered and adopted.

On Clause 4:

Mr. Green moved:

That sub-clause (2) of Clause 4 of this Bill be amended by inserting after the word *place* in the first line thereof the words "within Canada".

After discussion, and the question having been put, the said motion was agreed to.

Clause 4 as amended, Clauses 5 to 11 inclusive and the title were severally considered and adopted.

The Bill, as amended, was adopted and the Deputy Vice-Chairman ordered to report the same to the House.

At 10.55 o'clock a.m. the Committee adjourned to attend the opening of the House and to meet again at 11.30 o'clock a.m. this day.

The Committee re-convened at 11.30 o'clock a.m. and commenced consideration of Bill No. 321. (Letter U-6 of the Senate) intituled: "An Act to incorporate Champion Pipe Line Corporation Limited". Mr. Whitman, Deputy-Vice-Chairman, presided.

Members present: Messrs. Applewhaite, Beyerstein, Byrne, Browne (*St. John's West*), Darroch, Fulton, Goode, Green, Hatfield, Healy, Herridge, Jones, Laing, MacDougall, Macdonald (*Edmonton East*), McIvor, Mott, Murphy, Smith (*Queens-Shelburne*), *Thomas.*

In attendance: Mr. M. E. Corlett, Parliamentary Agent, Ottawa, Ont.; Mr. Arthur L. Wadsworth, Vice President, Dillon Read & Co., New York, N.Y., U.S.A.; Mr. V. V. Jackomini, Vice President, Hudson Engineering Corporation, Houston, Texas, U.S.A.; Mr. R. R. Macgillivray, Solicitor for Department of Transport, Ottawa, Ont.

Mr. Corlett, Parliamentary Agent for the Petitioners, was called, explained the purposes of the Bill and was questioned.

Messrs. Wadsworth and Jackomini were called, heard and questioned regarding the project contemplated in the Bill; its practicability from a construction and engineering point of view; potential markets in the area to be served, and the proposed methods of financing the undertaking.

The Preamble and Clauses 1 and 2 were severally considered and adopted.

On Clause 3:

On motion of Mr. Applewhaite:—

Resolved,—That, for the purpose of levying a charge on the capital stock, which will have no par value, the Committee recommend that each share be deemed to be worth ten dollars ($10.00).

Clause 3 was considered and adopted.

On Clause 4:

Mr. Green moved:

That sub-clause (2) of Clause 4 of this Bill be amended by inserting after the word *place* in the first line thereof the words "within Canada".

After discussion, and the question having been put, the said motion was agreed to.

Clause 4 as amended, Clauses 5 to 11 inclusive and the title were severally considered and adopted.

The Bill, as amended, was adopted and the Deputy Vice-Chairman ordered to report the same to the House.

At 1.10 o'clock p.m. the Committee adjourned to meet again 3.30 o'clock p.m. this day.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

HOUSE OF COMMONS
June 11, 1951
10.00 a.m.

The DEPUTY VICE-CHAIRMAN: Gentlemen, we have a quorum present so we shall go on with our meeting. The first bill to come up this morning is "An Act to incorporate Independent Pipe Line Company". The bill is sponsored by Mr. Welbourn. I now call on Mr. Welbourn.

Mr. WELBOURN: Mr. Chairman, and gentlemen, as sponsor of this bill I won't take up very much of your time. But first I would like to thank the committee for their courtesy in giving us a hearing at this time. As you know, this bill is for the incorporation of an all-Canadian company, "Independent Pipe Line Company". The company will have an all-Canadian route. The president of the company, Mr. Robert Brown, is here today. I might say that I have known Mr. Brown for quite a long time and I have known of him for even a longer time. His father brought in the Discovery well in the Turner Valley oil field, and since that time has been actively interested in the oil industry in Alberta. Mr. Brown and his associates at the present time have some 125 producing wells in the province of Alberta and they are anxious to develop further.

I am giving you this background to prove to you that this is not just a fly-by-night company, but rather a company which is in the oil business and which wants to stay in the oil business.

The parliamentary agent for the company, Mr. Hugh O'Donnell, K.C., is here. So with your permission I would like to call on him. He will be able to explain any questions that you would like to ask him.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee to call the parliamentary agent? Very well. Would you step up to the table, please, Mr. O'Donnell.

Mr. Hugh O'Donnell, K.C., Montreal, Quebec, Counsel for Applicants, called:

The WITNESS: Mr. Chairman, and hon. members: This bill, as hon. members may have observed, is drafted in what I might term the standard form of such bills. We have endeavoured to incorporate in it practically all the amendments that this hon. House has suggested should be incorporated in the earlier bills.

I would draw attention particularly to clause 6 where it is set out that the main lines are to be located entirely within Canada. I think that is the amendment which this hon. committee felt should be acceptable in other bills and we incorporated it in our bill when we initiated it before the other place.

The applicants for the bill are all Canadian residents, Mr. R. A. Brown, Jr. is president and director of Federated Petroleums Limited, and he has been associated with the oil business for a considerable time.

As Mr. Welbourn has told the committee, his father brought in the Discovery Well in the Turner Valley field about 1936. His brother, Ronald Brown, the second applicant, is also a director and vice-president of Federated Petroleums Limited.

The third applicant, Mr. J. B. Weir is sole partner of the old and I think favourably known Montreal stock brokerage firm of Oswald and Drinkwater. Brigadier Weir is a director of Federated Petroleums Limited and of Home Oil Company.

Mr. Small is one of the senior members of the well known firm of chartered accountants, Riddell, Stead, Graham and Hutchison, which has offices all over the country. His firm are auditors of Federated Petroleums Limited.

These people are actively engaged in the production of oil. The business project which the applicants have particularly in mind at the present time is the construction of an oil pipe line from Edmonton, that is, a few miles west thereof, to Vancouver. The general route would run along the Canadian National line through the Yellowhead Pass down to Kamloops, B.C., and then along the highway to Merritt, B.C., and it would then follow the Canadian Pacific line along the Coldwater and Coquihalla rivers to Hope and then along Highway No. 1 to Port Mann and would cross the Fraser river there to the south side of Burrard Inlet around Port Moody. In all it would be about 721 miles in length.

As for technical advice, the applicants obtained, I think, the best possible, or as good technical advice as was available anywhere. They employed the engineering firm of Robert L. Purvin, of Dallas, Texas, and also Mr. J. L. Culbertson, consulting engineer, of Tulsa, Oklahoma, former chief engineer of the Trans-Arabian Pipe Line Company. That pipe line is in excess of 1,000 miles in length. It runs from the Persian Gulf to the Mediterranean. On my understanding, it is the biggest oil pipe line that has ever been built.

And the third consulting engineers, with whom the applicants consulted and conferred, was the firm of Williams, Connors and Stanfield, formerly known as Williams Brothers Corporation, which firm, as I understand, is rated in size as the leader in the pipe line construction business.

They have been in the business since about 1915, and generally speaking they are regarded as being about the oldest in it.

I might say that there is a very interesting article appearing in the January 1951 issue of *Fortune* magazine, which refers to these various companies.

Williams Brothers have participated in the building of the Portland to Montreal Pipe Line, the Inter-Provincial Pipe Line, the Trans-Arabian Pipe Line, and many others as well.

Those are the people who advised the applicants that the proposed route is the one which in their view is feasible, and that a pipe line could be built along that route at a reasonable cost. So, on the basis of that advice, the applicants considered that with the production available in Alberta at the present time, the proposed pipe line would be economically feasible, and that they could operate it successfully, if given a permit ultimately by the Board of Transport Commissioners, of course, to whom all these applicants must ultimately go.

The bill which we are seeking to have adopted here would be merely an empowering Act to give these applicants the right to carry on the business of transporting oil and gas and their by-products. The proposed pipe line is set up pursuant to the advice of these engineers. As to capacity, it is on a very flexible basis. Originally it is proposed to handle, roughly, 50,000 barrels in a day.

By Mr. Green:

Q. How many barrels?—A. 50,000 barrels a day, roughly. But it may be increased very easily to a capacity of 75,000 and ultimately to 110,000 barrels per day; to 75,000 for an additional cost of about $2 million, and to 110,000 barrels per day for a cost of roughly $11 million more.

By Mr. Murphy:

Q. What is the size of the pipe line?—A. It is to be telescopic in design. The main line runs from 22 inches down to 16 inches. There are certain feeder lines which would be smaller still. Around Edmonton it is proposed to have a feeder line from the Redwater area of roughly 14 inches; and from the Leduc field of roughly around 10 inches. In the Vancouver area there will be delivery lines to the refineries there from the main line. These will be about 8 inches in size. It telescopes from 22 inches down to 16 inches over the 721 mile route. It is estimated that the cost, including working capital, would be $60 million.

Q. How much is that again, please?—A. $60 million.

Q. $60 million?—A. Yes, $60 million. And these engineers, in collaboration with Williams Brothers, experts in the actual construction business, advised the applicants that it is economically feasible and that it can be operated and maintained with an original capital expenditure of $60 million

I shall not take up any further time of the committee other than to emphasize that the project is wholly Canadian, and that the people behind it are wholly Canadian, that the route is wholly Canadian, the proposed financing is to be wholly Canadian and, in short, everything about it is wholly Canadian.

Two of the applicants for this bill are present this morning. Mr. R. A. Brown, Jr., who, as Mr. Welbourn has already told the committee, is a director and president of Federated Petroleums Limited; Mr. Weir, one of the other directors; Mr. J. L. Culbertson, the consulting engineer, and Mr. Dutton, contractor, of Calgary, are also present.

Q. Is your financial man here?

Mr. McIvor: You say it will be an all-Canadian route?

The Witness: Absolutely, yes, an all-Canadian route.

Our financial men here today are Mr. Brown and Mr. Weir, both of whom are directors of Federated Petroleums Limited. I think that they will be able to answer whatever questions the committee might want to ask.

Mr. Murphy: You say your engineer is here?

The Witness: Yes. Mr. Culbertson is the gentleman sitting over to the right. He is the fourth man.

Mr. Green: Have you any map which shows the route?

The Witness: Yes, we have, Mr. Green.

The Deputy Vice-Chairman: I do not think we have enough of these maps to go around. Perhaps you could pass it around the table and if there is a description it could be read into the minutes, if you would like to do that, Mr. O'Donnell. Are there any more questions you want to ask Mr. O'Donnell?

By Mr. Browne:

Q. How do they propose raising the 60 million dollars?—A. They propose doing that through the issue of $41 million 4 per cent 20 year bonds, $18 million of 4½ per cent 20 year convertible debentures, and $1 million of common stock.

By Mr. Applewhaite:

Q. I would like to ask, will this company be solely an oil carrier, or will you be in the business of buying and selling oil?—A. The companies interested in the application are actually in the oil producing business. They have available, or control, as I understand it, roughly 15 thousand barrels of oil a day, and undoubtedly it will be a common carrier: all these oil pipe line companies are.

Q. Is it your prime purpose to transport oil in which you will have an interest, or to transport for other people just making money out of transportation?—A. Well, this company's sole revenue will be derived from carrying oil,

but it must carry at the rates fixed by the Board of Transport Commissioners, and cannot favour itself against anybody else: there will be one rate.

Q. I am not trying to insinuate you should not, but you will have sponsoring parties who will provide you with a large proportion?—A. Oh, yes, and to that extent these applicants are in an advantageous position; they already control 15 thousand barrels a day.

Q. Have you, or some other witness, made a market survey?—A. Yes; I have not made it, but I have the information, and other witnesses can supplement that. In so far as I understand it, at the present time the Alberta fields have a production potential of roughly 200,000 barrels a day. The Inter Provincial Pipe Line Company, which operates eastwards, takes about 95,000 barrels a day, and the Alberta refineries themselves about 55,000, roughly; that is, 150,000 barrels.

Q. What do you estimate is the present daily market in British Columbia for oil?—A. Well, it is around 35,000 barrels a day, as I understand it.

Q. What is the minimum which you would have to transport daily in order to make this an economic propostion.—A. This pipe line, as proposed by these expert advisers who have been consulted, can be operated on as low as 34,000 barrels a day, although it is thought that 50,000 is what would be available immediately.

Q. Do your present plans envisage starting at only 35,000?—A. It can run as low as that, but it is hoped it can have available for transportation roughly 50,000.

Q. What would you do with that other 15,000?—A. That can be disposed of in the Vancouver area, or be in competition with imported crude oils from south of the border shipped in by tanker to the Vancouver area.

Q. Do you expect to build up the market from 35,000 to 50,000?—A. It is hoped that the markets, as British Columbia grows—and it is growing very quickly, as I understand it—will be able to take that. Whatever it will not use for itself will be available for competition with the crudes south of the border, and if the Alberta fields develop to where there is more than 200,000 barrels a day available, and more oil is offered for transportation westward, the rate at which it can be transported westward will be sufficiently low to put it into competition with the California crudes, and even displace some of those in the north western United States.

Q. How would you get it down there?—A. By tanker, or if there were connecting pipe lines. That is off in the future, but the applicants propose taking it to marine terminals at Vancouver.

Q. Would you go into the steamship business?—A. I do not think there is any contemplation of doing that.

Q. Would you store at the port?—A. Yes, the proposition is that there would be storage to the extent of 710,000 barrels at Vancouver.

By Mr. Goode:

Q. You have made one serious mistake on this map: you call Port Moody a terminal. It is in my riding. Never call Port Moody a terminal—A. I would not have done that, Mr. Goode, if I had made it myself.

Q. I want to develop this Port Moody idea: what do you intend to do there? You call it a terminal here, but what do you intend to do there as far as the terminal is concerned?—A. It is intended, I think, to transport the crude oil there and have it available for distribution to the refineries in that area; to bring it to tide water, if any of it were exported.

Q. Are you going to build any refineries yourself?—A. I do not think there is any contemplation of building a refinery there. It is strictly a transportation company, and it feels, with the refineries at present there, and the hope they

will be extended as is indicated, that ultimately there will be a market for whatever crude oil may be transported from the Alberta field to the Vancouver area.

Q. Is there any arrangement between this pipe line company and any oil company refining oil for distributing from Port Moody? Is there any relation between the two?—A. At the present time I do not think there is, other than informal discussions which may have taken place about arrangements which may take place in the future, or determining whether or not it is an economic proposition.

Q. According to this map, you are going through the Coquihalla Pass?—A. According to the route, yes; along the river.

Q. Do you not anticipate any trouble? You know the trouble the C.P.R. had going through there in the winter time?—A. All I can say to that is that these engineers do admit that there are a number of difficult things, but they say they are not insuperable by any means, and in their experience, Williams Bros., Mr. Culbertson, and these other persons, who have advised on it, consider this route is feasible and they can overcome these difficulties.

Q. Have you to arrange things with the municipalities about going through these towns?—A. Not as yet.

Q. Has there been any negotiation between your company and the cities in other parts of the country?—A. Other than to determine what part of the particular town they may want to go in, I do not think they have, because it is all so nebulous; if we do not get a charter it will not be necessary; but if we do we will have to do that and make arrangements with the owners of the rights-of-way.

Q. But if you do get a charter, and do not get permission to go through the towns?—A. Well, we are there in the hands of the Board of Transport Commissioners.

By Mr. Shaw:

Q. Is it assumed the company will undertake construction almost immediately after authorization.—A. I would say it is. We are in the same position as a number of these other pipe line companies, as I think this committee all too well knows, and they all must go to the Board of Transport Commissioners and they will decide which one of these companies has the best proposal in the interest of the shippers and consumers and everybody; and we hope that our proposal is the best.

Q. If you are authorized to proceed, are you prepared to proceed immediately?—A. Oh, yes, that is the intention. We are bona fide in the business of oil and transporting it.

Q. What is the estimated time required to construct this pipe line?—A. I would think by the end of next summer.

Q. Do you mean by the end of this summer?

The DEPUTY VICE-CHAIRMAN: Maybe we should wait until we hear an engineer on that.

The WITNESS: I am informed by Mr. Dutton that if there is not too much delay, it will be next summer.

By Mr. Laing:

Q. I would like to develop some concept of the economics of this: I do not know whether or not you are in a position to indicate the cost of transport to Vancouver?—A. Yes, that again was all gone into. That will fully depend on the volume: from roughly 29·9 cents to 65·4 cents depending on the volume available. If we get 110,000 barrels a day we can operate as low as 29·9.

Q. Have you any idea of the present cost to Sarnia?—A. Off hand, no, but we would not be competing with Sarnia, because Sarnia gets the eastern movement; that is the 95,000 barrels a day I mentioned.

Q. Is not the cost 83 cents, or something in the nature of that?—A. I cannot give you that.

Mr. BROWNE: But that is much further.

Mr. LAING: I know it is, but the point I am trying to develop is that this type of pipe line—and I hope the committee looks upon it with great favour—is going to develop new industries in British Columbia, and at the same time return to Alberta a much higher return for that portion of the oil which can be economically shipped that way. At the present time Sarnia is not taking capacity of allowables and there is a surplus in Alberta, and it would seem to me to be a very important economy in our country, to take oil westward, and I am delighted this bill calls for terminal facilities at Vancouver. In the Pacific north west at the moment there are no refinering facilities at either Seattle or Port Moody, but there is no reason why we could not do that.

The WITNESS: Thank you.

By Mr. Jones:

Q. Are you contemplating building a pipe line to Seattle and Tacoma?—A. That is not in the present contemplation. We take it to tide water at Vancouver, and there we hope the Vancouver refineries can take a considerable proportion. Any excess would be available for competition with the north western United States oil in Seattle or Washington.

Q. Would a branch line to those towns lower the cost for British Columbia consumers?—A. I suppose it would to this extent: that the greater the volume that is transported on that pipe line, the lower the cost of transportation, and the lower the Vancouver payment for crude oil.

Q. Is it conceivable you could put out a branch line to lower the cost?—A. That would be a result. At the present time we are merely trying to get to Vancouver. If we get there, we think our crude oil will compete with other oil south of the border, and we think at that point, whoever is interested in buying oil will take care of that aspect of it. We are merely in the transportation end of it.

Mr. GREEN: Is Mr. O'Donnell calling these other men?

The DEPUTY VICE-CHAIRMAN: We will call them if you want them.

The WITNESS: I was trying to save time, but I can call them.

The DEPUTY VICE-CHAIRMAN: We have the two applicants here; Mr. Brown and Mr. Weir. Is it the pleasure of the committee to call them?

Mr. GREEN: Yes please.

The DEPUTY VICE-CHAIRMAN: Which one do you want?

Mr. GREEN: Mr. Brown.

R. A. Brown, Jr., Calgary, Alberta, president Federated Petroleum Limited, called:

The DEPUTY VICE-CHAIRMAN: Have you anything you would like to say, Mr. Brown, or would you prefer just to answer questions?

The WITNESS: Just to answer questions.

By Mr. Green:

Q. Mr. Brown, what experience have you had in the oil business?—A. I have been in the oil business for 16 years, sir, primarily in the drilling, production and exploration.

Q. In Alberta?—A. Yes, sir.

Q. You and your father were two of the pioneers in the oil business in Alberta?—A. My father was and laterally I joined him.

Q. What is the position with regard to the amount of oil available for shipment out to the Pacific coast?—A. At the present time there is approximately 50,000 barrels per day available to go to Vancouver.

Q. That is the maximum that is available at the present time?—A. Yes, sir.

Q. Fifty thousand barrels a day?—A. Yes, sir. That is arrived at—the government of Alberta give the industry an allowable production, and presently there is 150,000 barrels a day being produced and taken by Inter Provincial and consumed in Alberta. The balance would be available if facilities existed.

Q. What is the total allowable production in Alberta?—A. About 200,000 or 205,000.

Q. About 200,000?—A. Yes.

Q. How much goes east through Inter Provincial pipe lines?—A. At the present time 95,000.

Q. How much is used in Alberta?—A. Approximately 50,000 or 55,000; it varies each month.

Q. So that all that would be available for piping to British Columbia would be about 50,000 barrels a day?—A. Yes, sir.

Q. In your opinion is there likelihood of more than one pipe line being needed for piping oil to the west coast from Alberta?—A. It would depend entirely on the amount of production obtained in Alberta.

Q. Well, under present conditions would there by any justification for more than one pipe line?

Mr. GOODE: I do not think that is a fair question.

Mr. GREEN: Here is an expert oil man, one of the best in Canada, and I do not know why I should not be allowed to ask that.

Mr. GOODE: Your own conscience should tell you.

The DEPUTY VICE-CHAIRMAN: The idea of this committee is to obtain information. Go ahead, Mr. Green.

The WITNESS: At the present time it is very doubtful whether two pipe lines could exist economically if only 50,000 barrels a day was available and shared equally. We need a minimum of 34,000 barrels a day to reach a break even point which provides interest on the money invested and operating costs.

By Mr. Green:

Q. So that under the present conditions, practically all of the oil available for piping to the west coast would be required in British Columbia; is that correct?—A. Yes, sir.

Q. Your plan is considerably different from other plans that have been submitted, in that the cost is a great deal lower, and the plan does not visualize the transporting of such large quantities of oil.—A. We have provided some flexibility. We can bring our pipe line from a 50,000 barrel capacity to 75,000 by building one pump station and adding one or two pumps at existing stations. We can increase the capacity up to 110,000 or 125,000 barrels a day by adding three additional pump stations. The pipe line can be extended beyond that by looping a line, and that will depend entirely on available production in Alberta, and available market on the west coast. Our line was designed to fit existing conditions as we see them.

Q. Your line is meant to fit conditions as they are at the present time?—A. At the present time, and at the same time for some flexibility if more production is found in Alberta.

Q. Do you visualize any refineries on your line between Edmonton and Vancouver?—A. I personally do not. I know of none that are contemplated.

Q. Your plan is that any oil available to be exported from Canada would be shipped by tanker from Vancouver?—A. There are three ways it may be shipped: by barge, by tanker or by pipe line out of the Vancouver area into the Seattle area, if that is the destination, but that is something that would be decided at the time the market in that area became available.

Q. Generally speaking, your belief is that the main job now it to get the pipe line to the Pacific coast at Vancouver which will be something in line with present conditions?—A. Yes, sir.

Mr. GREEN: I am very favourable to this application, Mr. Chairman.

By Mr. Laing:

Q. One question: in your reply to Mr. Green concerning present allowables, I think probably you would be leaving an air of pessimism in the minds of the committee. That is at present?—A. Yes.

Q. Is not it a fact that there are accretions to reserves annually of 200,000,000 barrels?—A. Yes.

Q. And we can expect further accretions?—A. Quite so, but I would not care to put a figure on what new fields will be found.

Q. New wells are coming in all the time?—A. Yes.

By Mr. Murphy:

Q. Mr. Brown, there is one point I want cleared up: you mentioned the pipe line going to Sarnia with a capacity of 95,000?

The DEPUTY VICE-CHAIRMAN: Not capacity: that is what they carry.

The WITNESS: At the present moment, that is what I understand.

By Mr. Murphy:

Q. Would you be able to get enough oil if the Inter Provincial carried its full capacity?—A. My understanding is that Inter Provincial is presently carrying its full capacity.

Q. What do you mean by "presently"?—A. 95,000: Inter Provincial has the same characteristics as our proposed line, in that it can be expanded from 95,000 to 135,000 and up to 200,000 ultimately.

Q. That is what seems rather vague to me: with the present output in Alberta being somewhat, shall I say, limited, I was wondering how you are going to fix this picture properly if the Inter Provincial would step up its capacity to, say, 150,000 or 200,000? How is that going to affect your company? —A. We are in the process of making arrangements to sell oil as opposed to other companies on the west coast, and I think we might have an economic advantage.

Q. Yes, I can appreciate that. The financing of this project, is that going to be Canadian?—A. Yes, sir.

Q. As far as you know?—A. As far as I know, sir. Mr. Weir, who is one of my directors, and is present, is in the financial business and he has had discussions with many people in finance relative to this whole project, and we are satisfied money can be found in Canada to the extent of 60 million dollars to complete the pipe line.

Q. And that is going to be raised by selling so much common stock?—A. It will be raised by selling $41 million of 20 year first mortage bonds, $18 million of 4½ per cent 20 year convertible bonds, and $1 million of common shares. That is the tentative proposal.

Q. What are these common shares going to sell at?—A. Tentatively, sir, the intention was they would be sold at $1 but a great deal will depend on the conversion feature of the 4½ per cent, which is something that will have to be worked out at the time.

Q. I assume, naturally, that you know what the price of oil coming into the Vancouver area from the south is?—A. Yes, sir.

Q. And you feel that you can compete?—A. We can operate our line and pay the same price which is now being paid for Redwater crude. If we can put 34,000 barrels a day through our line, we can pay the same price in Vancouver in competition to the crudes now being used in that quarter.

Mr. ROONEY: Mr. Chairman, this company from what I see, is offering us everything we ask; why not put it to a vote and get this thing through?

The DEPUTY VICE-CHAIRMAN: Any more questions?

By Mr. MacDonald:

Q. Mr. Chairman, I have just one question going on further from what Mr. Murphy asked about these accretions; would the witness say in his opinion that in the very near future there will be sufficient oil produced in the Redwater and Leduc fields to take care of the requirements of Canada to the capacity of Inter Provincial pipe line and your proposed pipe line?—A. I prefer not to express an opinion on that, sir.

The DEPUTY VICE-CHAIRMAN: That is a rather difficult question. That concerns future production, does it not?

The WITNESS: I do not think that the existing reserves are adequate to take care of Canada—I say that as a direct answer to your question. I think all of us in the west, as evidenced by the fact there is $150 million or $200 million a year spent on exploration, respect the future possibilities of Alberta. There is no doubt in my mind at all that new oil fields will be found.

Mr. BROWNE: Did you say the supply of oil was or was not sufficient to take care of all Canada?

The WITNESS: In my opinion it is not adequate.

The DEPUTY VICE-CHAIRMAN: Shall we consider the bill?

Mr. GREEN: I would like to hear the engineer.

Mr. MURPHY: I have one question before you go, Mr. Brown. As an oil producer can you tell this committee whether we ship any oil south of the border?

The WITNESS: Not that I know of.

Mr. MURPHY: Has any attempt been made to ship oil south of the border?

The WITNESS: No serious attempt.

Mr. MURPHY: The campaign is on, of course.

The WITNESS: Yes, sir.

Mr. J. L. Culbertson, Tulsa, Oklahoma, Consulting Engineer, called:

The DEPUTY VICE-CHAIRMAN: Would you like to make a statement or would you prefer to answer questions?

The WITNESS: I would prefer to answer any questions.

Some Hon. MEMBERS: Carried.

Mr. GREEN: Several people here say "carried" but, while we are all in favour of this bill, we have expert witnesses here whose evidence may be of the utmost value in regard to other bills in future. I want to find out what we can while they are here, and if you will be patient it will help us in the long run.

Mr. HERRIDGE: You have Mr. Goode's permission.

Mr. GOODE: No caustic remarks.

Mr. SHAW: May I suggest that even though we are in agreement with the bill we would at least like to hear what is going on and I think there are several factors contributing to the fact that we cannot hear.

The DEPUTY VICE-CHAIRMAN: Proceed, Mr. Green.

By Mr. Green:

Q. Mr. Culbertson, can you outline to the committee your experience as an oil engineer or pipe line engineer?—A. Yes, sir, I have been connected with the transport side of the oil business for thirty-six consecutive years and have functioned as a consulting engineer for one of the largest systems in the world.

Q. Can you tell us some of the developments on which you have been retained as a consulting engineer?—A. The last project was the Trans-Arabian pipe line in the middle east, and which is one of the largest pipe lines ever conceived. It is built with thirty and thirty-one inch pipe to handle some 315,000 barrels daily. Prior to that I initiated the engineering work on the Big Inch.

Q. Where?—A. The Big Inch—the twenty-four inch war emergency line from Texas to New York. I built the Texas Empire System from Oklohama to Chicago; the Texas-New Mexico pipe line system from Texas out into the west. I built the system from Port Arthur along the gulf coast into the New Orleans area, and many others.

Q. Your firm has been responsible for the engineering investigations with regard to this proposed oil pipe line to the Pacific coast from the Edmonton district?—A. I, personally, with the firm of Robert L. Purvin—there were two engineering consultant companies on the job.

Q. What is your opinion concerning the feasibility of the plan proposed by the applicant for this charter?—A. There is no doubt regarding the feasibility of it. It is quite feasible and practical.

Q. And what about the figures they have given us as to cost?—A. I think they are reasonably accurate.

Q. You have heard Mr. Brown's evidence about being able to lay down oil in Vancouver by this pipe line to compete with crude shipped in from California and other points to the south. Do you agree with that?—A. I think it is absolutely correct.

Q. You think that the whole proposal is economically sound?—A. Quite, yes sir.

Q. And you have also heard the evidence with regard to the available crude in Alberta, do you know anything about that?—A. I am not qualified in that respect, however I do know that the concensus of opinion of the geologists who are qualified is to that effect.

Q. To the effect of the evidence given earlier this morning?—A. Yes, sir, that is correct.

Q. By the way, do you think that the situation would justify more than one oil pipe line to the Pacific coast?—A. No, sir; definitely not.

By Mr. Browne:

Q. Who surveyed this route? Did you go over the route yourself?—A. Myself, and the firm of Williams Brothers.

Q. You are familiar with the route yourself?—A. Yes, sir.

The DEPUTY VICE-CHAIRMAN: Shall we take up the bill?

Mr. MURPHY: Would you call the finance man for a moment.

Mr. J. B. Weir, Montreal, Quebec, Director, Federated Petroleums Limited and Home Oil, called:

By Mr. Murphy:

Q. So that it will appear on the record, you are the financial man responsible for any information desired by the committee?—A. Yes, sir.

Q. As such you have gone into the details respecting production and transportation?—A. Mr. Brown and I have gone into the figures at the same time. I am a director of Federated Petroleums Limited as well.

Q. Is it your opinion then that the proposed figure is correct—the figure for the construction of the pipe line?—A. Well, sir, I can only take the figures the engineers have given me and I have every confidence that their work is correct.

Q. As the finance man, from your calculations of production and transportation you consider the project will be financially sound?—A. Yes, sir.

By Mr. Applewhaite:

Q. Your capital stock will consist of two million shares without nominal or par value. How do you anticipate— —A. The proposal is for one million shares.

Q. Your bill says two million, does it not? No, I am sorry, I have the wrong bill?—A. The proposal, sir, is that we raise $41 million in first mortgage bonds, and $18 million in convertible debentures.

Q. As a matter of fact Independent Pipe Line Bill says "five million shares?" —A. That is the authorized capital, sir.

Q. What do you propose to raise besides that? How do you propose to raise the balance of your cost of construction?—A. Well, it is given. The actual cost will be something less than the $60 million, leaving about $2 million for working capital—the rest to cover the cost of construction.

Q. In what form of financing do you propose to raise that additional $60 million, approximately?—A. $41 million by the sale of first mortgage bonds, which will be principally insurance money and other money available in the bond market.

Q. $41 million of first mortgage bonds?—A. Yes, and $18 million of convertible debentures. What the conversion of the debentures would be is dependent on what the market is at that time.

Q. Have you a financial house to handle it?—A. I would handle it but I would have to get a group to underwrite with me.

Q. Are they committed as yet?—A. No, sir.

The DEPUTY VICE-CHAIRMAN: Shall we go on with the bill?

Agreed.

Shall the preamble carry?
Carried.

Clause 1?
Carried.

Clause 2?
Carried.

Clause 3?
Carried.

Clause 4?

Mr. GREEN: In clause 4 we have the same difficulty that we had in one of the other bills. There is provision here for changing the place of the head office and we asked in a previous bill that the words "within Canada" be inserted there. There is no such restriction here.

The DEPUTY VICE-CHAIRMAN: Do you wish that amendment?

Mr. O'DONNELL: We have no objection whatsoever to that. This is strictly a Canadian company and we followed the form of bills previously adopted. I know that there is one bill that has the words "within Canada".

Mr. GREEN: You could add that at the end of clause 2.

The DEPUTY VICE-CHAIRMAN: In the first line of clause 2: "The company may, by by-law, change the place—'within Canada'—where the head office, etc". Will you make that motion, Mr. Green?

Mr. GREEN: Yes.

The DEPUTY VICE-CHAIRMAN: It is moved by Mr. Green that the words "within Canada" appear at the end of line number 25.

Is it the pleasure of the committee to adopt clause 4 as amended?

Agreed.

Shall clause 5 carry?
Carried.

Clause 6?
Carried.

Clause 7?
Carried.

Clause 8?
Carried.

Clause 9?
Carried.

Clause 10?
Carried.

Clause 11?
Carried.

Shall the title carry?
Carried.

Shall I report the bill as amended?
Carried.

The DEPUTY VICE-CHAIRMAN: As it is now five minutes to eleven we will adjourn the committee and reconvene here at 11.30 this morning.

The Committee resumed at 11.30 o'clock a.m.

The DEPUTY VICE-CHAIRMAN: Order, gentlemen, the next bill that we are going to consider in this committee is Bill No. U6 of the Senate, No. 321. The parliamentary agent is Mr. Corlett. Mr. Corlett, will you explain the bill?

Mr. M. E. Corlett, Barrister of the City of Ottawa, called:

The WITNESS: Mr. Chairman, honourable members: this is another pipe line petition. From perusing the terms of the bill you will note that it follows the standard or model form that I believe was prepared by an interdepartmental committee of lawyers, employed by the government of Canada. Also you will note, in section 5, that this company, if the charter is granted to it, will operate subject to the general legislation on the matter of pipe lines, namely, the Pipe Lines Act. Now, I would like to refer the honourable members to the petitioners because we submit that they are a representative and responsible group of Canadian citizens.

Mr. Lloyd Rogers Champion of the city of Montreal is chairman of the Prudential Trust Company which has its head office in Montreal and which operates from Montreal to the Pacific coast; Colonel Leslie Mendelssohn Cuthbert

St. Bendick Collins, of the city of Toronto, is the president of the Prudential Trust Company; and Mr. Daniel Roland Michener, K.C., is a prominent barrister in the city of Toronto; Mr. Hurter, is an eminent Canadian consulting engineer and presently owns the firm of Stadler, Hurter and Company, Montreal; and the last petitioner, Mr. Joseph Theophile Wilfrid Gagnon, is one of the prominent industrialists residing in the province of Quebec. So that on that point we submit that this is a representative and responsible group of Canadians.

We have distributed a map which indicates the proposed route of this pipe line which, as you will see, is to be a gas pipe line originating in southern Alberta, and following an all-Canadian route to Vancouver on the Pacific coast. We have already met the wishes of this honourable body by having inserted when this bill was before the Senate, in clause 6(a), the all-Canadian provision, namely that the main pipe line or lines for the transmission and transportation of gas and oil shall be located entirely within Canada. Now, I might say, gentlemen, that the preliminary survey of this route was made by Mr. Hurter. Unfortunately, Mr. Hunter is unable to be here today. He had made a preliminary survey and I think, as honourable members will remember, this route will more or less follow one that was approved by this committee when the Alberta Natural Gas Bill was before this House in the spring session of 1950. This was their all-Canadian route other than the Yellowhead pass route.

We have with us today the representative of the financial backers who are Dillon, Read and Company of New York city. Mr. Wadsworth, who is the vice president of that company, is here and will be glad to give testimony to this committee and answer whatever questions honourable members might wish to ask of him. This group has already retained an outstanding American engineering firm, the Hudson Engineering Corporation of Houston, Texas. This company, unlike many companies, is more than just a construction firm. I mean, in addition to constructing pipe lines they design them and service them and generally are known as specialists in the gas industry in the United States. Their vice president, Mr. V. V. Jacomini, is here and he will be glad to give evidence. Now, the only other point that I would like to mention at this point is on this question of steel, because I have noticed that honourable members have asked questions about that in connection with other bills. Now, we take the position, gentlemen, that since steel is subject to governmental control both in the United States and in this country that in the final analysis—assuming that a charter is granted to this group, and all the other hurdles are successfully completed—the steel control in either this country or the United States will have a big say as to whether steel will be allocated. I understand that the gas pipe line industry in the United States is known as a defence supporting industry under the Controlled Material Plan that is being worked out there and which may be adopted in some form in this country. However, I would like to say and I am authorized to say that this group who are taking their responsibility seriously have received an assurance from the Schneider Company of France, which honourable members know to be the largest steel producing company in Europe, that they are interested and will lend every assistance to see that steel is supplied to this particular company if this charter is granted.

Without further ado I would say that I leave in your hands whether to call Mr. Jacomini or Mr. Wadsworth to give testimony.

The DEPUTY VICE-CHAIRMAN: Are there any further questions to ask of this witness?

By Mr. Fulton:

Q. I would like to ask the witness, Mr. Chairman, whether he is in a position to tell us about the available supplies of gas in the area which you have indicated on your map as being the starting point of the pipe line, the Pincher Creek area.—A. The answer to that, Mr. Fulton, is that at this stage

you will appreciate we cannot say precisely where the line will start. Most likely, if it is going through the Crowsnest Pass it will have to start somewhere in the southern part of Alberta, in the Pincher Creek area. At the moment this proposed company does not operate a gas gathering or grid system. On that point I would say that since the Pipe Lines Act says we must come to parliament in order to obtain a charter, we feel that we do not want to get involved too much until we know whether we are going to get a charter, and it was for that reason that I stressed what we thought was a bona fide and responsible group of Canadians. We have strong financial backing. Mr. Wadsworth, of Dillon, Read and Company, can tell you what Dillon, Read do in the pipe line business in the United States; and we have strong engineering backing. At the moment, no commitments have been made with reference to any gas gathering system in Alberta.

Q. The map which you gave us simply indicates the point of origin at Pincher Creek with two spurs, one running to Spokane and the other to Seattle, so I presume what the company may be contemplating with respect to gathering gas in Alberta and from what you told me, at the moment there is nothing definite at all. I understand from your answer that you have not made any commitments or any definite arrangements with respect to the gathering of gas, is that correct?—A. That is right, sir.

Q. Could you elaborate a little bit on your answer to tell me whether or not the company presently contemplates eventually bringing gas from as far afield as the Edmonton area or whether it is intended to confine its activities to the gas fields in the southern portion of Alberta?—A. Mr. Fulton, we feel at this stage, in view of the attitude of the Alberta government, that we just cannot say specifically where the line will originate. It seems to me I have heard evidence that the Alberta government is of the opinion the large gas reserves will be in the northern part of the province. If that is so, assuming we get the charter, we would take active steps to make arrangements with gas gathering systems in Alberta or it might mean we would have to extend the line further north.

Q. In other words, although we have this map showing that you are going to start apparently in the south we must not take it, then, you are confining yourself simply by the map you have presented to us. In other words we are not to take it you are going to confine your activities to the southern part of the province.—A. No; I am sorry if this map has misled the committee.

Q. No, I do not mean that; I just want this point to be clear.—A. You are quite right, Mr. Fulton.

Q. Although you have shown a route starting at the southern portion of Alberta and extending across practically the south border of Britsih Columbia, yet if the gas situation in Alberta develops in the way you just indicated, that the large exportable reserves of gas are around Edmonton, you might contemplate changing your route.—A. Well, if this group gets to the Board of Transport Commissioners and the board ordered the line to go through the Yellowhead Pass that would certainly have to be done by us, but at the moment the preliminary surveys have been surveys of the route indicated on the map.

Q. And it is the intention of your company to apply for authority to build over the route shown on the map?—A. It is the present intention to do that.

By Mr. Applewhaite:

Q. Following the line of Mr. Fulton's questioning. I want to ask a question in connection with the available gas. Would this witness like me to ask him or have you somebody else who will come later?—A. Mr. Applewhaite, I am not a technician. I only happen to be a barrister at law; perhaps Mr. V. V. Jacomini, who is the engineer, can answer that.

Q. You have an engineer here?—A. Oh, yes.

By Mr. Murphy:

Q. I wonder if the witness would tell the committee, or who would answer questions with respect to, we will say, taking by-products out of your gas before it is shipped.—A. Mr. Jacomini would be in a position to answer that because, as I mentioned earlier, his firm are familiar with the ins and outs of that phase of the project.

Q. Have you an officer of the company here?—A. No, we have not, sir.

Q. You have Mr. Jacomini and your financial backer?—A. Yes, Mr. Wadsworth is the representative of the financial backers of this company, and Mr. Jacomini is vice presendent of the engineering company that has been retained.

Q. I wonder if you could find out who would be in a position to give evidence with respect to the by-products coming off the gas before it is shipped.—A. I think, Mr. Murphy, in view of what Mr. Jacomini told me last night, he would be able to give you that information.

Q. Yours is just a pipe line, it is not a common carrier, is that the idea?—A. Being a gas pipe line I do not think under the Pipe Lines Act it could be a common carrier. We would just be transmitting gas.

Q. You have not any fields, I mean?—A. No, not at the moment. In answering that I think Mr. Jacomini will be able to answer the questions you have raised and if not we will most certainly see you get the information you want.

By Mr. Green:

Q. Is this group applying for a charter affiliated with any company which is producing gas or owns gas?—A. No, Mr. Green.

Q. You have no affiliations whatever?—A. No. Well, now, I want to say this there are no active affiliations but I must say this, since you have raised the question, that Mr. Champion happens to be president of Oil Sands, Limited. Their interest has been in the tar sands fields in northern Alberta. I think he is also president of a company called Wainwright Refineries Limited. Those are oil companies, certainly nothing to do with gas.

By Mr. Murphy:

Q. Do you purpose selling your product to public utilities—how do you intend disposing of it?—A. I think that is the intention but Mr. Jacomini could give that information to you more adequately than I could.

Mr. GOODE: This is not significant, but there is not a westerner on this board of directors at the moment?

The WITNESS: No, sir.

The DEPUTY VICE-CHAIRMAN: Is it the intention of the committee to call Mr. Wadsworth, the vice-president of Dillon, Read and Company?

Mr. MURPHY: Would you call the engineer first, Mr. Chairman?

The DEPUTY VICE-CHAIRMAN: Mr. Jacomini.

Mr. V. V. Jacomini, Vice-President, Hudson Engineering Corporation, Houston, Texas, called:

Mr. BYRNE: The other pipe line companies that have applied here have in many cases overlooked the East Kootenay and in some cases the West Kootenay area. Have you any figures which would show approximately the consumption of gas in the east and west Kootenay? That is, we have Kimberley, which is presumably a large consuming area, and Trail. Could you give me figures as to the amount of consumption in those areas?

The DEPUTY VICE-CHAIRMAN: I wonder if that is relevant to this bill? This is a bill to build a pipe line from Pincher Creek to Vancouver.

Mr. GREEN: I think that question is very material, Mr. Chairman. These gas lines will make gas available at many different points and I think the question of Mr. Byrne is quite material.

Mr. CORLETT: I would like to say, honourable members, that we are in this position, and I thought I had indicated it earlier. I might say Mr. Jacomini is an American and I would go so far as to say that at this moment he has not personally gone over this route, but from his experience I think he can tell you that a pipe line could be built over this route. He has, I think, built pipe lines much more difficult than this. The position that this group are in is this, that at the moment we have not even got a charter, therefore we cannot go to too great an expense in having market analyses and so on made. If we get the charter then we will know where we stand, but at the moment we do not. Therefore, I submit to the committee that the strong points are, firstly, that this is a strong responsible group of Canadians who are taking their responsibilities seriously.

Secondly, we have the financial backing of Dillon Read & Co. No matter how good the engineering talent, if you do not get financial backing, you cannot build a pipe line. Dillon Read & Co. has financed as much, if not more than any single financial firm in New York, Chicago, or in the whole United States.

The Hudson Engineering Corporation, I think, as Mr. Jacomini, the witness, can prove to you, knows as much about the gas industry from an engineering point of view as any company in the United States.

But in answering Mr. Byrne's question, I must say that we do not know, and we could not tell you. If we did, it would only be an estimate. Possibly the honourable members might like to hear from Mr. Jacomini what he knows about the gas industry, so that they can assess whether or not he is a first class engineer.

Mr. GREEN: Is this the situation? You people have made no survey whatsoever of the route, and you are simply drawing a red line on the map?

The WITNESS: No sir. Mr. Hurter is one of the petitioners. As I mentioned he is one of the owners of the Stadler-Hurter Company, one of the outstanding Canadian consulting engineering firms today. He has made a preliminary survey of the route, and he knows the area. Mr. Jacomini, the witness, is an American and he could not say, with honesty, that he has been over the line, because he has not.

Mr. MURPHY: I think we are in a strange position, Mr. Chairman. We are being asked to accept testimoney from an engineer who knows practically nothing about the requirements in the different areas as was indicated by his answer to the question asked a few minutes ago. They say they have financial men prepared to back this thing; but what are they backing? We do not know. We do not know what they are going to back. Certainly there should be some analysis presented before this committee as to the requirements all along the line.

I should think that any financial firm which was going to support this proposition would certainly have an analysis made in regard to a proposition which undoubtedly will involve millions of dollars. We have not yet been given the figure, but I suppose we will get it. Therefore I think we are entitled to know where they are going to get their gas, where they are going to sell it, and how they are going to sell it. I think that evidence should be presented to this committee. This witness cannot tell us.

The WITNESS: Mr. Chairman, my knowledge of the business is quite extensive. We have been engaged in the gas business for many years, and from our general knowledge I think we can tell approximately what might

be involved in the cost of the line. As to the actual cost of the line, we cannot tell you that until we have actually made a survey of the line in the area, and in the type of country involved.

By Mr. Murphy:

Q. You cannot give us any idea of the cost of the line, let us say, from Pincher Creek to Vancouver?—A. I think it would be in the order, according to our estimates, of $70 million to $80 million for that distance.

Q. How many miles is it?—A. According to the route indicated, it would be in the neighbourhood of 1,000 miles.

Q. And what would be the size of the pipe line?—A. We had thought in terms of a 24 inch line at the start. Size of a gas line is a considerable problem in itself. It is something that gas companies are confronted with every day in the year, because the size of the line would be directly tied in with the number, capacity and design of the compressor stations along the line. It is for the purpose of making a survey with respect to those matters that we have been engaged, when this company gets a charter to proceed.

Q. And the estimated cost you said was what?—A. In the neighbourhood of $70 million to $80 million, or in that range. I must qualify that statement because we do not know as yet what places in Alberta will have to be tied into to gather gas.

Q. You do not know where you are going to get the gas?—A. We do not know where we are going to get the gas until the Alberta government tells us that the gas will be available. And when they tell us the gas will be available, arrangements can be made with tie-ins to get the gas.

Q. Would your firm make a survey as to the requirements along the line? —A. At that time we would be engaged in helping to do that work.

Q. A survey to see what each of the municipalities, cities or towns would require?—A. We would participate in such a survey.

Q. Have you any idea of how much gas you could dispose of?—A. Not any specific figures; only our general knowledge here.

Q. What figures would you give to the financial firm upon which they might base a reasonable conclusion as to the feasibility of this company being sound?—A. The financial firm on their own has made a study in connection with the matter.

Q. Did they employ an engineering firm to find out what the requirements might be?—A. I do not know, but I know from their personnel that they know these things.

Q. I was going to speak about sulphur. Would you be able to say whether or not this firm would have plants such as were proposed by another company which appeared before this committee, to take off the by-products before transmitting the gas?—A. I think I can answer your question very well. In the transportation of natural gas, constituents in the gas which are not desirable for transmission through the line must be removed. Those constituents are: first, water, which has to be removed, otherwise the line will freeze up; second, there are hydrogen sulphide and carbon dioxide. They must be removed. Then the gas must be compressed to the pressure at which it enters the line and is transmitted through the line.

In all of this work, such as removing sulphur—if the gas comes from an area where sulphur is present in significant quantities—we are specialists.

Q. What is your estimate of the capacity of this pipe line?—A. From my general knowledge of it, I would imagine that it would be in the neighbourhood of 200 million feet a day.

Q. You do not know what the market would require?—A. No, I do not know what the market would be.

Q. How much in the way of by-products would you get out of it, if you transported the quantity which you mentioned?—A. If I knew the places where the gas was to come from, I could tell you, but I do not know which fields would be coming in at that time.

Q. The fields would vary?—A. Yes, very considerably. We at the present time are building over $20 million worth of plants in the United States of the type you speak of for cleaning up the gas so it may enter the line; and we also own the largest plant in the United States feeding a gas line.

Q. You expect to acquire sufficient gas in any event despite the fact that there is a proposed line going to the east, a very large line?—A. I think that question depends on what the reserves are, and what the Alberta Board decides is available for export.

Q. You have not made any inquiry about it?—A. Only so far as what has been published in the Alberta Board report.

Q. You think there is plenty of gas available?—A. I do not know. The only people qualified to say that are the Alberta Board. I know there are reports on it; and I also know that no major gas development takes place until there is a market for the gas. If there is a market created, then there is drilling. If not, there is no drilling.

Q. Do you know at what price the gas would be sold at any place in competition with other fuels?—A. No. I think that matter would be controlled to a large extent by the Utility Boards in Alberta and British Columbia.

Q. How are you going to dispose of the gas? By selling it to Public Utilities? —A. I do not think I am the one to answer that question. I am on the engineering side of the line.

Mr. MURPHY: That is the trouble, Mr. Chairman, we have not got an officer of the company here.

Mr. CORLETT: Mr. Chairman, I think perhaps we could clear up the point at this time. Mr. Wadsworth has been involved in this matter for some time and he might be able to provide an answer which would clear up any doubts which hon. members might have. Then Mr. Jacomini could resume the stand and give testimony later.

Mr. BYRNE: Mr. Chairman, as we know, there have been other companies making application here. One of them particularly indicated that Trail and Kimberley, two towns engaged in mining and smelting, would be covered by this proposed pipe line and would use approximately the same amount of gas as the greater Vancouver area. Now, is it true that your company has not made a survey to determine the matter? When drawing this proposed line along the southern portion of British Columbia, has your company decided to use that line because it appeared to meet with the general approval of the committee on other occasions? I think there ought to be some indication given.

The DEPUTY VICE-CHAIRMAN: Mr. Corlett?

Mr. CORLETT: In fairness to Mr. Jacomini, I hope to answer that question better and to satisfy Mr. Byrne. No, it is not a fact that we just show a route used by Alberta Natural Gas. Naturally, we have read the evidence taken before this committee by other petitioners. As I remember it, the Alberta Natural Gas Company had four or five lines. This was one more and I think they threw in another one going through the Yellowhead Pass. Mr. Hurter who unfortunately could not be here today has gone over this route and he says from his engineering experience that it is feasible. As a matter of fact, from information which I have and on which I think Mr. Wadsworth could elaborate, the big problem in the pipe line business in the United States is not created by engineering aspects but rather by financial aspects.

A preliminary survey has been made for this route. And it so happens that the Alberta Natural Gas Company has also made a preliminary survey. I do

not know how detailed it was, and I have forogtten what the evidence was. I suppose that because of this barrier, the Rocky Mountains, no matter how many petitioners you might have, they would be limited to a certain number of routes because of the location of the passes through the mountains. But we have made a preliminary survey.

Mr. GOODE: Who made the preliminary survey?

Mr. CORLETT: Mr. Hurter, one of the petitioners. He is the owner of the Stadler-Hurter Company, of which company many hon. members know. The company are big operators in their field in Canada.

Mr. GOODE: Mr. Chairman, if the gentleman whose name has been mentioned has been over the route, why is he not here today? I think it is most necessary to the application. Mr. Byrne asked a question and so did others, and we could not get answers. When would this gentleman be available?

Mr. CORLETT: I would have to consult with my colleagues. It is true that he did not come but our feeling was this: Mr. Hurter or this group of petitioners are really still, you must bear in mind, only working on a preliminary survey, and if I remember correctly the evidence given in other bills, they talked there of only making preliminary surveys.

Mr. GOODE: No, that is not right. They had a man over the route, as I understand it. I am in favour of no particular company, but I do take exception and I do not think it is right that we cannot get answers. All you are telling us is that you have sufficient financing for our information—that the financing is satisfactory, and that you ask for a charter without giving any further information. Is not that exactly what you have done this morning? Is not that so?

Mr. CORLETT: That is perhaps quite a valid interpretation of what I said. We have to and naturally wish to supply all the information that members of this committee want, but we felt that Mr. Hurter, one of the petitioners who has been over the line, would not be able to give information on the engineering aspect of building pipe lines as well as Mr. Jacomini could. Mr. Jacomini's company is into this type of thing in a big way.

Mr. GOODE: Yet Mr. Byrne could not get an answer in regard to the expectation or use of gas in Trail and Kimberley, and we have received information before in this committee that without supplying Trail and Kimberley gas cannot be profitably taken into Vancouver. If I remember rightly, that was the evidence given before the committee last year.

I am only an amateur at this and I know nothing about gas lines, but how can anyone who has not been into Creston, Trail, Kimberley, and through the country around Grand Forks say that it is going to cost $78 million to build the line. That is information which I think this committee should have. Other companies had to come and tell us that detailed information. I remember we were all asking questions about it and Mr. Green took some hours. They had the information available and gave it to us.

Mr. Byrne suggested that you might be building your application on a transcript made at the expense of some other company. Frankly, I agree with him. I may not be right, but that is what you have told this committee this morning. You have said: We do not think you should have detailed information as regards to route; to our minds it is satisfactorily financed and that is all you should know. That is what you have said, and I am not satisfied with it at all.

Mr. CORLETT: I am sorry that anything I have said has created that impression. That is not what we want. We are limited because of the fact that no company exists at all. As I remember other companies they already had in one form or another, provincial organizations which were in existence. Here, this group has nothing.

Mr. MURPHY: Perhaps Mr. Corlett can include this in his answer— —

The DEPUTY VICE-CHAIRMAN: Mr. Goode is not finished.

By Mr. Goode:

Q. No, I am not finished. May I inquire— — I do not think you can answer but perhaps one of the others can— — what is the cost of gas delivered in any quantity through the Yellowhead route as against that through the Crow's Nest route? What would be the difference in your opinion?—A. I did not get the two locations?

Q. What is a unit of gas—a rather large unit?—A. A unit?

Q. Yes?—A. A thousand cubic feet.

Q. How much would a thousand cubic feet of gas cost delivered at Vancouver through the Crow's Nest route, and how much would it cost through the Yellowhead route? What is the difference in the cost?—A. That of course would depend considerably on studies which have not yet been made by our company.

Q. Is it not fair to say that you do not know?—A. Very definitely I do not know.

Mr. MURPHY: There is one thing I would like to ask the solicitor now. Is it not a fact that after this witness is through you are going to call a finance man and all that he can give us is supposition? He has no facts whatsoever upon which to base a conclusion— — except upon assurances?

Mr. CORLETT: As far as this particular line or route is concerned I imagine that would be so.

Mr. MURPHY: You have not made any survey as to the amount of gas to be consumed in any places along the line and, as Mr. Goode says, you are not in a position to tell us what the gas is going to cost at any place. You cannot tell us either the rate or what the gas is going to cost at different places?

Mr. CORLETT: That is correct, largely because no company exists at the moment.

Mr. MURPHY: All your financial man can do here is give evidence, as to the soundness of this company, which is based on the assumption that they can get the gas and that they can sell the gas, but no survey has been made as to how much they can sell, what they can get, what they have to pay for it, nor what it is going to cost to transport?

Mr. CORLETT: Not with reference to this proposed line.

Mr. MURPHY: And you have not any other witness that can give us that information, because you have not made a survey?

Mr. CORLETT: We have not made a detailed survey, no sir.

Mr. MURPHY: I would certainly suggest, Mr. Chairman, that this charter be not granted.

Mr. APPLEWHAITE: I would like to ask one or two questions.

Mr. FULTON: Well, it is difficult to hear and may we ask that the witnesses speak louder or that the committee members speak a little more softly.

Mr. APPLEWHAITE: Mr. Chairman, could one or other of the witnesses, or both of them now before us, say whether they are familiar in a general way with the plans of the Trans-Canada Pipe Lines Company whose charter was granted earlier this year? I mean you have a rough idea of what they propose to do?

Mr. CORLETT: I do not know whether Mr. Wadsworth would be able to throw any light on that.

Mr. APPLEWHAITE: I will tell you why I want to know, and I could ask several things, but I want to know first whether the sponsors of this company

have investigated the situation in connection with efforts made to take natural gas out of Alberta and distribute it? I want to know whether the sponsors of this company are satisfied that there is ample gas available to supply that part of British Columbia which they can serve from their proposed line if Trans-Canada Pine Lines, to whom we have given a charter, are successful in operating at the rate which they estimate— — 365 million to 500 million cubic feet per day? Are they satisfied of that— — taking into consideration the large amount which may go eastward. If they are, I would like figures and facts upon which they base that satisfaction?

Mr. CORLETT: I think I can answer Mr. Applewhaite's question partially and Mr. Wadsworth can supplement what I say.

If honourable members will remember the statement by Senator Campbell at second reading of this bill in the Senate, he said, and it is a fact, that a preliminary survey was being made and is still continuing—although it may have been adjourned for the time being. Consideration was given to the possibility of running a line from Alberta to eastern Canada over an all-Canadian route, but it is not known yet whether gas can be transmitted from Alberta to eastern Canada to compete with American gas coming in from Windsor and Buffalo. The matter is before the Federal Power Commission at Washington, upon the application of the Consumers Gas Company, Toronto, who have formed a provincial company to build a pipe line from Toronto through Hamilton to Buffalo. There is also the Union Gas Company which distributes gas in southwestern Ontario and, although Mr. Murphy may know more about this than I do, I understand that they bring gas in during the summer months and store it in abandoned wells.

Application has been made for an increase in the importations into Canada of American natural gas but, until a decision is made our group will not know its position.

Mr. APPLEWHAITE: I was hoping the question would be of assistance and not of embarrassment to the applicants. What I want to get an answer to is this question: is there enough gas in Alberta to fulfill the prospectus of Trans-Canada Pipe Lines, assuming they work at maximum supply, and still supply southern British Columbia?

The DEPUTY VICE-CHAIRMAN: Can you answer that Mr. Corlett?

Mr. CORLETT: No, I cannot.

The DEPUTY VICE-CHAIRMAN: Have you anybody here who can.

Mr. CORLETT: Mr. Wadsworth.

The DEPUTY VICE-CHAIRMAN: We have another witness and, if members would like to hear Mr. Wadsworth we could have the three of them together and ask questions of any one of them.

Mr. MURPHY: That is a good idea.

Mr. Arthur L. Wadsworth, Vice-President, Dillon Read and Co. Inc., New York, called:

The DEPUTY VICE-CHAIRMAN: Would you like to make a statement, Mr. Wadsworth?

The WITNESS: I will make a very brief statement if I may because I think so much of this question goes back to the fundamentals of experience and general knowledge of these things. Our firm, as you know, is one of the old and well established American Investment banking firms. Our primary field perhaps has been in oil and gas since 1935 when we placed the first natural gas bonds

that were ever sold to institutions. That was $16 million bonds for Northern Natural. Our firm has managed or underwritten over $1 billion worth of pipe line securities alone and of that $800 million plus were actually placed by us or we were the manager of the group. For the other $200 million we participated with other bankers. That is a record of achievement.

In doing that sort of work, which is one of our specialties, we naturally pick up a great deal of general information, the same as each of you gentlemen do in your own business. In my case, for example, I worked through from the very beginning to the end on the financing for the Big Inch and Little Inch pipe line, on its purchase for $143 million, and on the subsequent organization—taking over the lines and converting them to gas. They are now, just three years later, a $250 million company.

Now, going from that to the specific question here, I would like just to take a minute to tell a story. Back in 1936 I was working on the financing for the Texas Oil Company, a 60 million dollar bond project. The most outstanding geologist in the United States was our expert, and he was asked by our lawyer whether he had personally inspected the Arabian oil fields, because he had made the statement in his report that there was an empire of oil in Arabia, and he just laughed and said that he could have tracked over every foot of those deserts but that he would not have known anything about the oil underneath. He said that he had inspected the geophysical work and the drilling done and that as a result of that he would stand by his statement that there was an empire of oil there. That was when they had one or two wells in Saudi Arabia and Bahrein was partially developed. I do not mean to say that is the complete answer to the economic situation of the pipe line without detailed studies; you gentlemen are absolutely right; but those detailed studies can be made and will be made by this group prior to the time we have to appear and present our case before the Transportation Board, which, I understand, is the group which will make the final decision. As I understand the situation here, this group is asking for a charter, and they have asked us to serve as their financial advisors and bankers. They have asked only to present the case for a right to apply. We have looked carefully in a general way on this Canadian situation; for example, there is the De Golyer firm, which is on practically a retainer basis, we are one of their largest clients; there is Mr. MacNaughton, a friend of mine, and a partner of De Golyer, who is head of a firm developing reserves, in Canada, and there is Canadian Superior Oil, which we recently financed with Wood Gundy, managing the sale of stock in Canada. Besides that I have talked to a number of engineers. Three years ago a man wanted us to back him on a Canadian gas pipe line, but the concensus of opinion was that he was too far away from the realities of the situation and ought not to spend a lot of money and put in a lot of time on a project which was too far away. We feel now, to try and answer some of these specific questions raised here at one time, that the time has come when Alberta is able to supply the requirements of at least one pipe line going in one direction or the other. That is based on general knowledge, but it is based on discussions with a great many of these engineers who have furnished information for the Alberta Board's report. As to which way it should go, first of all, it is a question for you to decide. We personally believe the economies are such on the market end of the line to the west is much more practical than a line to the east. You get such a large investment coming into the eastern markets that you have to have a large amount of gas sales each day to make an eastern line justifiable. Our own inquiries and we have made these in the eastern part of Canada, is that today those markets are not large enough. We may be wrong, but that is the reason we have advised these people that the eastern route was not desirable. In going west you can take care of all the communities on the way to Vancouver. Frankly, I think you will have to supply some surplus gas to the Seattle and Portland area to make it economic, but there is a

market there which means you will be able to get a pipe line to serve the Canadian cities en route. Therefore, you have the elements of a successful pipe line. We may go through this particular group of towns, or some other group. So long as you do not run us over the top of the mountains, the pipe line is economic, and it is up to the people and the responsible Canadian boards to determine the routes. As I say, you have got a supply of gas in Alberta, and we are convinced it is growing, otherwise we would not have sold $20 million worth of securities for Canadian Superior Oil. At the present I believe if the Alberta Board wants to make the decision, they could make it tomorrow, and you could contract for the gas to complete the pipe line. If they wanted to look at it from the point of view of 50 years supply for Canada and assume no more gas will be discovered in Alberta then there is not a supply sufficient for export, but the whole trend in Louisiana and Texas was the same in that they did not want to export any gas in the beginning.

By Mr. Byrne:

Q. Mr. Chairman, the reason you have picked the starting point in the vicinity of Pincher Creek is because your company have prepared some of the ground there in that area, and you are making— —A. No, sir. I can answer that question specifically: Pincher Creek, from what I have heard, is one of the largest potential sources of gas for the present, but, obviously, if somebody brings in a large field north of there, or if the development trend is north of there, the pipe line will go north of there to get its gas. We had preliminary discussions about a year ago with people in Texas who have no part in this project, but who have large gas and oil holdings in Alberta, and they feel there is going to be a substantial additional development, but at the present time Pincher Creek is one of the largest potential sources.

Q. But you do favour this route as the most economic route, or is it because it would—what is the particular reason for favouring the, what is known as, Crow's Nest route?—A. I could not answer that question because I am not an engineer, and, as I said, as I understand it, this is a route which is not too expensive to construct and which hits a number of communities. There is no reason I could give you why the line could not be, within reason, routed some other way to take in some of your other communities if you feel there is more of a market that should be served there.

Q. Well, I personally agree with this route, which serves the largest number. —A. That is what we have been advised. I am in the banking business in New York and I do not know any of the details.

The Deputy Vice-Chairman: Is it the intention of the company to use that as a pipe line route at the present time?

The Witness: It certainly is, as far as I know.

By Mr. Murphy:

Q. Is it not a fact that you are giving your assurance to this group on a hypothetical basis?—A. Sir, I do not quite know how to answer that. It is hypothetical to the extent that we have not seen detailed figures, but it is not hypothetical to the extent that we know the general situation up there, and we know this particular type of business. In other words, let us assume you were in the shoe business. If you see a good corner in a town having no shoe stores nearby, and you had surveyed that town to a certain extent, you would have a general impression whether there was a market for a shoe store. We do not know much about shoe stores, but we do finance pipe lines.

Q. Yes; you have financed them in the United States; you have never financed them in Canada?—A. We have never financed a pipe line in Canada, but I would like to say, as one of the gentlemen speaking for the other group

mentioned this morning, we financed two of the biggest projects he had worked on as an engineer; the Big Inch pipe line and the Trans-Arabian, which was built to link up the Saudi Arabia fields with the Mediterranean. That was a $125 million project, and our firm financed that, so we have financed pipe lines outside the country.

Q. You do not know what you are going to have to pay for gas? You have not any fields of your own?—A. We have not, no; neither have most of the companies in the United States. There are very few of them today that own gas reserves of their own. Those that do are trying to get rid of them; they would rather contract gas from others.

Q. What bothers me is how you can base a figure and still make it stick as a sound investment when you do not know—when you come before this committee with such little information?—A. May I try and answer that question?

Q. Yes.—A. As I told you, I worked on the original economic studies for the Big Inch Pipe Line bidding. They were surplus war assets sold on competitive bidding. At that time nobody was selling natural gas east of the Pittsburgh area, and nobody since before the war had contracted for large blocks of gas in Texas because all construction had been stopped during the war. We knew if the gas could be purchased at 7 cents a thousand cubic feet, which was 2 cents more than had ever been paid before, that it could sell for 26 cents in the eastern market per thousand cubic feet and compete on a favourable basis. There was no other gas, except manufactured gas, to compete with, and on that basis a pipe line would earn 7 per cent on its investment, and a pipe line that would earn 7 per cent on its investment could be financed successfully with a combination of bonds and preferred or common stock, or both, and it was on that basis that we went ahead and bid the $143 million. Now, to be a little more specific, one cent difference in the cost of gas can make an awful difference in the value of the pipe line, but your people in Alberta want to sell gas as they develop it. They would like to get 10 cents, but they would probably take 8, so what you have to do is work backwards, and if the market in Vancouver can pay a certain price for fuels, you work back from there, with the cost of the line and the return on the line, and you get the price you can pay at the other end. We believe gas can be purchased at this end on a basis which will be favourable at the western end of the line.

Q. So that you can compete against other fuels?—A. So that we can compete against other fuels and earn a fair rate of return. After all, since the war there have been three or four of these large pipe lines built in the United States, and the formula for handling that and engineering the job is becoming fairly standardized. The big job is to find a big enough block of gas to justify one of these pipe lines.

Q. What disturbs me is the statement made by one of the witnesses that there would be enough gas developed by Alberta to supply one pipe line either east or west; was that your evidence?—A. I made that statement, but I qualified it: I said we feel if the Alberta Board made a decision this fall to permit the export of gas that our preliminary knowledge of the area indicated enough gas could be contracted for in Pincher Creek and other areas to support the financing of that pipe line.

Q. Just one pipe line?—A. But that is one today, now. Once you build a pipe line and these people begin to get 7 or 8 cents for gas, there is going to be a lot more drilling, and I would be very surprised, from what the geologists say of Alberta, if within a few years there is not plenty of gas for supplying at least two pipe lines. For example, in Pincher Creek, Gulf is the principle owner there, and Gulf told some of our representatives personally that their problem was that a well there cost around $150,000 and why should they develop 20 wells to develop that field when there was no guarantee of having anybody to sell gas to. It is the chicken and the egg problem, if I may say so.

Q. How do you propose selling the product?—A. You mean the securities or the gas?

Q. The gas.—A. Well, the best way to sell the gas is to establish utility companies and industrial consumers to the extent you can get them.

Q. Establish your own utility corporations?—A. Oh, no sir; you would sell through utilities that would be established there, or are already there.

Q. You would not need to establish the utilities?—A. No, we would not. I have no present part in this company, but normally a pipe line company acts only as a transportation unit. It sells to the utilities, and they sell on a basis where the utilities sell so much for a minimum—a demand charge; that is, to guarantee so much from daily supply. That is fixed, and then they pay so much per M.C.F. on top of that for the quantity actually used.

Q. How much gas would you have to dispose of in order to make this a financially sound proposition?—A. I would guess that with a project of this size—and I am talking without checking—it would take in the order of 200 million cubic feet a day.

Q. You feel there is a market for that in Canada?—A. No sir. I said there would have to be gas sold below the border.

Q. About how much?—A. Well, I do not want to sail under false colours, and I have not made any market surveys, but from talking to people who have, it looks as though over half of the gas would have to go south of the border at the present time. From your standpoint, to get gas on a economic basis to yourselves, you could not do it unless you have a big enough pipe line to sell some below the border.

Q. We will go from there to the construction of the financial end of it: how do you propose financing this company?—A. I want to say first of all that it is very foolish to try to predict exactly how you are going to finance anything six months or two months, let alone a year, away. The financial markets are continually changing. Right now we have a very bad market for senior securities in the United States.

Q. You mean bonds and preferred stock?—A. Bonds and preferred stock, whereas up until a few months ago we had the lowest credit rates we had ever —companies that could finance at 2¾ per cent now pay 3½ per cent and companies which paid 4 per cent now pay 5 per cent or more if they can borrow at all. In general, the pattern that we have been able to establish—and I think our firm really established originally—was to get contracts for the sale of your gas, providing the buyer would pay for specified minimum amounts on a take or pay for basis. On that sort of basis we would be able to sell bonds to the extent of 75 or 80 per cent of the total cost. That has become a fairly established pattern. That leaves you somewhere around 25 per cent to be raised by the sale of the combination of preferred stock and common, or, as your Inter Provincial did, with the convertible debentures, and that is a matter of the markets at the time you get ready for the financing. But, in general, 75 per cent of the project—two thirds to 75 per cent should be debt and the balance the debentures or equity money.

Q. Some common stocks?—A. We would certainly assume there would be some common stock. On that I would say we would follow the same pattern as we did in the Canadian Superior Oil; we went to Wood Gundy and they said they would like to organize a Canadian group, and we asked them how much they would take through their Canadian group and we took the balance in the United States.

Q. That is not the company listed—that is Superior Oil?—A. That is an off-shoot of Superior Oil of California. The Superior Oil of California is controlled by the Keck family, and they began acquiring acreage in Canada, and they eventually got tremendous acreage, and it was beginning to require large amounts of development money, so Superior Oil of California put their

Canadian acreage into a new company named Canadian Superior Oil for 51 per cent of the stock and the public put in approximately $20 million, and got the other 49 per cent.

Q. Is that Superior Oil?—A. That is Superior Oil of Canada.

Q. Listed as "Superior Oil"?—A. "Superior Oil of California" is listed on the Stock Exchange. Canadian Superior Oil is not as yet, but we have no relations with them except as their bankers.

Q.—And in your financing, Mr. Wadsworth, you have not mentioned what you might be selling the common stock at?—How much money do you intend to raise on that?—A. Well, if the pipe line costs $80 million we will have to raise $80 million.

Q. And about 80 per cent of that, you say, by bonds and preferred stock? —A. I said two-thirds to three-quarters.

Q. And the balance would be raised by common stock?—A. As I say, it might be common stock, it might be a combination of common and preferred or it might be convertible debentures, convertible into common stock.

Q. It will depend probably on the condition of the market when you are prepared to sell the issue, is that it?—A. That is right. Right now, you can buy good common stocks at somewhere between six and ten times their earnings. On a new proposition like this a man is not likely to take a risk and buy the stock unless the common stock is only four or five times the projected earnings. Your financial arrangements will be set up to sell as much as we can of the various types of securities in such a way as to support the equity money at four or five times the estimated earnings.

Mr. HERRIDGE: Mr. Chairman, I have been detained unfortunately in the House a few moments, that is why I was not here earlier. Is there an engineer here representing the company? I would just like to ask one or two questions? I am very pleased indeed to see this route is projected through the Crowsnest Valley and the Kettle Valley from Pincher Creek to Hope. That pleases many of the honourable members of this committee. Now, we were informed on the occasions of discussions on previous bills that the reason the companies did not consider this all-Canadian route was for two particular reasons, the uncertainty of the cost of construction over that section of this route that lies between Hope and Penticton, the uncertainty arising because of sliding ground. The members of the committee wanting an all-Canadian route indicated that the provincial government has built a road through there and had little difficulty with sliding ground. Would the witness say if his company expects any difficulty on that score?

Mr. JACIOMINI: I think I can say that you have already answered the question—if the provincial government has already built a road through there and had no difficulty, that answers the question.

Mr. HERRIDGE: There should be no difficulty then? I see that this route follows along—goes over the hill from Creston and then strikes a point known as Ymir, which is a small village eighteen miles away from the city of Nelson, which has a population of about 7,000. If this pipe line is built and the city of Nelson wishes to be supplied with gas would your company be willing to build a branch eighteen miles along the highway into Nelson?

Mr. JACOMINI: I think they would probably be very happy to do that if the sale of the gas was economic at this point. Yes, they would be very happy to build that line.

The DEPUTY VICE-CHAIRMAN: Any further questions?

Mr. BYRNE: Mr. Chairman, the witnesses have been discussing presumptions based on hypothetical figures. Could we not presume also that the former companies, companies that have obtained charters here, that have considered

four or five routes, that they would be more or less on a hypothetical basis as well? Your company is sticking almost completely to what is the consideration of this committee, and that is as to the financial backing and the soundness of your company, and we should not fear too much the fact that you have not been able to give complete statistical detail studies as to market and route and so on.

The WITNESS: That is what I was trying to say. A doctor requires experience in diagnosing a case, but you could get a college student to sit down and write up a very complete report with a lot of figures in it but without the practical experience that would not be worth very much to you gentlemen or anybody else. What I was trying to say was that our record is one, I submit, of successful ventures. We have not gone into a lot of things that were impracticable or undoable or we would not have this sort of record. We believe that the Board of Transport Commissioners may want the company to alter this route, but if so the basic fundamentals remain, that there is a supply of gas which is developing and we believe is already adequate, and there is a market when supplemented by the American market, so that an economic line can be built and financed. Of course, we will have to do a great deal of analysis of data which in turn has been prepared by detailed engineering studies, but we have felt, as I said before, it is silly, to be frank, to spend a lot of money and a lot of time until you have reasonable chances of success, and yet we do feel that there is a project here to be built. It is up to your Board of Transport Commissioners to decide who is going to build that pipe line, and when we come before that board the company will have done the work and the engineers will have done their work and so we will have detailed studies and so forth on which we can all present a picture that will stand up in competition with these other pipe lines. I would like to say I was out in the northwest last year, I was up to Alaska, too, and I was travelling with a friend of mine who is a competitor and he has been spending most of his time working on one of these pipe line projects. He was telling me about their problems in developing and financing their lines. I might say everybody uses the other fellow's information and as long as you are not getting it in an unfair way it is alright. People are using our information and we are using other people's information. The best brains of the geological profession of the country have been used by the Alberta government and are summarized in the recent report of the Alberta Conservation Board.

Mr. MACDOUGALL: Mr. Chairman, with respect to this very excellent map, I presume that the main line is depicted in red; it goes all the way from Pincher Creek to Vancouver. Would the witness say yes or no to this question: With respect to the line in blue which goes down from Trail to Spokane, if that potential consumption were deleted, would this company be prepared to expend the necessary money to construct this line from Pincher Creek to Vancouver without any potential American market appearing in the picture?

The WITNESS: I said: No sir, we could not. You could do it, but at rates which would be so high that you people would not buy the gas.

Mr. GOODE: There might be one other question to be asked with respect to the companies serving this line. Mr. MacDougall spoke of them. Is it your understanding that the Canadian government would always maintain control of how much gas would go from the main line to Spokane? In this case Vancouver would want to be guaranteed a supply which would not be affected by those two contributory lines running down to Seattle and Spokane. What guarantee is there that Vancouver will get sufficient gas to take care of her market?

The WITNESS: That, it seems to me, is a matter for the Canadian government to control. It would become a limitation on the financing, to some

extent. But it is the same thing with us in the United States. We have our Federal Power Commission. Our Federal Power Commission has complete control of any gas that goes out of the United States.

Mr. GOODE: What would be the engineering reply to that question?

Mr. JACOMINI: I think with respect to the question of the requirements that are applied, it would be dependent, from an engineering point of view, on the size of the line and the amount of gas which is put through it.

Mr. GOODE: How could you control that gas? We have had this question over the months. Is it possible or would it be possible to cut off that line from the main line? Would it be economically possible to do so at any time, having regard to the fact that a time might come when Vancouver would not be getting sufficient gas to take care of her markets?

Mr. JACOMINI: It would be perfectly possible, physically.

By Mr. Fulton:

Q. To clarify the point which Mr. MacDougall referred to, about eliminating the blue line from Trail to Spokane, if it were sound to build a line through to Vancouver, would it eliminate the market from all possibility of serving the American market? I mean: Eliminating the line from Trail to Spokane does not eliminate the possibility of serving the American market, does it?—A. No, sir, it eliminates only that portion.

Q. Then your main market I take it, as far as the northwestern states are concerned, is in the Seattle and Portland area and that can be served quite easily by extending the line from Vancouver?—A. That is correct.

There is one other thing I would like to say in connection with controlling the gas from Vancouver. That can be a contractual matter as well as a regulatory matter. For example, when a United States pipe line sells gas to one of the big utility companies that utility company has a call on the gas and it cannot be cut off. Perhaps U.S. Steel is buying gas for industrial purposes; they pay a slightly lower rate but they can be cut off. You have heard nearly every winter of the mills in Pittsburgh being shut down because the gas is cut off. In that way to a certain extent you could control the situation as between Vancouver and the American market.

Mr. GOODE: If you contracted to deliver so much gas you would have to deliver it?

The WITNESS: Yes.

The DEPUTY VICE-CHAIRMAN: Mr. Green?

By Mr. Green:

Q. Mr. Wadsworth, what method is used in the United States by the federal authorities to make certain that there is not a shortage of American gas in the United States before allowing any to be exported to Canada?—A. Well, sir, as I mentioned here, the Panhandle Eastern Company I believe at Windsor, and the Tennessee Gas Transmission at Buffalo, have both sought export permits to build lines going into the Toronto market and into the Hamilton market. Those permits have not been granted and I am not familiar with the details of what the Federal Power Commission is doing but I understand one of the reasons they have delayed so long and not taken action, or have not acted favourably, is that they take the position that Tennessee Gas and Panhandle Eastern have more than enough to keep themselves at full capacity in taking care of their own market in the United States. The situation is controlled by the Federal Power Commission which would be comparable to your Transport people.

Q. In other words the Federal Power Commission policy is that American needs must be met before there is any gas exported?—A. I cannot say that is a matter of policy but they have not granted any export permits therefor.

Q. There was some evidence given by a witness today about gas being exported to southwestern Ontario only in the summer. What is the reason for that?—A. I would assume, sir, that the reason is that in the wintertime your house heating load is the thing that builds up in all this part of the country. That house heating load is supplied by a utility company that has the firm contracts I was telling you about. They cannot be cut off up to the maximum they contract for, and the other gas is probably being sold on an interruptable basis. A lower price is paid but it has no priority, and therefore during the summer months when there would be more than enough—people are not heating their homes—it would be available for export. In the wintertime when the gas is being used for house heating it is not available for shipment across the border.

Q. Is your firm Dillon, Read and Company involved in any way with any of the other oil companies or pipe line companies in western Canada?—A. No, sir, we are not. We have stood aside. As I say, the only company we have financed is Superior Oil of Canada which is a producing company. In the United States we are financial advisors at the present time for three of the larger companies; United Gas, which is very big, Texas Eastern, and Texas Gas Transmission; and we have done the financing for a great many others from time to time. Right now we are working on three of those which have total financing of around $300 million.

Q. The reason I asked the question is that if I remember correctly the name of your firm was bandied about here last year by the applicants for some charter, but I cannot remember which charter it was?—A. Sir, I can answer that too, I think. There were some amusing stories which I will not repeat, but Westcoast Transmission Company is backed by a group that has as their bankers Eastman Dillon. Eastman Dillon are the bankers for Sunray Oil which also holds property in western Canada. Sunray Oil is one of the primary backers of Westcoast Transmission Lines. There is frequently confusion between Dillon, Read and Company and Eastman Dillon but there is absolutely no connection between the two.

Q. That would explain it. I know there was a Dillon mixed up here somewhere.

By Mr. MacDougall:

Q. May I ask one more question of the witness. What percentage of the gas going from any portion of Alberta—we will take this area in question here—in order to make the proposition economically feasible in your opinion, sir, what percentage of that product would have to go to the U.S. market?—A. I tried to answer that: I said it would be over half. I want to emphasize that will depend on the detailed studies of what the Canadian market will take, and that depends on the route the Board of Transport Commissioners select.

Q. Is it fair to assume it will be approximately 70 per cent?—A. I would say it was closer to 70 per cent than half.

By Mr. Laing:

Q. May I ask one question: suppose you deliver gas through to Vancouver and make an arrangement with the public utility company there, like the British Columbia Electric, and you build the spur line to Seattle, those are contracts based on a number of years: before you export to the United States you have to go to the Department of Trade and Commerce to get an export permit: let us assume—which I hope would never happen—that after 15 years the gas through the line diminishes: I would assume that you will have to base that on the principle of pro rata to those contracts; is that what is done? Would you say: we have got to keep this gas in Canada and maintain a contract in British Columbia; we will reduce the American contract? I assume that the principle of pro rata deliveries will have to be invoked? I understand that is

what is happening in some of the deliveries in the United States today? What is done in those instances where supply is fading?—A. You are getting away ahead, I am afraid. I do not know how these contracts will have to be worked out in detail. It will be something your responsible government authorities will have a large part in. In the United States the contracts are for stated minimum quantities to those public utility companies for 20 years, and they can cut down the balance over a month's time, or cut back to 75 per cent. They have various provisions like that. Actoually if the pipe line company cannot supply gas to any one of those contracting parties there is simply default under that contract. Now, I do not believe that has ever happened. There have been situations due to the overall shortage in the United States after the war, and in the last few years there was not enough gas to go around and our federal power commission stepped in and allocated the gas regardless of the contracts just as they allocate steel in a time like this, and some of the pipe lines which we financed had no control over the distribution of gas; it was allocated by the federal power commission.

Mr. JONES: You mentioned you are going to distribute gas through the ordinary channels, that is the British Columbia Electric. We have at the bottom end of the Okanagan Valley, the town of Osoyoos, and the towns in the Okanagan Valley have a population of 125,000 people. I see this pipe line touches at Osoyoos. Would your company run the pipe line north to Kelowna and Penticton, or would you form a distributing company or would you encourage local residents to form a distributing company to buy your gas in bulk and distribute that to consumers. How would you serve that valley because it is definitely of importance on this route?

The WITNESS: That would be a matter for the company to decide and not the bankers. The practice in the United States has been to limit these pipe line companies to transportation and to selling their products at the city's gate. The practice in the United States has been when natural gas goes into an area, it is a very profitable and worthwhile to form local natural gas distributing companies. Citizens get together, form and finance a company and contract with the pipe line company. For instance, gas is just coming into the New England states and there are a lot of communities there which will be distributing natural gas for the first time. It is like an industry springing up when it gets its raw material.

By Mr. Murphy:

Q. Let us get clear on this gas being transported from one country to another. Is it not a fact that the natural gas we use from the United States today is what they call dump gas—they ship it to us when they do not require it in the United States.—A. So far as I know, sir, that is correct.

Q. You propose financing this particular company on the basis of the applicants and on the basis of the engineering thesis or ideas you have had presented to you. Now, supposing that you get a charter and you then make your survey and you find out that this project is going to cost $20 million more. Where do we stand?—A. The answer to that is that assuming you can buy the gas for one or two cents less at one end or sell it for one or two cents more at the other end, which I am certain is going to be the case, you can still finance this. For instance, for the Big Inch pipe line in the United States we bid $143 million, somebody else bid $130 million. We were right because we could sell the gas at enough to make a return on the investment.

Q. Could you tell the committee on your present financing basis what you would have to buy it at and what you would have to sell it at?—A. No, that depends on the detailed engineering studies.

Q. And if the cost were considerably higher you might not go through with this project.—A. Yes, sir.

Q. And furthermore there is no assurance you will go ahead with the pipe lines if the cost is excessive.—A. That is right.

By Mr. Fulton:

Q. I want to ask a question if there is no objection to it as it is now one o'clock. I have been told by the other witnesses that the company has no objection to our insisting that the main line be built in Canada before entering the United States of America. As a matter of fact there is already a provision in the Act to that effect. Now, questions have been raised here as to what portion and so on will be necessary to go over to the American market to make it economically feasible. I would like to ask Mr. Wadsworth whether from the financing point of view there is any objection to the inclusion of that proviso in the charter which is now in in section 6 (*a*).—A. Do I understand you to mean the proviso that it be an all-Canadian line?

Q. Yes, the proviso which is in section 6 (*a*).—A. I think it is a matter of economics, as I said before, the difference in that routing versus dipping into the United States will make a small difference in your capital costs. In other words it will probably be a little bit more expensive, but the carrying charges on the added investment in this pipe line are very small as compared to what you pay for the gas, so it means that the people selling the gas get a fraction of a cent less or the buyers on the other hand pay a fraction of a cent more, but it would not affect the economics very much.

Q. The fact that this proviso is in the charter is not going to make your line more difficult to finance in any way, it will not increase your difficulties?—A. No sir.

The DEPUTY VICE-CHAIRMAN: Can we see if the preamble will carry before we adjourn?

Shall the preamble carry?
Carried.

Shall clause 1 carry?
Carried.

Shall clause 2 carry?
Carried.

Clause 3?

Mr. GREEN: I think there should be a similar change in clause 4 with regard to the changing of the head office.

The DEPUTY VICE-CHAIRMAN: I have a statement here which it is desired to have read into the record. I will read it:

"Canada
Province of Quebec
District of Montreal

In the matter of the Application for Incorporation of Champion Pipe Line Corporation Limited.

I, Lloyd Rogers Champion, of the City and District of Montreal, in the Province of Quebec, Financier, do hereby declare:—

1. That I am one of the Petitioners for incorporation of Champion Pipe Line Corporation Limited (hereinafter referred to as the 'Company') and as such have personal knowledge of the matters hereinafter deposed to.

2. That the capital stock of the Company shall consist of 2,000,000 shares without nominal or par value.
3. That the 2,000,000 shares without nominal or par value of the capital stock of the Company will not be issued for an aggregate consideration in excess of $20,000,000.
4. That for the purpose of determining the charges payable to the Clerk of the House of Commons on account of the proposed capital stock of the Company, the sum of $20,000,000 should be fixed as the aggregate consideration for which the 2,000,000 shares without nominal or par value may be issued.

And I make this solemn declaration conscientiously believing it to be true and knowing it is of the same force and effect as if made under oath and by virtue of The Canada Evidence Act.

(Sgd) L. R. CHAMPION.

Declared before me at the City of Montreal, in the Province of Quebec, this 21st day of May, 1951.

(Sgd) C. R. COOKE

A Commissioner of the Superior Court for the District of Montreal."

The DEPUTY VICE-CHAIRMAN: There is a motion. I would ask someone to move it. Could you move this motion?

Mr. APPLEWHAITE: Mr. Chairman, I move:

That, for the purpose of levying a charge on the capital stock which will have no par value, the committee recommend that each share be deemed to be worth $10.

The DEPUTY VICE-CHAIRMAN: You have heard the motion. Are you ready for the question? All those in favour?

Carried.

Section 4?

Mr. GREEN: Mr. Chairman, I think there should be the same changes made as were made in the case of the Independent Pipe Line Company Bill.

The DEPUTY VICE-CHAIRMAN: Would the clerk read the changes?

The CLERK: Mr. Green moves that sub-clause 2 of clause 4 of this bill be amended by inserting after the word "place" in the first line thereof the words "within Canada".

The DEPUTY VICE-CHAIRMAN: Does the amendment carry.

Carried.

Mr. CORLETT: This company would have no objection whatever to that change.

The DEPUTY VICE-CHAIRMAN: Shall the clause carry as amended? Does clause 4 carry as amended?

Carried.

Does clause 5 carry?

Carried.

Does clause 6 carry?

Carried.

Does clause 7 carry?
Carried.

Does clause 8 carry?
Carried.

Does clause 9 carry?
Carried.

Does clause 10 carry?
Carried.

Does clause 11 carry?
Carried.

Shall the title carry?
Carried.

Shall I report the bill as amended?
Carried.

The committee is now adjourned until 3.30 this afternoon.

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

CHAIRMAN, Mr. L. O. BREITHAUPT.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

Bill No. 116 (Letter E of the Senate);

An Act Respecting British Columbia Telephone Company

MONDAY, JUNE 11, 1951

TUESDAY, JUNE 12, 1951

WITNESSES:

Mr. Sherwood Lett, K.C., Solicitor for British Columbia Telephone Company, Vancouver, B.C.

Mr. James Hamilton, Senior Vice-President, British Columbia Telephone Company, Vancouver, B.C.

Mr. Charles Brakenridge, Parliamentary Agent for the City of Vancouver, Vancouver, B.C.

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1951

88080—1

WEDNESDAY, June 13, 1951.

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

SEVENTH REPORT

Your Committee has considered Bill No. 116 (Letter E of the Senate) intituled: "An Act respecting British Columbia Telephone Company", and has agreed to report it with an amendment.

All of which is respectfully submitted.

F. P. WHITMAN
Deputy Vice-Chairman.

THURSDAY, June 14, 1951.

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

EIGHTH REPORT

Consequent upon consideration of Bill No. 116 (Letter E of the Senate), intituled: "An Act respecting British Columbia Telephone Company", it is recommended that your Committee be empowered to make a special report on the question of extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revising tolls and charges of a company under its jurisdiction, to investigate fully and take into account transactions relating to companies having an intercorporate relationship with such company, and to make recommendations in respect thereof.

All of which is respectfully submitted.

F. P. WHITMAN
Deputy Vice-Chairman.

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MINUTES OF PROCEEDINGS AND EVIDENCE

MONDAY, June 11, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at 3.30 o'clock p.m. Mr. Whitman, the Deputy Vice-Chairman, presided.

Members present: Applewhaite, Beyerstein, Byrne, Browne (*St. John's West*), Darroch, Fulton, Goode, Green, Harrison, Hatfield, Healy, Herridge, Jones, Laing, Lennard, MacDougall, Macdonald (*Edmonton East*), McCulloch, McIvor, Mott, Murphy, Murray (*Cariboo*), Rooney, Shaw, Smith (*Queens-Shelburne*), Thomas, Weaver.

In attendance: Mr. Duncan K. MacTavish, K.C., Parliamentary Agent for Petitioners, Ottawa, Ont.; Mr. Sherwood Lett, K.C., Solicitor for Petitioners, Vancouver, B.C.; Mr. Gordon Farrell, President, British Columbia Telephone Company, Vancouver, B.C.; Mr. James Hamilton, Senior Vice-President, British Columbia Telephone Company, Vancouver, B.C.; Mr. Lionel Kent, C.A., of Riddell, Stead, Graham & Hutchinson, Chartered Accountants, Auditors of British Columbia Telephone Company, Vancouver, B.C.; Mr. Charles Brakenridge, Parliamentary Agent for the City of Vancouver, Vancouver, B.C.

The Committee resumed consideration of Bill No. 116, An Act respecting British Columbia Telephone Company.

It was agreed to hear Mr. Lett in relation to certain questions asked at the meeting of the Committee, Friday, June 8. Mr. Lett was heard and questioned.

The examination of Mr. Hamilton was continued.

At 5.35 the Committee adjourned to meet again at 8.15 o'clock p.m. this day.

EVENING SESSION

The Committee resumed at 8.15 o'clock p.m. Mr. Whitman, the Deputy Vice-Chairman, presided.

Members present: Applewhaite, Byrne, Darroch, Fulton, Goode, Gourd (*Chapleau*), Green, Harrison, Hatfield, Healy, Herridge, Jones, Laing, Lennard, MacDougall, Macdonald (*Edmonton East*), McCulloch, McIvor, Mott, Murphy, Murray (*Cariboo*), Rooney, Shaw, Smith (*Queens-Shelburne*), Stuart (*Charlotte*), Weaver, Whiteside.

In attendance: Same as indicated for the afternoon session.

The Committee resumed consideration of Bill No. 116, an Act respecting British Columbia Telephone Company.

Mr. Brakenridge, Parliamentary Agent for the City of Vancouver, was called.

Enquiry having been made as to the status of Mr. Brakenridge, the Deputy Vice-Chairman stated that Mr. Brakenridge was an accredited Parliamentary Agent in compliance with Standing Order 119 and, as such, was entitled to be heard.

Mr. Brakenridge was heard in opposition to the Bill before the Committee.

The question being raised as to the right of Counsel for the Petitioner to cross-examine Mr. Brakenridge, the Deputy Vice-Chairman ruled that Mr. Brakenridge, not being a witness in the ordinary sense, could be questioned by members of the Committee, but could not be cross-examined by opposing Counsel.

Mr. Brakenridge was questioned and retired.

It was agreed that Mr. Lett be heard in relation to questions asked at the afternoon session. Mr. Lett was heard and questioned.

At 10.45 o'clock p.m. Mr. Shaw moved that the Committee adjourn. The question having been put, the motion was resolved in the negative on a standing vote.

At 10.50 o'clock p.m. Mr. McCulloch, Vice-Chairman, took the Chair.

The Preamble was carried.

On Clause 1:

Mr. Fulton moved:

> That Clause 1 of the Bill be amended by deleting the words "but no change in the rights or privileges shall be made unless the holders of seventy-five per cent in par value of the preference shares issued and outstanding agree to same", where they occur at lines 16 to 19 of the said bill, and substituting therefor the following words:
>
> > but no change in the rights or privileges of any class of preference or preferred shares shall be made unless the holders of seventy-five per cent in par value of the shares of such class issued and outstanding agree to same.

After discussion, and the question having been put, the said motion was agreed to.

At 11.05 o'clock p.m. the Committee adjourned to meet again at 11.30 o'clock a.m., Tuesday, June 12th, 1951.

TUESDAY, June 12, 1951

The Standing Committee on Railways, Canals and Telegraph Lines was called for 11.30 o'clock a.m. but, the division bells having been rung, the meeting was delayed until 11.50 o'clock a.m., at which time, a quorum having assembled, and Mr. Whitman, Deputy Vice-Chairman, being in the Chair, proceeded with the consideration of Bill No. 116, An Act respecting British Columbia Telephone Company.

Clause 1 as amended, Clause 2 and the Title were adopted. Thereupon, several additional members of the Committee having arrived and stating that they were unavoidably detained due to the division which had just taken place in the House, the Committee, by unanimous consent, reverted to Clause 2 of the Bill.

Members present: Messrs. Applewhaite, Bertrand, Beyerstein, Bourget, Byrne, Browne (*St. John's West*), Darroch, Fulton, Goode, Gourd (*Chapleau*), Green, Harrison, Hatfield, Healy, Herridge, Jones, Laing, Lennard, MacDougall, Macdonald (*Edmonton East*), MacInnis, McCulloch, McGregor, McIvor, Murphy, Murray (*Cariboo*), Richard (*St. Maurice-Lafleche*), Robinson, Rooney, Shaw, Smith (*Queens-Shelburne*), Weaver, Whiteside.

In attendance: Same as indicated for the afternoon meeting of Monday, June 11.

On Clause 2:

Mr. Green moved:

That Sub-clause 1 of Clause 2, line 15 thereof, be amended by deleting the words *seventy-five* and inserting the word "sixty" therefor.

At 1.00 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SESSION

The Committee met at 3.30 o'clock p.m. Mr. Whitman, Deputy Vice-Chairman, presided.

Members present: Messrs. Applewhaite, Beyerstein, Bourget, Byrne, Browne, (*St. John's West*), Darroch, Dewar, Follwell, Fulton, Goode, Gourd (*Chapleau*). Green, Harrison, Hatfield, Healy, Herridge, Jones, Laing, Lennard, MacDougall, Macdonald (*Edmonton East*), MacInnis, McCulloch, McGregor, McIvor, Mott, Murphy, Murray (*Cariboo*), Richard (*St. Maurice-Lafleche*), Riley, Robinson, Rooney, Shaw, Smith (*Queens-Shelburne*), Stuart (*Charlotte*), Thomas, Weaver, Whiteside.

In attendance: Same as indicated for morning sitting.

The Committee resumed consideration of Clause 2 and the proposed amendment thereto by Mr. Green.

After considerable discussion thereon, and the question having been put, the proposed amendment was resolved in the negative on the following recorded division:

Yeas,—Messrs. Beyerstein, Fulton, Green, Hatfield, Herridge, Jones, Lennard, MacInnis, Murphy, Shaw, Thomas.—11.

Nays,—Messrs. Applewhaite, Bourget, Byrne, Darroch, Dewar, Follwell, Goode, Gourd (*Chapleau*), Harrison, Healy, Laing, MacDougall, Macdonald (*Edmonton East*), McCulloch, McIvor, Mott, Murray (*Cariboo*), Richard (*St. Maurice-Lafleche*) Robinson, Rooney, Stuart (*Charlotte*), Weaver, Whiteside, Whitman.—24.

The Deputy Vice-Chairman having voted on the amendment, and the question being raised as to the right of the Chairman of the Committee to vote, the Deputy Vice-Chairman quoted the relative portion of Standing Order 106:

> "All questions before Committees on private bills are decided by a majority of voices including the voice of the Chairman".

Clause 2 and the Title were adopted.

The Bill, as amended, was adopted and the Chairman ordered to report the same to the House.

Whereupon, Mr. Green moved:

> That the Committee recommend that consideration be given to extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revising tolls and charges of a telephone company, to investigate fully and take into account transactions relating to companies having an intercorporate relationship with such telephone company.

The Deputy Vice-Chairman ruled on the proposed motion as follows:

Last evening the question of making a recommendation in a report to the House, to the effect that the powers of the Board of Transport Commissioners be enlarged, was raised by Mr. Green and Mr. Herridge, and I reserved any decision I might make.

On a previous occasion I ruled that the subject of amending the Charter of the Company was out of order. I quoted at that time from Beauchesne's 3rd Edition, citations 537 and 785.

I have since had an opportunity of looking up the authorities and for the benefit of the members of the Committee I shall again read citation 537.

> A committee can only consider these matters which have been committed to it by the House.
>
> A committee is bound by, and is not at liberty to depart from, the order of reference.
>
> In the case of a select committee upon a bill, the bill committed to it is itself the order of reference to the committee, who must report it with or without amendment to the House.
>
> When it has been thought desirable to do so, the House has enlarged the order of reference by means of an instruction or in the case of a select committee upon a bill by the commital to it of another bill. Mandatory instructions have also been given to select committees restricting the limits of their powers or prescribing the course of their proceedings, or directing the committee to make a full report upon certain matters.
>
> Sometimes a committee may have to obtain leave from the House to make a special report when its order of reference is limited in its scope.

I would also bring to the attention of the members of the committee a ruling made by Mr. Speaker Lemieux, dated June 10, 1928, wherein he deals with a motion for concurrence in a report of a Standing Committee, and I quote from that ruling:

> The motion is not in order, nor is the report, because a committee can take cognizance only of matters which are referred to it. The matter which is the subject of recommendation in this report was not referred to the Committee by the House. I rule that the motion is not in order.

From the authorities I find that generally speaking it is within the power of the committee to make recommendations, provided that they are made within the ambit of the terms of the Order of Reference. But it would seem to me that, having regard to citation 537, and the Speaker's ruling just quoted, any recommendation or amendment along the lines indicated is beyond our order of reference and therefore not in order. I would point out to the committee, however, that under citation 537 it is competent for the committee to obtain leave from the House to make a special report when its order of reference is limited in its scope.

I am completely in the hands of the committee in this matter. From the authorities I am obliged to rule any recommendation or amendment of this nature out of order, but is it the wish of the committee to ask leave to make a special report to the House in this matter?"

The proposed motion having been ruled out of order, thereupon Mr. Green moved:

> That the Committee request instructions to consider the question of extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revising tolls and charges of a company

under its jurisdiction, to investigate fully and take into account transactions relating to companies having an intercorporate relationship with such company, and to make recommendatons in respect thereof.

A discussion arising on the proposed motion the Deputy Vice-Chairman ruled on the proposed motion as follows:

> Before this debate goes any further, I think there should be a ruling as to whether the request is in order or is not in order. We have been given a bill to report on, and I find in Beauchesne, second edition, at section 621, the following:
>
> > A committee can only consider those matters which have been committed to it by the House. If it be desirable that other matters should also be considered, an instruction is given by the House to empower the committee to entertain them.
>
> Again, in Beauchesne, in the third edition: Citation 527:
>
> > Sometimes a committee may have to obtain leave from the House to make a special report when its order of reference is limited in its scope.

I think, from those two citations, it would be considered that this request by the committee is in order. I believe we can make this request to the House and be perfectly in order. Therefore I rule the motion in order, and we will go on with the debate.

The discussion continuing, and the question having been put, it was resolved in the affirmative.

Ordered,—That the Chairman make a separate report to the House recommending that the Committee be empowered to make a special report on the question of extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revising tolls and charges of a company under its jurisdiction, to investigate fully and take into account transactions relating to companies having an intercorporate relationship with such company, and to make recommendations in respect thereof.

At 5.30 o'clock p.m. the Committee adjourned to meet again at the call of the Chair.

R. J. Gratrix,
Clerk of the Committee.

EVIDENCE

HOUSE OF COMMONS,

JUNE 11, 1951.

The DEPUTY VICE-CHAIRMAN: Gentlemen, order. The committee will resume the discussion of Bill No. 116, Bill E of the Senate, intituled an Act respecting British Columbia Telephone Company.

Before we begin I think Mr. Lett has answers to some of the questions we asked him last week and which he would like to answer before we recall Mr. Hamilton.

Mr. APPLEWHAITE: In spite of the committee's generous action last week, Mr. Gordon Farrell, president of the company found it possible to remain here in Ottawa so he is still here if he is needed.

Mr. Sherwood Lett, K.C., Solicitor, City of Vancouver, called:

The WITNESS: At the last meeting there were three questions asked for which I have the information available. The first question was the dates and prices at which the various shares of the British Columbia Telephone Company were issued since the increase of capital in 1947. Under Board Order 70686, dated 25th of May, 1948, authorization was given for the issue of 35,000 four and three-quarter per cent preferred shares at not less than $100 per share, and by the same order, 15,000 ordinary shares at a price of not less than $125 per share, which were sold at $125.

The DEPUTY VICE-CHAIRMAN: Order, please, gentlemen, order.

The WITNESS: Under date of October 23, 1950, Board Order 75391, 30,000 preferred shares were authorized at not less than $100 per share; 20,000 ordinary shares at not less than $125 per share, which ordinary shares were issued at $132.50 per share net to the company, according to my information. Thirdly, on April 4, 1951, Board Order 76361 authorized 10,000 preferred shares at not less than $100 per share; 40,000 ordinary shares at not less than $132.50 per share, which were issued at $132.50 per share net to the company.

Question No. 2 was to give a statement of the estimates for 1949 and 1950 as against what was actually spent for the years 1949 and 1950, and the figures are as follows: 1949 estimated expenditures shown in the evidence given by Mr. Farrell, $7,783,505. The actual expenditures, as shown, were $6,698,421. For the year 1950 the estimate had been given as $6,213,495, and the actual expenditure was $6,395,971, which involved a carried over commitment at the end of the year of $8,715,769.

In connection with the question No 1, the orders of the board are available if any member of the committee would like to examine them. I do not think it is necessary to file them unless the committee wishes.

The third question that was asked I think it was by Mr. Byrne, one of the honourable members was as to the amount which was paid by Anglo-Canadian Telephone Company to the Gary group or the Gary companies, and I said I thought that was found in the transcript of the proceedings before the rate inquiry. I found that it is contained in the transcript of the proceedings of the Board of Transport Commissioners, the application of the British Columbia Telephone Company in re Increases in Charges, dated January 16, 1950, volume 6, at page 897. Mr. Chaney is under examination at that time, Mr. Chairman. I will read his evidence:

Q. Mr. Chaney, will you give your full name and address?—A. Mr. E. Chaney, Chicago, Illinois.

Q. What is your official position with the Anglo-Canadian Telephone Company?—A. I am a vice president and director.

That quotation is from page 882. I am reading now from page 897.

Q. What did Anglo-Canadian pay for them? That relates to services under the service contract.—A. Anglo-Canadian Telephone Company paid through service agreement into the Gary group, currently it is paying, around $200 a month and under another contract $750 a year.

That is the end of the quotation; it is not the end of the answer to the question but the transcript runs on. I think that answers the question that was asked.

Mr. GREEN: That is a total of $3,150.

The WITNESS: $3,150, twelve months at $200 and the other contract at $750 a year, making a total of $3,150 a year. I may say, Mr. Chairman, that the same witness, Mr. Chaney, deals in the evidence in this volume, from page 882 and on first of all with the cost of providing those services and the allocation of that cost to the various companies of the Gary group. If the committee is interested in having that information it shows that that cost was allocated by the Gary group by the estimates of Mr. Chaney on various bases.

Mr. MOTT: I think it is necessary that we have that information because the thought has been left in our minds here that, outside of $3,000, the $184,000 which was paid out was more or less a gift—that is this 1 per cent or 1½ per cent. I think we should have on the record what the B.C. Telephone Company has paid Anglo Canadian over the last four or five years, toegther with an idea of what the money has been spent for. Most of us know that it is for certain patent rights and so on, but all we have is this $3,000 here and it does not show up well on the record.

The DEPUTY VICE-CHAIRMAN: Do you wish to add anything more, Mr. Lett?

The WITNESS: If the members want to know how this is made up, the evidence of Mr. Chaney refers to the total costs of the Gary group for providing that service to the various companies; and then it shows how the allocation can be made on various bases. He arrives in this evidence at an estimate of the costs of rendering this service and the allocation to the British Columbia Telephone Company?

The DEPUTY VICE-CHAIRMAN: Would not the total cost be sufficient, Mr. Mott, and Mr. Green?

Mr. MOTT: Well, as long as it is clear on the record, but we have only $3,000 against this other figure now.

Mr. GREEN: The whole story is very clear up to date. It is that the British Columbia Telephone Company in 1949 gave Anglo Canadian $189,000 odd, and in the same year Anglo Canadian only paid the parent company $3,150. Now, that is the story to date.

The WITNESS: I believe that is the information that has been put on the record. Perhaps, as the gentleman says, as there are only a few pages of this it would help the committee and I would be glad to read these pages.

The DEPUTY VICE-CHAIRMAN: Is it the wish of the committee to put this on the record?

Mr. GREEN: If we have the privilege of questioning. As I understand it, what Mr. Lett is going to read now is the breakdown of what the parent company charges to subsidiary companies. It has subsidiaries in the Phillipines and there are various other subsidiaries. That has got absolutely nothing to do with the British Columbia Telephone Company but I have no objection to it being read into the record as long as I can cross-examine.

Mr. GOODE: Could you not table that, Mr. Lett, rather than having us sit here and listen to you read it—as much as we would like you to read it? Could you not table it?

The WITNESS: I would be prepared to have an extract made if that would meet the committee's wishes. My thought in mentioning it is that it seemed to me that having read part of the evidence at the request of a member—the only place I know of which has the figure $3,150,—that it would seem fair to that particular witness and to the applicant that the allocation of these costs and the actual cost of providing this service should be before this committee; and that the committee should know that it cost somebody something to provide those services. That is my point.

Mr. GOODE: Could I suggest that Mr. Lett have an extract made and, if it is only six or seven pages we could have it put in the transcript.

Mr. GREEN: It cannot be put in the transcript without an explanation and without an opportunity of cross-examining on it. If it is going in the transcript it should be read and we will be able to cross-examine. On the face of it it looks as if the telephone users of British Columbia have paid $181,000 for a service which Anglo Canadian did not itself render and for which Anglo Canadian paid the Gary people $3,150.

Mr. APPLEWHAITE: I do not know that I am anxious to get into this argument and I hate to be in the position of saying: "I told you so" about these contracts, but they have been introduced at the insistence of certain members. If certain other members would like to have the whole picture then I think this should be read because it gives that picture. We should have the whole thing read and discussed.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee that this be read into the record?

Agreed.

The WITNESS: I would like to make it clear that I am reading from the official transcript. I am not giving evidence myself, I am reading from the official transcript and if there are any further questions that arise they will have to be answered. I am reading now from volume 6, page 883 of the transcript. I will start at the bottom of page 882:

> Q. Would you just tell the Board what facilities, if any, the Anglo Canadian Company has in order to fulfill the requirmeents under that agreement?—A. The Anglo Canadian Telephone Company does not itself maintain a staff or the facilities for rendering the advice or technical services required under this contract. It does, however, have an arrangement with affiliated American companies who do have the technical skill and services and through these means, you might say, the technical skill and services are made available to the British Columbia Telephone Company.
>
> Q. And who are these affiliated companies to whom you refer? —A. The affiliated companies are a group of companies who are owned directly or indirectly by Theodore Gary Company, a Missouri Corporation. A group of companies in this so-called group—I might identify it first by saying that the group is known as the Gary Group and it is commonly known throughout the telephone industry as the Gary Group and commonly referred to. In this group is a group of telephone companies who are known as third in size in the United States. Of course, the Bell system is first in size; The General Telephone Corporation is second in size and the Gary Group is third.
>
> Q—And how long has the Gary Group been engaged in telephone operations?—A. More than forty years, that I know of.

Q. Are they engaged in telephone operations in countries outside the United States?—A. Yes, they are.

Q. How many telephone companies outside the United States? —A. Well, there are about nine companies, I think.

Q—Where are they?—A. They are in British Columbia, Philippine Islands, Colombia, South America and the Dominican Republic.

I do not want to be accused of omitting anything. If the honourable member is following the transcript, I will read anything he wishes, but to save the time of the committee I thought I would go to page 884:

Q. Then, is the Gary Group engaged in telephone operations in the United States?—A. Yes, they are, they control about 31 telephone companies operating in eighteen states.

Q. And about how many communities and how many telephones would be involved in these operations in the United States?—A. There are 478 communities and the companies operate, I would say, about 450,000 to 455,000 telephones.

Q. Are any of those companies involved in the operation of radio?—A. Yes, there are; companies carry on radio operations in British Columbia; they have radio operations in the Philippine Islands, the Dominican Republic and they have a radio company in Port-au-Prince, Haiti.

Q. Then, does this Gary Group to which you refer maintain a laboratory?—A. Yes, their largest laboratory is in Chicago where they engage about 60 engineers and technicians who devote, I would say, all of their time to research and development and work pertaining to the improvement in all types of communications equipment.

Now, I will go to page 886:

Q. Can you give the Board any idea of the cost to the Gary Group of giving to the British Columbia Telephone Company the advice and assistance called for under this service contract?—A. Yes, I can.

I may say this, that while it is difficult in a situation of this kind to make any exact determination of the cost of giving these services to any particular telephone company in the group, I have however, made an estimate.

Now, in making this estimate I have taken the salaries of all of the people who devote one hundred per cent of their time to the giving of advice and assistance to these telephone companies and when I say "these telephone companies" I mean including the British Columbia Telephone Company as well as the others. To this I have added the cost of their secretaries. I have also added their office rent, telephone and Group Insurance and all of the things that attach themselves to the payroll as well as other office facility expenses.

Then, I have taken this second group who do not devote all of their time to the giving of advice and assistance to these telephone companies and I have taken the salaries of those people. I have taken the cost of their secretaries and their office rent, facilities, and other associated expenses, and I have arrived at a total of that and then to be conservative, I have taken one-fourth of that cost and I have added it to the cost of the people who devote all of their time in rendering advice and assistance and I come up with a figure of approximately $500,000 or a little bit less.

Now, the problem, once you arrive at that point, you have got to make some allocation, you might say with the British Columbia Telephone Company. You have asked me what the cost has been. I am trying to show here the means in which I have determined it.

Now, in order to find that cost, the best means I know of is by means of allocation. Now, in the telephone business, when you get at that point, there is more than one method that can be recognized.

One is the ratio of telephones of the British Columbia Telephone Company to the whole. Well, the British Columbia Telephone Company at the time I made these particular percentages had about 220,000 telephones. The total telephones in the so-called group, telephone operating group, was, as I recall, about 700,000. 220,000 is 31 per cent of the total telephones.

Now, if we use that method we would apply 31 per cent to the $500,000 and you arrive at a figure of $155,000 as being the cost of rendering the services, if you use this as a method.

Now, another method, it is not uncommon in the telephone business to use the ratio of the revenues. Well, in 1948, according to the company's year-end report it had $12,000,000 plus of revenues.

Mr. NORRIS: Who had this?

The WITNESS: The British Columbia Telephone Company. The total gross revenues for all of the telephone companies in the group was $34,500,000. If you use the ratio of the revenues to the whole you arrive at a percentage of 35 per cent.

Now, if you apply 35 per cent to the $500,000 you come to a figure of $175,000 as being the cost to be allocated to the British Columbia Telephone Company as their part of this total cost.

Another method is to use the gross plant values and determine the ratio of the gross plant value, say, of the British Columbia Telephone Company to the gross plant values of the telephone companies in the group.

As at December 31, 1948, the British Columbia Telephone Company's gross plant value was a little in excess of $49,000,000. The gross plant value of all of the telephone companies in the Gary group was $128,300,000.

Now, if we take the ratio of the gross plant value of the British Columbia Telephone Company to the gross plant value of the group as a whole we arrive at a percentage of 38 per cent. Now, if we apply 38 per cent to the $500,000 you get a figure of $190,000.

Another method is to use a composite of those three. If we use a comopsite, the composite comes back to the 35 per cent or a cost of $175,000

I would be prepared to agree with any one of those four methods.

Now, I want to point out in this connection that while I have taken an estimate as explained for the cost of operating the advisory services of the Gary Group, I have not included anything for the cost of operating the laboratory which costs about $275,000 a year.

Q.—And this $275,000 which you now mention, you say is not included in those figures which you have given earlier?—A. No, it is not. It is not included in my calculation. I merely point that out, that there is another factor to consider, that is the cost of operating the laboratory.

Q.—And are the benefits from the laboratory available to the British Columbia Telephone Company?—A. They are available, and as I understand it they have made use of them from time to time.

Q.—Well, Mr. Chaney, would you say that the services rendered to the British Columbia Telephone Company under this agreement are substantial?—A. I would say so, yes.

I think, Mr. Chairman, that answers the question.

By Mr. Green:

Q. Mr. Chairman, may I ask Mr. Lett whether there was any contract between the British Columbia Telephone Company and the Gary Company with regard to these services?—A. To the best of my knowledge there was no service contract between the Gary Company—you mean the Gary Group?

Q. Yes.—A. As far as I know the contract of the British Columbia Telephone Company was with the Anglo Canadian.

Q. Any contract with which the British Columbia Telephone Company could be involved at all was between the Gary Group and the Anglo Canadian, was it not?—A. Would you mind repeating that? As I understand it, Mr. Green, the contract under discussion here, being discussed by Mr. Chaney, was a contract between the British Columbia Telephone Company and the Anglo Canadian Telephone Company.

Q. Perhaps I can do it another way: there was a service contract between the British Columbia Telephone Company and the Anglo Canadian under which, in 1949, the British Columbia Telephone Company had to pay $181,500?—A. Or some such amount.

Q. Approximate to that figure?—A. Yes.

Q. There was no contract between the British Columbia Telephone Company and the Gary group.—A. Not to my knowledge, no, I do not think there was.

Q. And the Anglo Canadian Telephone Company paid the Gary group for this same kind of services $3,150? That is all that the Anglo Canadian had to pay to the parent Gary group?—A. I would prefer to stick to Mr. Chaney's evidence when he said the amount paid totalled $3,150, and I quote:

> A—Anglo Telephone Company paid through service agreements into the Gary Group, currently it is paying around $200 a month, and under another contract $750 a year.
>
> —That is a total of $3,150.

Q. They paid 12 monthly payments of $200, which would make $2,400, and they paid an additional $750, which, added to the $2,400, made a total paid by the Anglo Canadian to the Gary group of $3,150.—A. That is correct from this evidence.

Q. And the Anglo Canadian, that evidence you have just read discloses, had no facilities for rendering this service themselves?—A. As far as I know they had not. I am not in a position to give that evidence, but as far as I know they had no facilities.

Q. Your witness, whom you have quoted, took several different methods of working out a percentage which should be paid by the British Columbia Telephone Company: I think in each case basing it on all of the Gary Companies; for example he said because the British Columbia Telephone Company had a certain percentage of the phones that, therefore, it would be fair to say that they should pay that percentage of the estimated costs that the Gary group had for providing services of this nature.—A. I think the evidence, extracts of which I read, said this: That he determined the overall cost at approximately $500,000, and then he says an allocation of these costs on any one of these three bases would result in an allocated cost of $155,000, $175,000 or $190,000—whatever the figures are.

Q. This includes phone companies in the Philippines, phone companies in South America, phone companies in the Dominican Republic, and phone companies in the United States?—A. Yes, those are in the Gary group.

The DEPUTY VICE-CHAIRMAN: They were included in the $500,000; is that right?

By Mr. Green:

Q. The British Columbia Telephone Company at the time it was taken over by this Gary Group was a telephone company functioning efficiently with all its own—was able to provide all its own services such as those for which it is claimed this fee was paid?—A. Are you asking me that, Mr. Green?

Q. Yes.—A. I do not know. I am not familiar with the history of the company when it was taken over by the Gary Group. The evidence at the hearing just said that the British Columbia Telephone Company did not maintain its own laboratories or research departments. I am not competent to give evidence as to what existed when the Gary Group took over the British Columbia Telephone Company.

Q. But in any event the Gary Group did not see fit to have any contract under which they charged this amount either to the Anglo-Canadian or to the British Columbia Telephone Company.—A. Is that a question you are asking me?

Q. Yes. Is that not right?—A. Would you mind putting your question again, please?

Q. The Gary Company in spite of the expenditures which they claim they made did not see fit to have any contract for those services with either the Anglo-Canadian Telephone Company or with the British Columbia Telephone Company?—A. I would not say that that was correct. From the evidence I have read, there was some kind of a contract between the Gary Group and the Anglo-Canadian set-up.

Q. There was no contract with the British Columbia Telephone Company. Is that not correct?—A. Contract with whom?

Q. Contract with the Gary Group.—A. I have already said that so far as I know there was no contract with the British Columbia Telephone Company relating to the services of the Gary Group.

Q. But in so far as the relationship between the Gary Group and the Anglo-Canadian Telephone Company was concerned, whether or not they had a contract, the only payment levied or charged was $3,150?—A. The only amount shown as having been paid by the Anglo-Canadian Telephone Company to the Gary Group was $3,150, yes, according to this evidence.

Q. And by the way, was this payment of $181,000 odd which was collected by the Anglo-Canadian Company from the British Columbia Telephone Compnay allowed as an expenditure for income tax purposes with respect to the British Columbia Telephone Company?—A. No, I do not think it was. I think the Judgment of the Board deals with that point, but I do not think it was.

Q. I shall read to you from the Judgment of the Board on that point:—

> Reference has been made to the disallowance of the payments under the contract as an expense deduction for income tax purposes. The company stated that this disallowance was due to lack of approval by this board. This may well be the case inasmuch as it is the board's understanding no such disallowance occurs with respect to the similar contract of the Bell Telephone Company. In any event it is not this board's functions to determine the reasonableness of tolls based upon whatever rulings may be applied by other legislation.

—A. I do not want to argue with Mr. Magill in view of the fact that he is not present, but the Judgment is clear in respect to Mr. Magill and I quote from page 240 of the Judgment, a paragraph or two ahead of the spot where Mr. Green read. He said as follows:—

> Responsible and admittedly honest and sincere officials of the company testified to the unqualified value of the service to the company, that it was difficult to place a dollar value on such service, and that it was essential to the successful continuance of providing telephone service.
>
> As opposed to this testimony we have only the opinion expressed by Mr. Magill, witness for the City of Vancouver, that he would doubt the expenditure for the provision of the service, that he believed the company, with its staff and technical information available, could operate "without payment of a percentage of its revenue to some parent company".

The conditions of, and the objections made to, the contract here under review are so similar to those discussed in our 1927 Bell Telephone Company Judgment that they hardly require further discussion.

In my opinion, the contract is bona fide and is a means whereby the company obtains valuable patent rights, and expert service. Witness Magill admitted on cross-examination "that there are occasions when you need technical and expert advice—but I do not believe that it is necessary for the British Columbia Telephone Company to rely on any particular service organization for that service".

That was Mr. Magill's evidence. The Board says "reference has been made to the disallowance". That is the only answer I can give.

Mr. FULTON: Have you any figure or table of figures in reply to the question of how many shares Anglo-Canadian presently holds? I do not recall whether you have actually given it.

The WITNESS: Yes. I did table it the other day.

The DEPUTY VICE-CHAIRMAN: If it is in the evidence, it is all right.

The WITNESS: I did table them. The actual figure is 62,200.

The DEPUTY VICE-CHAIRMAN: Shall we now recall Mr. Hamilton and go on with our work?

Mr. MURPHY: Did the witness table the answers to the questions I asked him the other day?

The WITNESS: Yes. I think I made a note of them.

The DEPUTY VICE-CHAIRMAN: He tabled quite a bit of information before you came in today, Mr. Murphy.

The WITNESS: I think you asked about prices and I read them into the record in answer to the first question when we opened this afternoon.

Mr. MURPHY: Well, that is fine

The DEPUTY VICE-CHAIRMAN: Shall we now recall Mr. Hamilton?

Mr James Hamilton, Senior Vice-President, British Coulmbia Telephone Company, recalled:

The DEPUTY VICE-CHAIRMAN: At the last meeting I think we were questioning Mr. Hamilton and we had a very extensive geographic period first and then we got some information from Mr. Hamilton.

By Mr. Laing:

Q. Mr. Hamilton, as I understand it Mr. Green apparently asked for the circulation of certain exchange service rates which were provided us by the British Columbia Telephone Company and by the Bell Telephone Company. I do not know whether this material is of any concern to us, but if it is going to be included, I would like to have comparable city rates for Montreal, Toronto, Winnipeg, Edmonton, and Regina to be included with this material.—A. Yes, I can get that for you.

Q. That is, for a like type of service.—A. Yes. There they are. The types of service are to be found across the top. Can I give you one example and maybe that would answer your question?

Let us take, for example, the 40,000 to 80,000 stations. That is the group in which Victoria falls. That is information which is presently in this statement here where it shows the number of stations in operation under any one of these groups, and I believe you will find Victoria had some 33,000 stations at the end of 1950. Victoria would be in the group numbered 8, that is, in group 8.

The rate there for an individual business line is $7.35, in the case of the British Columbia Telephone Company, and in the same comparable group which is given there for 20,000 to 50,000 in the case of the Bell Company, the rate is $8.

I shall just deal with the main line. We come along then to the resident individual rate in that particular case which is $3.65 for the British Columbia Telephone Company, and $4 for the Bell Telephone Company. It is $3.25 for the Bell Company two-party line, and $2.95 for the British Columbia Company. The number of stations there are in any particular town that you want is shown in this list here.

Q. I do not think you understood my question, Mr. Hamilton. I said I doubted if this material was of any concern to this committee, but that if it was, I thought we should also have on the record the comparable cost for the various services for such cities as Montreal, Toronto, Winnipeg, Edmonton and Regina.

Mr. JONES: Would not No. 10 cover it?

The WITNESS: I have not got that information with me here today. I am sorry. But I can get it for you.

By Mr. Laing:

Q. That would be additional for the cities of Montreal, Toronto, Winnipeg, Edmonton and Regina.—A. I have not got all the stations because they fall into different groups. But I shall endeavour to get them for you. However, it would take quite a few days to do it. I have only got the data in so far as British Columbia is concerned and the number of stations in that group.

Q. The other day we were speaking of the number of phones in service prior to 1947, at which time your capitalization was increased from $11 million to $25 million. And at that time there were about 165,000 phones in service.—A. In 1947? I do not have the data here for the end of that particular year, I am sorry.

Q. There were an additional 83,000 phones put in.—A. At the end of May 1945 there were about 159,000 or approixmately 160,000 stations in service at that time.

Q. In 1945?—A. Yes, and we would probably have an increase of, let us say, 35,000 over and above that, so there would be 195,000 stations in service at the end of 1947. That is approximately right.

Q. So with the increased expenditure of some $25 million, we have gained 83,000 telephones?—A. No, not since 1947. Since 1947 we only gained a little less than 60,000, I mean for the three years 1948, 1949 and 1950. The 80,000 which you quote is for the full period since the end of the war.

Q. That would be an expenditure of how much new capital?—A. 1947 and 1948—almost $25 millions, with commitments in addition to that, oh yes; $25 million.

By Mr. Goode:

Q. Did you say 60,000 telephones?—A. Yes sir.

Q. Your application says 90,000.—A. That is from the end of the war. I must have been wrong in my understanding of the question. But I thought it was from the end of 1947 when we were accorded a raise.

By Mr. Laing:

Q. The other day I think Mr. Farrell indicated his belief that you would expend $110 million in the next seven or eight years. Subsequently I think you suggested that it was too modest, and that you estimated that the same amount of money would be expended in less time.—A. Yes, that is quite so.

Q. Would that be a five or six year period?—A. I would not like to hazard a guess; but might I answer you in a sort of horseback answer, as it were?

Q. Yes.—A. You have mentioned the increase gained from 1947 to 1950 shown in these figures submitted and used, I believe, by the sponsors. These figures were prepared as factual figures for the sponsors of this bill in both the Senate and in this House. I have told you that roughly we spent in that period $25 million. That is actually cash expenditure; while in addition to that, we had commitments and orders on hand for some $8,700,000 at the end of that period because we were lacking in deliveries and away behind our placements. If we gain 60,000 stations by the expenditure of $25 million, which is my estimate, then we will gain in the next ten years—because ten years is the period which has been used throughout I believe—sufficient to take up the backlog of some $23,000 or $24,000 which we have got now.

I thought I gave figures which are in the record of our monthly demand accumulating at the rate of over 2,000 per month on the average. That would give 25,000 net new installations per year, and in ten years it would mean 250,000. I think that is a modest estimate; and if it cost us $25 million to get 60,000 stations, you can just take that and multiply it and that is the answer.

Q. Some of your new money is going to be used for up-grading to a greater extent than you allowed for in the past?—A. I amplified that by saying that that is not taking into consideration certain up-gradings and other factors. There is another element which comes into this thing. I mentioned something in connection with defence. There will probably be large sums we will have to take into consideration for that purpose and there will be other facilities which we will be called upon to provide in connection with civilian defence; and that has still to be divulged.

Q. If this $110 million is going to be expended over the next few years, how many phones do you expect in operation let us say, six years from now?—A. I cannot say how many we expect to have in operation because I would be answering that without knowing what the conditions will be with respect to national and international factors in that six year period. But on the assumption that we were in a normal period, I would say that to take care of the backlog and to do the job, I hope I have given sufficient reasons to substantiate the figure I am going to quote. I would say that on the average in the next six years, if we are going to give the service that the British Columbia Telephone Company should be giving and which the public of British Columbia deserve to get, we should be able to put in, or we should put in not less than about 150,000 to 175,000 new phones in the next six years, if we were to do the job. And that is not taking into consideration the up-grading and the marginal work, to get the plant margins on a reasonable basis in readiness to meet service conditions.

Q. Is it in the nature of the business that we are going to have to have increases of capital for these installations?—A. You cannot get away from it. Evidence has been given by companies larger than ours in regard to these increasing rising costs; and the same factors that affect all those other companies certainly impinge on the British Columbia Telephone Company.

Q. Can you give me a rough idea, an estimated idea, of the influence that capitalization has percentagewwise on the telephone bill?—A. None whatsoever.

Q. There is no estimate?—A. The capitalization does not.

Q. The capital invested?—A. One thing is issued capital and the other is authorized capital, which has nothing whatsoever to do with it.

Q. But if I said capital invested?—A. Oh, on capital invested, yes. Capital invested requires carrying charges on the moneys provided by the public in competition with all other companies and industries to get these funds for their particular purposes, at rates that have been approved by the regulatory body created by this parliament.

Q. But what percentage change would it make in the rates? Would it be as much as 20 per cent?—A. That would be rather hard to say. You have got to

service and protect that capital, I mean your dollar and my dollar; and as it wastes, you have got to put something back. You have got to put back either cash or new capital.

Q. Do you think it would be higher than 20 per cent?—A. I would say it would be somewhere between 10 per cent and 12 per cent. But I would like to ask my chartered accountant who is here. (Would you agree with that statement, Mr. Kent?) Yes. It would be around 10 per cent, or maybe a little higher.

Q. But with the improvement and the expectation that we are going to get higher capital, that figure would go up, would it not?.—A. It would go up measured by the experience of past costs. In other words, it cost $100 in 1939 to create a particular unit of plant. Relatively that $100 is now $200 and in some cases $250 to create the same piece of equipment, let us say, be it a pole or some installation, no matter what it is.

Q. All other things being equal, we have got to be reconciled to higher telephone rates as time goes on?—A. Yes, that is so.

Q. And as you do more pioneering in the province, would you expect that pioneering to be reflected in the over-all rates? When you go into a new area, the established areas have to carry the costs?—A. It is not a serious thing. It is an element that has to be taken care of, not only the British Columbia Telephone Company, but I would think every other company which operates on a provincial-wide basis. You have got to take the fat along with the lean, and we do that when we take a share of it. That is a normal process. Of course you would not go on making installations in some area that could not be sustained from any angle. Every problem and every installation, you might say, is a problem in itself with sensible and common sense factors which have to be applied when you are faced with it. Does that answer your question?

Q. Yes, thank you. Now, in the City of Vancouver you were in the process of installing dial phones when the war started?—A. Yes sir.

Q. And you got part way between dial and manual operating?—A. That is right.

Q. And we still have some manually operated phones there?—A. Yes, more manual ones than we have automatic ones.

Q. And this is 12 years after wartime.—A. That is right.

Q. How can we look forward towards bringing the rest of that system in? How long have we got to wait?—A. I am very pleased you asked me that question. In 1928 and 1929, first of all, we started in with a program of automization which would have carried through.

Q. The reason I ask you the question is that the minor borough of New Westminster is ahead of us.—A. No, no.

Q. No? Then is it Cloverdale?

Mr. MOTT: No. It is Chilliwack.

The WITNESS: In 1930 we had commenced a program of automization in the normal way. Then the depression hit us and we started to lose telephones and so forth; and we were asked by the city authorities not to do anything which would minimize the use of labour and throw operators out of work and so on. So we postponed the automization program and sat still until around 1937 when we took it up again. That was a time when we were more or less beginning to crawl out of the depression. We proceeded with our engineering and all the rest of it that was necessary and we began actually to put in the physical installations around 1938 and 1939. But then the war hit us and we were cut. That necessitated the completion of the work during the early war period and it was only by coming down here to Ottawa and pleading the situation—I mean the service situation and its importance to the war effort in Vancouver—that we were allowed to proceed with what we had in hand and any other work along that line for the automization of the greater Vancouver area, which of course proceeded until the end of the war.

There is no use in commenting to you on the shortages of supply that we faced. That is now ancient history. But since then we have been, like every other place, doing everything we possibly could in the way of acquiring material to take care of the job we have in British Columbia, the same as in other areas.

I have just been speaking to a representative from Edmonton. I asked him how they were doing out there and he said that they were just as badly off as we are and maybe worse. Their system is run by the City of Edmonton, itself, yet that is the situation they have. We are operating a system with 5,000 odd employees. They do not feel very good when they are hammered at every day about the lack of service and so on. We are making every effort we can from top to bottom, every day, to do the best we know how to give the best service under the conditions under which we have to operate.

Q. What causes a girl in a manually operated station to tell you that all lines to another station are busy?—A. That would be due to the lack of trunks between two offices. Under normal conditions, having regard to known traffic loads, the factors are translated into the required number of trunk lines between any two areas. But these areas, let us say, are growing fast and we get to the point where the cables on order to take care of these trunks fall behind in delivery to as much as 6, 9, or 12 months beyond the time we estimate we should put them in to take care of the situation. So we have to get along with what we have got until these new cables arrive. Take for example the long distance line between here and Montreal. You may pick up your telephone and find that all the lines to Montreal are busy because there are not sufficient trunk cables between those two places.

Q. You indicated certain apparatus in the remote districts in the province. Can you give us an estimated idea of what priority you give to the modernization of that type of service?—A. It is a case where, in our opinion, in the opinion of our engineers and of our executive officers, the factors impinging on that particular point or particular office indicate the inadequacy of the particular pieces of equipment which are there. Having regard to a minimum service, you can get along up to a certain point with the old magneto system. I am thinking for example of Abbotsford. When we went in there was a small number of stations. But the number has grown by 120 per cent since the end of the war. The facilities we provided there were entirely adequate to take care of the volume of service in the first instance. But because of the unprecedented demand, those facilities are now entirely inadequate; and it is those areas in which there is the greatest inadequacy, you might say, with respect to which we have to give first attention.

Q. You mean before Hastings and Kerrisdale, and so forth?—A. As long as the manual equipment in Hastings and Kerrisdale is able to take care of the service demands there, we shall continue to make use of it, and switch over to automatic equipment as it becomes available. It is our hope to make these areas fully automatic operations as fast as we can. Our plans call for it, I mean our plans which were brough forward in 1937. They contemplate completion of the automization of the whole of Vancouver in a period of around 10 to 12 years. There are so many factors which go into it. You just cannot pick up the necessary trained personnel to go in and do the job over night. It is a big job, a long job and a job which takes time; and all the elements involved have to be taken into consideration.

Q. Most of the complaints I have received in the area arise less from the rates put in than from the service given in the area.—A. I quite agree with you.

Q. Where manually operated phones are located and where you are trying to break in the automatic phones, that service they tell me is not good, and there is some evidence of the fact.—A. We have been hearing about it. It has been mentioned. I refer to the Fairmont office. We have been trying over the last two or three years to get that office cut off to automatic operation. It took us some considerable time. If any of you gentlemen have started to put up large

buildings today, you will know that it takes six to nine months longer than it did five or ten years ago to get them erected. But we have now quite a substantial number of lines going into the Fairmont area. We have got on order all the equipment and it is under delivery, to automatize fully the whole of that office. We want to do that as fast as we can. The other areas will be taken care of and treated in the same way as we have treated this one.

New Westminster is an area in itself and should be so dealt with because of conditions which exist there. New Westminster, by the way, I would like to say, has had the fastest growth of any of our larger urban areas, proportionately; and I think you will agree with me on that.

Q. Yes. A case for better service can be made there because I know of a firm there whose customers come down by boat and have endeavoured to get in touch with that firm by means of the telephone but were unable to get a connection. So they go home again, write their orders and send them in by mail. It has been very bad.—A. We have had complaints come in and we want to take care of the situation but the equipment has not arrived yet.

Q. I hope that it arrives soon.

By Mr. Fulton:

Q. I shall ask questions first arising out of the evidence which Mr. Hamilton has given today and at the last meeting: You referred to the need of money which would be created by certain requirements which you were going to be asked to meet by the Defence Department?—A. Yes.

Q. I take it that it is capital money you are going to have to spend to meet these requests?—A. Yes, and we will probably have to use the same facilities we have already got that are being used for the civilian, or normal, needs today.

Q. And then replace those?—A. And if we are going to keep up with our civilian requirements, we have to replace those.

Q. So it will be largely a capital outlay to meet these defence requirements?—A. Yes, and by so much as we increase the facilities we will have to increase the personnel to service these, and so forth, but that, again, we are reimbursed for out of the revenues we hope to get.

Q. Are you able to attach any figure to the capital outlay that will be necessary for this part of it?—A. No, but I do know it will be substantial.

Q. Will you get any capital assistance from the Defence Department for that outlay?—A. The arrangements in regard to these matters are still being discussed with the proper department, and I am not in a position to make any estimate.

Q. Probably not an estimate, but you know, particularly in the case of manufacturing concerns which are asked to undertake orders from the Defence Department, that the history appear to be, not only do they make a profit out of the undertaking, but they are to receive what is called capital assistance: would you not anticipate you would have the same treatment?—A. That may be but the matters that I discussed a few minutes ago, in answer to Mr. Laing, are mentioned in addition to that. We had to do something: undoubtedly we will not be able to collect capital assistance for everything: there will be some modicum we will have to take care of ourselves. Any facilities for civilian propositions will be provided on the rental basis. Any of these amounts are not taken as capital; that is a job we have to do.

Q. As I recall, in your evidence when you were asked to substantiate the statement that this $100 million would be used up in something rather less than ten years, and you were asked on what factors do you base your estimates, you laid considerable stress on what you described as a fairly heavy anticipated

outlay of capital to meet requests which were going to be made by the Defence Department: that was one of the things which you said you took into consideration in making your estimates?—A. Yes.

Q. I am asking, and I think you have already answered it, whether you do not anticipate that the major part of these capital outlays which you undertake at the request of the Defence Department will not be reimbursed to you in the form of capital assistance in line with government policy applied to other firms asked to take defence contracts?—A. Again I am not in a position to say exactly how we are going to work it out. It may be we will provide these facilities on the basis of our established charges for like facilities under the tariffs that have been approved by the Board of Transport Commissioners; it may be some other arrangement whereby the government will make some contribution where some of those places are in areas that could not possibly under any circumstances be considered for future commercial use to the extent of the volume of facilities at those locations. I said those are matters that will have to be worked out by ourselves, and I could not begin to put in a dollar mark on it. These other estimates. I said that anything we had to do in regard to that was over and above that. Whatever it is, I could not tell you, but I think it will be substantial.

Q. You have said that it may be taken care of by merely a normal charge for the service which you render—you would charge them the same rates as for civilians?—A. It would be extra capital expenditure.

Q. Do you not know that the system being followed by the government, so far as one can understand at the present time, as outlined in the House by the Minister of Defence Production, is that where a company is asked to provide plant and equipment, and things useful only for defence needs and which have no opportunity of producing a profit after the Defence Department need is met, their expenditure is taken care of in two ways: Firstly by a capital assistance program, and secondly by—I do not know the technical term—accelerated depreciation. If you install for the Defence Department a service, plants and equipment, which will have a potential civilian user attached to it, and you do not get a capital assistance grant for it, surely it would be only proper to assume that would be part of your normal expansion program that you have in mind anyway?—A. Yes.

Q. Therefore, those contracts which have no potential civilian user attached to them, surely if the principle outlined by the minister is applied, you will be entitled to capital assistance as well as accelerated depreciation?—A. It is possible something along the line of capital assistance will be provided probably in areas that, as I say, are by no stretch of the imagination commercial, say, five years from now.

Q. So to that extent you will not have to dip into the capital you will receive now to meet Defence Department requirements?—A. Could I give you one little illustration? Between Vancouver and close to your constituency we will be called on to provide facilities in that area, and our own toll line, staff et cetera—it will be a difficult proposition to segregate it in any shape, way or form, and we will probably proceed with that and provide the capital necessary for that. Still in that one particular instance alone—and that is only a small one—it will probably exceed $8 million, and the government pays us the normal rental and will guarantee us against any capital loss. If as and when the end of the war should come, or they want to give up the use of these facilities, then at that time we will be compensated for those facilities that cannot be used for civilian purposes at that time. I think that is the way is will be worked out but we will have to put up the capital in the first instance in a case like that.

Q. Yes.—A. Now, it may be that some installations will be called for to some extremely isolated area, maybe at the top of a mountain on the west coast,

we will say, and it is a very important point so far as communications are concerned, and the volume and the magnitude of that could never by any stretch of imagination be considered to have any commercial use after the war is over; all these items have to be dealt with differently across the table, and I could not tell you.

Q. No, but you have said you anticipated that took a large part—or some part, and you will get a measure of capital assistance?—A. I think I have illustrated that.

Q. Yes.—A. And I do not want to hold back anything, but I think I have covered it. I am not in a position to give you any details.

Q. No, it was the principle of the thing I was interested in, as to where this capital, or some of it, might come from. I would like to ask a question which I have asked the earlier witnesses, and so far they have not been able to answer it: Did I ask you whether or not the Board of Transport Commissioners has ever to your knowledge required an improvement or extension of service from the company when you have appeared before them for a rate application or an application for authority to issue capital?—A. I have never known—there have been many complaints and many petitions to the Board of Transport Commissioners in connection with service matters, but I do not know to my knowledge of any situation that has not been dealt with, and reports made, and all the factors laid out on the table, and a satisfactory settlement arrived at.

Q. I was wondering about those you referred to as arising by way of petition or complaint to the Board: I take it the Board would call on you to answer the complaints?—A. Yes.

Q. I am thinking of when you go before the Board for an increase in rates or an application, such as is coming forward, shortly, for authority to issue some of this share capital; do you recall on any of those occasions when the Board has attached conditions to the granting of the application requiring you to give this or that extension, or improvements in service?—A. No.

Q. So, the one has never been made conditional on the other to your knowledge?—A. They have always assumed we are good boys.

Q. Turning to the figures you tabled last week, and a summary of the proposed expenditures by areas— —A. Yes, sir.

Q. You gave us the proposed program for 1951 and the estimated program for 1952?—A. Yes, sir.

Q. I had correspondence with you recently, and I am not going to ask you details—this is for the purpose of the record—I had correspondence with you recently regarding a service to the North Thompson?—A. Yes, sir.

Q. Is that being dealt with?—A. Yes.

Q. The situation at Clearwater where they are asking for an exchange?—A. You drew that to my attention, and I have asked for complete particulars to be put forward, and I will be very glad to convey to you what has been done and what we propose to do, and what plans we have and when we hope to carry them out.

Q. The matter is being dealt with now?—A. Yes.

Q. The other thing I wanted to ask you about is the question relating to the Dominion Government Telephone and Telegraph Service, which, as you know, starts in the interior of the province at Ashcroft and serves the area north of that up to Prince George, and also serves the northwest communications system?—A. Yes.

Q. Mr. Farrell, I think it was, told us when he was giving evidence that the Department of Transport has the whole question of the services in British Columbia under its consideration at the moment, and I gathered from his evidence that there was a possibility that eventually your company may come to an arrangement with the Dominion to take over a greater or lesser part of that system which they now operate: to your knowledge is that a correct

statement of the situation?—A. Yes. It is only very recently—as a matter of fact, early this year; some few months ago—I interviewed members from the government with regard to the better integration of our two services, particularly in relation to defence, and it was agreed that some of their top officials should come out at a suitable time this year and look over this whole situation in regard to telephone services. I believe the time is ripe when extensions and betterments are due to these areas we have just heard asked about that are expanding and bulging, and that applies to that area north of Ashcroft. I would point out that some 20 odd years ago when the same thing was happening through the Kootenays we approached the government on the same basis and took over all the lines operated at that time by the Dominion government south of the main line of the C.P.R.—took them over en block. They were operating something over 1,600 miles of lines with this service on the smaller areas, and subsequently we took over another 651—over 2,000 miles—and these were merged in with our service and interconnected through our long distance toll system which we have started to put through, as many of you know, through the Kootenays and into the Trans-Canada.

Q. You anticipate then, discussions being embarked upon in the quite near future regarding the taking over by your company of some part, at any rate, of this Dominion government system?—A. Yes.

Q. I presume the closest point you have touched here in your summary would be the Kamloops district. I wanted to ask you whether your expenditures, or your whole program you had in mind at the moment, embraced that possibility, or will an additional outlay, or additional expansion program be necessary if that possibility comes about?—A. There is not one dollar expenditure anticipated in that. Those figures were prepared and put forward some time around the 10th of January this year, and it was subsequent to that that I had my conversations with the department, and any sums that we would be called upon, within the next ten years, if we should make an arrangement to take over these services—because there is a great deal involved—are not included in this authorized capital.

Q. Not even in the $100 million?—A. I should say, is not included in this application for authorized capital: I want to correct that.

Q. There are some areas, I believe, where there is—if "confusion" is not a fair word, correct me—I will call it "confusion" resulting from the overlapping, or, there is no clear distinction between the Dominion government boundary and yours: the line of services on Bridge River, Pioneer and Bralorne—those mining communities—and the line that serves part of the P.G.E. community down to Pemberton. I believe in some cases they have to start out over your line and switch to the Dominion government line, and then switch over to the B.C. Telephone Company line: have you any contemplation in regard to any immediate improvements in that situation?—A. When we provided services into the Bridge River area, at that time there was a small government telephone office, and they were not in the position to give the extended service that was required at that area into Vancouver, which was the source of supply and from which all communications were to or from. By agreement we took over the job of supplying service there. We built a line and took over a line from north Vancouver through to Squamish, and made arrangements to get service from Bridge River to McGillivray, and from there we built a line over the mountain. That gives us straight physical connection, and in addition to that, because of the rough terrain and the outages liable by snow conditions and weather conditions, we augmented that by radio, and that is the principle method of communication. Between Bridge River and Lytton and Lillooet and up to Ashcroft the government still have their own line.

Q. In other words, you go at the moment to the actual mining communities of Pioneer and Bralorne; but from Vancouver the other way from Pioneer and Bralorne out to Ashcroft and east, they go Dominion government service?—A. From Ashcroft over Dominion government service, sir.

Q. Is that situation static, or have you any contemplation for that area at the moment?—A. We have an idea that some satisfactory arrangements can be made for us to take it over and operate it and give probably, what I might term, a better integrated service. By that I do not mean the Dominion government telegraph service all down through the years have not given a very good service all through those lean areas in which they have done a job.

Q. This particular point seems to suffer from lack of integration?—A. Yes.

Q. And you think something may be probably worked out?—A. Yes, I think so.

By Mr. Byrne:

Q. I would like to ask, Mr. Chairman, with regard to the Columbia valley. There have been various representations requiring night service: there has been no night service for the entire Columbia valley: have you had various representations by organizations?—A. You mean Columbia Gardens?

Q. Columbia valley.—A. Is that south of—

Q. Golden, Invermere and Windermere?—A. That matter is before us, and the general manager reports to me that the traffic and operating people are going in there studying that whole situation. We realize that at Golden and Wndermere and a number of these other places, in the summertime particularly, there is some inconvenience to the tourist traffic. That has been developing, but it has, I think come along in the last year or two.

Q. Failing a 24 hour service, would it not be possible to have that connection directly with the nearest exchange which is operating a 24 hour service—and that is for long distance purposes? They are completely isolated from the rest of the world—and there are all these tourists.—A. The difficulty there in a manual office—and those are manual offices at the moment—is to set up connections that you can connect on a toll line. It is a physical connection that has to be put up. By dial you could throw a switch and make it possible for anybody. If it was on dial, what you are suggesting could be done, but not on manual, unless you have an operator there, and it is uneconomical to have an operator all night to answer one or two calls.

Q. Have you any idea how long it will be before the centre of Cranbrooke and Kimberley will have the automatic exchange?—A. I believe we have orders in hand for plants and buildings for the complete automization of those points.

Q. How many years?—A. I don't know, but as soon as we can get it. The plans are out and all necessary steps taken, short of getting the equipment.

Mr. GREEN: Is that not under the Kootenay Telephone Company?

The WITNESS: Yes.

By Mr. Hatfield:

Q. I would like to ask about this $50 million increase in capital— is that ordinary shares or preferred shares?—A. It will all depend on the market at the time we are doing the financing. We could not sell more than a certain percentage of those shares as preferred shares. In other words, a condition attached to all outstanding preferred shares is that not more than 60 per cent of the total capital can at any time be preferred shares.

Q. Does the present stockholder have any advantage in buying those shares?

The DEPUTY VICE-CHAIRMAN: That is all on the record.

The WITNESS: The present stockholders have the same rate as any other companies.

The DEPUTY VICE-CHAIRMAN: These questions were answered.

By Mr. Hatfield:

Q. What preference are they given?—A. They are given no preference.

The DEPUTY VICE-CHAIRMAN: Those questions you are asking now are on the record. If you get the record of last Friday, you will see them.

Mr. HATFIELD: Well, I have another question. Why do these telephone companies—I am not interested in the British Columbia telephone users but I am interested in other telephone companies in Canada—but I would like to know why is it connected with so many other companies that supply material to the parent company—Phillips Electric, Northern Electric—and you have another one out in British Columbia that I have not heard of—Canadian British Columbia Telephone and Supplies Limited; why are all these companies necessary? Is it to make a higher price to users of the telephone service?—A. No.

Q. I suppose I use as much telephone service as anyone in this room, and I would like to know why all these companies are necessary? Are you connected with Western Electric—they are the big parent company of all companies?—A. No, we purchase a lot of their equipment. We purchase equipment from every source—from England, all over, wherever we can get equipment which meets our specifications, and at what we consider is a fair price.

Q. There are certain companies, if they can supply that equipment, from whom you are supposed to buy your equipment?—A. I do not think as a telephone man I can answer that question.

Q. Are there some companies that have preference in selling material to your company?—A. No, no preference.

Q. Not even your own subsidiary company?—A. All things being equal, yes.

Q. You give them a preference?—A. Certainly.

Q. Which do they give the preference to—Northern Electric, Phillips Electric, Western Electric, or what company?—A. We buy to the best advantage in the interests of the telephone company.

Q. Do you own any stock in the Phillips Electric?—A. Me?

Q. No, the telephone company?—A. No, they are not allowed to.

Q. I know that: the directors, I mean?—A. I wish I had some of that stock.

Q. Well, have you any stock in Northern Electric, or Anglo-Canadian?—A. I am sorry, I do not.

Q. Well, the Western Electric—you do not know of Western Electric?—A. Western Electric is the principal manufacturer of radar, but we purchase a lot of Western Electric equipment in our ordinary course of business.

Q. Do you purchase any equipment from the North Electric?—A. Yes, a lot of it.

Q. What I would like to know is why you have so many subsidiary companies from which you purchase material? Is it to put up the cost to the user of the telephone?—A. I would not agree with that statement. We do not purchase from anyone to build up costs. We purchase in the best market we can get.

Q. Why is it you sell your capital—for the capital you need, why do you sell stock instead of bonds? You pay probably 8 per cent on your ordinary stock, do you? You are allowed to pay at 8 per cent.

Mr. APPLEWHAITE: It was all on the record yesterday, and that statement is not so.

Mr. HATFIELD: Do you not pay $8 a share dividend?—A. That is correct.

Q. You can sell bonds for 3½ or 4 per cent?—A. Sure.

Q. Why is it not advisable to sell bonds instead of paying 8 per cent to the common stock owner—$8 a share?—A. That is something that—I think that question has already been discussed, but the answers to those questions are very fully set out.

Q. But those are questions that concern all telephone companies. All telephone companies should in my mind be public utilities.

The DEPUTY VICE-CHAIRMAN: You will find those questions you asked are on the record now, and you cannot go into a discussion as to whether they should be public utilities or not. We are examining a witness on his technical information.

By Mr. Murphy:

Q. Mr. Hamilton, I do not know whether you can give me information relating to the answers to the questions I asked your solicitor the other day. You had permission to issue preferred and ordinary stock on May 25, 1948, and the ordinary stock was sold at $125?—A. Yes.

Q. On October 23, 1950, you got permission to issue both preferred and ordinary. And I see from my memorandum with respect to the ordinary stock you were permitted to sell it at $132.50.—A. That is right.

Q. And on April 4, 1951, you again got permission to issue preferred and ordinary stock to the extent of $40,000 ordinary at $132.50.—A. Yes.

Q. What I want to find out is if you can give me, or give the committee, at your convenience the book value of the common stock as of the date that you made application to the Board of Transport Commissioners for a fixed price. —A. Can you get that? The book value? If this answer is of any use to you or the committee, I might say that the Bell Telephone Company—and I do not like to bring in other public companies, but it is a matter of public knowledge—the Bell Telephone Company were authorized to sell their $25 shares at $53; and if you multiply that by four, that comes out to around $33 or $33.50; I do not know which. You can correct me if I am wrong. The result was that they were authorized to sell to their shareholders, with all rights and everything attached to it, their $25 shares at $33 or $34. And if you multiply that figure by four, it gives you approximately the same price at which we were authorized to sell ours. In the use of the Bell Telephone Company the matter of rights was attached to it. We are on all fours in so far as prices are concerned by the Treasury of the Company; and our authorized stock is issued under the authority of the Board of Transport Commissioners. Does that answer your question?

Q. Yes. Have you got the book value as at this particular date? If not, could you get that information for me? The reason I ask you is that you may apply next year or in 1955 for permission to sell that stock.—A. Yes.

Q. And the book value may be up by $15 or $20 and you may be permitted to sell the stock at $145, $150 or even $160, which would have a bearing upon our consideration with respect to increased capitalization.—A. I am afraid it is the market and the public which control these items.

Q. That is true. But I think you would agree that the book value would have a lot to do with it in any case.—A. That is a matter which investors look at.

Q. Yes.—A. When the price tag is put on those shares.

Q. That is right.—A. And one has to take into consideration the fact that when you start in to call for the financing of any company in a proportion of $5 million to $10 million, that is in addition to bond moneys which are raised in the ordinary way. At one time you sell common stock and at another time you sell bonds. In our little company it is a case of $5 million to $10 million at a time, and a case of taking into consideration the population in British Columbia where our operations are known and the financial facilities and the management and all that is attached to it, which an individual looks at when he is going to invest.

That is a lot of money and you expect the thousands of shareholders you have to take the money up. It is in your till and you are through with it.

Q. If you will get me that information, I shall be glad.

The DEPUTY VICE-CHAIRMAN: Mr. Goode?

By Mr. Goode:

Q. Mr. Chairman, I wonder of Mr. Hamilton would refer to the summary of the proposed expenditures for a moment.—A. Yes, sir.

Q. Have you got a breakdown of item 3 headed "Greater Vancouver and New Westminster" to a total of $20,700,000? Can you tell me how much of that large total is to be spent in Burnaby and Richmond?—A. I have not got the details here and I do not know if I could get them for you.

Q. If you can give me this proportion, I would like it. —A. But, Mr. Goode, there is a very substantial expenditure, and the proportion in Burnaby will be in proportion to our shortages on our demands.

Q. It may be. Perhaps I can develop that. How many telephones have you got in Burnaby at the moment?—I think you gave that information to someone else, but I would like to have it on the record, if I could.—A. I am sorry, Mr. Goode; but in so far as Vancouver is concerned, we call it Greater Vancouver and New Westminster. And Vancouver includes Dexter.

Q. Do you mean to say that you are including Burnaby in with Vancouver?

Mr. MOTT: That is right.

The WITNESS: The portion of Burnaby that is attached to Vancouver is included with Vancouver from a service standpoint.

By Mr. Goode:

Q. I was going to ask you, when you said to Mr. Mott that New Westminster was the fastest growing community in British Columbia—I have not myself made any check there—about facilities in Dexter. Have you any vacancies for telephones in that area?—A. In Dexter we placed an order for a 240,000 unit central office equipment for the Dexter office, about 30 days ago.

Q. And what about Glendale?—A. I have not got the details.

Q. Could you let me have them—not in the committee—but when you get back home? Could you drop me a line?—A. I will be glad to, when you get home.

Q. If we ever get home.—A. And I shall see that you are given all the information. In fact, I am willing to go over the whole of the area with you.

Q. Thank you very much.—A. And I shall ask you how to fix all my troubles.

Q. You have a toll charge between Burnaby and New Westminster?—A. Yes.

Q. We want to get rid of that system. We have tried to do so for years. How much money per year does that toll charge bring you?—A. I could not say.

Q. You could not estimate it?—A. No.

Q. How long will it be before you do away with that toll charge? There is no toll charge between the City of Vancouver and Burnaby, is there?—A. No.

Q. But you say there is a toll charge between Burnaby and New Westminister. Why is that?—A. It is a question of rates.

Q. The distance is less.—A. I would be glad to go into that with you, give you the complete details, show you what we have and discuss with you what we could do in the way of eliminating that toll.

Mr. MACDOUGALL: Draw him a picture and write him a letter.

The DEPUTY VICE-CHAIRMAN: Order!

By Mr. Goode:

Q. We feel that if the distance between my home and Vancouver does not justify this toll, then the distance between my home and the home of Mr. Mott, in New Westminster, does not justify it. I have to pay a toll charge between

my home and Mr. Mott's home. But I do not have to pay a toll charge between my home and Vancouver.—A. I believe that if you will give me the opportunity I can show you, and you will agree that the reasons adduced for it are sound.

Q. I do not know that I shall agree, but I would be glad to hear what they are.

The DEPUTY VICE-CHAIRMAN: Shall we now call the next witness?

By Mr. Green:

Q. Have you yet run into the problem of conflict with Defence Industry in getting supplies?—A. There is no conflict.

Q. For example, apparently there is less and less steel for civilian industry all the time. Have you yet run into that difficulty?—A. Yes.

Q. You are running into it now?—A. Yes.

Q. And you had similar trouble during World War II, did you not?—A. We did not have trouble. We just had certain regulations issued by the government in regard to the allocation of the available sort supply materials in so far as defence was concerned, and we were acting accordingly.

Q. I take it from the evidence you have already given that you have not been able to get your material, even to this date, at the rate you had planned to get it. Is that correct?—A. Yes, definitely; but that had nothing to do with defence requirements.

Q. You also have had difficulty in getting a staff to carry out your plans? Is that correct?—A. Not in getting all the staff. We have difficulty in getting female telephone operators, and I think I gave the reasons why.

Q. And if you should have difficulty in getting equipment, would that affect this $100,000,000 plan being brought forward?—A. Well, if we were cut off in a period of ten years from getting any equipment, obviously we could not use any of the $100 million.

Q. I am taking the situation as it is almost certain to be under present conditions; and if you cannot get the material, if there are any restrictions or shortages because of defence requirements, they will affect your program, will they not?—A. In our forward planning we cannot anticipate a war or an international complication that will impede our program of expansion to meet the normal call for telephone service in the areas in which we are entitled to serve. That is not our affair. We have got to plan to take care of, first, our civilian needs; and then, if there is a war or a call to utilize those facilities and the material which create those facilities, then we have to submit to it, like any other company, any other utility company, or anybody else. But we want, and we are asking, to be put in a position to take care of it; and I hope and trust that we have submitted the necessary factual data to this committee to enable them to judge whether or not we require it.

Q. These plans in the ten year program are based on normal conditions?—A. I think I have already stated that, Mr. Green, yes.

Q. And there has been some mention about doing defence work. Will the cost of that work fall in any degree on the civilians? Or will your contract with the government be such that the government carries the cost of that work? —A. Certainly; the government will carry the cost. It will not fall on the telephone subscribers of British Columbia if I can help it. And I shall make the proper appeal to the Dominion government to see that we are properly and duly recompensed for our service, or for any capital outlay which we cannot use.

Q. You mean that the company is in a position to see that all the costs of its defence work will fall on the Dominion government?—A. We are talking of costs?

Q. Yes.—A. I hope so. And I would qualify my answer by saying not all the capital costs.

Q. Well, all that would be over and above developments that would be taking place in the normal course of events. Is that the way in which you

qualify it?—A. I think I fully answered that question to Mr. Fulton. But I shall answer it again for you in this way: we will be called upon to put in additional service to serve the government. The provision of that service will be recompensed, I hope, by the government, so that none of its cost will impinge on the subscribers of the British Columbia Telephone Company.

There will be capital costs involved. If as and when the use of those facilities by the Defence Department is ended—and I do hope they won't need them very long—then such of those facilities as we have in excess of our normal requirements at that particular time can probably be turned in for use for the public service, anything over and above that which cannot be immediately used. We are required to make the necessary deal with the Dominion government. But as to what it will be, I would not even hazard a guess and I do not think that any gentleman here would ask me to hazard such a guess.

Q. You are proceeding with your installation of telephones just as rapidly as possible at the present time, are you not?—A. We certainly are, Mr. Green; and our 5,000 people who are serving the public of British Columbia are very unhappy that we are in such a situation through causes impinging on us over which we have no control.

Q. And you will continue to put in as many phones as possible regardless of the amount of the increase of capital that you get at the present time?—A. I think I answered that question a few minutes ago when I said I am not padding it, I think I am modest—that we would require something between 150 and 175 new stations to be installed within the next five or six years, whatever it was, that is, to take care of the service demands.

Q. What I was asking you is this: You will continue this policy of installing as many phones as it is physically possible to do, regardless of whether you get an increase in capital of $25 million, $35 million, or $50 million, will you not?—A. Well, I do not know if the question concerns what we will do in the way of installing phones. But we want to have sufficient authorized capital ahead of us so that we can do intelligent and forward planning over a reasonable period, in a large corporation and in a large utility service such as we have in British Columbia.

Q. Well, your policy will continue to be that of installing as many phones as you are physically able to?—A. That is so, Mr. Green, and I am glad you asked me that question. I repeat I set out the company's policy in the few words with which I began to give evidence here. I think I stated what the policy of the company was. It is still the same policy.

Q. Would it be fair to say that the only effect of the amount of increase granted to you would be on the time that you come back here asking for a further increase in capital?—A. I do not know. This parliament may see fit to say that we have to come back every year, every two years, every five years, or even every ten years. We are in the hands of parliament and properly so.

The DEPUTY VICE-CHAIRMAN: Shall I call the next witness?

By Mr. Applewhaite:

Q. Mr. Hamilton, there has been quite a lot of talk about operating service, I mean replacing manual operators by automatic machines and so on. Roughly, in dollar value, what percentage of the cost of changing from manual to automatic can you recover by salvage and by other ways?—A. Under present conditions where we have replaced manual equipment with automatic equipment, we have a limited use of the displaced manual equipment. We can use it to put in extensions and so forth, after re-vamping it to suit to fit in, and to give service at other manual operated offices where we are unable to get in new equipment or to get automatic equipment.

As we proceed over a period of years, all the manual equipment that we will take out will ultimately be junked. With respect to some of the large

offices which we take out, probably we might utilize 8 per cent or 10 per cent of it. But some of it is practically useless except to the junk man for the value he can get out of it when he melts it down. And if you gentlemen have any idea of the electrical business, you will know what that means.

Q. You had a large exchange in Vancouver which was recently converted from manual to automatic. Can you give us approximately what part of the cost of it you will get back out through use of the old station?—A. Well, one of the major costs of a large manual board is the labour cost of installation. It is a very very major factor; and when you take that out, it is gone forever. As a matter of fact, it is sometimes very costly to re-vamp old equipment. It would be better to purchase new equipment if you can get it. But we are forced to utilize the old stuff and spend money on it for the purpose of giving service. I again refer to Mr. Mott from New Westminster. I think he can verify what I have said.

Q. In the discussion with Mr. Herridge, I think you told him what you had in view, in connection with various places in his district, if you got this increase in capital; and you discussed your plans with Mr. Laing and other members from British Columbia, as to repairing or taking care of their complaints about lack of service or obsolete service. Can you state in the way of a proportion how much of this you can do if you get an increase in capital?—A. We are at the end of our tether so far as financing is concerned.

By Mr. Green:

Q. What is that again?—A. I said that we are at the end of our tether so far as financing is concerned. We might be able to put out a few bonds, but it all depends on the market. We have now issued every dollar of capital that we are authorized to issue.

Mr. MOTT: Mr. Hamilton, I take it that in your whole plan of extension or expansion, the time limit put on it will depend on the capital that is passed upon by this committee.

The DEPUTY VICE-CHAIRMAN: Are there any further questions?

Mr. GREEN: I would just like to say that remark does not explain the situation. What do you mean by that, Mr. Mott?

Mr. MOTT: I mean this, If you will let me explain it: First of all, they plan to expand the telephone system. That expansion will require certain equipment, certain conduits, and so on. I understand they plan to spend $10 million in the next few years, and that there will be certain basic expenditure regardless of whether or not they get $35 million. But I understand that the whole plan will be cut down if they do not get the $50 million they are asking for.

Mr. GREEN: That is not according to the evidence which has been given before us today. If that is what you mean, Mr. Hamilton, are you putting it up to the committee in this way? If you get an increase of, let us say, $25 million, then you are going to do so much work; but you will cut down that work if you do not get $25 million?

The DEPUTY VICE-CHAIRMAN: That question is hardly in order. I do not think we are in order in discussing what would happen if they get less than the $50 million they asked for.

Mr. GREEN: I think the witness said the policy of the company would be to expand as much as they were physically able to do, and that such has been their policy up to date. You are now bringing in an entirely new suggestion: That if you only get an increase of $25 million, then your whole plan will be changed and you won't do as much expansion this year or next year and so on. That is what you are suggesting, Mr. Mott, and I do not think Mr. Hamilton said that at all.

The WITNESS: I just stated a few minutes ago that I think we have put forward sufficient evidence to show that we have a reasonable requirement in asking for authority to issue, under proper supervision, an additional $50 million of authorized capital. I did say that it was entirely in the hands of the Parliament of Canada to give it consideration and to decide whether they want to give us $1 million and require us to come back next year for $2 million, and so forth. But we shall do the best job we can to meet our telephone service obligations in the Province of British Columbia in every way, shape or form irrespective.

Mr. STUART: Mr. Chairman, I asked a question the other day. I do not know whether, or not it was answered later on. It was stated in the committee the other day that British Columbia Telephone Company did not come under the supervision of the Board of Public Utilities. But in other provinces, or in some of the provinces I believe they do. So I asked a question at that time as to how the telephone rates in British Columbia compare with telephone rates in other provinces?

The DEPUTY VICE-CHAIRMAN: That was put on the record this afternoon.

By Mr. Hatfield:

Q. Is there anything put in concerning the rights given to the present shareholders on some of this new stock? Will there be any rights given to the present shareholders when you come to sell the new stock?—A. I hope so.

Q. You hope so?

Mr. McCULLOCH: It is always done.

By Mr. Hatfield:

Q. But is it always fair to the telephone users? As my friend from Pictou says, "It is always done." You say that you intend to spend $100 million in the next six years or so. Will you issue any bonds?—A. Oh yes.

Q. How many bonds?—A. In accordance with the terms of our trust deed in connection with the issue of bonds, we are limited to a maximum of 60 per cent of bonds to other moneys placed behind them for security purposes.

Q. Do you think you have to give rights to the present stockholders in order to sell this stock?—A. I do.

Q. I see that your stock is worth $132 a share at the present time. Do you expect to issue rights so that the present shareholders can buy that stock at $100?—A. I shall answer your question in this way: There are telephone companies in the Maritimes.

Q. I know that. I own stock in the New Brunswick Telephone Company.—A. And they are all doing the same.

Q. Well, I do not think it is fair to the telephone users. I think it is very unfair to them to cut a melon every few years.

The DEPUTY VICE-CHAIRMAN: Members of the committee, it is now twenty-five minutes to six, and it has been suggested, that, instead of hearing the next witness now, we meet at 8.15 tonight when we will have the next witness called. Are there any further questions to ask this witness? If not, shall we adjourn until 8.15?

Agreed.

EVENING SESSION

The DEPUTY VICE-CHAIRMAN: Gentlemen, we have a quorum. Shall we proceed with Bill No. 116, letter E of the Senate, intituled an Act respecting the British Columbia Telephone Company. Is it the pleasure of the committee that we call Mr. Brakenridge of the city of Vancouver.

Mr. APPLEWHAITE: Mr. Chairman, before we, as it were, close the case for the petitioners and call on any others, I wish with the permission of the committee to draw to your attention the fact that the document prepared by the city of Vancouver which was made part of the records of this committee meeting, without objection, was a document which was distributed to the members from the Vancouver area by those who are opposed to part of this bill, presumably with a view to letting those members know the decision taken by Vancouver in order that they would govern themselves accordingly. Under those circumstances I wish to draw to the attention of the committee that there was distributed a signed letter to all members from lower British Columbia by the Vancouver Board of Trade, signed letters were sent in the same terms to the members for Vancouver Centre, Fraser Valley, Burnaby-Richmond, Vancouver-Quadra, Vancouver South, Vancouver-Burrard, Vancouver-East, New Westminster, Coast Capilano, Comox-Alberni, Nanaimo and Victoria.

With your permission, under the circumstances I think it would be fair that I be permitted to read this letter into the record.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee that this letter be read and incorporated into the records?

Agreed.

Mr. APPLEWHAITE: The copy which I have in my hand was addressed to Mr. J. L. MacDougall, M.P., by the council of the Vancouver Board of Trade. It reads as follows:

> The council of the Vancouver Board of Trade yesterday reviewed the matter of the application of the B.C. Telephone Company, currently the subject of an appeal before the House of Commons, asking for an increase from $25,000,000 to $75,000,000 in its authorized capital.
>
> In view of the tremendous development of the area which is currently served by the company, and the very insistent demand for continuous and speedy improvement of the services and facilities of the company, the Vancouver Board of Trade has gone on record as being in favour of the granting of the application.
>
> The granting of such application may forestall the necessity of the making of frequent applications to parliament for the granting of additional capital. The proper and timely use of the authorization granted by parliament, it is recognized, is further protected by the fact that it will still be necessary for the company to appear before the Board of Transport Commissioners at such times as it desires to secure orders covering the amount of stock to be issued, the specific terms of the issue and other relative factors.
>
> On these occasions, should necessity arise, the Board of Trade, or citizens generally, through their representatives and representative organizations, may make such comment and recommendation as is deemed advisable.

In the light of all these circumstances, therefore, the Vancouver Board of Trade definitely supports the application of the company as outlined in the current bill.

Yours very truly,

(sgd.) Reg. T. Rose,
Executive Secretary.

The DEPUTY VICE-CHAIRMAN: Is it the pleasure of the committee to call the next witness?

Mr. GREEN: If evidence of that kind is to be submitted I think I should be permitted to submit the evidence of the Vancouver *Sun*.

The DEPUTY VICE-CHAIRMAN: That is a newspaper, is it not?

Mr. GREEN: It represents a far broader group of people than the Vancouver Board of Trade.

The DEPUTY VICE-CHAIRMAN: Is it the intention that we file briefs from all the newspapers and all the Boards of Trade of all the cities connected with this sort of thing? I did not know what this document was that was read out.

Mr. GREEN: You allowed it.

The DEPUTY VICE-CHAIRMAN: Certainly I allowed it. I would like to get on with the witnesses and we can take your point up a little later, if you do not mind.

Mr. GREEN: I am surprised Mr. Applewhaite would try to put in evidence of that type.

Mr. APPLEWHAITE: I take strong exception to that remark, Mr. Chairman. No objection was raised when Mr. Herridge read letters from several Boards of Trades and if Mr. Green has suggested I have done something that other members will not do, I take objection.

The DEPUTY VICE-CHAIRMAN: He has expressed a little surprise that you did it. There is nothing to object to.

May we take the next witness now and may we have your Vancouver *Sun* editorial at a later date, Mr. Green?

The next witness is from the city of Vancouver, Mr. C. Brakenridge, Parliamentary Agent.

Mr. C. Brakenridge, City of Vancouver, called:

The DEPUTY VICE-CHAIRMAN: Mr. Brakenridge will first make his statement after which I suppose it will be possible for us to question him.

Mr. MOTT: Before Mr. Brakenridge makes his statement I think—probably no doubt he will—he should file some credentials as to who he is representing and the authority for representing them.

The DEPUTY VICE-CHAIRMAN: Before you answer that, Mr. Brakenridge, I might tell the members that there was a telegraphic application made to Mr. L. O. Breithaupt, M.P., chairman of this committee, dated Vancouver, May 21, 1951. It reads as follows:

> Re British Columbia Telephone Company Bill. Understand this bill likely be referred Committee on Railways, Canals, Telegraphs. If so would request permission city of Vancouver, B.C. represented at hearing of committee. City Council appointed Charles Brakenridge appear on its behalf. Would appreciate as much advance notice of meeting as possible.
>
> Arthur E. Lord Corporation Counsel City Hall

To which was sent a reply reading as follows:

Arthur E. Lord, Esq.,
Corporation Counsel,
City Hall,
Vancouver, B.C.
Dear Sir:

Re: British Columbia Telephone Company Bill

Mr. Breithaupt, M.P., Chairman of the Committee on Railways, Canals and Telegraph Lines, has received your telegram requesting that Mr. Charles Brakenridge be heard on behalf of the City of Vancouver, and that as much advance notice of the meeting be provided as is possible.

Enclosed is a copy of our Standing Orders Nos. 119 and 120, together with an application form for registration as parliamentary agent.

You will be informed in advance of the date of the committee meeting.

Yours very truly,

John T. Dun,

Chief of Committees and
Private Legislation.

Mr. Brakenridge is a parliamentary agent representing the city of Vancouver and as such is entitled to be heard and I am glad to call Mr. Brakenridge to make his statement now.

The WITNESS: Mr. Chairman and gentlemen, I think first of all I should introduce myself, as it were. I would like to say that for twenty-two years I was the city engineer of Vancouver, from 1924 to 1946. I resigned in 1946 and for the last five years I have been engaged more or less on public utility regulation matters. I have been retained particularly by the city of Vancouver on many British Columbia Electric issues and have had occasion to appear before the British Columbia Public Utilities Commissions on many occasions so that I feel I have reasonable qualfications to appear before such a body as yours and present the case of the city of Vancouver. Now, Mr. Chairman, I would like first of all to deal with the document. Some doubt was cast on this document which the city of Vancouver originally sent to the Vancouver members; it was suggested that it was a report only of a special committee. I would point out that the Vancouver City Council more or less follows the same procedure as most public bodies. Their business is conducted through the medium of standing committees and on occasion through the medium of special committees, when matters of particular importance come up.

Now, when this notification regarding the British Columbia Telephone Bill came before the Council it was referred to a special committee, and that special committee submitted this report to the city council. The city council in turn adopted the report and consequently it becomes the formal action by the city council on this matter. So, I hope that clears up any misunderstanding as to the fact that this report actually was originally sent by the members of a special committee.

Mr. HERRIDGE: Could I ask a question at this point; was that adoption unanimous by the council?

The WITNESS: I was not present, Mr. Chairman, at the meeting but I believe it was. To the best of my information it was.

The DEPUTY VICE-CHAIRMAN: I wonder if we could not go through with this statement and ask our questions afterwards? I think we could save time that way and not upset the equilibrium of the witness. Go ahead, Mr. Brakenridge.

The WITNESS: I would just like to draw your attention to the three recommendations contained in this report. I refer to page 3. The first paragraph, after the half paragraph at the top of the page, reads:

> Your committee would accordingly recommend that the city should at this time oppose the application of the company to obtain such an excessive increase in capital authorization (from twenty-five million to seventy-five million dollars) as provided for in the bill now being presented.

And then the next paragraph contains also a recommendation reading as follows:

> Your committee further consider that the city should take advantage of the opportunity now being afforded, when the application of the British Columbia Telephone Company to obtain extra powers comes before parliament, to press for some relief from the oppressive policies now being carried on by the company.

And then there is one further recommendation at the foot of the page, the last paragraph:

> If the council concurs in the views advanced in the foregoing four paragraphs, your committee would further recommend that the city take all possible steps to endeavour to have presented to parliament the onerous nature of the contracts to which the B.C. Telephone Company is now subjected, when the private bill of the telephone company is under consideration, in an endeavour to obtain relief or amelioration from the adverse consequences of such contracts.

Now, you will notice that there are really two issues. The first issue is that the city opposes the excessive increase, as they state, in the authorized capital, and the next one is that the committee requests that when this matter comes before parliament that some consideration be given to what they claim to be the onerous nature of the contracts to which the British Columbia Telephone Company is now subjected,

So there are two points that I have to present to you.

Dealing first with the question of the increase in capitalization—it is proposed to increase the authorized capital from $25 million to $75 million, which, of course, is $50 million. We immediately, then, come to the question of how much money will $50 million provide. You have heard quite a little argument as to the relative proportions of capital and debt, and it has been suggested that fifty-fifty probably is all that can be expected. We think it is possible that forty per cent of the capital will support sixty per cent of debt, and if that is so, then the $50 million of authorized capital will result in a total amount of money of $125 million. Now, we realize that market conditions at the time capital is raised has a good deal to do with the proportion of equity capital that will be maintained, nevertheless we strongly urge that serious consideration be given to the desirability of carrying as large a proportion of debt capital as possible because, of course, debt capital can usually be obtained at considerably less than equity capital. The interest on the bonds is free from income tax and consequently it represents a substantial saving to the telephone consumer. It has been suggested that the success of municipal ownership in Edmonton and the three prairie provinces has been due to a large extent to the fact that they finance entirely on debt capital. They do not, of course, require to raise any equity capital at all, and while we realize that the telephone company cannot do that, that the money markets will not provide money under those conditions, we do say that over a period of time, and these finances are going to be issued over a period of time, there is a reasonable chance that the final results could well be forty per cent equity and sixty per cent debt capital, and if that is so, a total of $125 million will arise from this $50 million proposed increased in authorized capital.

Now, in addition to that, as you have already heard, the common shares of the telephone company have been sold of late at a substantial premium, and in view of the fact that an $8 dividend is paid there is every reason to consider that that situation will continue.

So, there will undoubtedly be additional funds from premiums on the common stocks. Now, this question arises: What proportion of common stock is the company likely to adopt if they are putting forward $50 million of equity capital. If we assume that half of it will be common stock, then you have $25 million, and if the $32 premium can be maintained that will bring in another $8 million. In addition, the company have from time to time large funds which come to them through the medium of accruals to depreciation. You will realize in many cases funds are set aside every year to take care of the ultimate wear-out of a particular piece of apparatus or building but they are not necessarily called upon for replacement until the end of the life of that particular equipment or building. Take the telephone company head office. There, you have a magnificent permanent building that will probably last for one hundred years. Actually the company depreciates all buildings in one group and I cannot remember exactly but I think the depreciation rate is about 2½ per cent, and I think the actual life is represented as thirty-five years. So, for thirty-five years the company is going to set aside every year out of revenue sufficient funds so that at the end of thirty-five years they will be able to recoup the investment they put into that telephone building.

If that telephone building costs $1 million—and I do not know what it did cost but I am guessing about $1 million—you can see that quite a substantial sum will accrue every year in the depreciation reserve. That applies to many of the company's installations. It is true that every company has to write off certain of the prior investments but over the years most utility companies find they have fairly substantial sums, and it is customary to invest those sums in extension of the plant. That is a proper and desirable thing to do.

So, we see the telephone company will have sizeable sums through their depreciation accruals. Just what they will do is difficult to say without knowing exactly how their plant account is going to have to be written off. I found it somewhat difficult to put a figure on that but I would suggest we might use a figure of $15 million. I think that is a very conservative figure and on that basis we then have this situation.: They can raise $125 million on the basis of the $50 million equity, and they can get $15 million from depreciation reserves, that is $140 million, and if they can get a premium of $8 million, that makes $148 million.

We start out with a suggestion that the company originally contemplated spending $10 million a year. It is true Mr. Farrell told us that, due to the increased cost of materials and supplies, that $10 million might become at least $12 million. Apparently it is suggested that condition is going to continue but nobody knows what the next few years will bring. Possibly prices are due to come down again. If we patch up this Korean situation it is hard to say what will happen one or two or three years from now.

So, it seems not a little unfair or a little pessimistic to suggest that $12 million will be required from now on to carry a former $10 million program. I was rather interested in hearing Mr. Farrell give the figures, although I am not sure I got them correctly because Mr. Hamilton gave them again and they did not seem to tally. However, the way I got it was the capital expenditure for 1949 was $6,700,000 and for 1950 it is $6,400,000—but I think slightly different figures were given this morning. However, they did not vary very much from those figures.

I looked up the brief that the telephone company presented at the rate hearings in January, 1950. That brief set out the company's estimated commitments for 1949 and 1950. The 1949 figure was $8,677,000, and the 1950 figure was $12,202,000—and so on I think for one other year. So, it would appear as if the company will have some difficulty in keeping to those expenditures. 1949 and 1950 were good years for getting material and labour as compared with the outlook at the present time . I feel on the basis of the actual expenditures for 1949 and 1950 that the company probably will do very well if they can actually spend what they say. Commitments do not mean anything; it is the expenditures. Mr. Hamilton and, I think Mr. Farrell, both talked about commitments. In other words they place orders for certain materials which are not due to arrive until next year, but if you keep everything on an actual expenditure basis you do not need to worry about commitments at all. So, on an expenditure basis it would appear as if $10 million is a very reasonable figure.

On that basis if we have $148, million of a total—I admit that is a pretty optimistic view but let us look at the top figure. That would mean that this money would provide for a fifteen year program, and the city of Vancouver feels that any such program is looking too far ahead.

I should say right here probably that the city of Vancouver has no desire whatever to curtail expenditures of the company for legitimate development. We are just as interested as they are in seeing that actual developments go ahead. It is to our interest as well as theirs to see they are able to keep pace as far as possible with the development of the times. Actually, of course, we have enjoyed a period of boom prosperity and marvellous growth for a number of years. I joined the city service in 1909 and I have seen three booms and three depressions—one of them a very difficult one indeed. I think if history teaches us anything certainly this boom is not going to continue indefinitely and, long before this fifteen year period has expired, I think it is fair to say that we are going to experience something not quite so prosperous as we are now enjoying. So, one cannot help but feel that this amount of capital is not necessary, or I should say the authorization of such a large amount of capital is not necessary at the present time.

Now, there is a further feature to this situation. I think it was Mr. Farrell who said that it did not make any difference how much capital the company spent it would not affect the rates. Of course it will not affect the rates if income increases in proportion to the obligations that the expenditure of the additional capital involves. You have to service the debt that you incur on the capital and you have to set aside these depreciation funds that I spoke of—and you have a situation in public utility developments where it is almost impossible to curtail your actual program just to provide for immediate needs.

In other words, if the telephone company is going to build a new station in a growing community, it is good business to build a new station somewhat larger than the immediate requirements for equipment. That larger investment brings in no income at all until a certain growth takes place which justifies the installation of additional equipment and consequently there is additional income. So, we are a little exercised that if the program is not well balanced and care is not taken to see that there is a reasonable measure between the extra income and the charges that will result from the investment, then it can well be that the extra charges to service the capital to provide for depreciation and to pay the extra costs of maintaining and operating the extension will get so far ahead of income that we may be called upon to provide for a substantial increase to service the new extensions.

We feel that there is no justification at the present time for the company receiving authorization for such a large increase in capital. After all is said and done if it should turn out that the most optimistic foresights are quite

justified, and we do enjoy boom conditions for another six or eight years, and if the company finds that after four or five years they require some more money, then there is nothing to prevent them, I take it, from coming back to you gentlemen and asking for a further authorization. It seems rather unlikely that any such thing will take place, but if it does, it does not mean that there is a catastrophe at all; it just means that the telephone officials will have the benefit of another trip to Ottawa and a nice look around the capital for a while—something which I have been enjoying myself for several days.

Mr. MURRAY: May I ask a question?

The DEPUTY VICE-CHAIRMAN: I wonder if we cannot finish with the witness's presentation and then ask questions. Would you mind letting the witness finish?

The WITNESS: I would just like to close that phase with this remark. The telephone service has become almost an absolute necessity even to the lower income group families, and I think we have to be very carful that we do not allow costs to get so far out of hand that we deprive the low income group family from enjoying the benefit of telephone service. It is not good enough to simply say: Oh, well, we have these increased costs and we have to have the money needed to meet the costs, and consequently we have to increase the rates in proportion. I think great care has to be exercised that we proceed prudently and wisely, and so I would say to you that the city of Vancouver would request that you curtail the amount of the authorization of this capital.

The city is particularly concerned, not only because of the amount of the capital, but because of the second condition that I read out of the city's brief—that is the onerous nature of the contracts which the telephone campany has become involved in.

I think it was Mr. Lett who suggested that it was not proper that you should listen to any arguments about those contracts; that those contracts had been the subject of very serious discussion before the Board of Transport Commissioners, and consequently that ended the matter. That might be all right under certain circumstances, but we contend that the circumstances are somewhat exceptional. We found, when we went before the Board of Transport Commissioners, that apparently their powers were seriously curtailed. We were confronted all the time with interruptions from the senior counsel for the B.C. Telephone Company. He was on his feet objecting a large proportion of the time—whenever we endeavoured to bring out anything about these contracts that related to something behind the scenes, the senior counsel was up on his feet objecting; and the railway commissioners in some cases objected to these matters being gone into.

I would like to bring to your attention some decisions and rulings of the Board of Transport Commissioners.

The DEPUTY VICE-CHAIRMAN: I wonder if we are interested in the rulings of the Board of Transport Commissioners concerning something which has been brought before the Board of Transport Commissioners and to which you are now objecting? I do not think that this committee should be listening to something you objected to before the Board of Transport Commissioners. I do not think that would be in order. But I am in the hands of the committee.

Mr. GREEN: Well, Mr. Chairman, Mr. Lett read to us portions of this Judgment himself and I think that Mr. Brakenridge should be entitled to make his submission to the committee in the same way.

The WITNESS: Might I explain to you what I propose to do? Might I be allowed to do that?

The DEPUTY VICE-CHAIRMAN: Yes.

The WITNESS: What I am seeking to do is to bring to the attention of this committee the fact that apparently the Railway Act does not give to the Board of Transport Commissioners sufficient power to investigate thoroughly these inter-corporate relations. And if I can establish that fact, then I would like to ask this committee to make a recommendation that the powers of the Board of Transport Commissioners be broadened so that they may be able to investigate fully these inter-corporate relations. That is the intention of the citations which I propose to give you. They do not relate to rulings on the contracts, but are just on how far the commission can go.

The DEPUTY VICE-CHAIRMAN: I think it will be all right. Go ahead and we can stop you if we do not like it.

The WITNESS: Thank you. First of all, I would like to quote from the Judgment of the Board of Transport Commissioners for Canada in a recent Bell Telephone application for an increase in rates. It is noted as case No. 955.170, and I shall quote from page 19 of the printed Judgment. This reference deals with the supply contract between The Northern Electric Company Limited and the Bell Telephone Company of Canada; and this is the quotation which I wish to read:—

> As in the 1927 case and prior decisions, the request of the respondents...

Now, the respondents in this particular case were presumably the cities of Toronto, Montreal, Ottawa, Hamilton, Woodstock, Quebec, Valleyfield, Three Rivers and so on. Perhaps I had better start again. I quote as follows:

> As in the 1927 case and prior decisions the request of the respondents to extend the inquiry into all the affairs, finances, and costs of the Northern Electric Company was refused. The Board's jurisdiction does not extend to companies not under its jurisdiction. The chief concern of the Board in this matter is that prices paid by the company under the contract are reasonable and proper.

That is the first quotation. My next quotation is from the Judgment of the Board of Transport Commissioners for Canada in the case of the British Columbia Telephone Company, the recent case; and it is marked File 32560.32; and I shall read from page 26 of the printed Judgment, the second paragraph, as follows:—

> The only matter we have to consider in my opinion is whether a reasonable and necessary service is obtained from the expenditure incurred by the company. It is suggested that the payment of money by the company to Anglo Canadian Telephone Company far exceeds the amount paid in turn by that company to its affiliates who actually provided the service. This, in my opinion, goes far beyond the Board's jurisdiction.

I have just three other excerpts from the transcript of the evidence of the British Columbia Telephone Company case. I quote now from page 776, and I quote the remarks of Commissioner F. M. MacPherson, addressed to Mr. McTaggart, and the quotation is as follows:—

> You said you were dealing with the Anglo Canadian Telephone Company which controls all these others. Now, if you will confine your investigation to those companies with which the British Columbia Telephone Company have connections, and not the other companies...

And then again from page 904, the remarks of the Deputy Chief Commissioner, as follows:—

> Our ruling is that the Board's functions are mainly concerned with operating under the Railway Act, and the company that you are talking about is not under that Act. The company is actually referred to related

to the Dominion Directory Company, but it was not a Dominion Directory transaction that was at issue. It was called the Dominion Directory Company which is the company that publishes the directories that was holding shares of Telephone Securities Limited, another affiliate of Anglo Canadian.

And the ruling of the Deputy Chief Commissioner was:

Our ruling is that the Board's functions are mainly concerned with operating under the Railway Act; and the company you are talking about is not under that Act.

Then one further quotation from the same transcript at page 902, and again the remarks of the Deputy Chief Commissioner as follows:

Why.

And then there is a full stop. He is answering "why" to a previous question.

We are bound by precendents set up by this Board.

I would like, if I may, later on to refer to the feeling of the commission that they are bound by precedents set up 25 or 30 years ago.

Now, Mr. Chairman, it is only fair to state that despite these rulings and instructions I have quoted to you, the Deputy Chief Commissioner did relax somewhat after most strenuous objections raised by counsel for the city and the province. All through the hearings counsel for the telephone company had appealed to the Board to investigate the ramifications of this family and argued that their activities should be brought into the open where all could see what was going on behind the scenes. Surely parliament never intended to deny the citizens of Ontario and Quebec the right to learn in intimate detail what was going on behind the scenes in all matters which might affect the cost of service in any utility company which enjoyed a monopoly in furnishing that service.

So we in British Columbia are delighted to learn that the citizens of Ontario and Quebec are asking serious questions about the operations of their telephone monopoly, the same as we are doing and intend to keep on doing, until we get some redress for a situation wherein apparently the restricted powers of the regulatory body appear to stultify any real attempt to carry on an exhaustive probe into the affairs of these powerful corporations.

Now, gentlemen, the point I am trying to make is that when we go before the Board of Transport Commissioners we find that our Board of Transport Commissioners appears to be so restricted that the minute we get beyond the first party privy to a contact with the British Columbia Telephone Company, we are told that we cannot go any further.

Consider the case of the license contract. You heard this morning that the British Columbia Telephone Company paid them up to 1½ per cent. Now they pay 1 per cent of their gross revenue to their parent Anglo Canadian Company for services presumed to be rendered to them relating to engineering, financing, and everything under the sun.

It is admitted that the Anglo Canadian is not able to provide that service. But Anglo Canadian tells us that it is provided by some of the Gary Group. Now, who are the Gary Group? Presumably they are located in Chicago or Kansas. In Chicago, presumably; and the witness, Mr. Cheney, whose evidence was read into the record this morning, told us about the organization that existed in the Gary Group to render this service.

But it is established that the Anglo Canadian Company only pay $3,175, I think, if I remember the figure correctly.

Mr. GREEN: It was $3,150.

The WITNESS: Yes, $3,150 for service for which in 1948 the British Columbia Telephone Company paid $181,051. Now, can you imagine hard-headed

Americans in Chicago, out of the goodness of their hearts providing services to the extent of $175,000 without getting any payment for it or only getting $3,150 for it? It does not sound reasonable on the face of it.

Now, we do not doubt that there is an organization in Chicago, but we do not know how it is set up. We have a suspicion that it relates to the corporation that manufactures telephone equipment which ultimately is sold to the B.C. Telephone Company, but we do not know, and we cannot find out because the railway board say that their jurisdiction does not allow them to go beyond the first party to a contract with the B.C. Telephone Company, and so we will never be able to find out what is going on behind scenes if that is the situation. The same applied to the Canadian B.C. Telephones and Supplies: We tried to find out how it was that the Canadian B.C. Telephones and Supplies were handling these Telephone Security shares, but there again, you see, is a transaction relating to a second party and has no direct bearing on the relationships between the B.C. Telephone Company and the Canadian B.C. Telephones and Supplies. So we say that these contracts could not be investigated as they should have been by the Board of Transport Commissioners, and consequently that we should have a right to bring them before this committee. Now, respecting these three contracts, let us take the supply contract; the B. C. Telephone Company entered into an arrangement with a subsidiary of Anglo Canadian, B. C. Telephones and Supplies, whereby they undertake to do the purchasing for the telephone company, and they undertake to do the repair work for telephone company and the installation work for the telephone company, and they undertake to carry stock for the company, and we say why does not the B. C. Telephone Company do that work itself, because the Canadian B. C. Telephones and Supplies have made quite a little bit of money from year to year, and apparently is able to invest in Telephone Security Stock, another subsidiary of Anglo Canadian, but the telephone company tell us that they are too busy; their job is to sell telephone service, and that they cannot handle this work. Now, I say we have a much larger utility company in British Columbia, the B.C. Electric Railway Company: they supply electricity, gas and transit service to the lower mainland and to portions of Vancouver Island. It is a much larger enterprise than the B. C. Telephone Company, but they find no difficulty in doing their own purchasing, nor do they find any difficulty in handling their own repairs or carrying their own stock. Shall we say this scheme—and we cannot call it anything else—of setting up a subsidiary company to do these services for the B. C. Telephone Company simply means that the subscribers to the telephone service are called upon to pay more than they should do for that service. I should say that the Board of Transport Commissioners in their judgment found that the payments made by the B. C. Telephone Company to the Canadian B. C. Telephones and Supplies were excessive, and they disallowed a proportion of the amount. Unfortunately, they did not give us any clue as to the basis on which they had computed the amount to be disallowed, and so we are in the dark as to that extent, and I heard Mr. Hamilton or Mr. Lett tell you that since the judgment of the Board of Transport Commissioners, the telephone company has seen fit to modify that contract with Canadian B. C. Telephones and Supplies, but they have not abandoned it. They have evidently reduced the commission percentages, but the contract is still there, and so we are by no means satisfied yet that that situation has been remedied. Now, respecting this directory contract. Here you have another subsidiary company set up to handle the advertising matter in the telephone directory. It is also a very profitable enterprise, and incidentally the president of the telephone company and the president of the supply company are one and the same. Now, again, we are told that the telephone company have not got the expert staff to sell advertising, and that they have to depend on these experts to do the job for them, and yet these experts are housed in the telephone company building, and we cannot see

why the telephone company could not hire the experts just as well as another subsidiary company, and any profits that accrue from the directory would then go into the accounts of the telephone company and be to the benefit of the telephone subscribers.

There is another situation that exists: the B.C. Telephone Company operates, as they told you, the major proportion of the telephones in British Columbia, but there are four other small subsidiary companies of the Anglo Canadian, which is the parent company of the B.C. Telephone Company: they are the Chilliwack Telephone Company, the Mission Telephone Company, the Kootenay Telephone Company and the North-west Telephone Company. Those are not their strictly legal titles, but I think that will serve to identify them. Now, what do we find there? We find that the general manager of the telephone company is the general manager of each of those four companies, and we find that the plant manager of the B.C. Telephone Company is the plant manager of each of those four companies, and I think the traffic manager is also, and on down the line, and we wondered, with such an inter-locking of officialdom, whether the B.C. Telephone Company is getting all that is coming to it in their relations with the small companies. One thing that strikes us as very significant is the fact that the telephone company in their own brief even at the last hearing —and I think I heard it at these hearings here—indicated that it was not possible in a small telephone enterprise to operate successfuly at reasonable rates unless it could get financial help from the larger communities and cities; but here is the Mission Telephone Company, and at the time of the hearing they had, I think, 700 telephones, and yet we found the Mission Telephone Company is doing quite well. These figures are at the end of 1949, and the Mission had 700, and the Chilliwack had 1900 stations, the Kootenay 2,200, and the North-west had 3,000. How does it come that these small companies are so prosperous if it is a fact, as stated by the telephone officials themselves, that small companies cannot be operated unless the rates are exceedingly high? The rates for these companies are not exceedingly high, and so we say that parliament should enlarge the powers of the Board of Transport Commissioners so that they can look behind the scenes and satisfy themselves and satisfy us—and when I say "us" I mean the citizens of British Columbia, and apparently the citizens of Ontario and Quebec, because in this decision of the Board of Transport Commissioners of Canada, in the case of the Bell Company, we find more or less the same situation: the large cities objected very strongly to the license contract, to the supply contract; in their case there was no directory contract. I should say this, that the Bell Telephone Company, although a much larger organization, does not engage purchasing agents. They do business with the Northern Electric Company, but they do not pay purchasing commissions in doing that business, but we find that the B.C. Telephone Company require to make arrangements with another company to do their purchasing. I was also interested in looking through this Bell judgment to find that in 1929 the service contract percentage was reduced from 1½ per cent to 1 per cent, but our Canadian boys were a little smarter than the Bell Company, and we did not get our reduction until just before the rate hearing in 1950, and I think it is very significant that just before that rate hearing came on, suddenly the telephone company found it desirable to negotiate reductions in the percentage paid to the supply company, and the percentage paid to the license company. Further, while we were paying 1½ per cent on our license contract, and the Bell Company were only paying 1 per cent, the Bell Company were getting a service which included the expenses of anybody they found it necessary to call upon to come and render service to them, whereas the telephone company's contract obligates them to pay the expenses of anybody who comes out to give them any service. I would like to say further that the Bell Telephone Company of Canada gets their service from the American T. and T., and the American T. and T. undoubtedly have a very fine

laboratory, and they undoubtedly have a very large organization of experts, and so there is some semblance that they are able to render a valuable service under their service contracts: but so far we have not been able, because of the limited powers of the commission, to find out just exactly the kind of service that the telephone company receives. So, I would ask you, gentlemen, whether you cannot see your way to make a recommendation that the powers of the Board of Transport Commissioners be enlarged so that there is no question when these matters come before them we will not be met by objections from opposing counsel that we have no rights to go into these matters, and I would further say on this question that the board are bound by precedent. I am not a lawyer, but I have been in a good many lawsuits for the city of Vancouver, and I know what a terrible thing precedent is. You are confronted with a judgment that somebody rendered in London in 1670, and it seems to be pretty difficult to get around that, but I suggest when it comes to matters relating to the regulation of public utilities that times are changing. You know in America after the totter of the Insul Empire and many of the large utility holding companies, the public began to waken up, and demand something to be done to curb the activities of these power barons, an over the years the utility commissions in the different states are beginning to make it pretty hard—

Mr. MURRAY: I think that is objectionable, Mr. Chairman.

The DEPUTY VICE-CHAIRMAN: I think that is all right.

Mr. MURRAY: Well, I happen to have known some of the gentlemen, and I am quite an impartial member of this committee, but they were associated with the founding of the B.C. Telephone Company and they were all of high integrity, and they were not, as has been said—

The DEPUTY VICE-CHAIRMAN: You will be able to cross-question the witness as soon as he has finished his evidence. Go ahead, Mr. Brakenridge.

The WITNESS: All I wanted to add was that it seems to me there should be some way in which the commission may not be bound by a judgment that was given 25 years ago when the conditions probably were quite different from what they are today. That, Mr. Chairman, concludes my submissions.

The DEPUTY VICE-CHAIRMAN: Mr. Applewhaite wanted to ask the first questions.

Mr. APPLEWHAITE: Perhaps one should just clear with the committee the status here. I am asking you for a statement of opinion which we will accept. Is it the position of this committee that Mr. Lett for the B.C. Telephone bill has the privilege of cross-questioning the last witness or not?

The DEPUTY VICE-CHAIRMAN: Section 779 of rules and forms state: "the conduct of the business before the committee is regulated as the committee may think most convenient, et cetera". It has been the policy of committees such as this to allow committee members to question witnesses on the stand. It has not been the policy in the past to bring outside counsel to question a parliamentary agent.

The WITNESS: I have no objection whatever.

Mr. APPLEWHAITE: Well, it is not a question of the witness objecting.

The DEPUTY VICE-CHAIRMAN: Go ahead.

By Mr. Applewhaite:

Q. Witness, have you with you a copy of the resolution of the Vancouver city council whereby they adopted this report?—A. No, I have not, Mr. Chairman.

Q. Where did you get the information that the president of the B.C. Telephone Company was also the president of the Supply Company?—A. I did not

say that the president of the B.C. Telephone Company was the president of the Supply Company. I said the president of the Supply Company was president of the Directory Company: or, if I did not say that, that is what I intended to say.

Q. That is what you intended to say?—A. Yes.

Q. Referring to this city's brief, and filed by the honourable member for Vancouver Quadra, Mr. Green, you will find attached these last four pages of what is stated to be extracts, a report dated December 8, 1950, made by Messrs. McTaggart and Brakenridge to His Worship the Mayor and the city council: what was that report?

The DEPUTY VICE-CHAIRMAN: Is this the report you are referring to: "judgment—telephone rates"?

Mr. APPLEWHAITE: Yes.

The WITNESS: That, Mr. Chairman, was a report presented to the city council by Mr. McTaggart and myself, Mr. McTaggart having been retained as counsel on behalf of the city when the rates case was before the Board of Transport Commissioners, and I also was retained by the city, and consequently at the close of the hearing when the judgment had been rendered, this was our report on the judgment that we had received.

Q. Is this annex here the entire report?—A. No.

Q. Are you filing the entire report?—A. No, I do not—

Q. On what basis of selection were the extracts made? Why were some parts extracted and some parts not?—A. The only thing I think that actually is an issue was that the parts that were extracted related to the points of issue. I do not think there is any objection to filing the whole report.

Q. Have you included in these extracts all references to the three contracts: supply, service and directory purchasing contracts?—A. In the reports?

Q. Yes.—A. Yes.

Q. Well, I have in my hand what is supposed to be a copy of the original report as delivered to the solicitor for the telephone company by Mr. A. E. Lord when they forwarded to him this brief: on page 11 the initials at the bottom are C.B., and N.M.: those C.B. initials, are those yours?—A. Yes.

Q. Was the report signed by you?—A. It was signed by both Mr. McTaggart and myself.

Q. Were you really the author of this report?—A. No, it was a joint report.

Q. Were you a co-author of it?—A. Yes.

Q. On page 6 there is a section headed "Grouping of Exchanges": that was not included in the part filed with this committee?—A. No, because that was not an issue before this committee. We would like very much to have brought that question up but we did not see there was any ground on which we could do so.

Q. On page 9 there is a heading, "Ex parte submissions": That was not included in these extracts submitted here?—A. No, that had nothing to do with this committee either.

Q. On page 9 there is a section headed "comments on judgment of the board": that was not included?—A. No.

Q. On page 10 there is a paragraph which starts: "No attempt should be made to minimize the serious nature of the outlook caused by the board's recognition of the three contracts, etc.": that was not included in the extract filed with this committee?—A. No.

Q. Would you say it is a fair inference to draw that the signatories of this report did not particularly like the board's judgment?—A. I certainly would.

Q. Was any action taken by the mayor and council upon the suggestion contained in this paragraph: "Comments on judgment of the board"?—A. You mean with regard to appealing?

Q. Yes.—A. Yes.

Q. Your comments said: "The issue now before the council becomes one of deciding whether any action should be taken to appeal the judgment of the board. In this connection two courses of possible action are open to the council. One would be an appeal to the Supreme Court of Canada on any question of law, subject to leave to lodge such an appeal having first been obtained from the Board of Transport Commissioners for Canada. The other would be a wide open appeal to the Governor in Council at Ottawa." Did the city take action to appeal the judgment of the Board of Transport Commissioners?—A. No, the city gave serious consideration to the matter of appeal, and they came to the conclusion that in view of the rise in costs that had been taking place subsequent to the hearing that possibly those costs would submerge any consideration of the points at issue.

Q. So the case was decided by the Board of Transport Commissioners, and the city of Vancouver had the right to appeal either to the Supreme Court of Canada or the Governor in Council, and did not?—A. That is right.

Q. Was any further action taken by the city on the rate application judgment?—A. What further application?

Q. I say was any further action taken?—A. None that I know.

Q. Turning to the city's brief, this is the one date February 9, 1951, the first paragraph states that notification of the application for a private bill was referred by the council on January 15, 1951, to the chairman of the Utilities and Airport Committee for consideration and report; is that correct?—A. Well, I would presume so. I am not in a position, of course, to swear.

Q. Did you advise that committee and assist it in the preparation of this report?—A. Yes, I did. Mr. McTaggart and I both sat in.

Q. The brief says at the bottom of page one: "your committee consider that the outstanding feature of this 'application' is contained in item (*a*) whereby the company seeks to obtain power to increase its authorized capital from the present limit of $25 million to a new limit of $75 million, which would thereby treble the present limit". That is correct, is it? That was your recommendation?—A. Yes.

Q. Then, turning to page 3, you have a paragraph: "your committee would accordingly recommend that the city should at this time oppose the application of the company to obtain such an excessive increase in capital authorization (from $25 million to $75 million) as provided for in the bill now being presented." That is a correct excerpt from the report, is it?—A. Well, we did not make any—

Q. Is that a correct extract from the report?—A. There is no extract at all. This is the report.

Q. Well, the paragraph I read, is that correct as it appears in your report?—A. I do not quite follow you.

Q. All right. We will call this the city's brief: I refer to page 3, the second paragraph, and I quote: "your committee would accordingly recommend that the city should at this time oppose the application of the company to obtain such an excessive increase in capital authorization (from $25 million to $75 million) as provided for in the bill now being presented." Have I read a correct extract from this brief?—A. Yes.

Q. Turning to page 4, the first paragraph: "in reference to the other proposed amendments or additions to the powers of the company as outlined previously under subheadings (*b*), (*c*), (*d*) and (*e*) your committee see no reason to advance any serious objections to same." Is that a correct extract from this brief?—A. Yes.

Q. In so far as this bill which the committee is considering is concerned, the objection is limited to the one point, namely, that an increase in authorized capital to $50 million is too much.—A. Well, I am not a lawyer, but I read myself, to you before, and I would draw your attention again to the fact that

the recommendations of the committee were three or four in number. At page 3, the second paragraph is a second recommendation, and the bottom paragraph is another recommendation.

Q. I am talking about the bill, of which you doubtless had a copy: In so far as the bill is concerned, what other part of the bill does the City of Vancouver object to other than the increase in authorized capital of $50 million?—A. As I say, I am not a lawyer. I cannot answer legally. I do not know your procedure about bills. I say quite definitely, and you have heard stated here: "If the Council concurs in the views advanced in the foregoing four paragraphs, your committee would further recommend that the city take all possible steps to endeavour to have presented to Parliament the onerous nature of the contracts to which the B.C. Telephone Company is now subjected, when the Private Bill of the Telephone Company is under consideration, in an endeavour to obtain relief or amelioration from the adverse consequences of such contracts."

Q. There is the bill at present before the committee: bill E of the Senate, and No. 116 of the House of Commons: is there any reference to those particular contracts in that bill?—A. No, but I presume the bill could be amended.

Q. I am talking about what is in the bill now. What does the City of Vancouver object to now in the bill other than the increase of capital?—A. The City of Vancouver's position as far as I know, without being a lawyer, is if this bill is coming before parliament which makes it necessary to open the telephone company's bill, we say it should be in order for parliament to consider whether they should not make some other amendments.

Q. I am coming to what is not in the bill, but I am talking now about what is in the bill?—A. Yes, but I am not a lawyer—

The DEPUTY VICE-CHAIRMAN: I have one section I would like to read here: "Section 785: it is in the power of the committee to make alterations in the preamble, either by striking out or modifying such allegations as may not have been substantiated to their satisfaction, or by expunging such as the promoters may be desirous of withdrawing; but no new allegations or provisions ought to be inserted, either in the preamble of the bill excepting such as are covered by the petition and the notice, as provided before the Standing Orders Committee—unless the parties have received permission from the House to introduce such additional provisions, in compliance with a petition for leave. Every material alteration in the preamble must be specially reported to the House, with the reasons therefor." The second one is: "section 537: a committee can only consider these matters which have been committed to it by the House.

"A committee is bound by, and is not at liberty to depart from, the order of reference. In the case of a Select Committee upon a Bill, the Bill committed to it is itself the order of reference to the committee, who must report it with or without amendment to the House." I bring those two references to your attention, to show you what is before the committee, and if we can carry on and keep our attention upon the bill that is before the House, I think we would move a little faster.

Mr. APPLEWHAITE: I am asking the opinion of the City of Vancouver from this volunteer witness who is down here on behalf of the city of Vancouver. I am not trying to shut out any evidence he may want to bring in.

The DEPUTY VICE-CHAIRMAN: Might I interrupt again and advise you that this is not a witness in the ordinary sense, he is parliamentary agent for the City of Vancouver.

By Mr. Applewhaite:

Q. I am trying to find out what the view of the City of Vancouver is in connection with the proposition so far made by the company as appearing in the bill. Have they any objections to the proposal so far made other than as to

an increase in the capital of $50 million?—A. No, I do not think they are objecting to the splitting of the shares and those features which I recollect are the balance of the bill.

Q. That is the view of the City of Vancouver, is it, that the first paragraph, is the objectionable one, the first one?—A. I think so, but again I must reserve my statements because as I said before I am not a lawyer and when you start dealing with the intricacies of a bill I think I am hardly prepared to answer.

Q. In so far as you have gone, is that your own view as well as that of the City of Vancouver.—A. What is my own view—in regard to this bill?

Q. Yes. —A. Now, again I hardly know what you are asking.

Q. Is it your own opinion as well as that of the City of Vancouver, the answers you have given so far?—A. With regard to the clauses in the bill?

Q. Yes. Do you agree with the City of Vancouver?—A. Yes. I agree with the City of Vancouver.

Q. You have heard the evidence of Mr. Farrell and Mr. Hamilton as to the company's requirements, which they have set down as being approximately $100 million for the next seven or eight years. Would you say those estimates are wrong?—A. I would say they are certainly optimistic and I have already pointed out that during the years 1949 and 1950 which in my opinion were probably boom years, and when as I said, materials were in supply and labour, as well, was easy, the company could not do better than around $7 million and I say that that is very good proof that the company is not likely to do any better in the years ahead and particularly in the next two or three years.

Q. Then you would say that Mr. Farrell and Mr. Hamilton are wrong when they estimate the company's requirements at approximately $100 million for the next seven or eight years. —A. I think they are too optimistic as to how they are going to be able to carry out that volume of work.

Q. Would you say the specific estimates of commitments for the years 1951-52 are wrong?—A. I have not seen these specific estimates.

Q. I think you have heard the figures read into the record. Have you any particular classification which you say is wrongly estimated?—A. I was not furnished with a copy of this information. I do not know if I was supposed to be furnished with it. I was passed by when exhibits were handed out.

Q. You heard the discussion?—A. Oh, yes, I heard the discussion but I did not benefit from any of the exhibits.

Q. Mr. Hamilton read into the record, as far as buildings were concerned, that in 1951 they required $624,300; in 1952 $580,000; in 1953 $432,000. Would you question those figures?—A. I would on the basis of the same figures that were submitted to the inquiry. I have already told you that the company submitted a brief setting out those very same things.

Q. To what inquiry?—A. To the rate inquiry.

Q. How long ago is that?—A. That was in the beginning of 1950.

Q. And it is now the middle of 1951. Would you object to a company bringing its estimates up to date?—A. No, it was not a case of bringing its estimates up to date, it was a case of failure to estimate correctly what they were likely to do in the years ahead.

Q. And you think they have falsely or shall I say, rather, incorrectly estimated them?—A. I say considering what took place up there there is every reason to think that these figures are too optimistic.

Q. Would you give us what you think would be the right figures in 1951, 1952 and 1953?—A. I am suggesting on the basis of the company's performance in 1949 and 1950. Let us suppose that if they were able to expend $8 million. Now I am accepting Mr. Farrell's statement that there has been a twenty per

cent increase in costs. Consequently you arrive at $10 million. Therefore I suggest the company will do remarkably well in view of the shortage of material and supplies if they are able to expend $10 million in the next two years.

Q. Are you basing that on the company's requirements, or on what you think it will be able to spend?—A. More on what I think it will be able to spend than on the requirements.

Q. In so far as the company's requirements are concerned have you any quarrel with their figures?—A. You are asking me about figures that I have not seen but again I will say this as I said before that if the company is not careful and goes on a spree of expenditures beyond the possibility of revenues to match that expansion, then we are going to be confronted with further rate increases.

Q. What I am really trying to get before this committee, I will be frank with you, Mr. Brakenridge, are some figures as to what the needs of the company are, what it is going to need to meet the future demands; the company has submitted a set of figures up to the end of 1953 as to what it needs. Now, are you querying those figures as to the company's needs?—A. I am querying them as to the practicability of the company carrying them out.

Q. Then you do not query their own statements of their needs, but you figure they are not going to be able to meet their needs?—A. That is actually the situation, yes.

Q. Then, in so far as Mr. Farrell or Mr. Hamilton have told this committee that the company's estimated program for the next three years is based on its requirements, you have no quarrel with that?—A. Well, I would not say that. I am not too well satisfied, if I may say so, and quite frankly, with some of the remarks that have been made. I think that there have been occasions when the company have endeavoured to maximize, if I might say so, their requirements in order to justify the authorization of the excessive increase in capital.

Q. In that case these figures may be too high.—A. Yes.

Q. Could you give us an indication which ones are too high?—A. No, I cannot because I have not seen them.

Q. Would it help if I gave them to you?—A. No, I think I would have to study them.

Q. Let us take them by districts. For the greater Victoria and Saanich peninsula they estimate for the next three years, $3,320,000-odd. Is that too high?—A. Well, I cannot tell you from looking at isolated items. I do not know whether I can tell you by looking at them all together.

Q. The grand total is $30 million odd. I thought it would be easier if we took them separately.

Mr. LENNARD: I wonder if that is quite fair to the witness. He cannot be expected to answer questions like that offhand?

The DEPUTY VICE-CHAIRMAN: Yes, I wonder if that is quite fair to the witness too; even though he is an engineer he can only give a very limited opinion on that.

Mr. APPLEWHAITE: I am inclined to agree with you, Mr. Chairman. I would put it this way. The witness has come down here and told us that $50 million is too large an increase. What figure would he substitute?

The DEPUTY VICE-CHAIRMAN: Just a minute. The witness has given his evidence here in which he has criticized—if I might use that word—he has used the word excessive increase in capital authorization; he speaks of oppressive policies, and he speaks of the onerous nature of the contracts. I wonder if you could not just go on those things? I suppose you will still have to find out what the excessive increase is, though.

Mr. APPLEWHAITE: I was going to try to deal with the capitalization first and see what the witness thinks and then go on to the contracts later. I do not want to force anything on the committee or the witness but this witness says

the increase in capitalization is too much. Well, there must be some basis for stating that, and what is the right amount and how is it arrived at? What is the basis for it?

The DEPUTY VICE-CHAIRMAN: I think that question is all right. Are you prepared to give an answer, Mr. Brakenridge?

The WITNESS: As I said before, and I will say again, I think that if the company is able to spend $10 million in the next two or three years they will do remarkably well and what is ahead after two or three years neither they nor we know.

By Mr. Applewhaite:

Q. $10 million a year for the next two or three years is just the amount that was estimated.—A. But Mr. Farrell now suggests that the $10 million should be $12 million.

Q. I am in the same position as you are, I do not have the details as to that. I did want to know on what you base your emphatic statement that what we are asking is too much. I think this would be a fair question. Would you say that the company was wrong to plan on a seven, eight or ten year basis in view of the industrial expansion taking place in British Columbia?—A. I think it is one thing to plan and another to make commitments, that is what I say. If the company is taken care of for the next five years then we will all be in a better position to know what is ahead of us, and I do not think the company, you, or I can look beyond that.

Q. I put it to you as a reasonable man, would it be reasonable for the management of a company of this size to wish to know what authorized capital it had available in planning for a seven, eight or ten year period.—A. I think it would be desirable as far as that goes, and again I come back to the city's point and I must emphasize it again, the city very definitely says as long as these onerous contracts exist we do not think parliament, if they are not going to give us release from them, should allow the company such an excessive amount of capital, because the only check we have is when they come to parliament.

Q. But you think it is fairly reasonable for a company of this size to know what money it will have available for its plan for the next seven, eight or ten years.—I think that as I said it can plan, but I do not think it needs to know definitely that it has a certain authorized capital. It is quite obvious that the company knows now, has known all along and will know as soon as it really needs money and then they can come to parliament and get it. As I said, on behalf of the city, the city has no desire whatever to see the company short of money; we are anxious to see them with sufficient funds to go ahead but we do not see why they should get this authorization that will carry them over ten or fifteen years.

Q. Would it be sound to operate on a plan that would look forward only to three or four years?—A. That is what they have been doing. They were here four years ago, in 1947.

Q. With a five year plan at that time?—A. Yes, and that evidently was perfectly satisfactory.

Q. Anything but; they are back here again. I ask you this, would it be sound to plan on a one or two or three year basis?—A. No, I do not think so.

Q. How many years do you think it should be?—A. I think they should be covered for four or five.

Q. And desirable for six or seven?—A. No, I would not go one year beyond the five.

Q. I think you said it was reasonable for them to wish to know for five or six years ahead.—A. Yes, as far as planning goes, I think it is desirable.

Q. Now, returning to this city of Vancouver brief, the matter in which I think you are interested, on the second page of the third paragraph.

> It should be remembered that this company, although providing a vital public utility service within the limits of the province, does not come under the close and continuing scrutiny of the B.C. Public Utilities Commission as would be the case if the B.C. Telephone Company had not obtained original incorporation by an Act of the Parliament of Canada.

It contains the expression

> does not come under the close and continuing scrutiny of the B.C. Public Utilities Commission.

What is meant in that phrase "close and continuing scrutiny of the B.C. Public Utilities Commission"?—A. Just what it siays, Mr. Applewhaite. I can speak with considerable authority on the close and continuous scrutiny of the Public Utilities Commission. The B.C. Electric are called upon to file every year a complete and detailed report of all their expenditures and all their revenues—broken down in the most minute detail. And I would say, further, that the Public Utilities Commission right at the inception absolutely refused to allow the B.C. Telephone Company to make or take into account intercorporate transactions.

Q. The B.C. Telephone Company?—A. Did I say the B.C. Telephone Company? The B.C. Electric.

Q. What scrutiny does the Board of Transport Commissioners exercise over the affairs of the B.C. Telephone Company?—A. I suppose they file some sort of an annual report. I do not know actually.

Mr. MURPHY: I do not think it is a fair question of the witness; it is not up to him to know.

Mr. APPLEWHAITE: I did not draw this brief.

Mr. MURPHY: You are asking what jurisdiction the Utiliies Commission has?

The DEPUTY VICE-CHAIRMAN: Over the B.C. Telephone Company?

Mr. APPLEWHAITE: Yes.

The DEPUTY VICE-CHAIRMAN: I do not know if they have any.

Mr. APPLEWHAITE: I am talking about the Board of Transport Commissioners.

Mr. MURPHY: I do not think the witness is expected to know that.

The WITNESS: I can answer it to this extent. The B.C. Electric—

By Mr. Applewhaite:

Q. I am talking about the Board of Transport Commissioners?—A. I know you are, but I am referring to the sort of thing—

Q. I did not mean to interrupt you.—A. The B.C. Electric is called upon to file a complete breakdown of its activities and its rate of earnings in every area—for every service that it renders.

Now, I would like at this time to tell you something I forgot to tell you and I think it comes in here very appropriately. When the hearing was held before the Board of Transport Commissioners, the city of Vancouver objected very strenuously to the fact that there was no information available segregating the long distance toll lines business from the exchange business. It was quite significant that the company were asking for an increase in the rates for exchanges but they were asking no increase in the rates for long distance business. We said: Well, show us how the long distance business is doing so that we can see whether the exchanges are not being called upon to subsidize the long distance business. We were told the company had no such separation —which seemed to be a most remarkable thing.

Mr. Farrell, or Mr. Hamilton, told us the company were embarking on spending millions of dollars on long distance toll lines, yet they do not know whether that business is profitable. They have no information available to show whether the expenditure of those millions on long distance lines is warranted or not.

Q. Well, I have not the slightest idea.—A. All I am saying is if the B.C. Telephone Company came under the scrutiny of the B.C. Public Utilities Commission they would certainly be called upon to provide that information. We asked the Board of Transport Commissioners to order the company to furnish that to us, and the Board said "no".

Q. Well, dealing with the Board of Transport Commissioners for a moment, have you information as to the extent which it exercises scrutiny over the B.C. Telephone Company? If you have not, I am satisfied?

A. Except I know, from my knowledge of the meticulous information necessarily filed with the B.C. Public Utilities Commission, that the telephone companies are not called upon to do anything of that kind—in fact I say they could not because they have not the information.

Q. You have just said what would happen if the B.C. Telephone Company was under the B.C. Utilities Commsision—but what power over the B.C. Telephone Company does the B.C. Utilities Commission have?—A. It would have full power over them if they were registered in the province as a provincial utilities company.

Q. What powers other than those limited to the reasonableness of rates and tolls?—A. It has power to investigate—I am trying to distinguish between the situation we are confronted with them when we come before the Board of Transport Commissioners and when we go with a utility company before the B.C. Utilities Commission.

Q. I am talking about a telephone company?—A. I am trying to give you a comparison.

Q. Can you give us it for a telephone company?—A. How do you mean, a telephone company?

Q. I am trying to find out the jurisdiction which the B.C. Utilities Commission has at the present time over telephone companies?—A. They would have the same jurisdiction over a telephone company as over every other kind of company.

Q. What do they order B.C. telephone companies to do—other than orders limited to the reasonableness of rates and tolls?—A. I do not know; I never have had any dealings with telephone rates before the Public Utilities Commission. As a matter of fact I think the B.C. Public Utilities Commission has been so crowded out with the city's insistence on complete control of the B.C. Electric and other large operations that they have to look after, that probably they have not got the staff to pay very much attention to the smaller companies—particularly when they are not asking for increases.

Q. I suggest their powers of ordering telephone companies are pretty well limited to decisions as to the reasonableness of their rates and tolls; and I think the same applies to the Board of Transport Commissioners here.

Mr. FULTON: What telephone companies are you referring to?

Mr. APPLEWHAITE: Those which are within the B.C. Telephone Company—the four subsidiaries are registered in B.C.—the Chilliwack and Mission companies, and the others are registered in B.C. The telephone company which is owned and operated by the city of Prince Rupert is another.

In connection with this paragraph I referred to, is it the intention that the B.C. Utilities Commission is more efficient in its regulatory duties than the Board of Transport Commissioners?

The WITNESS: Yes, I think it is.

Mr. MURPHY: I do not think that is a fair question.

Mr. APPLEWHAITE: Why not?

The WITNESS: Because of their powers—I think I have said the Board of Transport Commissioiners have not got the powers which the Public Utilities Commission has.

The DEPUTY VICE-CHAIRMAN: That is an expression of opinion but I think it is in order.

By Mr. Applewhaite:

Q. Lower down on the same page you say: "Our attention has been directed to another possible aspect of this proposed large increase in authorized capital. There appears some likelihood the company may be seeking to increase substantially the proportion of common stock in their capital structure."

You know now that is exactly what the company does propose to do, because you have heard Mr. Farrell and Mr. Hamilton give evidence they are trying to move towards a basis of 50-50 bonds and stock. Is not that correct?—A. That is right.

Q. The company states that themselves: Then, on page 3 in the third paragraph you say: "Your committee further consider that the city should take advantage of the opportunity now being afforded, when the application of the British Columbia Telephone Company to obtain extra powers comes before parliament, to press for some relief from the oppressive policies now being carried on by the companies."

I take it "the oppressive policies" refers to the matters dealt with in the next paragraph—your reference to the situation disclosed dealing with license, supply, and directory contracts stated to be now in effect?—A. That is right.

Q. Is there any suggestion the company's policies are "oppressive" in relation to the treatment of employees or their wages or pension plans?—A. No, certainly not.

Q. Does the expression "oppressive policies" refer to the three contracts in effect as at February, 1951—as at the date of this report?—A. Those are the fundamental references.

Q. Do you know, or did the author of this report know what contracts were in effect at the date of this report—February, 1951?—A. We naturally took it that the same contracts were in effect as at the time of the hearing.

Q. You did not check that?—A. We did not consider there was any reason for checking it.

Q. You are aware of the published advertisement of the company's intention to apply to parliament made in December, 1950?—A. I cannot be sure.

Q. And probably that notice was sent to the city hall on the 3rd of January, 1951?—A. I presume so but again I do not know.

Q. Was there any request made by the city to the telephone company for further information?—A. Not that I know of.

Q. Were the officials of the B.C. Telephone Company asked to meet with the city council?—A. I cannot say that; I am not a servant of the council now. I do not know just exactly what transpired.

Q. Was further information requested regarding the three contracts to which you refer in the report?—A. No, I do not think so.

Q. Was any inquiry made as to whether the contracts were in effect before this report was signed and submitted to the council on February 9th—some weeks after the advertisement?—A. I do not think so. I do not see why the city should think there was any likelihood of contracts being changed.

Q. Did you or Mr. McTaggart make any inquiry?—A. No.

Q. You do know now the supply contract in effect at the time of the rate hearing is no longer in effect and a new contract was negotiated in December

1950?—A. I know that now—I just learned it I might say on the eve of my departure for Ottawa. Mr. Lett got in touch with corporation counsel and advised them.

Q. Did you or anyone take steps to advise the Vancouver members of parliament to which copies of this brief were sent that the old contract was no longer in effect?—A. No—anyone I met I informed that we had since been advised—

Q. Did you so advise the Vancouver members of parliament to whom this was sent?—A. I did not—I advised—

Q. This went out and I quote—"Reference is made particularly to the situation disclosed in the report of the special committee re telephone rates which was adopted by the council on December 27, 1950, relating to the licence, supply and directory contracts now in effect between the British Columbia Telephone Company and its parent and affiliated companies."

Mr. Brackenridge I submit that statement that I quoted to you was not correct at that time? Those contracts were not in effect?—A. I would say in reply to that that it was certainly up to the telephone company to notify the city when they changed the contract. They knew the city's opposition and it was the least they could have done to let us know.

Q. That is the reason why you feel that you or the city were justified in mailing out in quantity and filing here a statement which says that they are now in effect—when actually at least one was not?—A. I think the failure if any rested with the telephone company. And further, I would like to say the company have made two changes in the contract—

Q. Are you familiar with the terms of the new supply contract?—A. Well, I have seen it, yes.

Q. And you heard Mr. Hamilton's statement to the committee that the new contract gives full effect to the judgment of the Board?—A. Yes.

Q. Would you say that was correct?—A. I could not say that because the judgment of the Board does not say on what basis they arrived at the amount of money which they say should be deducted, and we are completely in the dark. We have asked the telephone company to furnish us with some information, on the basis of the new contract, of the figures contained in the judgment of the Board of Transport Commissioners so we can see whether or not it does comply.

Q. Then one of the following is correct: in your opinion Mr. Hamilton's statement that it gives full effect to the judgment of the Board is either correct, or incorrect, or you do not know which it is?—A. No, but I would say this. I was looking over the transcript of the evidence the other day and I found in it a statement by Mr. Hamilton that no percentage was charged in the old contract for automatic equipment, and it would appear now that there is a percentage charged for automatic equipment.

Q. What I am trying to do is to find out the truth of Mr. Hamilton's statement—that the new contract does give full effect to the judgment of the Board. If you do not know I am not trying to pin you down.—A. I do not know, and until one saw a breakdown it might be very difficult to satisfy everyone that it gave full effect. The Board does not state how they determine this $117,000. There are probably about ten different ways in which they could effect a reduction. I do not think unless Mr. Hamilton has access to the railway board that he knows how they computed it—no one can say.

Q. Mr. Hamilton said it did give full effect?—A. Yes, he did.

Q. At the bottom of page 3 the last paragraph says: "If the council concurs in the views advanced in the foregoing four paragraphs, your committee would further recommend that the city take all possible steps to endeavour to have presented to parliament the onerous nature of the contracts to which the

B.C. Telephone Company is now subjected, when the private bill of the telephone company is under consideration, in an endeavour to obtain relief or amelioration from the adverse consequences of such contract."

Mr. Brakenridge, before the rate hearing did you investigate the contracts with Mr. Norris, Mr. McTaggart, Mr. Magill and Grant Ross of Clarkson, Gordon and Company?—A. Yes.

Q. How long did that investigation take?—A. Well I suppose I was engaged on and off for several months.

Q. They were given copies of the contract and all information relating to the contract which you or any of the other gentlemen required prior to the hearing?—A. Yes.

Q. You were present at the hearing?—A. Yes.

Q. And did you give evidence?—A. No.

Q. Were you given the fullest information regarding these contracts during the hearing?—A. I do not quite follow you.

Q. Was anything held back that might have been of use to you? Did they hold back any information?—A. Generally speaking, no. I think the company treated us very well in that regard.

Q. Were the contracts fully investigated by the Board of Transport Commissioners?—A. No, that is what I say. I started out by telling you in my opinion the Board of Transport Commissioners were not in a position—they did not have sufficient authority to fully investigate these contracts.

Q. Because they did not go a step further in the operating structure?—A. That is right.

Q. So far as these contracts were concerned they were before the Board of Transport Commissioners?—A. They were before the Board of Transport Commissioners, yes.

Q. Does your report or that of the Utilities Committee quote anywhere the findings of the Board of Transport Commissioners on any of the three contracts? —A. No, I do not think it does.

Q. Though they did hand down findings on the three contracts?—A. When I say: "I do not think it does", perhaps I am wrong in that. I think the extracts are here. I think it does. Yes, the Board ruled that the contract was bona fide, and a means whereby the British Columbia Telephone Company obtained valuable patent rights.

Q. That is just a summary. It is not an extract.—A. No, it is not an extract. None of them are extracts.

Q. But it is a correct report. Have the payments under these three contracts any particular relation to the application which is now before us for an increase in the authorized capital? I am asking at the moment whether they have any relation to the amount of issued capital? I shall ask you if these contracts have any relation to the application for an increase of authorized capital?—A. Yes, we say that they have. We say that the company should not be granted an excessive amount of authorization until we are able to obtain some amelioration of these contracts.

Q. If you were to obtain some amelioration of these contracts, it would then be acceptable, in your opinion, to authorize $50 million. Is that so?—A. I think the city would certainly have more confidence if they felt there was not any of these operations which we say syphon off profits which properly the company would have, and send them into the Anglo.

Q. I am sorry that I have got to put it this way. You may complain if you think it is too stiff. But is it not a fact that you are endeavouring to use this application for an increase in capital as an appeal from a decision of the Board of Transport Commissioners in a rate case?—A. No, that is not the situation at all. I would say this, very definitely, that our experience before the

Board of Transport Commissioners clearly indicated to us that the powers of the Board of Transport Commissioners were not sufficient, and were not broad enough to enable the commissioners to control this monopolistic company.

Q. If the amount of authorized capital were cut down by this committee, would that afford any relief to the telephone users from the contracts of which you complain, but which have been approved by the Board of Transport Commissioners?—A. No. It would mean that we would get another opportunity if we were not successful at this time. We appeal to this committee now to broaden the powers of the Board of Transport Commissioners so that they can handle their investigations in a thorough manner.

The DEPUTY VICE-CHAIRMAN: I do not think we have any authority here even to make a recommendation to the Board of Transport Commissioners. I think that would have to come before parliament. I do not think it is relevant to this matter at all.

Mr. GREEN: I think we could make a recommendation to the House, Mr. Chairman.

By Mr. Applewhaite:

Q. Mr. Brakenridge, I ask you to believe me when I say that I am not trying to put words into your mouth. But in effect what you are really telling us in this application is that the Judgment of the Board of Transport Commissioners was wrong.—A. No, I would not go that far at all. I say that the powers of the Board of Transport Commissioners are apparently so restricted that they are not able to find out. And to give you an illustration, our accountants found that this Canadian British Columbia Telephone and Supply purchased some Telephone Security shares from the Northwest Company in 1948, that they paid some $400 thousand odd for those shares, and they paid about $80,000 in cash and gave a note for the balance at 5 per cent interest. At the time they bought those Telephone Security shares, they were non-revenue producing. So we say that the Board of Transport Commissioners should have the fullest power to go behind the transaction of the Canadian British Columbia Telephone and Supply and find out what was the reason for that transaction.

Q. At the moment I am dealing with this report which was prepared for the last rate application. In your opinion was the Judgment of the Board of Transport Commissioners wrong or not?—A. I am trying to tell you that the Board of Transport Commissioners were not in a position to apprise fully the significance of these contracts.

Q. You do not know whether they came to the right or wrong decision?—A. No. They did not have the information we have; but in turn we were not able to get all the information out.

Q. Was the management of the company wrong in its stand before the commission, at that hearing?—A. How do you mean?

Q. Did the management of the company take a wrong stand in applying for an increase in rates based on many other things? Did the situation necessitate including the three contracts?—A. I do not fully understand the question. Do you mean to say that if the contracts are proper, then the application was right?

Q. Yes. Was the application right or was it wrong?—A. We say the application was not right because some of the income which should have been shown as coming to the British Columbia Telephone Company was shown as going to the Anglo-Canadian Company.

Q. So it is likely then that the Judgment of the Board of Transport Commissioners was wrong?—A. No, I would not say that. I feel that the Board of Transport Commissioners did not have sufficient power to investigate thoroughly the whole situation.

Q. And you would not agree with them in their view that parliament should reverse the Judgment of the Board of Transport Commissioners in so far as it dealt with matters contained in this report?—A. No. I presume that until the Board of Transport Commissioners are given further powers, there is nothing that can be done.

Q. I would like to clear up one thing. You said a few minutes ago that if relief was granted in connection with these contracts, the City of Vancouver would then not object in connection with this application for a $50 million authorization.—A. I am not in a position to say that.

Q. Then how do you tie this in? What is your line of reasoning for that?—A. I am not in a position here to speak for the City Council of Vancouver, as to what they might do under certain circumstances. It would be presumptuous on my part to say what an elected body of aldermen would do under a certain set of circumstances.

Q. You did say that if we could get these contracts validated.—A. I am sure they would look at it in a very different light.

Q. Why should they look at the application for an increase in capital in a different light because you make some changes in a contract?—A. Because they feel very apprehensive about the situation which has been disclosed.

Q. Supposing there was a very drastic change in the nature of these contracts whereby a lot of money was saved to the British Columbia Telephone Company, would the City of Vancouver expect the savings to be passed on to the consumers, the telephone subscribers?—A. Yes.

Q. They would not expect the savings to be ear-marked into capital, for capital expenditure?—A. No.

Q. There is no connection with that?—A. No.

Q. This whole matter of the contract is entirely a matter of rates and not one of authorized capital at all.

Mr. MURPHY: He did not say that. You are making that statement, Mr. Applewhaite.

By Mr. Applewhaite:

Q. Is or is not the whole matter of the operation of these contracts purely a matter affecting the telephone rates in the final analysis?—A. I do not follow you.

Q. Supposing you save the company some revenue by a correction of what you believe to be wrong in these contracts, where would that saving go?—A. It would go towards the reduction of rates.

Q. All of it?—A. I would expect so.

Q. There is just one other thing I want to ask you. You are suggesting that although it is reasonable—you do not say desirable—you said it was reasonable for the company to plan ahead for some years. You do not think that they should at the present time be put in a position where they are financing ahead for some years?—A. No.

Q. Would you advise the city of Vancouver to undertake to build a bridge across False Creek if you knew they only had money enough to get half way?—A. No, I would not, but I cannot see any connection between the two situations. You might just as well ask me if I would advise the telephone company to build half a building. That is not the situation at all.

Q. You said that commitments were of no account at all. Would you advise the telephone company or the city of Vancouver or anybody for whom you were acting to make commitments if they did not know where the money was coming from?—A. No, certainly not. What I intended to imply was: Why mix up the actual expenditure of money over the years by talking about commitments? If you measure year by year the actual expenditures, what better measure could you have by bringing commitments into that measure? That is the point.

Q. The reason I brought up commitments is that I am speaking at the moment about the future capital of the company; what it is going to issue and what it is going to spend.—A. It is not making commitments this year for ten years or anything like it.

Q. If they expect $10 million of capital, do you think they should make commitments for twenty?—A. No.

Mr. APPLEWHAITE: That is all.

The DEPUTY VICE-CHAIRMAN: Are there any further questions of the witness? Are we ready for the bill?

By Mr. Laing:

Q. Before you call the bill, Mr. Chairman, I would like to ask a question or two of Mr. Brakenridge. I rather gather that Mr. Brakenridge—and I am assuming nothing—that his view expresses the view which is held by the members of the Vancouver City Council, who are apprehensive about the British Columbia Telephone Company in respect to the buyers of the telephone company's service. Is that correct?—A. That is correct.

Q. I would assume that the interest of the City Council would be to obtain telephone service from the company as cheaply as possible, and I do not think their interest would go beyond that. Is it not correct that you have brought up quite a number of things, none of which relate to the main objection you have raised, namely, the increase in capital? The objections you have raised are objections which can be corrected not by this body, rather by another body, namely, the Board of Transport Commissioners. Is that not correct?—A. No. It seems to me that the Board of Transport Commissioners does not have the power.

Q. Well, you will admit that they cannot be corrected by this committee? —A. Well, I must say that I was under the impression that this committee could make some recommendation, or that parliament could enlarge the power of the railway board.

Q. You made a statement here, and I took it down as closely as I possibly could: "The only check we have is when this company comes before parliament". I would assume if you represent the views of the city council that you have unsuccessfully represented the view of the people of Vancouver to the Board of Transport Commissioners, and you consider today that your redress is to come before this committee, and you suggest, instead of a $50 million increase, the company be granted only $25, and then, theoretically, if they are not good boys, they will be able to come back again and get them before parliament again, because in effect I rather think that you—and you must represent the views of the city council—have not the confidence in the Board of Transport Commissioners.—A. That is not a fair way of putting it. It is not a case of lack of confidence. It is our viewpoint that the railway board obviously—those quotations I gave you were to indicate, and the board say, in effect, that the jurisdiction is limited.

Q. Let us get on another angle here: your prime objection to this bill, or the objection that you made, was that you thought the increase was too high?—A. Yes.

Q. The others, (*b*) (*c*) (*d*) (*e*) you had not much objection?—A. No.

Q. The objection is that the increased capitalization sought is too high. You will admit that the passing of this bill does not mean there is any more investment forthwith in the company? The company has to go to the Board of Transport Commissioners and lay down their program and suggest how the shares are going to be sold, and so on? They have got to get that ratification also from the Board of Transport Commissioners. I will suggest to you, if you had the confidence, that I think everybody here would like to see you have, in the Board of Transport Commissioners then you would have no objection to this bill at all; is that not correct?

Mr. HATFIELD: The Board of Transport Commissioners cannot reduce the amount.

Mr. LAING: That is not the question at all. If you had absolute confidence in the Board of Transport Commissioners, which it would seem to me you do not have—

Mr. HATFIELD: He did not say that.

Mr. LAING: I said, "which you do not seem to me to have": it is my interpretation.

The WITNESS: I certainly object to any interpretation that I have not confidence in the Board of Transport Commissioners. But what I have tried to emphasize all along is that it is now apparent to us that the Board of Transport Commissioners have not got sufficient broad powers to enable them to go behind the scenes and look into all that is going on behind, and until they get those powers then obviously we are not going to get very far.

Q. That was not the sole objection you raised in reference to the Board of Transport Commissioners.—A. Yes, I think it was.

Q. The sole objection?—A. I endeavoured all the way through, and as I say, the quotations I gave you all referred to the interpretation the Board of Transport Commissioners put on their powers: everyone of them.

Q. You will admit that the passing of this bill does not mean the expenditure of another single cent by the B.C. Telephone Company?—A. No, but it is the first hurdle, and the biggest hurdle.

Q. So that because you are apprehensive concerning the Board of Transport Commissioners, you suggest that every two or three years the company should come back?—A. No, I do not.

Q. Or every five years?—A. No, the suggestion I am advancing, and I may be in the wrong shop, but I am advancing the suggestion that the city of Vancouver would like to see the powers of the Board of Transport Commissioners enlarged so they could look in behind the scenes.

Q. In other words, you do not think the Board of Transport Commissioners as at present constituted, or with the powers it presently holds, are in a position to protect the citizens buying these services?—A. Adequately, that is right.

Q. Well, that is, I think, a serious condition for a council or its people of a major city to have. I do suggest that we can do nothing here by holding up this bill—and there may be some debate on it in parliament—but I do not see how you can suggest for a minute that the situation of the Vancouver city council, or its people, who are the subscribers, can be ameliorated or aided by holding up the bill.

Mr. MURPHY: I think the evidence given by the witness would be one reason, Mr. Chairman, for this committee bringing in a recommendation in making the report.

The DEPUTY VICE-CHAIRMAN: I do not think that is in order. Are those all the questions you have?

Mr. LAING: Yes.

Mr. HERRIDGE: Mr. Chairman, I have one question: after this bill is passed, in view of the evidence that has come before the committee, in your opinion has not this committee the power to make a recommendation to the House in respect of the matters mentioned as to the apparently limited powers of the Board of Transport Commissioners?

The DEPUTY VICE-CHAIRMAN: I would not like to make a snap decision on that. I think we have powers to do something along that line, but I would like to give a little consideration before I make a final decision on it.

Mr. MURPHY: I wonder if those questions that I asked for earlier could be answered?

The DEPUTY VICE-CHAIRMAN: I think Mr. Lett has them now. Are there any questions of this witness now? Then, Mr. Lett, you may give those answers Mr. Murphy asked for.

Mr. LETT: The answers to the questions asked today, according to information supplied to me by the auditors: the value of the shares: December 31, 1948, value per share $112.15; December 31, 1949, $114.92; December 31, 1950, $120.27.

Mr. GREEN: Mr. Chairman, earlier in the evening there was some discussion about putting on the record an editorial in the Vancouver *Sun*.

The DEPUTY VICE-CHAIRMAN: Oh yes, Mr. Green wished to put in an editorial from the Vancouver *Sun*.

Mr. GREEN: This is dated February 16, 1951.

Mr. BYRNE: Is this discussion relevant to the question?

Mr. GREEN: "Where phone rates go": is the heading.

Telephone users will be eager to hear what parliament may have to say about the alleged milking of the B.C. Telephone Company by its parent company and affiliates.

City Hall expects phone rates in Vancouver to rise again soon unless parliament dams or abates the flow of BCT revenues to other members of its intricate corporate family.

Incidentally, there is already an application for a further increase in before the Board now.

Vancouver City Council thinks the set-up is preposterous. The federal Board of Transport Commissioners—which regulates our phone rates because BCT has federal charter—declines to interfere. So the City Council has asked local MP's to air the grievance in the House to test government policy.

When the Transport Board heard and granted last year a BCT application for a rate boost, counsel for the city was at a loss to understand the Board's acceptance of a "most remarkable" system of doing business.

For example, the Board had no objection to BCT's payment of one per cent of its gross revenue to its parent, Anglo-Canadian Telephone Company of Montreal, although the federal income tax department refuses to regard the outlay as a legitimate expense item.

Under the covering contract, Anglo-Canadian undertakes to furnish technical advice and assistance to BCT. But Anglo is a holding company and hasn't got the staff to do the job.

The Transport Board was told, however, that Anglo also has a parent —the Associated Telephone & Telegraph Company of Deleware—which has a group of affiliated companies controlled by a Missouri corporation which can give BCT the required help.

D. E. McTaggart, K.C., counsel for Vancouver, found that BCT in 1948 paid its parent Anglo $181,000 for these services, although Anglo paid its parent (BCT's grandparent) only $3,150 for such services.

Vancouver argues that BCT isn't getting value for its money and neither are subscribers whose phone rates are adjusted to include such contract fees.

The same applies to another contract by which Canadian (B.C.) Telephone & Supplies Ltd., does the purchasing for BCT, installs exchange equipment and handles repair work at stipulated charges. In this case the two companies are brothers, Canadian Telephone being a wholly-owned subsidiary of the Anglo parent.

Mr. McTaggart reported that there's apparently a strong family spirit in purchasing through other affiliated companies. He said that in one case purchases pass through two such companies involving three separate commissions or profits. He contended that the supplying company should be entitled to only a five per cent return on its invested capital whereas Canadian Telephone charged $150,000 more than that in 1948. The Transport Board also thought the expenses were too high and cut them by $117,000 without saying how that sum was computed.

But Vancouver couldn't shake the deal by which another of BCT's brothers, Dominion Directory Co. Ltd., gets 35 per cent for soliciting and handling classified advertising in the phone book. In 1948 Dominion Directory got $57,000 more than a five per cent return on its investment and Anglo also drew a $12,000 management fee.

If the Transport Board thinks these contracts are good business, then the city says there's nothing to prevent BCT from splitting up its operations into other parts and contracting with other affiliated companies to run them for similar fees.

The contention that management hasn't used proper discretion can be aired in parliament by local MP's during debate on BCT's private bill asking for power to raise its authorized capitalization from $25 million to $75 million. Vancouver hopes that either the bill will be blocked until BCT promises to change its habits or that parliament will give new guidance as to how the Transport Board should view inter-corporate arrangements when phone rates are next under review.

That is the editorial of which I was speaking.

The DEPUTY VICE-CHAIRMAN: Shall we consider bill?

Mr. MURRAY: Mr. Chairman, I would like to point out to the committee the handicap under which the northern part of the province of British Columbia is as a result of poor telephone communications. In looking at the map up there I am reminded of a place called new Fort St. John; and the fact is that we have not telephone services up in that part of the country which facilitate communication with the city of Vancouver, which is the commercial centre of British Columbia, so that a call from my place to the city of Vancouver would cost, for the average business call, at least $12, and in order to get that cheaper I would have to go over into Alberta, to Edmonton and Calgary, and so get onto the B.C. Telephone system.

There will be a new road completed from Prince George to Dawson Creek this fall, a distance of some 300 miles, and at intervals of, say, every 10 or 12 miles there will be a stopping place: there will be valleys where settlers will move in, and the telephone situation is still irritating to the people up there and there is a move to have that piece of country brought into Alberta. A telephone is a very necessary service, and if you cannot get contact with towns within the province then you have to trade with towns in the nearby provinces. I do not know how much it is going to cost to string a couple of wires from Prince George to Dawson Creek, but somebody had to put that money up. On the other side, the line in Alberta is a publically owned telephone system. There is nothing that hurts a company as much as two or three telephone systems interfering with each other. We only need in a country one good telephone system, and I think a monopoly in that case may be a blessing, if a telephone system is an inefficiently operated system. You talk about 15 years; I think 15 years will be a very short span for a large corporation to make its plans in northern British Columbia. We have under development up there in my own riding the Aluminum Corporation which is about to build a town, which it is estimated will have a population of 50,000. It is going to take possibly five years for that town to take shape, but somebody has to get a telephone service there. You are not going to expect Ottawa to run a lot of pioneer lines. The place will be a modern place and will have to have

a proper telephone service. It certainly is in the plans of the public that these places should be given adequate service. From Quesnel, which is one of the oldest cities there, it is very difficult to reach Vancouver over long distance. At MacBride, a very prosperous town, there is no telephone system at all.

Here is another thing: these places require radio service. People use telephone lines to convey programs into these small places, and from there they are distributed over boosting services, and so forth. Television: are we going to have television in British Columbia, or are we going to be people not progressive enough to have television? They have it in Cuba and China, so that surely we ought to have it in British Columba; and it is all part of your telephone problem or telecommunications, call it what you will. Now, listening to the arguments here one would think we were voting a large sum of money to this company but in reality we are only giving it authority to borrow money. We are not granting them anything beyond the right to proceed in the normal way to develop their operations. I do not share the opinion of Mr. Brakenridge—he is a very capable man and has a long experience—I do not see any prospect of Vancouver becoming a ghost town. I think that it is only beginning, but its prosperity rests upon the development of those valleys that you see up there on that map. You do not create anything in Vancouver on Granville Street, it comes in from the mining camps, farming communities, the coal mines and from the oil fields and the other natural resources of such communities as I happen to represent in this House. If you want to make Vancouver strong and to make it prosperous give it as many contracts with the hinterland in the way of roads, railways, telephones and telegraph lines so that the place will be given a chance to breathe and grow.

Mr. SHAW: Mr. Chairman, it was almost thirteen hours ago that we took our places around this table. Since that time we have been commuting between this meeting and the House, busy all the time. I move we adjourn.

Mr. MURPHY: I wonder, Mr. Chairman, if I might interrupt for a second before adjournment. In view of the answer that Mr. Lett gave as to the book value of the shares, perhaps he could get me some more information before we meet tomorrow morning. He gave the book value in December, 31, 1947 as $122.50. What was the issue price following that? In December 31, 1949, the book value was $144.52. What was the issue price of the stock following that? In December 31, 1950, the corresponding figure was $120.27. What was the issue value following that?

Mr. LETT: I think I can give you the issue prices following those dates.

As of the 31st of December 1947, I gave $112.50 as being the book value. The issue price was $125, that would be in May 1948; then on December 31, 1949, when I gave the figure of $114.92, the issue price following that date was $132.50; and following the date of December 31, 1951, when I gave the book value per share as $120.27, the issue price following that was again $132.50.

Mr. MURPHY: Would those be requested issue prices? Were those the prices at which you were requested to issue the stock.

Mr. LETT: I am instructed by the auditor, Mr. Murphy, that in the first instance, the company asked for $125 per share, that was the issue price applied for, and in the second one, the issue price applied for was $125, and they gave $132.50.

Mr. MURPHY: Mr. Lett, before we meet again tomorrow could you tell us what were the earnings at the end of each year, on the ordinary shares?

Mr. LETT: I think I could give you that right now.

Mr. MURPHY: Yes, but we want to adjourn pretty soon.

Mr. MACDOUGALL: No, no.

The DEPUTY VICE-CHAIRMAN: There is a motion before the meeting to adjourn. All those in favour? Opposed? The motion is defeated, the meeting will continue.

Mr. MURPHY: Mr. Chairman, they are going to furnish some information in just a second.

Mr. MACDONALD: Are you going on now to discuss the bill?

(The Vice Chairman, Mr. McCulloch, in the chair).

The VICE-CHAIRMAN: Mr. Murphy's question is being answered.

Mr. LETT: Mr. Murphy has asked if I can give him the earnings of the shares at the end of 1948, 1949, and 1950. That is now being calculated and I do not think it will take long.

The VICE-CHAIRMAN: Are there any other questions?

Mr. MURRAY: Well, we want that information.

The VICE-CHAIRMAN: Shall we go ahead with the bill before the question is answered? Does the preamble carry?

Carried.

Clause 1?

1. (1) Subsection two of section five of chapter sixty-six of the statutes of 1916 as amended by section one of chapter thirty-six of the statutes of 1940-41, is repealed and the following is substituted therefor:—

(2) Holders of preference shares shall not have any right of voting at meetings of the Company except the right to attend and vote at general meetings on any question directly affecting any of the rights or privileges attached to such shares, and then there shall be one vote per share, but no change in the rights or privileges shall be made unless the holders of seventy-five per cent in par value of the preference shares issued and outstanding agree to same and ownership of ordinary or preference or preferred shares shall qualify any person to be a director of the Company.

(3) The said section five is further amended by adding thereto the following subsections:—

(4) Such of the capital stock of the Company as may, after the fifteenth day of February, 1951, be issued as preference or preferred shares, may consist of shares of a par value of either twenty-five dollars or one hundred dollars each as the directors of the Company may determine.

(5) The directors may subdivide any outstanding preference or preferred shares of a par value of one hundred dollars each into shares of a par value of twenty-five dollars each, subject always to the consent of at least seventy-five per cent in par value of the holders of each class of such preference or preferred shares proposed to be subdivided.

Mr. FULTON: On clause 1 I indicated in the House, when the bill was before us on second reading, that I wished to raise a point. I did not outline the point completely before second reading was carried but it was a point having to do with the change which is being made in the preference shares. That point was not replied to by the sponsor of the bill although I did ask that he be good enough to reply before second reading was concluded in the House.

I have given the matter further consideration and I would just like to outline briefly the point I have in mind, because I think it is a valid point and I wish to move that there be an amendment to the bill as it presently stands.

They are doing two things with regard to preference shares. Incidentally, Mr. Chairman, when we were questioning Mr. Lett earlier in the committee I

indicated I would have something to say when we came to the clauses of the bill, and I asked and hoped it would be agreeable to have Mr. Lett recalled to answer my point if necessary.

There were, as I say, two things regarding preference shares. The first is that they are taking the right to subdivide preference shares into shares of a par value of $25, and all preference shares presently issued have a par value of $100. At the present time, there are $5,500,000 par value of preference shares issued and outstanding—each share being worth $100. Those shares are subdivided—$1,600,000 cumulative preference shares; and $4,500,000 cumulative 6 per cent preferred shares. I do not think there is any significance to the difference in the name. One is "preference" and the other is "preferred". Those shares all carry certain privileges,—one of them being quite a high rate of interest —a 6 per cent cumulative dividend rate, which I think members will agree is a pretty high return on a gilt edged security at the present time.

In addition to that they have a feature roughly described as being non-redeemable. I questioned Mr. Lett about this when he was giving evidence, and Mr. Farrell too, and the point there is the company simply has not the right to buy those shares back from the shareholder. To do that they would have to have a by-law passed and to redeem them there would have to be a reduction in their authorized capital to the amount of the authorized shares—$5,500,000. They have not the right to redeem them in the ordinary way; they have to reduce the capital—but they have so far not done that.

So, in effect, those shares are non-redeemable; they carry a rate of dividend of 6 per cent cumulative; and they constitute, and have constituted since the time they were issued, a very attractive investment for those who wish to invest estate funds—trustees, and people who are looking for a gilt-edged security without any speculative risk. I do not think this committee needs me to emphasize the type of investor who looks to that sort of security for his funds.

Now the company is seeking the right to issue new preference shares of either $100 or $25 as the directors may decide, and they are asking also for the right to subdivide existing preference shares into those of a par value of $25. So far, I do not think there can be any objection, because if you can get four shares of par value of $25, you are as well off as if you had only one share of $100.

But in this connection they are putting in a very proper safeguard. They are providing that the shares now outstanding of $100 par value, the preference shares, cannot be subdivided unless the holders of 75 per cent in par value of each class of preference shares issued and outstanding agree to the subdivision.

Bear in mind that there are of the 6 per cent preference shares, two classes: The first class being $1 million 6 per cent cumulative preference shares, and the other being $4½ million of cumulative 6 per cent preferred shares. And there is a third class of $7½ million total par value 4¾ per cent redeemable preferred shares, all of $100 par value per share.

Each of the three classes with respect to the question of subdivision of the par value of their shares is given the protection that no such subdivision can be made unless the holders of 75 per cent in par value of the class of shares concerned, agree to that subdivision.

So I think the rights of the preference shareholders with respect to subdivision are adequately protected in the bill which is before us. I have mentioned this matter in some detail—it is to be found in paragraph No. 5 on page 1 of the bill—I have outlined it here in some detail because I see in the bill no similar protection to other rights of these preference shareholders; and I refer particularly to the holders of the 6 per cent preference and preferred shares, which now carry the right to dividends at 6 per cent as against the other class of 4¾ per cent and which also has, in effect, a non-redeemable feature; whereas the others are redeemable.

It seems to me to be only logical to assume that if the company is to issue further preference shares, they would have a lower interest rate and quite properly so, for, as they say, they would get their money at the lowest cost to them. And it must also be presumed that they will make them redeemable. So you have the position that if they obtain this authority they can issue a further $50 million of shares, with no restriction as to whether they are to be common or preferred; and they could issue the whole of the $50 million in the form of preferred shares.

But suppose they issue only $25 million or even $15 million; the position will still be that they would then have issued more new preference shares than the preference shares now outstanding. So that, particularly with this 5½ million of 6 per cent shares it would be very easy, in effect, to swamp the holders of these shares. They would be issued at a lower interest rate; they would have a redeemable feature; whereas the others would have this non-redeemable feature. The situation might well arise that a company, desiring to change the privileges attached to the present 6 per cent preference shares, would submit a resolution to the preferred shareholders to the effect that the rate of interest on the outstanding preference shares should all be brought into line at 4¾ or 5 per cent, or whatever it may be, and that the non-redeemable feature should not exist. You would then have this position: Starting at line 16, you will see the words: "No change in the rights or privileges..."—and that covers the rate of dividend and the non-redeemable feature—"...shall be made unless the holders of 75 per cent in the par value of the preference shares issued and outstanding agree to same." There is no mention of 75 per cent par value of the class of shares.

The VICE-CHAIRMAN: Those could not be redeemed at a certain price—103 or 105?

Mr. FULTON: No, because I think it was Mr. Farrell who told us that they could only be redeemed by effecting a reduction in the capital of the company. If they were to redeem these 5½ per cent preference shares, their capital would be reduced by a corresponding amount. The company is before us now asking for an increase in capital, and they naturally do not wish to do that. They can be redeemed, but the circumstances under which they can be redeemed are such that it is not attractive to the company—so they are virtually non-redeemable shares at the present time. And—"no change in the rights or privileges shall be made unless the holders of 75 per cent in the par value of the preference shares issued and outstanding agree to same."

If you issue sufficient preference shares—and I think it would work out to about $15 million—then, even if the old 6 per cent go in solid against them, the new preference shares would carry 75 per cent, so that the rights and privileges attached to those old preference shares could be changed without the consent of the holders of that class of preference shares; and I have discussed this matter with the solicitor for the company, and we had a very good discussion, and I have an amendment here which I would like to place before the committee tonight.

While the company feel that the danger which I have outlined, and which I feel does exist, is not quite as pressing as I have represented, nevertheless I feel that there is something to the point, and I understand that they have no great objection to the amendment which I am going to move, and I feel that amendment will guarantee the position of the present preference shareholders and they will be protected.

The VICE-CHAIRMAN: Will you move the amendment?

Mr. FULTON: Yes; I will read it to the committee:

> That Clause 1 of the bill be amended by deleting the words "But no change in the rights or privileges shall be made unless the holders of

seventy-five per cent in par value of the preference shares issued and outstanding agree to same", where they occur at lines 16 to 19 of the said bill, and substituting therefor the following words:

"But no change in the rights or privileges of any class of preference or preferred shares shall be made unless the holders of seventy-five per cent in par value of the shares of such class issued and outstanding agree to same."

The VICE-CHAIRMAN: Gentlemen, you have heard the amendment moved by Mr. Fulton.

Mr. LETT: Mr. Chairman, we have no objection.

Mr. LAING: I wonder if Mr. Lett would care to comment?

Mr. LETT: I have seen the amendment Mr. Fulton has proposed and we have discussed it. Subject to the will of the committee the sponsor has no objection. We are quite prepared to accept that amendment.

The VICE-CHAIRMAN: Is it the pleasure of the committee to accept this amendment?

Agreed.

Carried.

We will adjourn now, to meet again tomorrow morning at 11.30.

JUNE 12, 1951.
11.45 a.m.

The DEPUTY VICE-CHAIRMAN: A quorum is present, we will continue with the bill. Last night, Mr. Fulton's amendment to clause 1 was carried. Shall clause 1 as amended carry?

Carried.

The DEPUTY VICE-CHAIRMAN: Shall clause 2 carry?

Carried.

The DEPUTY VICE-CHAIRMAN: Shall the title carry?

Carried.

The DEPUTY VICE-CHAIRMAN: Shall I report the bill?

Carried.

Mr. GREEN: Mr. Chairman, I have only just got in from the vote in the House.

The DEPUTY VICE-CHAIRMAN: Well, we had a quorum.

Mr. GREEN: Well, I have some remarks to make.

Mr. LENNARD: Mr. Chairman, I might say that in other committees, certainly in the Veterans Affairs committee, the chairman calls for members to assemble again ten minutes after the vote is taken.

The DEPUTY VICE-CHAIRMAN: We adjourned for the vote, and the vote was taken, and we came in, and as soon as a quorum assembled we went on with the bill. Is it the pleasure of the committee that Mr. Green shall have leave to address the committee on this bill and bring in any amendments he wishes to? Which clause do you wish to bring your amendment to, Mr. Green?

Mr. GREEN: Clause 2.

Mr. GOODE: Mr. Chairman, you have already made a ruling. I distinctly heard you say: "shall the title of this bill carry?" Are we going to do this over again? You had a quorum here, and had the support of this committee at the time. I see no reason—

Mr. LENNARD: Oh, it was so apparent: it was done in a hurry—

The DEPUTY VICE-CHAIRMAN: It was not done in a hurry: We had a quorum.

Mr. LENNARD: —before they got here, and it is not according to the custom of committees.

The DEPUTY VICE-CHAIRMAN: I am in the hands of the committee. We had a quorum when the bill was carried. Is it the desire of the committee that we should go back to clause 2 and open it up again, or is it the desire of the committee we should not? I might say, Mr. Green, if you are not able to make your motion here, you will be able to make it in the House.

Mr. GREEN: Well, Mr. Chairman, just the very fact that all these members have come in since I started to speak shows, I suggest, that in all fairness it is not parliamentary nor fair that because there were 12 people here at a certain time they should move right ahead and pass this bill knowing others of us wished to go into this section, and knowing we have heard evidence here for several days, and that the city of Vancouver has gone to the expense of sending a representative here to give evidence. We worked here last night until 11 o'clock, and we sat four times yesterday, and everybody knows that this is a very important issue and merits careful consideration. Now, to try to rush the thing through—

The DEPUTY VICE-CHAIRMAN: Just a minute; that is not rushing, we had a quorum.

Mr. MCCULLOCH: On a question of privilege, I think it would be wise to let Mr. Green bring in his amendment; it would be just as well to have it done now.

Mr. APPLEWHAITE: Mr. Chairman, I have no desire to question a ruling that you have made—

The DEPUTY VICE-CHAIRMAN: I have not made any ruling.

Mr. APPLEWHAITE: —and I have no desire to keep the committee a minute longer than necessary. I was not here myself, but I understand that a quorum having assembled, you did, as you doubtless have a perfect right to do, call the committee to order and proceed with the bill. I would like to say as sponsor of this bill that I would be happy to have it re-opened for as full dsicussion as those who feel they have something still to say would like to make, because if I may put it crudely, I would like to think this bill carries or falls on its merits after a full discussion.

Honourable MEMBERS: Hear, hear.

Mr. MCIVOR: Mr. Chairman, if a man asks you to go a mile with him, then go with him two, and I think Mr. McCulloch is in order. I think it is only fair to those coming in. I think we should allow Mr. Green to carry on. It would help me also, as I have two qestions to ask.

Mr. SHAW: Mr. Chairman, we cannot quarrel with your right to do what you did. Had this committee met at 11.30, as my notice states, and had you noticed a quorum and proceeded, that would have been one thing; we could have met at a quarter to eleven or eleven o'clock, so I think under the circumstances the committee would be well advised to allow Mr. Green to be heard.

The DEPUTY VICE-CHAIRMAN: I would be pleased, then, if we would accept clause 1 as amended carried.

Mr. LAING: Mr. Chairman, will you please tell us what has happened; some of us have just arrived, and do not know what has happened.

The DEPUTY VICE-CHAIRMAN: This is what happened: We came in after the vote was taken, and a quorum was present, and we proceeded and passed the two sections of this bill. After the bill was passed, some other members came in and said they had not had time to get here. In view of that, it has been asked that clause 2 be re-opened and proceeded with. If it is the wish of the committee—

Honourable MEMBERS: Agreed.

The DEPUTY VICE-CHAIRMAN: —we will start in on clause 2, clause 1 having been carried. Clause 2, Mr. Green.

Mr. GREEN: This is the section of the bill which provides for the increase in capital; that is, subclause 1 of section 6 of the charter in effect, substitutes the words "$75 million" for "$25 million". The subclause reads:

> (1) The capital stock of the company may be increased from time to time by such amounts as the directors consider requisite for the due carrying out of the objects of the company, such increase to be effected by resolution of the directors by and with the consent of a majority of two-thirds in value of the ordinary shareholders present or represented by proxy at any annual general meeting or at any special general meeting of the ordinary shareholders called for that purpose: Provided that the total capital stock of the company, including the present authorized stock, shall not exceed seventy-five million dollars;

Now, if that increase is granted, it will mean that within the four-year period from 1947 to 1951 the company will have had an increase from $11 to $75 million, which is approximately a seven-fold increase. I do not think anyone is questioning that there should be some increase granted at this time. That is the position of the city of Vancouver, and personally it is also my own position. The whole question is the amount of that increase.

I would point out that there should be great stress placed on the fact that the mayor and council of the city of Vancouver decided unanimously to have representations made by a representative before this committee. That is an unusual step for a city to take. In 1947, when the company got its last increase, the city council passed a resolution approving of the bill. This time they have felt so keenly about the matter that they have gone to the length of sending down a representative to indicate their opposition to the amount of this increase and also, of course, to the question of the inter-corporate relationships. It is not an easy thing for a municipal organization to get into the position of taking a step like that. Every one of you here who has had experience in the municipal field will know that a municipal council is always handicapped in fighting a utility company such as the British Columbia Telephone Company. It is always a great deal more difficult for a municipal corporation to organize a fight and to carry it through, and the fact that the great city of Vancouver has taken this position is extremely significant, I suggest to you.

The council feel—and the fact is—that supervision by the Canadian parliament over this utility company is of great importance. The company, of course, has a monopoly. It does not serve all of the province directly; as pointed out, there are several other subsidiaries of Anglo: The Mission Company, the Chilliwack Company, the Kootenay Company and the North-west Company, which are all directly under Anglo Canadian, and not under British Columbia Telephone Company at all. So that the British Columbia Telephone Company is not covering the whole of the province. There is also the Dominion Government Telephone which covers quite a large portion of the central part of British Columbia.

In the case of the British Columbia Telephone Company, they saw fit in 1916 to get a dominion charter and to have their works declared works for the benefit of Canada, so that they are not subject to control by any provincial

utilities commission or any other provincial body. The only controls that there are over the British Columbia Telephone Company are that they must come to parliament to get an increase in their capital or to get their charter altered in any other way; and secondly, that the Board of Transport Commissioners have the power to approve or revise the tolls and charges that are set by the company.

You will have noticed, Mr. Chairman, that quite a few of the members from British Columbia, including those who I take it are not supporting this bill, questioned the officers of the company with regard to telephone conditions in their respective ridings. Of course, it was their privilege to do that; they were quite right in doing it; but may I point out that the very fact that the company had to come here and put its officials up for cross-examination by the members from the different constituencies was a very salutary thing. The result of that cross-examination will be that, I think, in every one of those ridings there will be better telephone service than there would have been otherwise, because the members have been able to point out to the officials where there are defects, and have been able to ask that changes be made, and I personally feel confident that the result will be improvements in those particular districts. It is quite proper that it should be possible for a member to do such a thing. If he did not have that chance, there is no other way in which he or his constituents could get at the telephone company. These telephone companies officials could sit back in their offices and not be subject to any check of that sort.

Then, you have also seen that the city representative was able to point out another defect that must be remedied: that is, that there is no adequate check on the inter-corporate contracts between the British Columbia Telephone Company and its affiliated companies. I do not know how the telephone company or any member on this committee can justify the fact that Anglo Canadian, the immediate parent company of the British Columbia Telephone Company, could levy on the British Columbia Telephone Company a charge under a licensing contract of one per cent of gross revenue which brought in over $181,000 in 1948, and at the same time only have to pay out for such services as were rendered $3,150. Now, that situation has not been broken down in the slightest degree before this committee by the officers of the company.

Actually, the British Columbia Telephone Company was an efficient organization back in the '20s, before it was taken over by the Gary Group of Kansas City, and the British Columbia Telephone Company has been well able to supply its own services of the type for which this $181,000 was supposed to have been paid. Incidentally, the British Columbia Telephone Company just shortly before the hearings in 1950 cut the rate from 1½ per cent of the gross revenue to one per cent. That was done just before the hearing, but even last year that contract would bring in over $160,000 because the gross revenue in 1950 was $16,007,077.79. When the company applies for a telephone rate, it asks for a rate to cover that amount with the result that the telephone users, who are using British Columbia Company telephones, have to pay that license contract fee, which last year was $160,000. Now, Mr. Chairman, there is only one way to describe that contract: it is milking the telephone users in order to pay this money to Anglo Canadian. The city representative brought that out here, and it just shows one great advantage in having this company come before parliament at fairly regular intervals.

There is obviously a situation there which must be met, and I would hope that the committee would make a recomendation to the House with regard to the power of the Board of Transport Commissioners to deal with these inter-corporate contracts.

It all adds up to the conviction that the increase in capital granted to the company at this time should not be too large. Mr. Brakenridge stressed

another point when he said there must be restraint, otherwise the whole set-up is apt to get out of proportion. If they invest too much, for example, in buildings which are not needed for some time, then the interest on the money used must, of course, come out of the telephone users. I repeat that the increase should not be so large that the company need not come back to parliament for many years. That is particularly important today, because this inter-corporate relationship has not yet been straightened out: it may not be straightened out for a matter of some years and while that condition remains, this company should not be allowed to stay away from parliament for ten or fifteen years.

In seeking their increase they base the figure on an annual expenditure of $10 million for the next ten years: that would make a total of $100 million for the next ten years. That was the figure given by Dr. King when he sponsored the bill in the Senate, and it was also the figure given by Mr. Applewhaite when he sponsored the bill in the House of Commons; speaking on the second reading on March 9th, you will find those figures given by him. Now, I ask: do you think that the company had decided on that figure of $10 million per year, and in instructing the sponsors of this bill to use that figure, was setting a figure lower than it expected to need? It is not reasonable to expect that the officials of this company in deciding what figure to ask parliament, and in deciding what figure they would need for the next ten years, would put in a figure lower than they would need. You have heard them come before this committee and indicate that prices have gone up, and that now they want 20 per cent more. Well, Mr. Applewhaite's statement was made on March 9th, two months ago.

Mr. APPLEWHAITE: Three months.

Mr. GREEN: There has not been a word in the press or in debate in the House to the effect that anything more than that was required, and I think the members of this committee can safely take it for granted that the maximum amount that the company expects to spend in the next ten years is $10 million per year, or, a total of $100 million. That is brought out by the fact that in 1949 they were only able to spend $6,700,000, and in 1950, although they had estimated at the Board of Transport hearing that they would be spending $12 million in 1950, actually they only spent $6,400,000. In both those years they were spending as much as they could with the equipment available. So that I suggest to you that in all probability they will have a great deal of trouble spending even $10 million per year in the next ten years. There are other factors which must be considered. For example, we all know that materials are becoming scarcer all the time, and the officials frankly admitted that if they could not get the materials their program would have to be cut.

That brings us down to the actual figures: the company—and I am basing my submission on the ten years including 1951—just raised, a few weeks ago, $5 million by issuing shares. On that issue they got a premium on the common shares which amounted to approximately $1⅓ million. So that they have just raised, and have available for their 1951 plans, which would be included in the 10 year period, over $6 million. If they got an additional $50 million by way of increase of capital they will then have for the 10 year period over $56 million plus, of course, whatever premium they get on the issue of common stock in the future. They have been paying $8 a share on a par value of $100 for many years on the common shares, and I think Mr. Farrell admitted they would hope to get over $100 on any common shares in the future. There is no doubt that they will do so. However, quite apart from premiums that they can get in the future on the issue of further common shares, they will have this $6 million now available, the $50 million by way of increased capital, and then they still have the method of raising money by issuing bonds. Up to this year their plan has been to raise $40 out of every $100 by way of shares and $60 out of every $100 by way of bonds: that has been called a 40/60 basis. If they raise their money

on that basis, and the city believe they should do because it means cheaper rates for the people than if they increased the proportion of shares, then they will be able to raise on this $56 million of capital an amount in bonds or notes totalling $84 million; that would give them a total of $140 million for this ten year period during which, on their own figures, they only require $10 million a year. In addition to that, they have very large depreciation write-ups, portions of which are available for this expansion program. Mr. Brakenridge estimated it last night at $15 million over the ten year period, but at least $1 million would be available each year from this depreciation account or depreciation reserve. If the company are permitted, even if these figures are taken on the basis of 50 per cent shares and 50 per cent bonds, an increase of $50 million, it would give them this $56 million available now in capital, and $56 million in bonds making a total of $112 million. To that, of course, must be added the amount that they could use from the depreciation reserve.

So much, for their increase of $50 million. On the other hand, suppose that the increase is $25 million—and remember, Mr. Chairman, that Mr. Hamilton said yesterday they will carry on with their program regardless of the amount of capital they get. The only effect that a change in the amount would make would be that they would have to come back here earlier if the increase is smaller. They will not, as Mr. Mott suggested, cut down their whole program if they only get a $25 million increase. That is not the plan as given by Mr. Hamilton. They will continue with their program but the only thing is they would have to come back to parliament at an earlier date.

Suppose the increase granted is $25 million, that would give them a total capitalization of $50 million. Then, in that case, the company would have the $6⅓ million that they received in the last few weeks, and they would have the $25 million—making a total by way of share capital of $31 million. Then, on the 40-60 basis they could raise a further $46 million by bonds, giving them a total of $77 million. That amount, on their own figures of $10 million a year, would carry them for over seven years. Incidentally, the other figure of $140 million would carry them for fourteen years. If they use the 50-50 method of financing, with a $25 million increase they would have $31 million by way of share capital and $31 million by way of bonds, which would give them a total of over $62 million—lasting them for over six years.

Those are the figures for an increase of $50 million and an increase of $25 million. I am also going to give the committee the figures for an increase of $35 million which would mean a total capital of $60 million. In that case they would have the $6 million now recently taken in; they would have the $35 million new capital—giving them a total of over $41 million of share capital. On the 40-60 basis they could raise over $61 million by bonds, giving them a total of $102 million—which is over their own requirements of $10 million a year for ten years. That would mean they would not have to come back to this House for ten years if the figures their sponsors have given are correct. It might even mean not coming back here for a considerably longer period. Even though they finance on a 50-50 basis they would have $41 million of shares and $41 million of bonds, giving a total of $82 million, which would mean they would not have to come back for over eight years.

Now, to be absolutely fair about the matter, to make sure they are given a reasonable amount of capital and yet at the same time to make sure that they must come back here within a reasonable time, I am going to move that the words "sixty million" be substituted for the words "seventy-five million" in clause 2 of this bill. That would mean that they are able to carry on for at least eight years on their own suggested basis of a 50-50 method of raising capital, and for over ten years on the present basis of 40-60; and they cannot be considered as handicapped if they are allowed an increase of that kind. Mind you, that will be more than doubling their present capital and it will be putting up

their capital from the year 1947 to the year 1951 between four and five times. If that amendment is accepted then it does give parliament some check on the activities of the company, and that, I submit, is a very important factor in the whole picture.

So. Mr. Chairman, I apologize for taking so long but I would move that the words "sixty" be substituted for the words "seventy-five".

The DEPUTY VICE-CHAIRMAN: Am I right in saying that the amendment you have moved is to section 2, of the bill itself, to line 15 of the subclause which is paragraph 1—that the word "sixty" shall replace the words "seventy-five".

Mr. GREEN: Yes. I may have been confused between section 2 of this bill and section 6 of the company's charter. The amendment is of course to clause 2 of the bill, substituting the word "sixty" for the words "seventy-five" in line 15 on page 2.

The DEPUTY VICE-CHAIRMAN: Is that plain to the committee?

Mr. APPLEWHAITE: Mr. Chairman, and members of the committee: there are some matters brought up in connection with this amendment which I think it is my duty as sponsor of the bill to meet. I shall try to do so at as little length as possible. The amendment is not acceptable to the sponsor of the bill or to the company which is petitioning. I will try to deal with those matters as much in order as I can and I will deal first with what Mr. Green referred to as the present basis of 40-60 financing. I would draw the committee's attention to the fact that is not the present basis. The evidence was quite clear that it is approximately 49 and a fraction to 51.

Mr. GREEN: On a point of order, Mr. Chairman, that was not the evidence. The figures speak for themselves. Since the issue of this $5 million the percentage is 43 and 57.

The DEPUTY VICE-CHAIRMAN: I think we are right back to the question we had a short time ago of whether you take the par value of the shares or not. Is that not where we are?

Mr. APPLEWHAITE: We are dealing at the present time with the company structure.

The DEPUTY VICE-CHAIRMAN: You are dealing with it as it is set out, Mr. Green—

Mr. GREEN: I am dealing with it as it is set out in the annual report.

Mr. APPLEWHAITE: I grant you that and I did not accuse you of making a misstatement of fact, but, since the issue of the company's annual report, there has been $4 million of common stock and $1 million of preferred stock issued and the present basis is not the basis as at the end of last year.

Mr. GREEN: That brings you to 43 per cent and 57 per cent.

Mr. APPLEWHAITE: Mr. Brakenridge referred to it a short time ago in his evidence. In a not very complimentary way he described the capital structure of the company at a given market value whereas the structure of the company is the actual basis on which it authorizes stocks or bonds.

However, what about the argument that the company should finance on approximately a 40-60 basis. There have been two arguments used against the desirability of that—one of which may not have much merit, namely if the shareholders only take 40 per cent of the stock they carry all the risk and have only 40 per cent of the equity. The other which is important is that if you reach a stage where risk capital is not as fully involved as investment or debt capital. then you are going to have to pay more to raise the money by bonds. The smaller the proportion of risk capital you have in the company the larger the interest the investors are going to demand on debt capital if they take it at all—if they underwrite the bonds or other securities of the company. The result is that you

do not work out at any material saving to the telephone subscribers because you pay a higher interest on the securities—and you are not paying 6 per cent on the money you are raising by way of risk capital.

With reference to the submission of the city of Vancouver, and here again this is just for the clearing of the record and I impute no motive to the mover of the amendment, he referred to the unanimous decision of the city council. However, the city council representative was asked, I think by Mr. Jones, if he knew whether or not the decision was unanimous and he did not have the information. We have not got before us any minute or copy thereof adopting the resolution by the city of Vancouver.

The other suggestion, I suggest to the members of the committee, both in the brief which they have distributed and in the argument which was put forward by their representative here, is based almost entirely upon their complaints with the three operating contracts under which the company carries on its normal business —to such an extent that the city's representative stated that he did not think there would be any real objection to the granting of his bill as introduced if the matter of the contracts could be adjusted to their satisfaction. Those are not his exact words but I think that is a fair interpretation of his replies to my questions.

So, I submit that it is obvious that the city of Vancouver is not attacking this present section which deals with the authorized capital on the basis at all of the need for authorization, but it is basing its objection on certain methods of carrying on the business now followed by the B.C. Telephone Company. At the moment I am not admitting anything but I suggest very seriously to this committee that their methods of carrying business are one thing, and their needs for expansion of capital for improvement and increasing service are another thing. There is one place and one forum where their methods of carrying on business is properly discussable—that is questions in connection with rates that are charged and so forth. What we are asked to do now, however, is to come to a conclusion as to how much money this company needs for the program which it intends or hopes to undertake within approximately the next ten years in connection with improvement of obsolete service and the expansion of new service.

The city of Vancouver in its brief, and their representative before this committee, stated no alternative. The city of Vancouver stated no sum which they figure is the amount this committee should authorize in the increase of the capital of the company. The mover of the motion has set a figure of $60 million but that figure was not set by the city of Vancouver; they declined to set anything. No basis has been given for that figure or for any reduction of the figure except that they do not like the judgment of the Board of Transport Commissioners in the last rate case—and if we had time to get it printed you could read the evidence of the representative from the city and you would find that is a perfectly fair statement.

Now, I would also like to remind the members of this committee that the development and expansion in British Columbia is not all within the city of Vancouver.

Mr. MacDougall: Hear, hear.

Mr. Applewhaite: Some of it, and a lot of it is, but a very great deal of it is not. The city of Vancouver in area, and of course in my opinion in importance, is not by any means the most primarily interested party in connection with this bill. They are getting a form of service—they make a lot of complaints but they have telephones. There are a lot of other parts of British Columbia where they have not service, and there will be other parts of British Columbia where we want this company to install telephones. We do not see why the development of all of the province of British Columbia—or 79 per cent of it—should be hampered because the members of the city council of the city of Vancouver do

not like the way in which the Board of Transport Commissioners dealt with certain operating contracts of this company. The city of Vancouver as a corporate body of the citizens of Vancouver, will doubtless press this company and keep pressing it for development and improvement in the city of Vancouver. I do not blame them. If they are going to press these claims, and I hope they do, as vigorously as they are now opposing this bill, then what is going to happen to the rest of British Columbia's expansion if we are going to curtail the amount of money available to this company? Where will the reductions occur? I submit to this committee that they ask themselves this question: Is the corporation of the city of Vancouver better able to speak on the needs of the British Columbia Telephone Company finances than are the operators whose lifetime business has been to operate a telephone company in British Columbia? If they feel that they are, they have not backed it up because you have not got municipal ownership of the telephones in Vancouver.

With the greatest respect for the presentation given to us by Mr. Brakenridge representing the city of Vancouver, if I had to choose between Mr. Brakenridge representing the city of Vancouver and Mr. Farrell or Mr. Hamilton representing the B.C. Telephone Company—as to which I would turn to for advice on telephone matters—there would be no question in my mind. Further than that, in connection with the financial structure of the company if I had to turn to the city of Vancouver or to those who are the financial advisers to the B.C. Telephone Company for advice as to what the company's structure should be, there is no question to whom I would turn.

Again, the question of depreciation reserve has been brought up. I submit that depreciation reserves are not available for capital expansion. If you are going to have a sound business—and I do not run a big business—if you are going to have a sound business surely you must earmark your depreciation reserves for the plant which is being depreciated.

Now, let us try to clear up one other question—the question of the issue of capital and the question of the authorized capital. The company, of course, must earn interest on its invested capital. I think it is fair to say that it must earn interest on its issued capital. The moment you buy a share in anything you expect to receive your interest. The company does not pay anything on authorized capital until it is issued. The bill before you is asking that the company should have the right as time and circumstances dictate, to go to the Board of Transport Commissioners and ask them for permission to issue some capital—the amount of course depending on their needs. Because you give them an increase in this bill—an authorization of $50 million—that does not mean that this $50 million is immediately drawing interest at the expense of the people who are paying telephone rates. It means that as the company can develop and expand it has the right to go and prove that fact to the Board of Transport Commissioners and then get authority to issue stock.

Now, who is going to say what is a reasonable time that we should look ahead? I think that the weakest point of the whole argument against this bill has been evidenced by the amendment which was brought in. Apart from the natural dislike of the contracts which some people seem to hold, the other argument brought before this committee, was that you should reduce the amount the company is asking for so that the company will come back to parliament. You want them to come back pretty frequently. That was the basis.

Well, if that was a legitimate argument conscientiously held and meant to be backed up, one would have expected it to be backed up with an amendment which would force this company to go through this performance again at the end of two or three years. We have given you a figure which will keep the company away from here for about ten years. In moving his amendment the mover said that, depending on which line of figures you use, the amount he suggested should

keep the company going eight or ten years. Then, what would it accomplish other than demonstrate the sovereignty of parliament—that we have the right to knock off 20 per cent of the amount they ask for? And is that figure based on the estimate of the needs of the company? None whatever.

It is suggested it is advisable to force this company to come back to parliament in order that the members, as representing their constituents, may have the right to talk to the operating heads of the company. Well, that argument was used and meant, I think, to be an argument of some weight. At the same time it was impliedly suggested that there is no need for the members of parliament to talk to the heads of this company for another eight years—and all we are asking for here is ten years. I suggest in all seriousness that suggestion has nothing to do with the capital structure of the company.

I do not know, but there may be something the matter with the public relations department of the B.C. Telephone Company, and if there is they had better look to it. However, I rather imagine that members of parliament or others have never been refused a hearing if they wanted to talk over their troubles with some appropriate official of the B.C. Telephone Company. If they have been refused, as I say I have no defence for such refusal; but at the same time I do not see that type of refusal has got anything to do with the needs of the company for its expansion.

The power of the Board of Transport Commissioners on rate cases—what they should and what they should not be allowed to investigate—is something that I know nothing about. It is something I am not going to express an opinion on, other than to say that the power of the Board on rate cases is another thing that has nothing whatever to do with the capital needs of the company to finance expansion and improvement necessary in the service of British Columbia. It is certainly in no way pertinent to the particular section of this bill which we are now discussing. There have been no arguments put forward at all as to what are or what are not the needs of the company for capital involved in improvements of service and expansion, other than those put forward by the company's own representatives.

I do not know whether there was an attempt to suggest that we are asking for more than we expected to get. If that suggestion was implied I resent it very much, and I emphatically deny it. If I may speak personally for half a moment, we all know the position of a sponsor of a private bill. Somebody has to put a private bill through the necessary stages in the House of Commons. In so far as I was concerned with this bill, believe it or not, I satisfied myself that the bill appeared to be justified and necessary, and I would not insult this parliament by presenting a bill asking for certain powers with my tongue in my cheek, with the idea: we will ask for plenty, hoping that we will get half. I do not think any member carries on his parliamentary duties that way.

Mr. GREEN: I was not suggesting that you did.

Mr. APPLEWHAITE: I am very glad to hear it and I did not think that was the intention.

Now, with respect to authorized capital, the company has issued every last cent it has authority to issue. It is now at the end of its tether in so far as authorized capital stock is concerned. It was suggested its estimates in the past have not been too sound, and that actually it has not expended all the money that it had estimated on the previous occasions that it was going to spend. I am going to read you one sentence from the speech of the sponsor of the last B.C. Telephone Company bill in 1947. When he introduced the bill he said—and he was then applying for an increase from $11 million to $25 million: "The increased capitalization from $11 million to $25 million is estimated to be required for the next five years expenditure." That was on April 15, 1947. It was not a bad estimate, because, by the time this parliament is over and the

necessary applications are made to the Board of Transport Commissioners and so forth, I would venture the opinion that no money we are authorizing now can be put to work until next year. So, from 1947 to 1952 is five years—exactly the estimate on the last application of this kind.

Are we expecting from this company service, developments and expansion on the one hand, and are we on the other hand going to sit down and reduce the company's ability to finance and carry on in what we know is a greatly expanding economy?

I do not think that is what parliament is here for. The increase of authorized capital is required by the company. The authorization is required now, as firm plans and commitments must be made if we are not going to be faced with a sort of piecemeal, little-bits-at-a-time planning, to meet the expanded economy of British Columbia.

I therefore suggest to members of the committee that the section be passed as introduced; that the company's estimate of its requirements is based on sound fact and business knowledge; and that nothing has been adduced to shake their estimate.

Mr. McIvor: Mr. Chairman, I will be very brief. My own thinking is that the province of British Columbia is seeking to extend its telephones. Those telephones will be brought in by or purchased by people of low incomes. The amendments says that we can come back here again and I am going to ask Mr. Applewhaite this question: what does it cost the city of Vancouver and what does it cost the British Columbia Telephone Company to send this delegation down here? These officials I do not suppose work for a dollar and ten cents an hour—my experience is that they cost money. Now, it also costs the government money. I keep myself with an open mind but I am going to think twice before I vote for the amendment. I just wonder, Mr. Applewhaite, if you could let us know what this delegation would cost and what it would cost the government for us to come back here in five years?

Mr. Applewhaite: Mr. Chairman, I might say that I have made inquiries but I have not that information anywhere near enough to be of value to the committee and I would not like to put on record what would be no more than my rather uneducated guess.

The Deputy Vice-Chairman: You could use the word "considerable".

Mr. MacInnis: Mr. Chairman, I rise to support the amendment moved by Mr. Green. I shall not take much of the time of the committee, because I believe that he put forward sufficient valid arguments as to why the amount mentioned should be approved by this committee. Before I mention anything further in support of the amendment itself, may I refer to some remarks made by Mr. Applewhaite: in his opening remarks he said that the amendment was not acceptable to him nor to the company; and, therefore, of course, the committee ought to turn it down. I am going to take a chance and try to ascertain how much Mr. Applewhaite had to do with the orginal amount of the bill. Was he consulted beforehand as to whether it would be $25 million, or $50 million, or $100 million, and had he said to the British Columbia Telephone directors: "make it $50 million", raising to $75 million?

Mr. Applewhaite: I would not try to tell them their business.

Mr. MacInnis: This bill originated in the Senate, and I doubt very much if Mr. Applewhaite knew very much about it until he was asked to sponsor it in the House of Commons; and being asked to sponsor a bill in the House of Commons means that you put your name to the bill and move its second or third reading as the case may be when it comes up in the House. However, Mr. Applewhaite did something else: he not only showed that he was in perfect agreement with whatever the company asked for, but he also showed his com-

plete contempt for the elected representatives of the people when they came in conflict with the private corporations. He said: "if the city of Vancouver says one thing, and the B.C. Telephone Company says another thing, I am going to believe what the B.C. Telephone Company says". Now, I do not agree with the gentleman, but I thank him for making his position so particularly clear in his contempt for the position of public representatives in the natural order of our political and economic set-up. Now then, he accused Mr. Green of making so small an amendment that it really does not amount to anything; but if Mr. Green had moved that the amount be $50 million or $25 million instead of the $75 million, what would be Mr. Applewhaite's argument then? Would not his argument be: "surely you cannot accept this, because this is not giving the company sufficient capital to carry on their business"? As a matter of fact, from his argument Mr. Green would be damned if he did and be damned if he did not. So that Mr. Applewhaite merely prejudices his own position by making an argument like that. The fact is that those of us who live in the city of Vancouver have some regard for the position of the city of Vancouver and its public representatives, who have been duly elected in a democratic way by residents of Vancouver, which is probably the largest municipal organization in the province and the one most capable of sending a delegation here that would speak not only for the province but for the people of British Columbia. As far as I am concerned, I have not received any communications from any city, municipality or rural area urging me to support the company's application. All the correspondence I have had was from the city of Vancouver, and they urged, while they are agreed the company should have sufficient capital to carry on its business, that the company should not be put in a position where it can ignore this parliament, which is practically the only institution that has had any control over it at all except that of the Board of Transport Commissioners in the matter of rates. I agree that the company should have capital to carry on its business. I mentioned that when I spoke at the second reading of the bill in the House. Only a fool—and I hope there are no fools in this committee—would say the company should not have that right. If we denied that to the company, there would be only one other thing to do, and that would be to provide a public corporation whose duty it would be to provide telephone services for the province of British Columbia: but, as long as we have not done that, we are bound to authorize the capital that the company requires. However, it is another thing to say that the company can ignore this parliament for, say ten years, and ignore the people of British Columbia who are represented here. We do not do that with our government. The government of this country is compelled every five years to go to the people of the country for another mandate. Is there any reason why this British Columbia Telephone Company should not be asked in four, five, six or seven years to come to this parliament and ask for a further increase in capital? Indeed there is not, and there is every reason why this House of Commons should see to it, as a protection for the people of British Columbia, that they should come.

Now, Mr. Applewhaite said something else: he said that the only thing we are concerned with in this bill is the capital that is being asked for, and that we should not discuss anything in the way of rates or anything else; that this is not the place to discuss those things. Surely, when a measure comes before this House of Commons and is, by the House of Commons, referred to a committee, as to the social, political and economic matters concerned, then the members should deal with that measure, and the social, economic and political implications of that measure are matters for this committee. If we ignore these things, we certainly cannot make a decision on the bill or the measure that comes before us—it will have no true relation to the facts.

Now, I am supporting the amendment because I think it will, in all circumstances whatever those circumstances may be, give sufficient capital for the

company to carry on for the next five years. That is the length of the life of a Canadian parliament and I do not believe these people should want any more than that.

Of course, if it falls short of carrying on they can come back again. Whether it costs a little money, as the member for Fort William suggests it might, is not in question. Everything costs money today and costs a great deal. The question is the protection of the interests of the people who are served by this committee and from whom this company makes its revenue—those for whom the company provides service.

I suggest to those members who are from British Columbia: first, that they should satisfy themselves as to whether this is sufficient capital for the company, for any expansion that may take place within the next four or five years; and second, should we by any action of ours put the company beyond the will or the control of the people of British Columbia for a longer period than that? That is the question you are asked to answer.

I am fairly well acquainted with the business of the city of Vancouver, having served on its council for some time. I have known their representative here for over a quarter of a century and I am quite sure that he would not put anything before this committee that would not be a proper thing for this committee. He would not do that on behalf of not only the people who are on the city council but also the several hundred thousand people the city council represents.

To those outside of British Columbia who, because of membership in this House of Commons, are dealing with a matter that is solely of concern to the province of British Columbia, I would suggest to you that you do not by your vote put even a suggested burden on the people of British Columbia, when by taking another action you are abundantly protecting any rights and privileges that the company may have. Having done that, the thing you should do and must do is protect the people of British Columbia who have very little protection in their relations with this company—excepting when we grant increases here in capitalization, and then in connection with the matter of rates before the Board of Transport Commissioners, a body far removed from the province of British Columbia.

The Deputy VICE-CHAIRMAN: It is now one o'clock. Is it the pleasure of the committee that we adjourn until 3.30 this afternoon?

Agreed.

The committee resumed at 3.30 p.m.

The DEPUTY VICE-CHAIRMAN: Mr. Rooney has the floor.

Mr. ROONEY: Mr. Chairman, and members, there are a few observations that I would like to make, hoping that by making these observations at the moment that they might be of some benefit to us in the future. I understand from a few memos I made here that it is the intention of the British Columbia Telephone Company to spend $10 million per year for 10 years. In 1949 they spent, according to my figures, $6,700,000. In 1950 they spent $6,400,000. Now, by these figures, I would say that they did not waste any money, and they spent the money as it was needed; and is it not a good thing that they are under their estimates, because supposing they went over their estimates, they would be in a very peculiar position. Now, I also would like to say that I agree with their plans of 50 per cent shares and 50 per cent bonds. Bonds, as they are issued,

start to carry interest. The shares would carry dividends when there are earnings made. I sat here yesterday; I heard different observations in reference to the amount of $75 million which they feel they require. I would judge that the men at the head of this British Columbia Telephone Company should be the ones who would know what they will require. My friend Mr. MacInnis this morning said perhaps they may need the $75 million over a certain period, but until that period came along they could come and appear before us at any time within we will say, if it were necessary, the next five years or so. At that time, when they would appear before us, they would have to have authority and the charter would have to be changed to increase the capital structure. That would be an expense, and also it would be an expense for them to come down here. Now, in my opinion, this is all information which perhaps is valuable, but to me it is not the important thing which I have grasped from my observations here. The most important thing, Mr. Chairman, would be if we could do something here to increase the power of the Board of Transport Commissioners in Canada so that they would be able to go thoroughly into any matters similar to this. We would be doing a good job if there was some way, out of this, of bringing something to help similar applications in the future, and something to increase the power of the Board of Transport Commissioners.

The DEPUTY VICE-CHAIRMAN: Mr. Rooney, we are talking now on this bill.

Mr. ROONEY: On the amendment.

The DEPUTY VICE-CHAIRMAN: Yes, on the amendment.

Mr. ROONEY: Yes. I will only be one second on this amendment. I will vote against the amendment under these conditions, but my only hope was that there may be something of benefit in the few words I would speak, and we will have no other opportunity after this amendment is voted on. We sat here for two days; and I have been here steadily, and I have not heard anything very concrete against the amount; but I do believe, Mr. Chairman, that this whole thing comes down from the brief submitted here, or the paper submitted here, by the members of the city council, and the last paragraph on page 3: "If I may submit that for the benefit of the future, that is all I will have to say. Now, in that paragraph it says:

> If the Council concurs in the views advanced in the foregoing four paragraphs, your committee would further recommend that the city take all possible steps to endeavour to have presented to parliament the onerous nature of the contracts to which the B.C. Telephone Company is now subjected, when the Private Bill of the Telephone Company is under consideration, in an endeavour to obtain relief or amelioration from the adverse consequences of such contracts.

Now, Mr. Chairman, that is all I have to say except that I hope this might be something for the future.

The DEPUTY VICE-CHAIRMAN: There was some information asked for yesterday by one of the members, and I wonder if we have it available. Mr. Murphy asked a question yesterday, Mr. Lett.

Mr. LETT: Mr. Murphy, Mr. Chairman, asked for the earnings of the common shares for the years 1948, 1949 and 1950. I am supplied with these figures by the auditor: the earnings of the common shares after payment of dividends on the preferred shares, which I presume is what you meant, for the year 1948, $6.46 per share; for the year 1949, $1.37 per share; and for the year 1950, $5.99 per share.

Mr. BROWNE: Mr. Chairman, may I ask a supplementary question on that?

The DEPUTY VICE-CHAIRMAN: All right, Mr. Browne.

Mr. BROWNE: Was that actually what was paid? That was the earnings, but was that what was paid?

Mr. LETT: These were the earnings on the shares. The common shares were paid at the rate of $8 a share.

Mr. HERRIDGE: Mr. Chairman, I want to briefly express my support of the amendment. I might explain that I have no legal training, and I have absolutely no knowledge of high finance. I am simply a back woodsman, and I presume I can look at this with a more objective view than some of the members of this committee. I have listened with a great deal of interest to the questioning and arguments put forward by the members of this committee, and I have listened with interest to the answers and the arguments presented by the officers of the company, and I think they have done their best to answer questions presented to them by the members of this committee. I have also listened with particular interest to the representations of Mr. Brakenridge representing the city of Vancouver, and while listening to those representations it occurred to me that this gentleman represents the city that represents nearly half the total population of British Columbia, so I thought at that time this committee should give serious consideration to what he had to say, and the representations presented by him on behalf of the city of Vancouver. As against that, I was interested to notice that there were a number of members of this committee from Vancouver who apparently favoured the position and attitude taken by the company. I have tried to balance those things one against the other. I must say I was very much impressed with the value to this committee and to the people of Canada generally of the company having to come before this committee periodically and answer questions. As a matter of fact, Mr. Chairman, thinking about it seriously, it is the only opportunity the people of Canada have to find out just how these companies are financed and operated, and for members to make representations on behalf of their constituencies. As Mr. Green said, I think there is some considerable effect in that. As far as my own constituency is concerned, the company is active, and the officials are doing all they can to assure the people they are going to do this and that, and I hope they will, but I am quite certain that the publicity that comes from hearings before committees such as this has a good effect on companies of this type, particularly companies with a monopoly in certain fields. I am not questioning that, because I do not think that a telephone company can be run efficiently if it has not a certain sphere of influence, with public control.

I want to refer to a remark made by Mr. Applewhaite which I thought was entirely out of place. He said he did not think it was right for the officials to have to come back here frequently to go through this performance. I want you to weigh that statement, and to see what is in the back of the honourable member's mind; because when he is speaking of "a performance" he is thinking of the dictionary definition, which means "acting a part". I think that is a reflection on the members of the company present and the members of the committee. He considers that these serious hearings and questions on the part of the people of Canada, and also the answers given by the officials, are purely a matter of acting a part.

The DEPUTY VICE-CHAIRMAN: I do not think there is any reason for you to say there is any reflection on the members of this committee by Mr. Applewhaite's statement. I did not feel there was. I do not think any member thought there was.

Mr. HERRIDGE: I am talking about the meaning of the word "performance".

The DEPUTY VICE-CHAIRMAN: I do not think you should say that Mr. Applewhaite was suggesting any reflection on the members of the committee. I think that is entirely out of order.

Mr. HERRIDGE: Well, I wanted to indicate his rather light-hearted approach to the situation.

Mr. MACDOUGALL: "Performance" could be a showing of the Folies Bergere.

Mr. HERRIDGE: This company requires an increased capital, and I do not think any member of this committee would deny the company the capital that is required to meet the expenses of a considerable period. I am not going to repeat the arguments of Mr. Green and Mr. MacInnis. I do intend to support the amendment for the very reason that as a result of my experience on this committee I believe that it is very essential, for the protection of our economic development and the interest of the Canadian people, that companies like this should have to come periodically at reasonable periods before this committee to obtain an increase in capital.

Mr. Green's amendment suggests an increase of $35 million: I think that is very reasonable. The company asked for $50 million, and after hearing the evidence of both sides I think Mr. Green's arguments were very sound indeed; that this $35 million increase in capital, which permits an increase share issue of $41 million, and bonds of $60 million, which provides a total increase of approximately $100 million, will be ample according to the development that is possible within the next six or seven years.

Mr. Applewhaite said he could not understand what was the basis for Mr. Green's figure. I am quite sure Mr. Green will agree with me that the basis for this figure, and the basis of this amendment, is that we who are supporting this amendment believe it is in the interest of the Canadian people that the company should come before a committee like this periodically. It is because of that argument, which I think is sound, and that I believe the company will have ample capital to carry on all the extensions possible that are required for the next six or seven years, that I intend to support the amendment.

Mr. GOODE: Mr. Chairman, to the benefit of some of the members of this committee who do not come from the west coast, it may be of interest to know there are other places there besides the city of Vancouver. True, the city has, as Mr. Herridge said, the majority of the population on the lower mainland, but there are other municipalities interested in this bill. We have the city of north Vancouver, the city of west Vancouver, the municipality of Richmond and the municipalty of Burnaby, and some areas of the lower Fraser Valley. I wondered why the city of Vancouver should make a direct application against this bill, whereas the other municipalities did not make representations. When I knew Mr. Brakenridge was coming down here, I wrote to the municipalities of Richmond and Burnaby to find out if they were going to support the city of Vancouver in its resistance to this application, and I want to read into the record the reply from the Reeve of Burnaby:

> Tom Goode, House of Commons, Ottawa. Official view of corporation is to oppose application for any increase capitalization that would lead to unwarranted increase in telephone rates nature of telephone company as member of family of parent and sister companies leads to belief that increased capitalization would have this effect we assume Vancouver brief has details of companies interlocking set-up.

From the municipality of Burnaby, which we think now holds 65,000 people, there is no direct resistance to this application. I am sorry that the Reeve of Burnaby will not be in Ottawa until the day after tomorrow, when perhaps he could instruct me further.

Mr. BROWNE: Is that from the Reeve of Burnaby or Richmond?

Mr. GOODE: This is Burnaby. The answer from Richmond is the same: there is no direct resistance to the application.

When you sit on a committee of this kind you not only have your own views, and make up your own mind, but you have to take into account the people that you represent, and if those wires from Burnaby and Richmond had been in direct contrast to the applications of the B.C. Telephone Company, I would have been prepared to vote against this bill. As far as the amendment of Mr. Green is concerned, I think, although he has a legal mind, and I have not, perhaps a business mind in these things sometimes helps more than the legal mind. The firm that I am connected with, when they wanted to build a new plant in Burnaby, did not consider doing something for six or nine months ahead; they had to take the long view for years to come. It seems to me this difference between $60 million and $75 million is just a matter of haggling for the future of British Columbia. I think we can look ahead farther than 10 years. For instance, the municipality I represent has increased from 16,000 to what we think now is 65,000 in about 12 years. How is a telephone company, or any other public utility, to be confined in its future operations to an amount of time of five or six years? It cannot be done. The people I represent are in rather a difficult position as far as telephones are concerned. We believe the telephone companies are doing the best they possibly can under the circumstances, but in answer to a question of mine, Mr. Hamilton said, and I think he was sincere, orders had been placed for the Dexter exchange to the amount of $240,000. That is only a very small part of the constituency I represent, and if I can use that as a criterion, I think the amount of money to be spent in Burnaby and Richmond in the foreseeable future would be something in the neighbourhood of $750,000 to $1 million. I cannot vote against that amount of money coming to the constituency I represent; and I am not going to. I do take the view on Mr. Green's amendment that it is a point of haggling, and for that reason I intend to vote against the amendment.

Mr. FULTON: Mr. Chairman, I have listened very carefully, as all the other members have, to the arguments presented to the committee both for and against the amount of capital increase for which the company is asking, and I think we should give the company the benefit of the assumption that they are reasonably correct in their estimates that they will require to spend approximately $100 million over the next ten years. But, giving them that benefit, I do think that we are entitled to look, first, at the actual expenditures they have made in the past few years, where we see, as has been pointed out, they have spent under $7 million in each of the years 1949 and 1950; so that I believe that this committee, while it might be our view that it should say to the telephone company, "You are not going to need this $100 million in the next ten years", is entitled to say to them, "You do not need and are not entitled to ask us to authorize capital of more than $100 million over the next ten years". We are being asked to authorize $50 million share capital which we have been told will be approximately $100 million under the present proposed method of financing. The main reason why I think we are entitled to direct our attention to how much capital the company requires—while it is wrong that any member of the committee should suggest it is presumptuous of the committee to deal with that question, and while it is wrong for any member of the comittee to suggest that we should accept without further ado the word of the company on that—the reason I feel it is our duty to look into this question of how much capital they are going to require is because telephone rates, we have been told, are based in part, and in a large part, on the return of invested capital. This company is asking at the present time for authority to increase its share capital by a further $50 million. We have been told before, and we were told again this afternoon that they pay at the rate of $8 per $100 share dividend. That figure appears to have been accepted by the Board of Transport Commissioners, and we are surely, therefore, entitled to assume that that rate of dividend is going to be continued in the future, and that the Board will regard it as a proper

rate of return on the invested capital, and therefore the telephone rates are going to be influenced by the fact that the company will maintain that it is entitled to charge rates which will bring in approximately $8 per $100 of invested capital. So that we here are vitally concerned with the amount of capital that the company are authorized to issue, and I suggest that we are under obligation to see that the company receives authority for no more capital than they absolutely need, or than they can use in what they themselves have laid before us.

After all, there is another feature to this: It has been suggested that we are not really, perhaps, fully entitled to object that they are contemplating changing from a 40/60 of share capital against bonds, and contemplating making it 50/50. I think we are; because the lower they keep their share capital, then the less gross return must be earned, and that seems to me to have a bearing on the rates they will charge. If we can find in the evidence which has been presented to us a basis for a proposition that they do not need the $50 million of share capital, but that they could meet their own forecasts of requirements with a lesser sum, I think we are justified in suggesting that they take that lesser sum. I understand that to be the purpose of the amendment which has been moved, and it has been said by Mr. Applewhaite that no basis has been given for the figure of $60 million. I certainly take issue with him there, because Mr. Green in outlining the arguments in support of his amendment certainly produced figures, and as I listened to them, and recollected the evidence which was given surrounding the figures which he produced, it seemed to me that his arguments showed clearly that with a further $35 million authorized capital, if the amendment carries, plus the $5 million or $6 million which they obtained this year, and the bonds which they could issue against the increase of capital, they would almost certainly be able to get $100 million. I take the position that this committee and parliament is entitled to require from the company the most careful and even cautious raising of money, because the raising of money by investments in share capital has, as has been pointed out, a direct bearing on the earning they must obtain and, therefore, a direct bearing on rates.

We are not saying, "You cannot have any increase". After all, every time a company has been to parliament for an increase in the amount of capital they are authorized to issue, there has been an increase. I do not think anyone has suggested that the time has come when, if they can show they neeed an increase, that they cannot get it; but I think parliament and this committee is entitled to insist that this company should be extremely careful not to ask for more than they need or can use.

My impression of the evidence that has been given to us is that there is a good deal to be said, and in fact the weight of the evidence is in favour of the proposition that, even for the requirements they themselves have outlined in the period they have referred to, they do not need the full $50 million in share capital, but they could carry out their program with the $35 million figure suggested by the amendment, and for that reason I intend to support the amendment.

Mr. MACDONALD: Mr. Chairman, in endeavouring to assess the remarks made by the witnesses and by various members of the committee in regard to the increase of capitalization of this concern, which does not operate in the city in which I live, I have given consideration to all the evidence that has been submitted. Mr. Brakenridge in speaking to the brief of the city of Vancouver indicated that the reason that his remarks were directed to the committee on the recommendation that was submitted to the Vancouver city council was due to the fact, he claims, that the Board of Transport Commissioners, which examines from time to time, as required, these utilities, has not got powers broad enough to give relief from oppressive practices now carried out by the company. Just recently the Board of Transport Commissioners was under

scrutiny by a Royal Commission. Many representations were heard in all parts of Canada with regard to actions of the Board, its set-up, its function, and the possible continuance of a body whose principle function, or one function, would be to inquire into such concerns as this one here which is asking for an increase in capitalization.

I would like to read into the record, Mr. Chairman, something that I take from page 268 of the Report of the Royal Commission on Transportation, dealing with the Board of Transport Commissioners:

> Dr. Simon J. McLean, upon whose recommendations the Board of Railway Commissioners was set up, had this to say in his report to the government in 1902.

Mr. GREEN: Who was that?

Mr. MACDONALD: Dr. Simon J. McLean.

The DEPUTY VICE-CHAIRMAN: May I ask if this has something to do with the amendment before the House for the reduction of the capital from $75 million to $60 million?

Mr. MACDONALD: I am sure it has. The company is coming before the committee and before parliament seeking the right to increase its capitalization and you have allowed—you were in the hands of the committee and the committeee has allowed—certain witnesses to appear. Certain statements have been made, particularly by one witness and I think a very good witness, but with whom I cannot agree in the light of this report on the Board of Railway Commissioners. It has a great deal to do with the action which I will take in respect of accepting or rejecting this application. I believe this has something to do with what was said at this committee and I believe it should be allowed into the record.

Dr. McLean had this to say:

> The experience of both England and the United States points to the conclusion that the most efficient work would be obtained from the commission if the members were appointed on the same tenure as the judges. A life tenure would mean a continuity of regulative tradition. It would also mean that the dignity and security attaching to the life tenure would permit the commission to obtain a high order of ability, which could be obtained only in the case of the shorter tenure by the payment of a salary much higher than Canada could afford to give.
>
> After pointing out that 'no species of regulation can remove all of the complaints that have arisen' and that some of the complaints are 'the outcome of economic forces which are superior to legislative enactments', Dr. McLean stated: . . .'equipped with an efficient and commanding personnel, the commission will stand as arbiter. It will have a responsibility to both parties'.

I say, Mr. Chairman, that both parties in this instance would be the parties that are represented by Mr. Brakenridge coming to this committee and the utility concern on the other hand. One is fearful that further capitalization is going to mean higher rates but we have the assurance that it only means expansion of their business. It was stated that the Board of Transport Commissioners did not have the power to deal as an arbiter between these two parties. If it was so in 1902, and I could read a little further—

The DEPUTY VICE-CHAIRMAN: I cannot see the relevancy of your quotations respecting the Board of Transport Commissioners to the amendment which is before the House. If there is relevancy all right, but I would like it to apply to this amendment we have before the committee.

Mr. MACDONALD: Well, let me say this. I am satisfied that the royal commission has looked into the question of the Board of Transport Commissioners.

None of the people who made representations to the commission thought that the Board powers did not apply, so the suggestion made by the witness does not have to be considered by this committee in arriving at a decision regarding further capitalization.

I am going to support not the amendment but the request of the company appearing here for this $75 million. I am going to do so for this reason. I am not one of those who are going to be crepe hangers in this country and I believe that like Alberta, although probably not as quickly as Alberta, British Columbia is going to have rapid expansion.

Some Hon. MEMBERS: Hear, hear.

Mr. MACDONALD: I think that the people here are responsible business people and they are running a good utility. I think they have shown they are running it efficiently because they have expanded probably beyond their fondest hopes in bringing service and stations to the people. If they are going to continue to expand they are going to require money, and I wish them every success with this $75 million in bringing to every person in British Columbia who wants a telephone the kind of service that will be worthwhile. In so doing they will maintain the good will of the people of the province of British Columbia; the employees who work for them will enjoy good working conditions; and eventually, if they have good will, their business will continue to expand and grow with a province that has such a bright future.

Mr. MURPHY: Mr. Chairman, I am going to be very brief. Like other members of this committee I have appreciated the way the testimony has been given. I think, too, that all members will agree with what I am going to say. A good deal of time has been taken up on this particular application and I am going to express the opinion that while it has been represented constructively on both sides, as members of a committee we have been handicapped. I say that without hestitation, Mr. Speaker—

The DEPUTY VICE-CHAIRMAN: I am only chairman. You are getting ahead of me.

Mr. MURPHY: Perhaps I am just precipitating that appointment.

However, I do think in fairness to members of a committee such as this, on such an important application and where it does take up so much time and where there is opposition to the application, the committee should be furnished with more information. We are dealing here with an application involving the extension of a successful corporation. We have not had an opportunity of going into the background as well as most of us would probably have liked—into the background of the various parent and affiliated companies. The point I am going to make, and I think Mr. Chairman most of us will agree, is that when an application of this sort comes before a committee of parliament where opposition is made, those who do make the argument representing the opposite view should present to the committee more expert testimony. We have the expert testimony here of the president and others in his corporation, including his counsel, and against that we have had an excellent presentation by those who attempted to have the application for increase reduced, I would say, by a reasonable amount. It is really fair in our country to have some control and some check over big corporations, and I see no reason why this corporation could not come back to parliament for such increases as may seem necessary at intervals.

However, the point I was going to stress is that I think it is unfortunate that this committee has had to take up so much time without more expert testimony from those who are opposing the application. I think we are, as a committee, entitled to call in accountants, and those representing the city of Vancouver should have had accountants here to present their views in order that we could more fairly consider and adjudicate the question before the committee.

I am not going into the question of financing or the necessity for increased finances; we all know that is necessary. It is a question of whether the amount they have asked for is more than we think is necessary. I am one of those several members, judging from the opinions given, who feel that any corporation coming before parliament will probably ask for more than they think they are going to get anyway. That is the most natural thing in the world.

I just want to put on the record the mere expression, and I think other members will agree with me, that where applications are opposed expert testimony should be offered.

Mr. DARROCH: I am in accord with the remarks of the last speaker that we have been handicapped and I do agree that if there is going to be opposition to this extent it probably should be better organized in order that we can have information. Speaker after speaker has referred to this presentation by the city of Vancouver—sometimes referred to as representing the city of Vancouver and sometimes the Vancouver City Council.

All through there has been a question in my mind. Have you any official notice of ratification before you that this ever went to the Vancouver City Council? In other words, have you got anything there signed by either the mayor or the clerk or the corporate body of the Vancouver City Council indicating that this was ever considered by the city council?

The DEPUTY VICE-CHAIRMAN: Yes, do you want it now? I think I read this into the record yesterday but I have here a telegram signed by Arthur E. Lord, corporation counsel, City Hall, Vancouver. I read that into the record. There is an answer signed by John T. Dun that the man who is representing them is a parliamentary agent. That is in the record.

Mr. DARROCH: My point is that, before I came down here I had the privilege of spending sixteen years in municipal life, and any municipal body I was ever on never sent a presentation to another body without a letter covering the action the council had taken on it—over the signature of the mayor, reeve, or clerk of the body concerned. I do not think we ever accepted a resolution from another body unless it was so accompanied.

The DEPUTY VICE-CHAIRMAN: I advise you that Mr. Green on his responsibility presented a brief to this committee which also represented the views of the mayor and the council of the city of Vancouver.

Mr. DARROCH: Well may I suggest that this is just from the committee of the council. I never heard it proved that this was considered by the council at all.

Mr. GREEN: On a point of order, Mr. Chairman. That is completely contrary to the facts. You have not only the communication from the corporation counsel, who is one of the senior men on the staff of the city, and is senior to the city clerk —Vancouver hires a corporation counsel which, of course, is not done by very many cities in Canada and Mr. Lord is one of the top notch employees of the council—but you have your additional authorization from him. Mr. Brakenridge has been sent here and has had to pay $25 to be allowed to appear, and in addition to that each one of the Vancouver members has had a letter from the same Vancouver council setting out what was passed by the council. There can not be the shadow of a doubt of the authority either of Mr. Brakenridge to give evidence or of the stand on this question that has been taken by the city. I do not understand why members should be allowed to cast a doubt on the city's stand as they do.

The DEPUTY VICE-CHAIRMAN: We have accepted Mr. Brakenridge as the parliamentary agent for the city of Vancouver. I do not think we can question his ability or his authority.

Mr. DARROCH: It is not a question of ability at all. The point is that I wonder whether he represents that committee.

Mr. GREEN: He is not representing the committee, he was appointed by the city council.

Mr. DARROCH: It is a report of the special committee, is it not? How do we know that it is not otherwise?

Mr. GREEN: No, it is a report to the city council and approved by the city council.

The DEPUTY VICE-CHAIRMAN: We will accept that.

Mr. MOTT: That is the point, Mr. Chairman. I put in eleven years in municipal office and I can fully agree with Mr. Darroch. I was going to speak on that point last night. I have every respect for Mr. Brakenridge, I have sat on commissions with him and everything else. This nevertheless is still a report from a committee and not of the city council. If it is not we should have an extract of their minutes—we should have here an extract from the minutes of the city council signed by the clerk. We do have a letter from the solicitor mentioning that particular committee and all it mentions is they have passed this. There is no extract from the minutes or any proof to say, in regard to the city council, what action they had taken on passing this.

The DEPUTY VICE-CHAIRMAN: Regardless of any thoughts you may have on this matter at the present time we have accepted Mr. Brakenridge here as a parliamentary agent for the council of the city of Vancouver. The question before us right now, gentlemen, is an amendment asking that the words $75 million shall read $60 million. I do not think we are going to get any further ahead by going back and discussing the standing of the witnesses we have already had before us.

Mr. DARROCH: The amendment suggests or asks that the amount be reduced from $75 million to $60 million. Now, Mr. Chairman, I have no brief whatsoever for large telephone corporations. I know the situation in my own riding in so far as the municipal telephone corporations are concerned, and the Bell Telephone Company, but I agree that this is neither the time nor the place where we can talk rates for services, and if Mr. Green's amendment had said $25 million, I would be rather favourably disposed to it, but when he moved it up and said $60 million—

Mr. GREEN: An increase of $35 million.

Mr. DARROCH: If you had said $50 million instead of $60 million, as it is now, I think I would be inclined to agree with that amendment. I agree with what Mr. MacInnis said this morning when he mentioned that every public utility should come before a regulating body every five years.

Mr. FULTON: Will you move a further reduction then?

The DEPUTY VICE-CHAIRMAN: Order, order.

Mr. DARROCH: I am telling you my own position before the committee, but as it is I think it looks—I may be all wrong— to me to be a matter of saying we are going to ask a little bit less and let it go at that.

Mr. MACDOUGALL: Mr. Chairman, practically all the ground has been covered with respect to this request by the company. I think that I have to disagree with my good friend, Mr. Murphy, when he says that there has not been sufficient evidence presented before this committee. There is only one point, I think, which should be mentioned by me at this time because in the first day that we held sittings of this committee I made certain statements which I quoted from the brief presented by the city council and I asked at that time, when I was cut short from continuing the discussion, that I would be given the opportunity to say something further before the bill came for a vote before this committee.

Now we have had the figure given to us of 30,000 people who are desirous of an upgrading in their telephone service. We also have the figure, which I do not think any of us have any right to dispute, that there are 10,246 applications unfilled for telephone service in the province of British Columbia. Now, we have to agree with what our population increase actually has been. The population increase of just the city of Vancouver—to say nothing about the outlying areas in the province of British Columbia—over the last ten years has been a matter of more than 40 per cent. Statements have been made before this committee with respect to the reasons why the Vancouver city council is opposing the question of this increase of capitalization. It has been stated that they are opposing it because they lack faith in the Board of Transport Commissioners. Now that can be right or partially right. Then again we also are told that there has been talk in this committee that wider powers should be given to the Board of Transport Commissioners in dealing with what Mr. Green has, I think, called the family tree of interlocking directorates. We of this committee all know that Mr. Macdonald was about to quote some excerpts from the Turgeon commission report. There are certain recommendations in the Turgeon report which I think are of vital importance to us now in dealing with that particular aspect of this application, and that, I believe, is common knowledge. I did not get it from the cabinet, but it was stated in the House that we are positively, at the next session of the House, going to deal particularly, amongst many other things, with the report of the Board of Transport Commissioners and I believe that in the report of Mr. Turgeon, that he has recommended—

Mr. GREEN: You said the Board of Transport Commissioners. You mean the Turgeon report?

Mr. MACDOUGALL: The Turgeon report, yes. That report has recommended that the various systems of transportation and communication be modernized and put under one head. It seems to me that that being true the time to deal with that aspect of broadening the powers of the Board of Transport Commissioners, the logical time to deal with that, is when the bill comes before the House. Behind that there is another local aspect, and I am vitally concerned with this case. I happen to represent the riding of Greater Vancouver where the city hall is located. Now, I have to say this to the British Columbia Telephone Company that I on many occasions have been, to say the least, slightly annoyed at the service that has been given on the Fairmont exchange. The Fairmont exchange also serves the city hall and in the case of the city hall it is only natural to expect that the annoyance is many times multiplied than it would be for me or anyone else as an individual. I do say this in all fairness to the British Columbia Telephone Company that I am of the opinion that it would be a very excellent thing for the British Columbia Telephone Company to vastly improve their public relations. The other great operating company there, the British Columbia Electric Company, are constantly on the alert with regard to the city hall to give them every advantage of increased service at all times, and I think much of this dissatisfaction which was expressed very ably by Mr. Brakenridge has arisen largely from the fact that they have become, over a period of time, consistently annoyed and fed up with the service on the Fairmont exchange. Now, I have felt in dealing with this application for increased authorized capital that maybe the British Columbia Telephone Company was lax with respect to the service given on that exchange, and I think that is a fair thing to say—that the exchange service there is not good. I think a great deal of this difficulty could be overcome with increased facilities of service particularly on the Fairmont exchange which directly and indirectly affects the service and morale of the mayor, council and all others on the staff of the city. Now, I would like to say to all those who have not got any facilities with respect to telephone service and those who are consistently wishing for an upgrading, that the best way

that that can be done, in my opinion, is by the passage of this bill as it is now before the committee and, additionally, I might also say that we recognize that the population increase in British Columbia is going to continue possibly at a greater rate than it has during the past ten years; and regardless of the importance of the settler or whether he is a pensioner on a small two-acre lot, telephones today by and large are considered a necessity. The only warning that I would wish to offer in this regard now is that if we as a committee recommend the passage of this increase of capitalization that the British Columbia Telephone Company on their part, I think, must be cognizant of the fact that the rates per station are going to be kept at a level that will make it possible for the ordinary run of the mill telephone station owner to be able to utilize and pay for that service.

I judge from what some members of this committee have said that there is a danger that we are going to have increased rates. On that matter I am no expert, as you all know. But I would say that I think it is very advisable in a corporation such as this, that the management thereof are prepared to take the necessary action previous to the event so that the telephone situation does not come into a head-on collision with the law of diminishing returns.

Therefore, in conclusion, Mr. Chairman, I would suggest to the members of this committee that we pass this bill in its original form without the substitution of the $60 million as mentioned by Mr. Green in his amendment, and that we pass it on the basis of a $75 million increase in capitalization.

The DEPUTY VICE-CHAIRMAN: Mr. Shaw.

Mr. SHAW: Mr. Chairman, possibly I should at this time record our views as related to the amendment which is presently before us. I say "our views" because representation on this committee is on a party basis and our party has three members on the committee.

We have not actively participated in the discussions because, as stated by Mr. Macdonald, we are not directly affected by the operations of the British Columbia Telephone Company. We have had no actual experience with the company or with its operations.

In fact, prior to the introduction into the House of the bill, including the proposed intention to request the right to increase the capital by $50 million, we were not aware of the intention of the British Columbia Telephone Company to take that action.

Moreover, we were not familiar with the fact that the city of Vancouver or any other municipality or any individual was prepared to take a stand in opposition to any contemplated action on the part of the British Columbia Telephone Company.

In short, all the information which we have been able to acquire has come through the debates in the House of Commons on the bill, when it was introduced, and during the deliberations of this committee.

I feel therefore it is quite proper for me to say that we face this issue without any preconceived ideas at all and certainly without prejudice one way or another. In fact we feel very much like members of a jury. We have refrained from active discussion up to this point because our purpose was to acquire all the information which we possibly could.

Having said that we are not directly affected in my province by the British Columbia Telephone Company, and not having come into direct contact with it, I must also hasten to say that we must make a decision on this matter.

We are members of parliament and we are members of this committee and we are dealing with something which affects the welfare of tens of thousands of our fellow Canadians, even though those fellow Canadians may reside in the Province of British Columbia.

The British Columbia Telephone Company is a private company. I have taken the position many many times that the private enterprise is a desirable form of organization provided that the private enterprise does not indulge in activities which are detrimental to the public welfare.

Secondly, the British Columbia Telephone Company exercises a virtual monopoly. However, a monopoly in itself need not be bad. But I would say two things to the company or to any company occupying the position of a monopoly. There is definitely a greater responsibility resting upon the shoulders of that company because it is a monopoly than there would be if it were faced with effective competition in the same field.

In our view it is absolutely imperative that when a company does function as a monopoly there should exist somewhere some body with unrestricted authority to examine into every aspect of that company's organization and operation.

Now we are satisfied from what we have learned that the Board of Transport Commissioners does not presently have that authority. In fact we are convinced that the only body which does possess that authority is the Parliament of Canada.

In reference to what Mr. Macdonald and Mr. MacDougall have said, it occurs to me that from the very first reference to the Board of Transport Commissioners there has been some attempt to establish the fact that someone somewhere has reflected upon the ability, the honesty, and the sincerity of the Board of Transport Commissioners. But that has never been the case so far as we are concerned.

I heard Mr. Applewhaite state very cleverly—and I hope you will not take that word in the wrong sense.

The DEPUTY VICE-CHAIRMAN: I do not think you have the right to say that, Mr. Shaw. I do not think there has been any reflection on the Board of Transport Commissioners in this committee. On the contrary, I think it has been pointed out that they have done the job that they had to do. The question before us is that of a reduction from $75 million to $60 million.

Mr. SHAW: Mr. Green has moved that the $75 million be reduced to $60 million. I consider that the $75 million is the heart of the bill. Therefore the motion to reduce it to $60 million has also become the heart of the bill. I did not say that the committee or anyone has cast reflections on the Board of Transport Commissioners. I said that it occurred to me that an effort had been made which could have had the effect, if certain witnesses had given certain answers, of casting a reflection upon the honesty, integrity, and sincerity of the Board of Transport Commissioners.

As far as we have been able to hear the evidence, there has not been any bad faith on their part. But what we have said or heard the witnesses say is, that their activities have in certain respects been circumscribed by virtue of the conditions under which they operate. We feel that the Board of Transport Commissioners does not presently have the authority to go into the operations of this company and make the specific reference which we feel they should make. The Public Utility Commission of the province has no authority over the operations of the company.

We feel therefore having regard to this fact, that this company or any similar company—or any company in a similar position—should be compelled to appear before parliament periodically. We think there should not be too great a time lapse in between those periods at which time they appear.

I think that upon such an occasion every aspect of the company's operations should be gone into thoroughly.

Here is where I disagree most vehemently with Mr. Applewhaite. He suggested that we were simply considering an increase in authorized capital of the company from $25 million to $75 million, and that we were not concerned with the contracts between this company and a subsidiary company and so on.

To me that is an unsupportable argument and I think it weakens his case very much. In other words, as long as I am a member of this committee or belong to any body, and some one comes to me for authority to acquire authority to receive any sum of money, certainly the very least I can do is to find out what they have done with the money which they received previously, and what they intend to do with the money which they hope to acquire as a result of this authorization.

We have been advised by representatives of the company that they have rather clearly established their financial requirements for each of the next ten years.

Of course, such factors as the availability of materials, or the availability of manpower and the costs of these things will have a very important affect upon the ultimate operations during any subsequent year.

But our conviction is that having regard to all the relevant factors, the company cannot conceivably spend what it has estimated to be its expenditure for the next year, or the year after. In fact, I am convinced personally that there is going to be an acute tightening up as far as materials and manpower are concerned.

Now, the company has put forward several arguments: that the population of British Columbia is expanding, that the province is undergoing an industrial transformation; that certain of this equipment has become or is rapidly becoming obsolete; that there is a heavy demand upon them for new services.

All that is fully appreciated. Exactly the same situation applies nearly everywhere, even in my province, Alberta. Do not press me to say too much about our own telephone system there, which is publicly owned, because if you did, you would be putting me on the spot. But as I say, we fully appreciate that these problems are not only problems confronting the British Columbia Telephone Company, but they also confront my own province which operates the telephone system there.

Mr. Green in moving for a reduction in the authorized capital, as far as we can determine, has made no move to reduce the amount of money which this company may spend next year, or the year after, or the year after that, up to a certain date.

We take it from this amendment that the British Columbia Telephone Company has the authority to come back to parliament one year from now, or two years from now, or three or four or five years from now, whenever they require an increase in their authorized capital.

If Mr. Green were to say—or if any other member of this committee were to say or to move an amendment having the effect of saying: "No, you cannot spend $10 million or $12 million this year, or even next year, I think that all you can spend is $5 million; therefore you will be given only $5 million", that would be another thing, with respect to which I would have to hear much more evidence than I have heard up to this present time.

But Mr. Green does not say that. What he says in effect is: Go ahead, spend the amount of money that you contemplate spending next year, and so on. And then you can come back to parliament; and if parliament sees fit, it will grant you authority to increase further your capitalization.

Let me emphasize that in our opinion the company can continue to spend what it estimates it is going to require next year and so on.

My colleagues and I feel that having regard to all the factors involved, the amendment is appropriate. But I think that if we were moving it, it would not be $60 million, it would be less. In short, we think they should come back within five years.

Under the $75 million requested, if there is a tightening up as far as the availability of materials and manpower is concerned, it may be fifteen years before we ever see them again; with no other regulatory body having full

authority to go into all their operations, I say to you now, without any personal prejudice, that I hesitate to give the company the authority to increase their capital, to 75 million dollars at this time.

The DEPUTY VICE-CHAIRMAN: Mr. Jones.

Mr. JONES: Mr. Chairman, I am glad to be able to speak on this private bill. Yesterday the city of Vancouver went to considerable expense to send a delegate down here to place their point of view before this committee. I checked on the attendance during the time that evidence was being given and it averaged 15. The day before, Mr. Hamilton made a very appealing case on behalf of his company. The average attendance during his presentation was 17. But today when we come to take a vote, we have 35 members present. Therefore the majority of the members present do not know what it is all about. So I would respectfully suggest that the vote be not taken until the minutes of evidence have been printed and handed to every member and that he be asked to read the evidence submitted for and against the case which is before us. Otherwise he cannot vote intelligently. Over half the members will not know what they are going to vote on.

The DEPUTY VICE-CHAIRMAN: Order, gentlemen. Order! Is the committee ready for the question? Mr. Byrne.

Mr. BYRNE: Mr. Chairman, I think the present by-play is an indication why so many members have chosen to attend today. It indicates that this committee has become very interesting indeed.

I have listened very carefully to those who are opposing or are supporting the amendment to this bill, in particular to Mr. Green, Mr. MacInnis and Mr. Herridge, all of whom, of course, are from British Columbia; and I may say I was very much impressed by some of their observations. However, I have found there is a discrepancy in the arguments that they presented today as against arguments that have been presenetd in the House and elsewhere on a similar question. Mr. Green feels that the depreciation allowance that the company has been setting aside is not being spent in the expansion of their organization.

Mr. GREEN: I did not say that at all.

Mr. BYRNE: 2½ per cent depreciation allowance, you felt it should be spent—

Mr. GREEN: No, I said some of that could be spent for the development program, and I think I mentioned the figure of $1 million a year.

Mr. BYRNE: That is precisely the meaning on that, that this money should be spent in the way of expansion. On the other hand, Mr. Herridge, who supports him in this contention, has a different interpretation of the way private companies are expanding today. On June 5th in the House of Commons at the time he moved an amendment to the Excise Tax Act he felt that the free enterprise corporations were spending too much money, that is, undeclared dividends, in the matter of expansion—that is, in the way of capital expansion.

Mr. HERRIDGE: On a point of privilege, I was supporting Mr. Green on what I considered were his valid arguments for the reduction of the capital asked for by the company because he believed they should come before this committee periodically and reasonable times.

Mr. BYRNE: However, they are supporting the amendment, and no doubt thinking with the same mind. One member has already indicated it appears to be a government bill because there are so many Liberals here. Liberals are inclined to think progressively, and think alike. Mr. Herridge has said that free enterprise corporations should not spend their accumulated dividends, that is, undeclared dividends, in the way of expansion capital. Everyone here realizes that the capital expansion is as important to the individual, that is, to the wage

earner, as the actual wages being paid. If capital expansion is not made, we cannot continue to enjoy a high standard of living, or improve it. Mr. Herridge said: "If companies were required to carry on their expansion as a result of raising new capital, the wealth would at least to some extent be more diversified and in a greater number of hands." He is in the position here of voting against a company which has come before this committee and legitimately asked for an expansion of some $50 million.

I have very high regard for the members of the Vancouver city council, particularly for those whom I know intimately. However, I do not feel that the Vancouver city council do represent the opinions of the entire province of British Columbia. Vancouver, after all, is more or less the servicing centre for the whole industrial area of British Columbia, and they do have a fairly good facilities as far as telephones are concerned. I know they do have automatic telephones, and so on, whereas we in the hinterland are very much in need of improved telephone service.

During the Easter recess I reported to my constitutency, and Mr. Herridge, I recall since my return, read a portion of that speech which I made. I just forget what it was, but at least he knows I made a report in which I said I was prepared to support the bill to increase the capitalization of the British Columbia Telephone Company by $50 million, that is, up to $75 million, and that appeared in all the local papers including the Nelson News, which has a very large distribution. Since that time, and since returning, I have had no objection from any of the municipalities, or any other body—

Mr. GREEN: May I ask a question?

Mr. BYRNE: —opposing my attitude respecting this increased capitalization.

Mr. GREEN: May I ask a question on that: Many of your telephones are under the Kootenay Telephone Company which has nothing whatever to do with this company?

Mr. BYRNE: A subsidiary company.

Mr. GREEN: It is an affiliated company, and it is not asking for an increase in capital. The bulk of your people are not interested on way or the other.

Mr. BYRNE: It will help the entire system, and we feel it will benefit us immeasurably in British Columbia as a whole. Now, we have on record, within the next one or two years, at least, a billion dollar expansion, that is, capital expansion in British Columbia. Now, a billion dollar expansion is a large sum of money, and that means new installations which will have to be served by telephone. A proposed investment of $10 million per year in telephone service is less than one per cent of the proposed expansion for British Columbia within the next year or two. Now, the company has already indicated that, considering the expansion that has taken place, they have spent some $6 million or $7 million, and I cannot see where they will not be needing at least $10 million for the next six or eight years.

The necessity for coming back here is a good one but, after all, I think that with a province like British Columbia which is looking ahead in the terms of a billion dollar expansion, ten years is not too far ahead.

Mr. HERRIDGE: Mr. Chairman, I first of all want to say that Mr. Byrne should know the rules of the House governing the rules of the committee, and it is not in order for a member to read from a debate in the House at a committee. I am not objecting to new capital, but I am not in favour of voting for unnecessary capital.

The DEPUTY VICE-CHAIRMAN: Are you ready for the question?

Before we take a motion on this, I think there are one or two things that are in order for me to say: I think the objection made by Mr. Herridge should have been taken when the reading took place, and therefore, because you did not take it at that time, you are now too late.

Mr. HERRIDGE: I did not wish to interrupt.

The DEPUTY VICE-CHAIRMAN: Mr. Jones, I do not think I can say which members shall or shall not vote as long as they are members of the committee, and I think the reference to some members being here at some time and not being here at another is irrelevant, and everybody here should be allowed to vote, and will be allowed to vote.

Mr. JONES: I was only asking that they read the transcript of the evidence.

The DEPUTY VICE-CHAIRMAN: The motion before the committee is: It has been moved by Mr. Green that clause 1 section 2, in line 15, be amended by deleting the words "seventy-five" and inserting the word "sixty" therefore. All those in favour of this amendment shall please rise.

Mr. GREEN: Could we have a poll vote?

(A poll vote was taken).

Mr. GREEN: Mr. Chairman, you cannot vote.

The DEPUTY VICE-CHAIRMAN: Yes, I can: Standing Order 106: "All questions before committees on private bills are decided by a majority of voices including the voice of the chairman."

The vote is 24 nays, 11 yeas: therefore I declare the amendment lost. Is it the pleasure of the Committee to adopt subsection 2?

Carried.

The DEPUTY VICE-CHAIRMAN: Shall we adopt the title?

Carried.

The DEPUTY VICE-CHAIRMAN: Shall I report the bill as amended?

Carried.

Mr. McIVOR: Mr. Chairman, I would like to move a hearty vote of thanks to the witnesses for the city of Vancouver and for the telephone company, for standing up before this committee and answering the questions. It was quite a test, and they showed they are men fit to take their place anywhere.

Mr. GREEN: Mr. Chairman, arising out of the consideration of this bill there has come a very clear cut question with regard to the lack of adequate control over the contracts between the affiliated companies or at least the companies affiliated with the British Columbia Telephone Company. I understand from the evidence that a somewhat similar situation exists with the Bell Telephone Company. I am therefore going to move, Mr. Chairman— —

Mr. APPLEWHAITE: I am not rising on a point of order, I would just ask if we have agreed to report the bill or is this discussion on the title of the bill?

The DEPUTY VICE-CHAIRMAN: We have agreed to report the bill.

Mr. GREEN: I move that the committee recommend that consideration be given to extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revising tolls or charges of a telephone company, to investigate fully and take into account transactions relating to companies having inter-corporate relationship with such telephone company.

The DEPUTY VICE-CHAIRMAN: Order, please. Last evening the question of making a recommendation to the House to the effect that the powers of the Board of Transport Commissioners be enlarged was raised by Mr. Green and by Mr. Herridge. I reserved any decision I might make, and on a previous occasion I ruled that the subject of amending the charter of the company was out of order. I quoted at that time from Beauchesne's their edition, citations 537 and 785. I have since had an opportunity to look at the authorities and, for the benefit of the members of the committeee I shall again read citation 537.

> A committee can only consider these matters which have been committed to it by the House.

A committee is bound by, and is not at liberty to depart from, the order of reference.

In the case of a select committee upon a bill, the bill committed to it is itself the order of reference to the committee, who must report it with or without amendment to the House.

When it has been thought desirable to do so, the House has enlarged the order of reference by means of an instruction or in the case of a select committee upon a bill by the committal to it of another bill. Mandatory instructions have also been given to select committees restricting the limits of their powers or prescribing the course of their proceedings, or directing the committee to make a full report upon certain matters.

Sometimes a committee may have to obtain leave from the House to make a special report when its order of reference is limited in its scope.

I would also bring to the attention of the committee a ruling made by Speaker Lemieux, dated June 10, 1928, wherein he deals with a motion for concurrence in a report of a standing committee, and I quote from that ruling:

The motion is not in order, nor is the report, because a committee can take cognizance only of matters which are referred to it. The matter which is the subject of recommendation in this report was not referred to by the House. I rule that the motion is not in order.

I would point out to the committee, however, that under citation 537 it is competent for the committee to obtain leave from the House to make a special report when its order of reference is limited in its scope. I am completely in the hands of the committee in this matter. From the authorities I am obliged to rule that any recommendation of this nature is out of order, but, is it the wish of the committee to ask leave to make a special report to the House in this matter? That is where the question is at the present time.

Mr. GREEN: Mr. Chairman, I think on the basis of that ruling it would be in order for the committee to request instructions of the House, and request power from the House, to consider this question. Therefore I would move that the committee request instructions to consider the question of extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revsiing tolls or charges of a telephone company, to investigate fully and take into account transactions relating to companies having inter-corporate relationship with such telephone company, and to make recommendations with respect thereto.

Now, a motion of that kind would clearly be in order. There can be no question but that here we have something which has to be faced and it is very appropriate that it be faced by this committee at this time, when we have actually an example before us of the need for such action. It is also particularly appropriate at this time because at the fall session there is to be consideration of the whole transportation question and then there would be an opportunity to have necessary amendments made to the Act which governs the Board of Transport Commissioners.

Mr. Lett read from the findings of the Board of Transport Commissioners on this service contract a statement which shows clearly that they considered that they have not the authority now to deal with this question. It is under the heading: "service contract". They say:

The only matter we have to consider in my opinion is whether a reasonable and necessary service is obtained from the expenditure incurred by the company—and then they go on and this is the key sentence: "It is suggested that the payment of money by the company to Anglo Canadian Telephone Company far exceeds the amount paid in turn by that company to the affiliates who actually provide the service. This, in my opinion, goes far beyond the Board's jurisdiction.

In that case, as you know, the B.C. Telephone Company had to pay $181,000 to Anglo Canadian under this service contract. Anglo Canadian had no facilities to supply that service but the argument was that the parent company above Anglo Canadian could supply it—yet Anglo Canadian was only charged $3,100 by that parent company.

Now, I do suggest that the need has been shown very clearly for consideration of the powers of the Board of Transport Commissioners. Many of the members of the committee who voted against my amendment on the bill have actually spoken in support of an action such as would be covered by the motion I am now placing before the committee, and I would hope that it would be possible to get unanimous support for a recommendation of this kind.

Mr. HARRISON: I wonder if I could ask a question before you present that, Mr. Green? Would you be prepared to change that slightly to include all companies operating under charters and not just telephone companies?

Mr. GREEN: It reads that way now.

Mr. HARRISON: In that case I am prepared to support it.

Mr. GREEN: It reads: that the committee request instructions to consider the question of extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revising tolls or changes of a telephone company, to investigate fully and take into account transactions relating to companies having an intercorporate relationship with such telephone company.

Mr. HARRISON: That is just telephone companies?

Mr. GREEN: And to make recommendations in respect thereof.

Mr. FULTON: That is just to apply to telephone companies? Would you not want to make it to include all companies?

Mr. GREEN: We are dealing at the moment with the telephone companies. Now, the situation we are dealing with concerns the power of the Board of Transport Commissioners.

The DEPUTY VICE-CHAIRMAN: Mr. Green, may I have a copy of that amendment?

Mr. GREEN: I was not sure that the same conditions apply with regard to railways and therefore I had restricted my motion to telephone companies, which is the question before us.

Mr. MACINNIS: Mr. Chairman, might I say just a word in explanation of this motion? It is not directed at any particular company or companies but would apply, if it is finally made into law, to all companies whether railways or other companies coming under the jurisdiction of the Board of Transport Commissioners where conditions of this kind apply.

Mr. LAING: Mr. Chairman, I would like to say a word on this resolution. I would support it because it is in line with the statements I made the other day when I pointed out, as a result of the evidence given by Mr. Brakenridge whom I consider represents the views explicity of the council of the city of Vancouver, that there is a very unhappy situation when there is apprehension in the minds of civic leaders of the third largest city in Canada that they have not had what they consider full justice in their previous representation to the Board of Transport Commissioners. My friend from Edmonton has indicated that suggestions have been made that the Board of Transport Commissioners be strengthened. I would say that in the case of a public utility company appearing before the board they should meet a board which is equipped with legal assistance, with engineers, with financial authorities of a calibre and stature not less than those that accompany the firms that go before the Board. I think there are two ways of achieving what Mr. Green has suggested, one is to take this up on third reading in the House and the other is to accept the motion he has made.

The DEPUTY VICE-CHAIRMAN: Order, gentlemen.

Mr. LAING: I think this will bring home more forcibly to the Board of Transport Commissioners the desire of the people's representatives that when the purchasers of these various services make an appeal through their collective representatives they want the broadest possible investigation made on every application.

The DEPUTY VICE-CHAIRMAN: Before this debate goes any further, I think there should be a ruling as to whether the request is in order or is not in order. We have been given a bill to report on, and I find in Beauchesne, second edition, at section 621, the following:

> 621. A Committee can only consider those matters which have been committed to it by the House. If it be desirable that other matters should also be considered, an instruction is given by the House to empower the committee to entertain them.

Again, in Beauchesne, the third edition:

> 537. Sometimes a committee may have to obtain leave from the House to make a special report when its order of reference is limited in its scope.

I think, from those two citations, it would be considered that this request by the committee is in order. I believe we can make this request to the House and be perfectly in order. Therefore I rule the motion in order, and we will go on with the debate.

Mr. HARRISON: I still do not feel that the motion made by Mr. Green is adequate enough to get the support of all members who are inclined to give it. In the course of this debate there should be some explanation of the reference to the Board of Transport Commissioners. I think that that motion should be so reworded that it will cover definitely all companies that operate under a federal charter who will come before that Board of Transport Commissioners, so that they can fully investigate all those companies. That is for the protection of the public and the country generally. You said, Mr. Green, on several occasions, that the British Columbia Telephone Company had only paid out $3,150 for services amounting to some $181,000. I am sure there would have been no more discussion of that in this committee if the members had fairly well been assured that the companies had got that much service. There are not many companies that are giving away $181,000 and receiving only $3,150 in return.

Mr. MACINNIS: They put it in one pocket and take it out the other.

Mr. HARRISON: That may be, but I think there is some reasonable explanation for that. I know there is an explanation for it, and it would have been desirable that that explanation should have been given so that it will be in this report; because the average man reading this report afterwards is going to take those figures and get a wrong impression of the company's operations. I think possibly the company should have answered that allegation definitely at this sitting. The work of this committee as it appears in the evidence, will be later read in the report, and that fact will go over the head of the average citizen. He cannot look at figures such as $3,150 paid for services worth $181,000 and get a correct impression, for that is not the case. I wonder if Mr. Applewhaite, who is sponsoring the bill, would at this late hour just give us an explanation of that.

Mr. HERRIDGE: Mr. Chairman, speaking to the motion made by Mr. Green, I support what obviously he intends to do but I wish he would widen the motion. I believe this situation has been brought out because of the discussion on the British Columbia Telephone Company bill. Therefore, Mr. Chairman, I would like to amend Mr. Green's motion so that it will apply to all companies.

Mr. DEWAR: Under the Board of Transport Commissioners.

Mr. HERRIDGE: Yes.

Mr. MURRAY: I wonder if there is a shift in the responsibility of the city of Vancouver to the federal authority and also by the provincial legislature of British Columbia. If there is dissatisfaction with this company it would be the easiest thing in the world to buy this company.

Mr. GREEN: Do you think they should?

Mr. MURRAY: Still, it is a matter of interest to British Columbia which should be thrashed out there and not placed before a committee here to determine. The city of Vancouver has absolute authority to regulate the company in so far as placing its poles and conduits on city streets, is concerned, and in the awarding of certain franchises, and so forth. The province of British Columbia has absolute control over property and civil rights and therefore would have control over this company despite the Board of Transport Commissioners.

Mr. MOTT: Mr. Chairman, is it possible for us, or would it take too much time, to find out just what is the authority of the Board of Transport Commissioners? The point is: we heard from the engineer, Mr. Brakenridge, of Vancouver, who represented Vancouver, that the powers of the Board of Transport Commissioners were not wide enough.

Now, do we know as a matter of fact that that is the case. Is there any way of our knowing how wide the authority is, how much it does take in, so far as the Board of Transport Commissioners is concerned?

The DEPUTY VICE-CHAIRMAN: I am glad you have asked that question, Mr. Mott. There are one or two things which have not been brought out quite as plainly as they should have been in regard to this motion and the suggested change by Mr. Herridge. Mr. MacDougall started in this afternoon by indicating that the Turgeon Commission has some recommendations before the government which will probably be acted upon at this parliament. I expect that the Board of Transport Commissioners' responsibilities and duties will be gone into at that time, and that they will be given further instructions as to what is necessary. Now the motion which has been put here today may have some weight. It may bring to the government a certain atmosphere that has not yet been brought to it. I do not know. Is it desirable that we should send this motion through or is it more desirable that we should wait until that Turgeon Commission report is before the House of Commons?

There will certainly be a committee on that report and I would not be surprised if some of our members were members of that committee. Perhaps we should take it up at that time.

As to this motion before us now, has the amendment been approved? Do you accept the suggestion of Mr. Herridge, Mr. Green?

Mr. GREEN: If it is the wish of the committee that all companies should be covered with regard to the question that the chairman put, I accept it.

The DEPUTY VICE-CHAIRMAN: The motion has not been put yet. Is it the desire of the committee that this motion by Mr. Green has changed which is now before the committee be added as a rider to our report?

Mr. APPLEWHAITE: No, Mr. Chairman. I think there should be a separate report.

The DEPUTY VICE-CHAIRMAN: I should say: Is it the desire of the committee that we make a separate report? Perhaps we should decide on that point now.

Mr. MACINNIS: On a point of order, Mr. Chairman: We are not dealing with this motion or making a recommendation in this committee. We are asking simply for instructions to be followed to discuss the matter of making recommendations. We are not passing any substantial thing tonight. We are only asking for instructions from the House to allow us to discuss something. Is that not it?

The DEPUTY VICE-CHAIRMAN: I shall now read the motion: It is moved by Mr. Green and seconded by Mr. Herridge:

> That the Committee request instructions to consider the question of extending the jurisdiction of the Board of Transport Commissioners to enable them, in approving or revising tolls and charges of a company under its jurisdiction to investigate fully and take into account, transactions relating to companies having an intercorporate relationship with such company, and to make recommendations in respect thereof.

Mr. MURRAY: Mr. Chairman, are we not in effect stating to the government that they should do thus and so?

Mr. GREEN: No, not at all.

The DEPUTY VICE-CHAIRMAN: Order, order. Kindly proceed, Mr. Murray.

Mr. MURRAY: Is it not reasonable to say that what we are about to do is to tell the government what we think they should do with regard to the Board of Transport Commissioners? Have we any authority to do that?

The DEPUTY VICE-CHAIRMAN: No, we are not doing that at all. We are simply asking for further instructions.

Mr. MURRAY: We are asking for permission to discuss the matter?

The DEPUTY VICE-CHAIRMAN: That is what we are asking for.

Mr. MURRAY: We are setting out to advise the Board of Transport Commissioners and we have not got any such right.

The DEPUTY VICE-CHAIRMAN: Is it the wish of the committee that this motion be adopted? All those in favour will say "aye". All those against will say "nay". In my opinion the "ayes" have it.

Shall we now adjourn to the call of the chair, since we have completed this matter? Before the committee adjourns I should like to say that I do not expect that I shall be in the chair much longer. I do want to say "thanks" to the members of the committee for their cooperation and assistance in this job.

This has been my first attempt to preside over a committee. I have enjoyed it, and have enjoyed listening to the legal arguments, to the geographical sketch that we got from our friend, Mr. Herridge, and to all the questions which we discussed here. It seems to me that we got along quite harmoniously and I do thank you once again for all your assistance.

Mr. GREEN: Let me say, Mr. Chairman, that in my opinion you have done very well.

Dupl.

SESSION 1951

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman—MR. L. O. BREITHAUPT

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

BILL 376

An Act respecting the construction of a line of railway by Canadian National Railway Company from Sherridon to Lynn Lake, in the Province of Manitoba.

TUESDAY, JUNE 19, 1951

WITNESSES:

The Hon. L. Chevrier, Minister of Transport;

Mr. S. W. Fairweather, Vice-President of Research and Development, C.N.R., Montreal, P.Q.;

Mr. A. B. Rosevear, Assistant General Solicitor, C.N.R., Montreal, P.Q.

OTTAWA
EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1951

ORDERS OF REFERENCE

FRIDAY, June 8, 1951.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 356 (Letter C-11 of the Senate), intituled: "An Act respecting Canadian Pacific Railway Company".

MONDAY, June 18, 1951.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 376, An Act respecting the construction of a line of railway by Canadian National Railway Company from Sherridon to Lynn Lake, in the Province of Manitoba.

TUESDAY, June 19, 1951.

Ordered,—That the name of Mr. Conacher be substituted for that of Mr. Goode on the said Committee.

Ordered,—That the name of Mr. Thomson be substituted for that of Mr. MacDougall on the said Committee.

Ordered,—That the name of Mr. Cannon be substituted for that of Mr. Laing on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

TUESDAY, June 19, 1951.

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

NINTH REPORT

Your Committee has considered Bill No. 376, An Act respecting the Construction of a line of railway by Canadian National Railway Company from Sherridon to Lynn Lake, in the Province of Manitoba, and has agreed to report it with an amendment.

All of which is respectfully submitted.

L. O. BREITHAUPT,
Chairman.

88157—1½

TUESDAY, June 19, 1951.

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

TENTH REPORT

Your Committee has considered Bill No. 356 (Letter C-11 of the Senate), intituled: "An Act respecting Canadian Pacific Railway Company", and has agreed to report it without amendment.

All of which is respectfully submitted.

L. O. BREITHAUPT,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 19, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at 11.30 o'clock a.m. Mr. Breithaupt, Chairman, presided.

Members present: Applewhaite, Beyerstein, Bourget, Brown *(St. John's West)*, Byrne, Carter, Chevrier, Darroch, Follwell, Gourd *(Chapleau)*, Green, Herridge, James, Jones, Macdonald *(Edmonton East)*, McCulloch, McGregor, Mott, Murphy, Murray *(Cariboo)*, Richard *(St. Maurice-Lafleche)*, Robinson, Ross *(Hamilton East)*, Smith *(Queens-Shelburne)*, Stuart *(Charlotte)*, Thomas, Weaver, Whiteside, Whitman.

The Committee considered Bill No. 356 (Letter C-11 of the Senate), intituled: "An Act respecting Canadian Pacific Railway Company".

In attendance: Mr. J. Decore, M.P., Sponsor of the Bill; Mr. Cuthbert Scott, Parliamentary Agent for Petitioners, Ottawa, Ontario; Mr. K. D. M. Spence, Law Department, C.P.R., Montreal, P.Q.; Mr. S. A. Fraser, Vice-President, Alberta Coal Company, Calgary, Alberta.

Mr. Scott was called, made a short statement and introduced Mr. Spence and Mr. Fraser.

Mr. Spence was called, made a statement and was questioned regarding the project contemplated in the Bill.

Mr. Fraser was called and questioned.

The Preamble, Clause I and the Title were severally considered and adopted.

Ordered,—To report the Bill without amendment.

(Verbatim evidence was not taken with respect to this Bill).

The Committee then considered Bill No. 376, an Act respecting the construction of a line of railway by Canadian National Railway Company from Sherridon to Lynn Lake, in the Province of Manitoba.

In attendance: The Hon. L. Chevrier, Minister of Transport; Mr. S. W. Fairweather, Vice-President of Research and Development, C.N.R., Montreal, P.Q.; Mr. A. B. Rosevear, Assistant General Solicitor, C.N.R., Montreal, P.Q.

Mr. Chevrier made a general statement in explanation of the project contemplated in the Bill and was questioned thereon.

Mr. Fairweather was called, made a detailed statement regarding the project, as outlined by the Minister, with particular reference to its practicability from a construction, engineering and economic point of view; potential natural resources in the area and the proposed method of financing the undertaking.

Clauses 1 to 8 inclusive were severally considered and adopted.

By unanimous consent the Committee reverted to Clause 7 and after discussion the said Clause was adopted.

On Clause 9:

Mr. Rosevear was called and questioned. The Witness, on request, made a short statement in explanation of Sub-clause (1) of Clause 7.

On motion of Mr. Green:

Resolved,—That the words "and station grounds" appearing in the second line of Clause 9 be deleted.

Clause 9 as amended was adopted.

The Schedule and Title were severally considered and adopted.

Ordered,—To report the Bill as amended.

At 1.05 o'clock p.m. the Committee adjourned, to meet again at the call of the Chair.

R. J. GRATRIX,
Clerk of the Committee,

EVIDENCE

June 19, 1951.

The CHAIRMAN: We have for consideration Bill No. 376, an Act respecting the construction of a line of railway by the Canadian National Railway Company from Sherridon to Lynn Lake, in the province of Manitoba.

We are glad to have the minister with us and, if it is your wish, he will give a brief outline of the project.

Agreed.

Hon. Mr. CHEVRIER: Mr. Chairman, and gentlemen. Those of you who were in the House for the discussion concerning the resolution and again yesterday on second reading of the bill will have a good general idea of the circumstances surrounding this line. I think the matter can be divided into four parts. First is the agreement reached by the Canadian National Railway with the Sherritt Gordon Company, which was outlined in some detail on both those discussions which I need not repeat here. The gist of it is the construction of the line a distance of 155 lines from Sherridon in the province of Manitoba to Lynn Lake in the same province. The cost of the line is $14,725,000, $10 million of which is to be advanced by the Canadian National Railway and the balance, the remainder, by the minister of the Department of Defence Production. That is the second part of this project, namely the agreement between the Canadian National Railway and the Department of Defence Production for the payment of any excess over $10 million—which was estimated at $4,725,000. The third matter is the reason for the construction of the line. Important nickel and copper deposits have been discovered and explored by the Sherritt Gordon Company on their property in northern Manitoba. The final matter concerns speed of construction. Time is of the essence because, as everyone knows, the construction period in that part of Canada is short and the Canadian National Railway is anxious to get ahead with it—subject of course to the approval of parliament through this committee.

The officers of the Canadian National Railway are here this morning. We have Mr. Fairweather who is vice-president of the Department of Research and Development of the Canadian National Railway. He has had a great deal of experience with reference to these lines. It was he who gave evidence in connection with the Barraute-Kiask Falls line approved by parliament three or four years ago. With him, and associated with him, is Mr. Rosevear, general solicitor for the Canadian National Railway.

The CHAIRMAN: Is it the wish of any member of the committee to ask any general questions of the minister before we proceed with the other witnesses?

Mr. GREEN: Well, Mr. Chairman, might I ask the minister why it is that in the bill there is no mention at all of Sherritt Gordon Mines Limited? This is a co-operative plan. Apparently the mining company is to pay back in the course of twenty years a total of $7 million at the rate of $350,000 a year and, as the scheme is based on an agreement between the railway and the mining company, it would seem to me there should be a section in the bill which makes the whole plan subject to an agreement between the Canadian National Railway Company and Sherritt Gordon Mines Limited. The agreement can perhaps be made a schedule to the bill. There is no reference at all in the bill to the mining company and no reference to the Department of Defence Production. I think for the purposes of clarity, if for no other reason, the whole picture should be given in the bill.

Hon. Mr. CHEVRIER: Well, Mr. Chairman, there is more than one reason why the agreement is not referred to specifically in the bill. In the first place, the draft of this bill was given careful consideration by our legal officers and by the legal officers of the Department of Justice. They decided against inclusion of such a clause. Next, of course, although there will not be the slightest objection to producing it, there is the agreement. I have a copy of it in my file and I am sure Mr. Fairweather will have it and be quite willing to give it to the committee. The Canadian National Railway feels when they enter into an agreement of this nature with a private company that the agreement should not be made public, because it contains other matters which might prejudice the Canadian National Railway and give information to their competitors—information which they are not entitled to receive.

In the case of the construction of the line out of the National Transcontinental from Barraute to Kiask Falls there was a similar agreement with the Canada Paper Company, I think it was. The same reason was then given for not including it in the bill, and that bill was practically the same as this. There have been other cases of bills coming before parliament where the agreement has not been annexed to the bill as an exhibit, and I hope the committee will accept that explanation. There will probably be other cases too where, because of private agreements made by the Canadian National Railways and other corporations, it would be in their interests not to make public the contents of the agreements.

As I say, there is nothing that the Canadian National Railway is not willing to disclose, and the agreement will be discussed in a few minutes.

Mr. GREEN: Even if the agreement is not made a schedule, is there any objection to setting out in the bill that it is subject to an agreement between the railway company and the mining company?

Hon. Mr. CHEVRIER: I would like to hear what the solicitor for the railway company would have to say to that. I am sure that was given consideration. I know that the Department of Justice gave careful consideration to this bill, held it up quite some time, and had a number of discussions on it before they decided on this form. The form of this bill is almost identical with that for the Barraute-Kiask line.

Mr. APPLEWHAITE: Before the solicitor for the company is called, this question comes to my mind. It is perhaps not exactly germane to the bill, but I wonder if the minister can tell us whether the government or the Canadian National Railways or anybody else has any plans or any ideas as to what may be the future of the existing community of Sherridon? The situation which is going to result is not going to be brought about by the bill but it is brought about by the facts which lead up to this bill. Some of us had the pleasure a short while ago of visiting that community and I just wonder if there is any information that the government or the Canadian National Railways have as to the future of that community—what the future is liable to be when this line is built?

Hon. Mr. CHEVRIER: Well, my information is that a large part of the community, the equipment, the plant, and so forth, will be moved from Sherridon to Lynn Lake—and with it a number of the workers. What will remain there I am unable to say, but Mr. Fairweather will perhaps give us the latest information.

Mr. WEAVER: I would like to ask the minister if the sum voted by parliament could be considered at all analogous to the land grant for early railroad development? Nearly all of the railroads in the country were assisted by public funds, and could this sum be considered analogous?

Hon. Mr. CHEVRIER: I would think not. This is an entirely different proposal and it is based on the economies of the agreement which was made with Sherritt Gordon which, in the minds of the C.N.R., is a profitable one in so far as a portion of the expenditure here is concerned.

Mr. BROWNE: May I ask a question? I assume that the balance of the $4,725,000 would be paid under the authority given to the Department of Defence Production?

Hon. Mr. CHEVRIER: That is right.

Mr. BROWNE: That is why it is not covered in the bill?

Hon. Mr. CHEVRIER: That is right.

Mr. MURRAY: In the old days there would be twenty miles of land on each side of the railway given as a bonus. You do not anticipate anything of that sort here?

Hon. Mr. CHEVRIER: No, sir.

The CHAIRMAN: If there are no further questions of the minister we will call on Mr. Fairweather, vice-president of research and development, Canadian National Railways. Perhaps he could come forward.

Mr. FAIRWEATHER: Well, Mr. Chairman and members of the committee, this line which is referred to in the bill is a line which has been under consideration by the Canadian National for, I would say, at least four years. When Sherritt Gordon made this nickel discovery to the north of Sherridon they came to the Canadian National and asked the terms upon which a railway might be built. We outlined to them what we thought were reasonable requirements regarding how much ore they would have to have in sight. They went ahead with the exploration of their property and when they had developed 14 million tons of ore, the Sherritt Gordon Company came to us and asked whether we would now consider the construction of a line. The agreement worked out against the background of the emergency in nickel is the result, and we have satisfied ourselves that the ore is in fact there.

I flew up to the area myself. All of the records which the mining company possessed were made available for our inspection and we had them reviewed by a competent mining engineer. So, we could proceed with some assurance that the mine was in effect a large mine, big enough to justify the construction of a railway. We also made a very thorough canvass of the area which would be served, to determine whether there were any other natural resources. While we found that there was quite a considerable amount of mineral occurrences—there must be fifteen or twenty prospects—none of them at this stage could be said to be a mine or even any more than prospects. The territory in and around the Lynn Lake area is, however, undoubtedly good prospecting country. We also examined the forest resources which are very scanty. There are no agricultural possibilities at all. There is the possibility of some commercial fishing developing in the lakes lying to the north of Lynn Lake.

We evaluated all those factors and stated the terms to Sherritt Gordon under which a line would be built. Those terms were incorporated in an agreement which has been executed by the Sherritt Gordon Company and the Canadian National Railway.

Mr. FOLLWELL: I wonder if Mr. Fairweather could tell us if there are any more than 14 million tons of ore blocked out now?

Mr. FAIRWEATHER: There are not more than 14 million tons of ore blocked out, but I may say this—and I speak, I believe, with a degree of competence in this matter, and certainly with the advice of mining engineers. The ore bodies are extensive and some of them are open at the ends—that is, they have not been de-limited. I think it would be a most extraordinary situation if, when the mine is opened up, further exploration did not develop very considerably more ore than the 14 million tons. Actually, the economics have been worked out on the basis of the 14 million tons, but I would say that the prospects of mining more than 14 million tons are very, very good.

The CHAIRMAN: You have set up some charts and maps. Is there anything else you would like to show the committee? I am sure they are very interested.

Mr. FAIRWEATHER: If the committee is interested, here is Lynn Lake. You will see it is up in northern Manitoba. There have been arrows placed on this map to show the direction in which the traffic would flow from Lynn Lake. This arrow shows that the concentrates which would be produced at Lynn Lake would be shipped out to Edmonton for processing. There they would be processed into nickel, some small amount of copper, and cobalt. There would be a by-product, ammonium sulphate which is a fertilizer for markets the world over. The ammonium sulphate would move out to Vancouver for shipment to world markets as one possibility, and of course it may also be distributed all over Canada for use in Canada. There would be some small shipments of by-products, of concentrates, down to the refinery at Butte in the United States. The nickel is mostly to be moved from Edmonton to Pittsburgh, and to Montreal for export. The copper concentrates which would be produced at Lynn Lake would move to Flin Flon where they would be made into copper; thence to Montreal. You can see from the map what wide distribution products of the development at Lynn Lake would have.

Now, this map shows the location of the line. It starts from Sherridon and runs almost due north 155 miles to Lynn Lake. The territory from Sherridon as far as the Churchill river is very rough and rugged indeed. It is practically nothing but barren, solid rock, but when you get across to Churchill river, which is crossed at this point here—Pugatowagan Falls—the country gradually gets easier for railroading, and the last fifty or sixty miles of the line is not too difficult for construction. Generally speaking though, the line is a pretty tough proposition to build.

We have given an undertaking to have the line available for the shipment of concentrates out of Lynn Lake by the fall of 1953, the late fall of 1953. We could only meet that deadline by doing a lot of preliminary work. That preliminary work was undertaken by the Canadian National in advance of any authority, but the Canadian National protected its position by making an agreement with the Sherritt Gordon Company that Sherritt Gordon pay the expense of all that preparatory work in the event that the line was not built. With that initial preparatory work going on we think there is a reasonable prospect of shipping from Lynn Lake by the late fall of 1953.

As a matter of interest, this chart shows places where mineral discoveries have been made as prospects—not mind you, as mines, but as prospects. You will see there are some thirty of them scattered around the northern part of the line within a distance of twenty or thirty miles of Lynn Lake.

The commercial fishing to which I made reference would be found in Reindeer Lake or Grand Lake and some of the other smaller lakes up in that country.

Over here we have for your information a sketch showing the nature of the development work that Sherritt Gordon has undertaken. You will see here that they have a number of ore bodies—one, two, three, four ore bodies. These ore bodies are all geologically related to a fault which passes through this country and also to a very basic intrusion which is usually associated with nickel. One of these bodies is a very rich body and that particular one has been de-limited. The others are not so rich but they are more extensive and they have not been de-limited. It is because these other ore bodies have not been de-limited that I have made my prediction that more than 14 million tons of ore will be found. The property really has much more potential tonnage in it than is indicated by the 14 million tons.

Next, we have here a chart showing what is going to be produced if the typical performance is lived up to. You see there will be 81,000 tons of nickel concentrate produced at the mine; there will be 12,000 or 13,000 tons of copper

concentrate; we expect to have about 1,800 tons of fish; and about 1,000 tons of miscellaneous shipment. I have already told you that the copper concentrates will move to Flin Flon, the nickel concentrates will move to Edmonton; and moving out of Edmonton we find there will be 8,400 tons of refined nickel, 100 tons of cobalt, and about 1,500 tons of a copper sulphite concentrate. That copper sulphite concentrate will move to Butte, Montana, for further treatment. The other materials will move to Pittsburgh and the ammonium sulphate will move to Vancouver.

Mr. MURPHY: Is that over the life of the agreement?

Mr. FAIRWEATHER: Those would be annual shipments, and it would take about sixteen years, actually, to mine out the ore body at the designed rate. We have estimated our economics on the basis of life of the mine of twenty years.

Down here is detail of other traffic which we expect and it adds up to a total revenue of $2,900,000—and the total tonnage would be 194,000. So, you will see that it is a fair-sized enterprise.

The remainder of our exhibits simply consist of some photographs which do give in a very clear fashion an idea of what Sherritt Gordon have already poured into this property. They have put close to $6 million into development work and experimental work, so this is on quite a firm foundation.

Here you will see a general air view of Lynn Lake. There is a lake in the foreground and the country is generally sparsely wooded, with muskeg and swamp. It is an unprepossessing country. When you walk over it and think of the wealth that lies in the mineral beneath the ground, and when you are as I was 150 miles north of any railway, you cannot help but have a degree of admiration for the people who had the courage to go into that country and develop the property.

Here is the picture showing the pilot plant which has been constructed right here in Ottawa to treat the concentrates. The process is a new one and it bears every evidence of being successful and means a further step in mining and metallurgical technique.

This is a picture showing the actual development as it looks today. There is the mine here, with the shaft, and the staff houses—for the employees—and the shops of one kind and another. I believe that right at the mine they have spent over $5 million. Here is a winter scene. That is Lynn Lake again, and here is the staff house and so forth.

Here we have a picture of a power development which they have in prospect for developing the power to serve the mines. That power plant, I understand, will cost around $3 million.

The whole enterprise, I may say, from the point of view of investment, taking the railway and the mine together, adds up somewhere in the neighbourhood of nearly $50 million. There is not the slightest doubt that the wealth is there to justify the expenditure.

Mr. MURRAY: Mr. Fairweather, would you mind indicating on the map the nearest point of the Northern Alberta Railway to that development?

Mr. FAIRWEATHER: I am afraid I will have to show it on the small map.

Mr. MURRAY: Well, there is a large map here on the wall.

Mr. FAIRWEATHER: Yes, I can use that one. You will see Waterways on the Northern Alberta Railway and Lynn Lake is over here.

Mr. BROWNE: On the other side of Reindeer Lake?

Mr. FAIRWEATHER: Right in there.

Mr. STUART: How far would it be from Lynn Lake to Hudson Bay?

Mr. FAIRWEATHER: About 140 miles, I would say, from Lynn Lake to the Hudson Bay Railway. We looked into the possibility of building a branch line

off the Hudson Bay Railway instead of from the end of the present line at Sherridon, but the economics did not work out. Straight across as the crow flies, I suppose it would be perhaps 150 miles or so to Hudson Bay. From Lynn Lake over to the Northern Alberta Railway I would say would be 600 or 700 miles or more.

Mr. MURRAY: That is generally a mineralized area in there, is it not, Mr. Fairweather?

Mr. FAIRWEATHER: Well, there is not too much known about it. There has been intensive prospecting in the territory around Lake Athabaska and in Slave Lake, and there has been very intensive prospecting around Lynn Lake which is here. In between, as far as we can find, there has only been sporadic prospecting.

Mr. MURRAY: The tar sands are in that area, are they not?

Mr. FAIRWEATHER: The tar sands, sir, are down here. They lie on the Athabaska river below Waterways. They start at Waterways and go down the Athabaska river for perhaps fifty miles, but they are a good long way from the area we are talking about.

Mr. MURRAY: Where does the Pacific Great Eastern Railway come in there?

Mr. FAIRWEATHER: The Pacific Great Eastern is over in British Columbia here, and it runs up—

Mr. MURRAY: It runs to Prince George.

Mr. FAIRWEATHER: Yes. It is let us say 'thousands' of miles away.

Mr. MURRAY: Well, hardly.

Mr. FAIRWEATHER: Well, I would say it is a good thousand miles.

Mr. MURRAY: That phantom map you have over there shows a railway running right down to Vancouver?

Mr. FAIRWEATHER: I beg your pardon?

Mr. MURRAY: You show a railway running in a straight line from your project?

Mr. FAIRWEATHER: Those are not railways; those lines are as the crow flies—

Mr. MURRAY: Just hopes?

Mr. FAIRWEATHER: No, it was just intended to show where the traffic would move.

Mr. MURRAY: I would ask you this. Do you visualize in time that these railways in the north may be connected up to run to Vancouver?

Mr. FAIRWEATHER: Well, sir, I am a development officer of the Canadian National Railway and I have great faith in the wealth of our Precambrian Shield. I would hesitate to say at what time the various developments would take place, but I certainly believe that we have only begun to scratch the wealth in our great Laurentian Shield which cuts across the northern end of Alberta, the northern part of Saskatchewan, the northern part of Manitoba, swings down and takes in all of northern Ontario, cuts across near Montreal, runs up on the north side of the St. Lawrence, clear up to Ungava.

Mr. BROWNE: What about Newfoundland, have they not got it there?

Mr. FAIRWEATHER: In Newfoundland you have not got the Precambrian Shield.

Mr. BROWNE: We have some of it.

Mr. FAIRWEATHER: You have some, but it is not the Laurentian Shield. There are Precambrian deposits in Newfoundland.

Mr. BROWNE: The Buchan mines are similar to those?

Mr. FAIRWEATHER: Yes, it is one of the richest mines in the world.

Mr. GREEN: Where is the uranium deposit in northern Saskatchewan?

Mr. FAIRWEATHER: That is a little outside of my field although I know there is one of them up at Bear Lake, up beyond my pointer. Then, there is another one that is being explored somewhere in this vicinity in Goldfields up around Slave Lake.

The CHAIRMAN: Nowhere near this projected railway.

Mr. GREEN: Is there not one in northern Saskatchewan that has been discovered recently?

Mr. FAIRWEATHER: There have been all kinds of prospects but I took it that what was being referred to was substantial development. Actually, uranium is found literally in hundreds of places in this vast Laurentian Shield I have spoken of. One rather interesting development was right down here in Ontario, around the Canadian National lines in eastern Ontario. There was a prospect but it turned out to be a flash in the plan—but for a moment we thought we had something.

The CHAIRMAN: I would say this is all very interesting but I think we should discuss the various aspects of this railroad and not get into the whole question too deeply. We realize, however, that we have a very capable witness.

Mr. GREEN: You have a red dotted line running from Lynn Lake down to the foot of Lake Michigan. You did not explain what that is for.

Mr. FAIRWEATHER: That is simply indicating the 1,000 tons of fish that would be moving down to markets in Chicago. It is a part of industry which would benefit from this line.

Mr. GREEN: What power is to be used in the refinery at Edmonton?

Mr. FAIRWEATHER: What power?

Mr. GREEN: Where do they get their power? Is it natural gas?

Mr. FAIRWEATHER: Well, their process will require large amounts of ammonia, and that ammonia will be made in an ammonia plant using natural gas as its basis. As to their power requirements they can buy them from present suppliers of power or they can put up their own power plant.

Mr. GREEN: But natural gas is the basis for the refining?

Mr. FAIRWEATHER: Natural gas is the basis for the refinery and the reason that it would go to Edmonton.

Mr. MOTT: Mr. Fairweather, Sherritt Gordon is the company that would build the smelters?

Mr. FAIRWEATHER: Sherritt Gordon Mines, yes.

Mr. WEAVER: What value will the old townsite of Sherridon be as a divisional point? Will it have any value along that line?

Mr. FAIRWEATHER: I am afraid it will have no value. I understand the mining company proposes to practically pick the townsite up holus bolus and move it to Lynn Lake—houses and everything else. In so far as this operation is concerned Sherridon will just be a flag stop.

Mr. WEAVER: Will Cranberry Bridge be a stop?

Mr. FAIRWEATHER: Well, of sorts. Actually, the operation will not be a very big one because I think we would only have a train on this line about three days a week.

Mr. WEAVER: There are a lot of facilities at Sherridon that cannot be moved—such as waterworks. Would there be any value at all to them—derived from the railway?

Mr. FAIRWEATHER: I would not think so. Mind you, there is a townsite there and if anybody can turn up something of economic value, the townsite would have some value for that purpose. As far as the railway is concerned we have not taken Sherridon into consideration as being part of the picture at all.

Mr. BROWNE: I notice in your charge for tons the figure is about $10 a ton on the ammonium sulphate, on the refined nickel it is about $26 a ton, and on cobalt you have got $197 a ton. Why are you charging so much for the cobalt?

Mr. FAIRWEATHER: Cobalt is very much more valuable.

Mr. BROWNE: That does not make any difference.

Mr. FAIRWEATHER: Well, one of the elements in making a freight rate is the value of the commodity.

Mr. BROWNE: It costs $197 a ton to bring cobalt in?

Mr. FAIRWEATHER: No, that is the revenue to the railway.

Mr. BROWNE: For 100 tons of cobalt?

Mr. FAIRWEATHER: Yes, we propose to get that amount of revenue from the movement of 100 tons of cobalt but it does not represent our cost. We simply say that cobalt, being a very valuable commodity, having a value of $2, or $3 a pound; can afford to pay a big freight rate and therefore we charge a big freight rate. On the other hand, on ammonium sulphate which is a cheaper commodity we charge a low rate.

Mr. BROWNE: On copper sulphate you do not charge anything?

Mr. FAIRWEATHER: Well, the rate on that is not yet set.

Mr. BROWNE: The same as on the sulphate?

Mr. FAIRWEATHER: I do not know what it is.

Mr. BROWNE: Your total revenue here would be $2,904,000?

Mr. FAIRWEATHER: Yes.

Mr. BROWNE: That is gross revenue?

Mr. FAIRWEATHER: Gross revenue.

Mr. BROWNE: Have you estimated what your costs are?

Mr. FAIRWEATHER: Yes.

Mr. BROWNE: What are they?

Mr. FAIRWEATHER: Well, the costs of our whole project are such that after we have paid all of our expenses—and it gets complicated because one has to distinguish between average costs and out of pocket costs, but let me see—after we have paid all of our costs we anticipate we will have a small amount left over from operations.

Mr. BROWNE: How much?

Mr. FAIRWEATHER: About $200,000—that is after out of pocket expenses.

Mr. BROWNE: After you have paid your operating expenses you will have $200,000 left?

Mr. FAIRWEATHER: Out of pocket expenses.

Mr. BROWNE: After you have paid the out of pocket expenses you say you will have $200,000 left?

Mr. FAIRWEATHER: $200,000 to $250,000.

Mr. BROWNE: Those operating expenses include interest on capital and depreciation?

Hon. Mr. CHEVRIER: Yes.

Mr. FAIRWEATHER: That is right.

Mr. BROWNE: You say depreciation?

Mr. FAIRWEATHER: Yes.

Mr. BROWNE: How much depreciation are you allowing?

Mr. FAIRWEATHER: We depreciate this particular railway over the life of the mine—twenty years.

Mr. BROWNE: The life of the mine is supposed to be twenty years?

Mr. FAIRWEATHER: That is what we estimate.

Mr. FOLLWELL: I was interested in that $200,000. Is that a yearly profit to the railway?

Mr. FAIRWEATHER: It is not quite fair to call it that. It is the contribution that is made to general overhead on the rest of the system and, obviously, it was because we have such a small margin that we had to ask Sherritt Gordon to put up something in the form of a guarantee of traffic, and thereby arises the agreement to which I made reference earlier.

If the best picture we could get out of this was $200,000—on a project of this size—it practically meant that we would be out of pocket really, and therefore we had to do something about it. Now, we entered into an agreement with Sherritt Gordon whereby they contributed an amount of money per year and then, if their mine is bigger than present indications show, or if other mines develop in the territory so that the need for this payment ceases, then, under certain conditions, Sherritt Gordon will be refunded part of the money they have advanced. It is a straight business deal that was made to balance our books and to give us a reasonable chance of not burdening the country with a dead loser.

Mr. MURPHY: I was wondering if this witness could answer financial questions?

The CHAIRMAN: About the agreement?

Mr. MURPHY: No, about finances.

The CHAIRMAN: I think so. Ask him.

Mr. MURPHY: I was wondering, Mr. Fairweather, in the financing of this proposed railway—and I know the minister made a statement in the House the other day but I would just like to get it clarified—in the first place Sherritt Gordon invested no capital in the railway?

Mr. FAIRWEATHER: That is right.

Mr. MURPHY: And they did undertake to ship a certain amount per year from which you get a certain rate per ton?

Mr. FAIRWEATHER: They undertook to build a mine, a concentrator, and a smelter; and they undertook to give us all their traffic.

Mr. MURPHY: Yes, and you estimate that—you gave the figures a little while ago?

Mr. FAIRWEATHER: Yes.

Mr. MURPHY: From that you have arrived at the revenue from that particular mine?

Mr. FAIRWEATHER: Yes.

Mr. MURPHY: And from other sources of revenue?

Mr. FAIRWEATHER: Yes.

Mr. MURPHY: There is one point which I just did not get clear in my mind. Perhaps the rest of the members of the committee did, but I refer to this refund. Would you explain that again?

Mr. FAIRWEATHER: It is really quite simple. They undertake to pay us a sum of money—$350,000 a year for a period of twenty years—and, if during the life of the mine or thereafter, either from that mine or from other mines, further traffic arises then we will pay back to them $2.65 a ton on every ton of traffic moving outbound over the line in excess of 1,880,000 tons, until such time as $5 million has been refunded to Sherritt Gordon. In effect it simply means that Sherritt Gordon is bound to pay over twenty years $7 million, but they have a chance of recovering back $5 million.

Mr. MURPHY: By further development?

Mr. FAIRWEATHER: Yes, by further development.

Mr. MOTT: The total cost of the line is $14 million?

Mr. FAIRWEATHER: $14,725,000.

Mr. MURPHY: Would you have any idea how much Sherritt Gordon is spending in there?

Mr. FAIRWEATHER: I thought I made that point already. They have already spent between $5 million and $6 million and they will need another $10 million at the mine. I think it is about $19 million in the refinery.

Mr. MURPHY: I am just not clear on this $2.65 a ton. You went pretty fast there for a moment. That is a refund by the Canadian National Railway?

Mr. FAIRWEATHER: Yes.

Mr. MURPHY: Over and above a certain tonnage?

Mr. FAIRWEATHER: Yes. If there is 1,880,000 total tons of concentrate, when that point is reached—or other traffic—immediately that 1,880,000 total tons of freight has been shipped out of the property we start to pay $2.65 a ton on tonnage in excess of that figure until such time as $5 million has been refunded.

Mr. MURPHY: After that it is discontinued?

Mr. FAIRWEATHER: After that, very definitely.

Mr. MCGREGOR: You pay that, or do you lower the rate?

Mr. FAIRWEATHER: No, sir. We pay it. This arrangement has not the slightest connection with rate. Rates on the commodities are the published tariff available to everybody. They are not private rates.

Mr. FOLLWELL: When you mentioned $2.65 which you are going to pay back on tonnage shipped out, that is shipped out to where? Does it have to be shipped to Sherridon, or to Edmonton or to where?

Mr. FAIRWEATHER: Just shipped off the line.

Mr. FOLLWELL: They might just ship it down to a new development twenty miles away?

Mr. FAIRWEATHER: That is possible.

The CHAIRMAN: Are you ready for the consideration of the bill?

Agreed.

Shall clause 1 carry?

Carried.

Clause 2?

> 2. The Company shall adopt the principle of competitive bids or tenders in respect of the construction of the railway line in so far as the Company decides not to perform such work or any part thereof with its own forces, but the Company is not bound to accept the lowest or any bid or tender made or obtained nor precluded from negotiating for better prices or terms.

Mr. GREEN: On clause 2, why is there this provision that the lowest tender need not be accepted?

Mr. MCCULLOCH: It is in every contract.

Mr. GREEN: Why do you put that in?

Hon. Mr. CHEVRIER: That clause may be divided into two parts.

Mr. GREEN: Why is it necessary to pay any attention to "lowest tender" or to the size of the tender if there is this wide open provision?

Hon. Mr. CHEVRIER: There are two reasons for the clause. First, the railway wants to protect the position of perhaps having to do some of the work with its own forces. I do not think that will be done. The other part of the clause is in there because this is isolated territory and it is very difficult to get people to tender, and it may be that the lowest tenderer is not able to complete

the work, so the Canadian National Railways want to be in a position, even although the lowest tenderer says he can do it for X dollars, to give it to someone who wants X plus one dollars. This clause is almost identical with the clause that was put in the Act for the Barraute-Kiask line. It is also brought to my attention that the time element is another factor which enters into the question, because some contractors may be willing to do it in four years, and that will not be acceptable.

The CHAIRMAN: Shall clause 2 carry?

Carried.

Shall clause 3 carry?

3. Estimates of the mileage of the railway line, the amount to be expended on the construction thereof and the average expenditure per mile are set out in the Schedule, and, except with the approval of the Governor in Council, the Company shall not in performing the work of construction and completion exceed such estimates by more than fifteen per centum.

Mr. GREEN: In clause 3 there is a provision for an amount in excess of the estimated figure up to 15 per cent. If it does cost that additional percentage will that affect the terms of the contract accordingly?

Hon. Mr. CHEVRIER: Well, it will not affect the terms of the contract with Sherritt Gordon, because the Canadian National Railways are bound to pay $10 million and any excess will be paid by the Department of Defence Production. That excess is estimated at $4,725,000. Now, I imagine the officers of the railway who prepared this estimate prepared it pretty carefully, and the 15 per cent is put in there as a protection. I think in the Barraute-Kiask line the corresponding figure was 20 per cent. It is usual, I understand, to put an amount like this in.

Mr. GREEN: Any amount in excess of the estimate would come out of the vote of the Department of Defence Production?

Hon. Mr. CHEVRIER: Yes.

The CHAIRMAN: Shall clause 3 carry?

Carried.

Clause 4.

4. Subject to the proviisons of this Act and the approval of the Governor in Council, the Company may, in respect of the cost of the construction and completion of the railway line, issue notes, obligations, bonds, debentures or other securities (in this Act called "securities"), not exceeding in the aggregate the sum of ten million dollars, bearing such rates of interest and subject to such other terms and conditions as the Governor in Council may approve.

Mr. MURPHY: On clause 4 I just want to know if the amount mentioned concerning defence production enters the picture in this particular clause?

Hon. Mr. CHEVRIER: No, it does not. This $10 million is for securities which the Canadian National Railways may issue, guaranteed by the government. It has nothing to do with the other $4,725,000.

The CHAIRMAN: Shall clause 4 carry?

Carried.

Clause 5.

5. (1) To enable the work of construction and completion of the railway line to proceed forthwith, the Minister of Finance, upon application made to him by the Company and approved by the Minister of Transport, may,

with the approval of the Governor in Council, make temporary loans to the Company out of the Consolidated Revenue Fund, not exceeding ten million dollars, repayable on such terms and at such rates of interest as the Governor in Council may determine and secured by securities that the Company is authorized to issue under section four.

(2) Definitive securities may be issued, not exceeding ten million dollars, and guaranteed under the provisions of this Act, to repay loans made under subsection one, or any part thereof.

Mr. GREEN: This clause 5 is a new provision in a bill of this type, is it not?

Hon. Mr. CHEVRIER: No, it is not; it is almost identical to the other railway bill I referred to. It is put there in order to allow the railway to proceed immediately. For instance, if tenders were opened on the first of July the Minister of Finance would be authorized to give temporary loans to the Canadian National Railways to proceed with part of the work so that the contractor could be paid in part.

The CHAIRMAN: Shall clause 5 carry?

Carried.

Clause 6?

Carried.

Clause 7?

Carried.

Clause 8?

Carried.

Mr. MURPHY: Mr. Chairman, I was going to remark there is no reference in this Bill to the Department of Defence Production.

Hon. Mr. CHEVRIER: No.

Mr. MURPHY: There need not be?

Hon. Mr. CHEVRIER: No, the Department of Justice says that it need not be. The difference between the $10 million and the $14,725,000 is being covered by supplementary estimates which the Minister of Defence Production will introduce at the end of the session.

Mr. GREEN: May I ask a question on clause 7?

The CHAIRMAN: Reverting to clause 7.

7. (1) The proceeds of any sale, pledge, or other disposition of any guaranteed securities shall in the first instance be paid into the Consolidated Revenue Fund or shall be deposited to the credit of the Minister of Finance in trust for the Company, in one or more banks designated by him.

(2) The Board of Directors of the Company may authorize application to be made to the Minister of Transport for the release of any part of the proceeds deposited pursuant to subsection one, to the Company for the purpose of meeting expenditures in respect of the construction of the railway line, and the Minister of Transport may approve the applications, and upon the request of the Minister of Transport the Minister of Finance may pay the amount or amounts of such applications or part thereof accordingly.

Mr. GREEN: The first subsection provides that the proceeds of any sale of the guaranteed securities shall be paid into the Consolidated Revenue Fund or shall be deposited to the credit of the Minister of Finance in trust for the

Company. Why is it necessary for the railway to pay that money into the Consolidated Revenue Fund? Why is it not used in the second way, that is deposited in trust?

Hon. Mr. CHEVRIER: I do not know why the alternative was given but I presume that the temporary loans will come out of the Consolidated Revenue Fund and to that extent the money should be replaced by depositing it in the Consolidated Revenue Fund.

Mr. GREEN: It would depend on the amount that had been loaned?

Hon. Mr. CHEVRIER: Yes.

The CHAIRMAN: Shall clause 7 carry?

Carried.

Shall clause 9 carry?

9. The Company is not required to fence the right of way and station grounds of the railway line and is not liable in damages by reason only of the absence of fencing.

SCHEDULE

Location	Mileage	Estimates	
		Cost of Construction	Average cost per mile
From Sherridon to Lynn Lake, in the Province of Manitoba	155	$ 14,725,000 00	$ 95,000 00

Mr. GREEN: Mr. Chairman,—

The CHAIRMAN: We are allowing some leeway here today but when items have been carried we do not like to revert back.

Mr. GREEN: Here is a bill on which there is no contention. We are all trying to find out the facts.

The CHAIRMAN: Would you please state the clause you want information on?

Mr. GREEN: Well, you did call the clauses very quickly. Clause 9, for example, provides that the company is not required to fence the right of way and station grounds of the railway line and is not to be liable in damages by reason of the absence of fencing. Is that not an unusual provision in an Act?

Hon. Mr. CHEVRIER: I was wondering myself why it was put there and I am glad you asked the question. Perhaps Mr. Rosevear could help us.

Mr. ROSEVEAR: Mr. Chairman, the Minister, and gentlemen. I think that you will all realize that up in that country we have cariboo mostly and other wild creatures, and the company did not want to be under the usual obligation set out in the Railway Act to fence the line. Nor, do we feel in view of the special nature of this line that we should be under any obligation to pay damages because we did not fence it. That does not mean we can be negligent, but we are liable absolutely as insurers if we do not have a fence. We felt that up there nobody would be injured as it is not an agricultural country.

Mr. GREEN: Mr. Chairman, I do not think the company need worry about any damage suits by reason of running over cariboo, but it is going pretty far to write into a bill a special exemption which is unusual and does not apply in the ordinary case. There is no doubt that nearer the settlements in any event, there probably will be farms established and people will have cattle and I

should think that the onus should be left with the railway to the extent that if they believe in a certain part there is no danger, no likelihood of liability, then, of course they could take the chance themselves and not fence; but you provide here that they will not be liable even though they do not fence in a district where there are settlements. I think that is going too far and is setting a bad precedent for these railway bills. We are just really in the beginning of building these northern railways. I hope there will be more of them. Is it to be a general principle that the railways do not need to fence in the north country? I think that they should accept that responsibility of deciding whether it is advisable to build a fence or not and should not be given a statutory exemption.

Hon. Mr. CHEVRIER: I do not think there is any question of general policy in connection with exempting the railway from any liability. I think the committee will agree that in that isolated country it is not unwarranted to have a clause of this nature in the bill. Should settlements grow up, however, I think it would be wise for the Canadian National Railways to give consideration to fencing at least that part which is contiguous to a settlement. I presume they have made the investigation of their income position on the basis that there would be no fence, and to fence a railway of that nature 155 miles in length will add again to the cost and reduce the income position. Mr. Green, you asked a question with reference to clause 7, the deposit of the proceeds from the sale of the securities and you might care to hear a word from Mr. Rosevear about the alternative that is left in subsection (1) of this clause.

Mr. ROSEVEAR: Mr. Chairman, there are temporary loans obtained from the Minister of Finance from time to time which are of course repaid out of the proceeds of security issues, but as a general practice I would say that the Finance department does direct us to deposit the proceeds of security issues with chartered banks. Nevertheless, it has been the policy as long as we can remember to have the alternative described in the bill to pay the money into the Consolidated Revenue Fund if the minister so directs, and I would hesitate to change that because there might be an occasion when the minister might desire us to pay money into the Consolidated Revenue Fund although, as I said, our practice has been to pay it into chartered banks designated by the minister.

Mr. GREEN: Mr. Chairman, that is a very reasonable explanation. On this clause 9, I would also point out that it also includes station grounds; it is exempting the railway company from any liability if it does not fence station grounds. I would say that the clause should be deleted. I would move that the clause be deleted.

Hon. Mr. CHEVRIER: There are no stations on the line. What is the position at Sherridon now, Mr. Rosevear?

Mr. ROSEVEAR: There is no possibility of agriculture up there. I do not know whether it is possible for someone to have the odd cow or not. But those cows become quite valuable, Mr. Chairman, when they are hit by a locomotive. I was going to say this, that I think the railway's position should be made clear, not only will we not have it fenced but I think you could assume that nobody in that country is going to have a fence; whoever has animals will have them wandering all over the place. I feel we are not doing any serious injury to anybody because I do not think there will be any animals to speak of that will come into contact with locomotives except as I said, cariboo and deer and so on. I think the railway should be exempted from fencing. I think it is fair to exempt us from fencing and to leave the clause as it stands because if we do not fence, we are insurers—

Mr. GREEN: Why do you want that written in, "and station grounds"? There are to be 2,500 people at Lynn Lake, are there not?

Mr. ROSEVEAR: Of course, there is a provision in the Railway Act that requires us to fence in a thickly peopled area and if we do not fence our trains are limited to 10 miles an hour.

Mr. GREEN: This clause will get you away from that liability.

Mr. ROSEVEAR: I was going to say, Mr. Chairman, that the railway is less concerned about the station grounds than about the right of way. It is usually described as right of way and station grounds. I suppose that is how it was described in the Act, and that is how it got in here.

The CHAIRMAN: Mr. Green has made a motion.

Mr. GREEN: I would change my motion to delete the words "and station grounds".

The CHAIRMAN: Your motion would delete "and station grounds" instead of the entire clause?

Mr. McGREGOR: Do I understand that if somebody did have a cow and that cow was killed by a locomotive they would have no action against the railway? Is that the situation?

Mr. ROSEVEAR: I do not think it is.

Mr. McGREGOR: Is that the answer? The minister nodded I am right.

Mr. ROSEVEAR: Under the Railway Act the railway is an insurer of cattle in this way, that the Act provides that fences, gates and cattle guards must be sufficient to prevent animals getting on the track. Now, if an animal gets on the track the assumption is that the fencing is not sufficient. If the railway happens to remove that then the question becomes one of negligence. The question will be: Did the engineer fail to give any warning?

Hon. Mr. CHEVRIER: In other words, the common law remains as it is.

Mr. WEAVER: I think I can add a little information here that will enlighten the committee. Once you cross the Saskatchewan river there is no fencing on the railroads. There might be an exception as far as around Cranberry Portage goes as that is not actually in the Precambrian Shield. The Hudson Bay railway is 516 miles long and I do not believe there is any fencing along it. On the railway from Cranberry Portage to Sherridon at the present time there is no fencing and I do not know of any trouble that has been caused. Once you get into the Precambrian Shield a cow is just about as rare as it is in Ottawa, so I think the railway is justified in asking this exemption.

The CHAIRMAN: How about the stations, Mr. Weaver?

Mr. WEAVER: I cannot recall the stations being fenced either, but I may be wrong in that.

Hon. Mr. CHEVRIER: Are the stations fenced on the Hudson Bay railway, Mr. Fairweather?

Mr. FAIRWEATHER: Not to my knowledge.

Mr. HERRIDGE: Mr. Chairman, I must say that on this occasion I do not agree with Mr. Green in that fencing on this line is necessary. I think that fencing here would be an unnecessary expense. I notice in my own community, even with all the fencing and the cattle guards, even my own herd have learned to walk across the cattle guard and along the tracks for miles and I have always been under the impression that any animal killed on the railroad tracks there was my responsibility. My friend, Mr. Stuart, has some bright ideas and wanted to know if anything had been done to lessen the cost of fencing, or if anything had been done to use electric fencing for a few short lengths in the settled districts.

Hon. Mr. CHEVRIER: Dealing with the amendment, in view of the attitude taken by Mr. Rosevear, I can see no objection for deleting the words suggested by

Mr. Green. I do not think it is going to make any difference one way or the other. As far as I am concerned, as the minister responsible, I have no objection to consent to the deletion of the words "and station grounds".

The CHAIRMAN: All in favour of Mr. Green's motion?

Agreed.

Shall clause 9 as amended carry?

Carried.

Shall the schedule carry?

Carried.

Shall the title carry?

Carried.

Shall I report the bill as amended?

Agreed.

Thank you, gentlemen.