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**Telecommunications Privatization,
Services, and Provincial Well-being:**
A Comparison of Company Performance at
SaskTel and MTS



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POLICY SERIES NO. 34 Telecommunications Privatization, Services, and Provincial Well-being: A Comparison of Company Performance at SaskTel and MTS



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Telecommunications Privatization, Services, and Provincial Well-being: A Comparison of Company Performance at SaskTel and MTS



Executive Summary

This Frontier Policy Series Paper compares service performance levels after 10 years at two prairie-based telecommunications companies, SaskTel, a Saskatchewan Crown corporation and Manitoba Telephone Services (MTS), a shareholder-owned company based in Winnipeg and former Crown corporation that was privatized in 1996.

It tests the effects of privatization on politically popular metrics like the range and price of services, the availability of the services to all citizens, and number of employees.

With one exception, there are no significant differences that could be attributed to privatization. The small differences that do exist originated before the MTS was converted into an investor-owned company.

The exception is MTS' acquisition of Allstream, an Ontario-based Telecom company which dramatically increased the size of the company. It is also viewed as an impact of privatization, because it seems unlikely the governments of either Manitoba or Saskatchewan would have supported such a large and risk laden investment by a Crown Corporation.

This change has meant that after initial post-privatization reductions, MTS now employs more people. For the years that remuneration data is available, average remuneration is the same for both companies.

The paper does not consider the fiscal impacts of owning a telecommunications company from the point of view of a provincial citizen or taxpayer, like tax exemptions or the ability to secure subsidized government borrowing rates. The paper does not consider the fiscal impacts of owning a telecommunications company from the point of view of a provincial citizen or taxpayer, like tax exemptions or the ability to secure subsidized government borrowing rates. Notwithstanding a weaker propensity to invest and expand, publicly retained SaskTel is indistinguishable from MTS.

Introduction

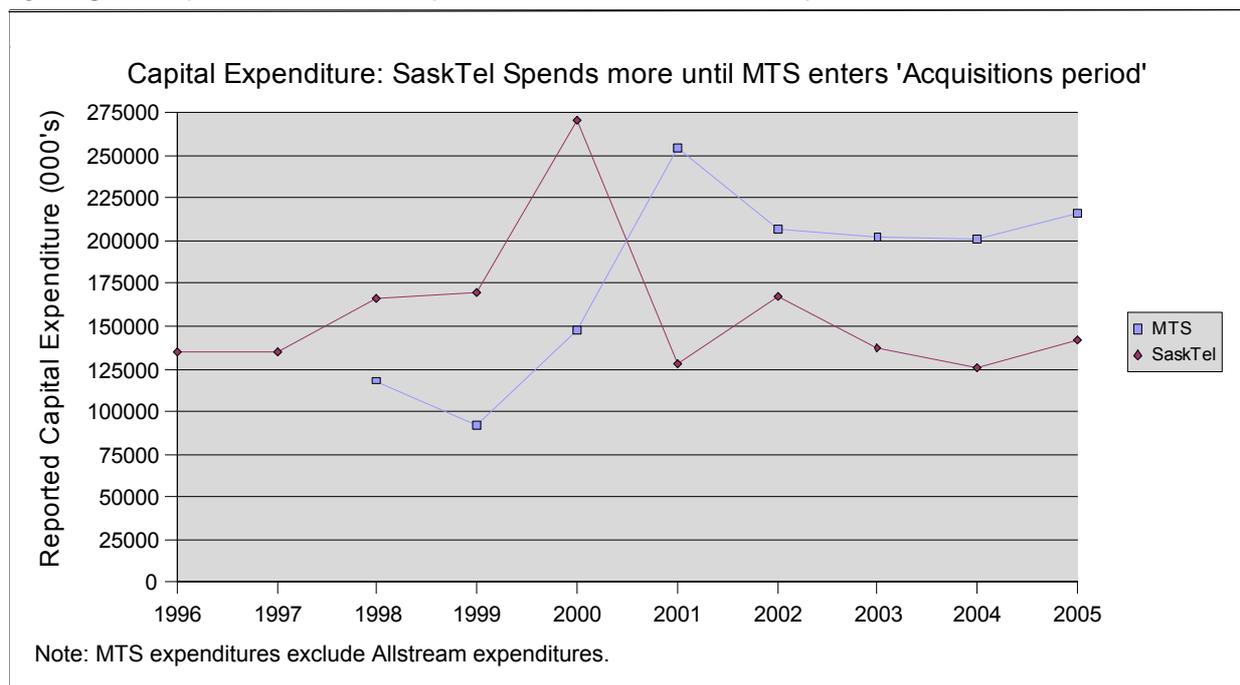
In 1996, the Province of Manitoba privatized the Manitoba Telephone System, now known as Manitoba Telecom Services (MTS), while the Province of Saskatchewan continues to own SaskTel. What difference has privatization versus state retention of telecommunications meant for the people of each province? This paper will attempt to answer that question by analyzing the performance of MTS and SaskTel on a range of comparative indicators.

The comparison is well able to isolate the effects of privatization for several reasons. Both companies operate in similar environments. Manitoba and Saskatchewan are provinces of similar geography, economy and population. Both provinces' telecommunications industries are regulated by a national entity, the Canadian Radio-Television and Telecommunications Commission (CRTC). Before the MTS privatization, the companies were of similar size and scope, and so the privatization of 1996 can be isolated as the significant existing difference between the two companies.

The study contrasts service charges and subscriber numbers for comparable services. It also evaluates the employment opportunities offered by each company and the capital that each has invested in developing infrastructure. By empirically benchmarking the volume of service, user charges, employment opportunities and capital investment of two once similar companies in similar provinces, one can evaluate many of the traditional arguments for retaining businesses in Crown ownership.

Capital Expenditure

In order to deliver cutting-edge telecommunications, immense capital investment is necessary. Particularly on the geographically vast Prairies, capital costs for establishing communications networks such as wireless coverage and fibre optics make telecommunications the domain of very large companies. Crown corporations have been held up as a model that allows relatively



small populations like those of Manitoba and Saskatchewan to construct such capital-intensive resources. Some of the first Crown corporations were state-initiated insurance services for pioneering farmers. The question of whether or not the state *should* be involved in business can be an ideological one. This study, however, attempts to evaluate the ability of telecommunications companies to invest in infrastructure with and without privatization and to conclude from the comparison whether or not one model is superior to the other.

The Numbers

The graph shows capital expenditure figures as reported in the annual reports of each company. The MTS figures are those reported for MTS Communications, the Manitoba

operation, apart from the operations of subsidiaries Bell and/or Allstream, which operate for MTS in other provinces. No data are available for MTS in the two years immediately after privatization; however, for the years where data are available, two trends are evident. First, for the three years 1998-2000, the figures are loosely correlated, but SaskTel spends half as much again as MTS does. For the remainder of the period, MTS out-invests SaskTel by a similar average margin.

Results of investment

The results of the investment in terms of customer service levels and pricing are found throughout the remainder of this report. It is worth noting, however, that while SaskTel has grown some capacity in telecommunications service outsourcing, MTS's growth has led to a much greater expansion of networks outside its home province of Manitoba. If the claims in MTS's annual reports are accurate, the synergies resulting from this larger network may put MTS in a significantly better position than SaskTel in years to come. The other result of this investment for the people of Saskatchewan and Manitoba is that Manitobans carry none of MTS's investment risks involuntarily, while the people of Saskatchewan have a significant potential taxpayer liability in SaskTel.

Conclusion

Over the period of MTS's privatization and SaskTel's state retention, it is not clear that either company or ownership model had a decisive advantage in accessing capital to grow its infrastructure based purely on capital expenditure from year to year. Nevertheless, MTS's acquisition puts it miles ahead. The argument that Crown corporations allow relatively small populations to consolidate sufficient funds for capital-intensive resources such as telecommunications appears to carry no weight in the experience of Manitoba's privatizing of MTS while Saskatchewan retained SaskTel in state ownership.

Service Levels

In the 21st century, telecommunications is among the world's fastest growing industries. The growth is driven by technology that allows new modes of communication, business and entertainment to go from fantasy to ubiquity within any given decade. For example, mobile telephony moved from almost nowhere to almost everywhere within the past decade.

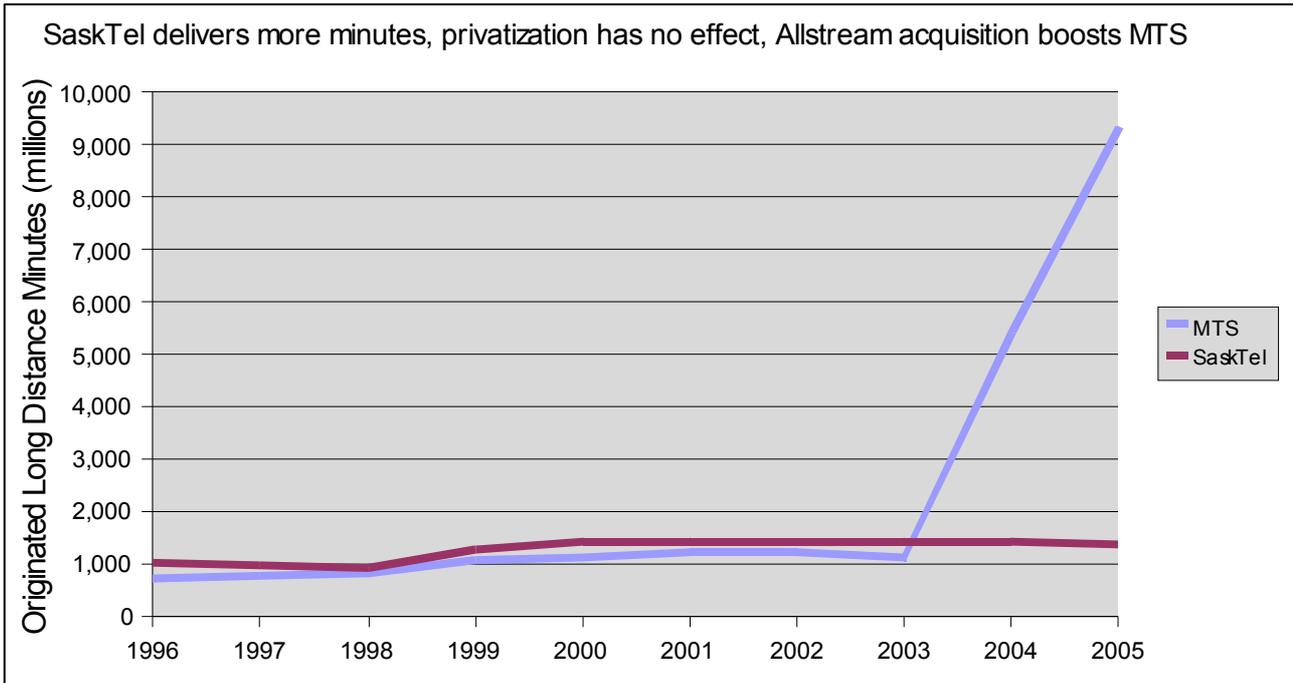
Having access to communications technology can make the difference between the haves and the have-nots. Globally, this phenomenon spawned the term *digital divide*. Given the importance of accessing quality communications services for all people, let us assess the public's adoption of services, the geographical coverage and the charges for services in the two provinces.

Serving the Customers

The number of customers served by a company indicates how important it is to the population. This is not to be confused with the belief that it is bad for the population for a particular company to fail. If either SaskTel or MTS were to be out-competed by other providers of similar or equivalent services, it would be of marginal benefit to the customers who had chosen a better service. (It is worth noting that if this were to happen, Saskatchewan residents would be billions of dollars out of pocket because this is the risk they take by continuing to own SaskTel. Manitoba taxpayers no longer carry such a risk, having cashed out of MTS). A large and growing customer base does, however, assure us that a company is valued by the population.

What follows is an evaluation of how many customers each company serves, with trends back to the point of privatization. The growth trend indicates performance over time. The absolute numbers are roughly comparable, since the two provinces have similar populations. Despite a recent slight population growth in Manitoba and a long-term negative trend in the Saskatchewan population, the two populations are within 20% of each other.

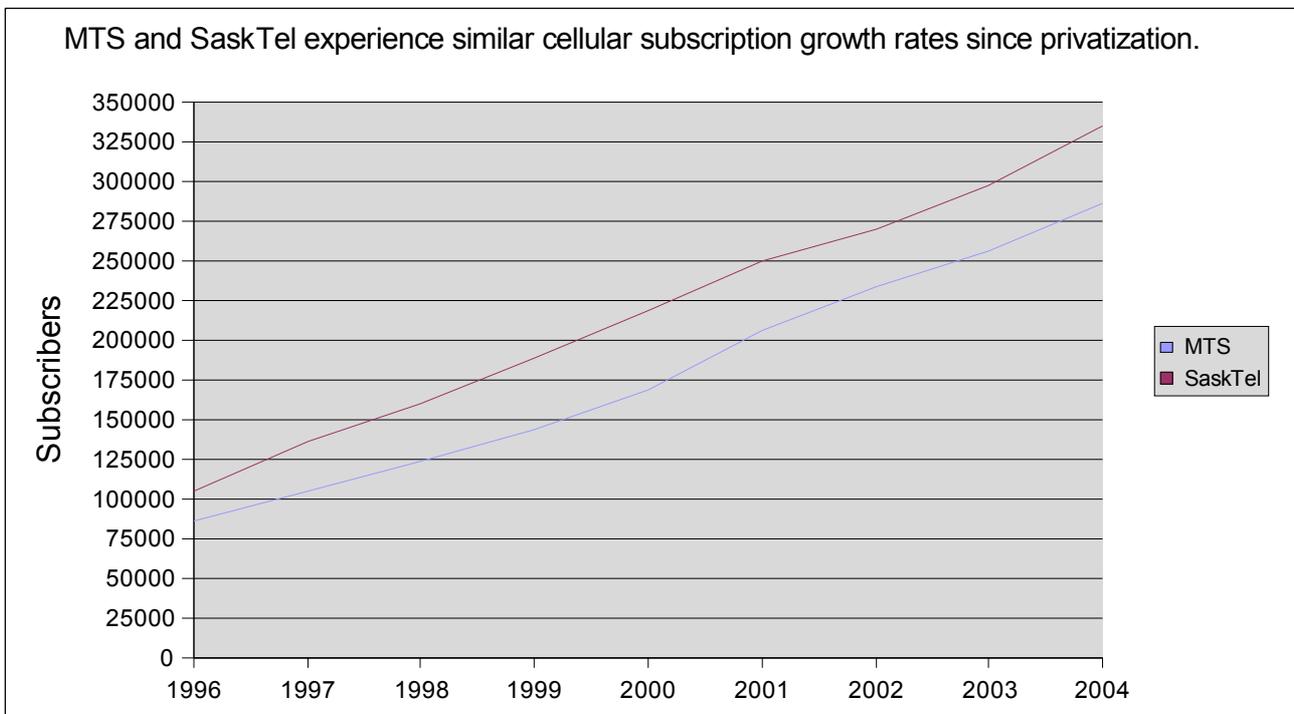
Fixed-Line Telephony



Since acquiring Allstream in June 2004, MTS has included this company's figures also. That skews the data on increases in long-distance minutes because it registers a significant increase not comparable to SaskTel. However, when you take the growth trend from the years preceding the Allstream takeover, which includes minutes originated from outside MTS's home province, it indicates no significant difference between the two providers' originated minutes.

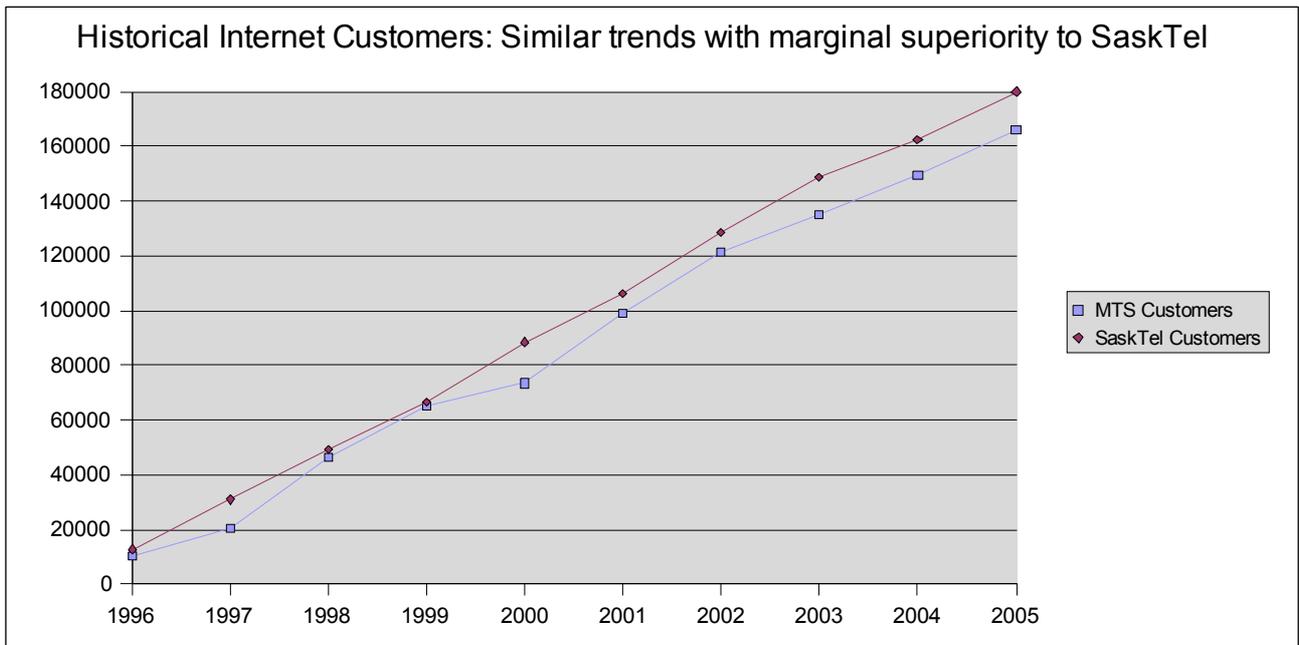
Cellular Subscriptions

SaskTel serves a significant number of extra customers, particularly if one adjusts for the population difference.



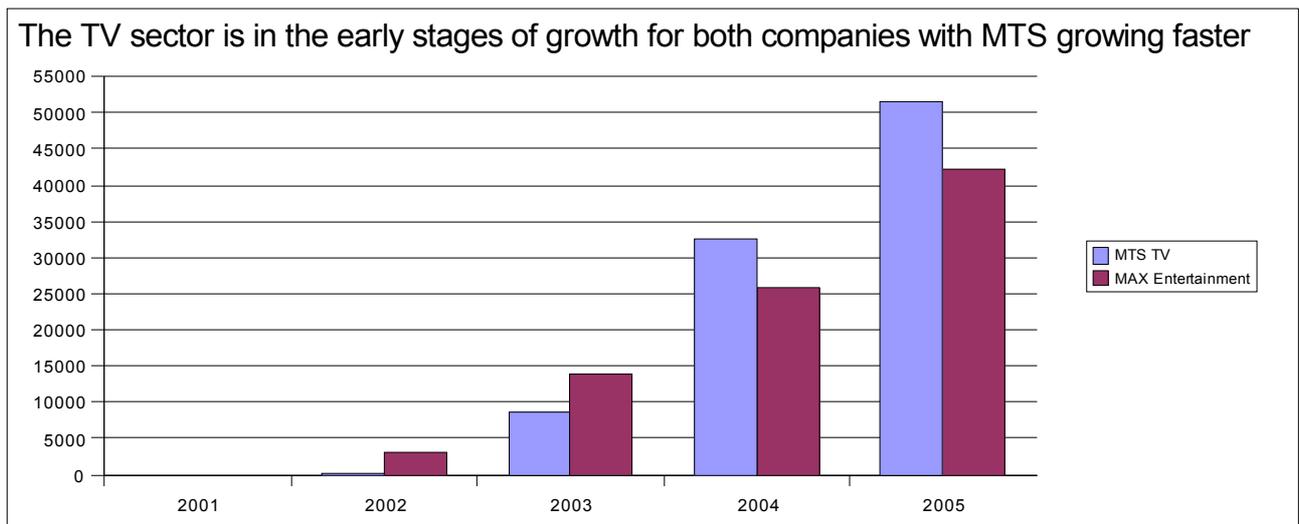
Internet Subscriptions

Internet subscription rates show SaskTel serving more customers than MTS in each year, with slightly better growth.



Entertainment

In the fast growing area of entertainment, MTS appears to have adapted slightly faster.



All in all, there is no significant difference in service volumes

With the exception of MTS’s long-distance minutes dramatically increasing after the incorporation of Allstream, there are no dramatic differences in the volume of services delivered by MTS and SaskTel. In the four major service areas measured, we see a trend of nearly identically growth patterns, with SaskTel maintaining an initial lead. The similarity of the patterns suggests that the service volumes are controlled by factors they have in common rather than by the privatization of MTS or the Province of Saskatchewan’s retention of SaskTel.

Reaching Everybody

One of the early reasons given for the establishment of Crown corporations as government-owned entities rather than private ones was the need to offer services that sparsely populated areas could not otherwise attract. A similar argument might be raised today that states public ownership gives a company the mandate to serve those who would otherwise be unprofitable to serve, or who could not afford the services at the true cost of serving them. At that point, a debate is necessary about the extent to which telecommunications for those in remote areas should be subsidized by others. We may be able to avoid that debate, however, by evaluating how well the privatized MTS and government-owned SaskTel respectively serve their whole

provinces.

It is fair to acknowledge that while Saskatchewan's and Manitoba's many similarities make them ideal for comparison, this section is *potentially* unfair to SaskTel. MTS is able to serve the vast majority of Manitoba's population in one city, Winnipeg. Saskatchewan's population is spread throughout many cities and towns, the largest of which only contains one fifth of all Saskatchewan's citizens.

Fixed Lines

Traditional fixed-line telephony is the base for modern telecommunications. In both provinces, fixed-line telephony has become universal, with party lines eliminated and private lines the norm. With the service so widely available, the emphasis for fixed-line telephony is on price.

Mobility

By international standards, Manitoba and Saskatchewan are both geographically vast and very sparsely populated. Saskatchewan is home to an average of 1.72 people per square kilometre while California, hardly an extreme example of population density, is home to 83.85/km². This geography makes covering all residents everywhere financially challenging. Further, cellular coverage was largely developed in the decade since the privatization of MTS in 1996. Nevertheless, both companies offer similar coverage in their respective provinces, with MTS claiming to provide coverage for 97% of Manitobans¹ and SaskTel for "over 95%" of its people.²

High Speed Internet

Both companies claim similar availability for high speed Internet service, with SaskTel claiming to serve 80.2% of the population³ while MTS claims 85%⁴. Both companies claim that dial-up Internet is universally available.

Entertainment

As a new service, digital television is offered in limited areas by both providers. SaskTel offers Max Entertainment Services in 13 cities, towns and rural municipalities⁵, which equals approximately 450,000 residents. Taking this into account and assuming an average household of 2.6 people⁶ means that approximately 25% of eligible residents have subscribed⁷. MTS offers MTS TV in Winnipeg, which includes approximately 77% of the population of Manitoba. This equates to an approximate adoption rate of 19% among eligible residents.

By percentage of population, the companies are equally good at reaching people

Measuring the availability of services finds that MTS is slightly better at reaching Manitobans than SaskTel is at reaching Saskatchewanians. As noted above, this is probably misleading because SaskTel serves a more geographically dispersed population. However, this is not to say that faced with Saskatchewan's geography, MTS would do a worse job. By the same logic, there is no reason to believe that a privatized SaskTel would do a worse job of serving remote customers, either. The geographical difference merely makes the findings in this section reassuring but inconclusive.

Competitive Service Charges

Beyond serving large volumes of customers in a diverse range of locations, service charges are

¹ www.mts.com accessed 28-11-2006

² SaskTel 2005 Annual Report p32

³ SaskTel 2005 Annual Report

⁴ MTS web site accessed 20-11-06

⁵ SaskTel company web site accessed 30-11-06

the most important consideration when comparing performance. Does the Crown corporation model truly deliver lower service charges for customers? Owned by the people for the people, Crowns are said to be in the unique position of being chartered to deliver affordable prices at the expense of profits. Private companies, on the other hand, have access to capital for further investment on an open, competitive market. This market competition avoids the Crown's trade-off between accessing sufficient capital and unduly dipping into taxpayers' pockets to fund capital works. By analyzing services and prices, we can begin the work of evaluating the total government and private costs of Crown telecommunication services to the people.

Fixed-Line Telephony

SaskTel offers approximately a 12% savings on the price of a basic telephone connection. Both companies offer marginally different rates that depend on a customer's location in the province.

| | SaskTel | MTS |
|---------------------------------------|----------|-------|
| U.S.-Canada Unlimited Calling Package | \$35.00* | 40.00 |

Table 1: Basic line dependent upon location, while MTS's unlimited includes extra calling features.⁶

However, for many customers, fixed-line telephony is bundled with long-distance calling packages and additional features. The basic comparison in Table 2 shows a 12.5% price advantage for SaskTel, but analyzing the overall package with additional features eliminates this difference. The MTS package includes a selection of four calling features such as *Call Answer*, *Call Display* and *Call Waiting*. SaskTel offers similar services for \$4 each or all three for \$12.

Mobile Telephony

Pricing for cellular services varies widely with usage. The wide range of possible usage patterns means that no absolute comparison is possible. However, the following chart of minutes versus cost plots the minimum charge for any given number of peak or off-peak minutes, giving a feel

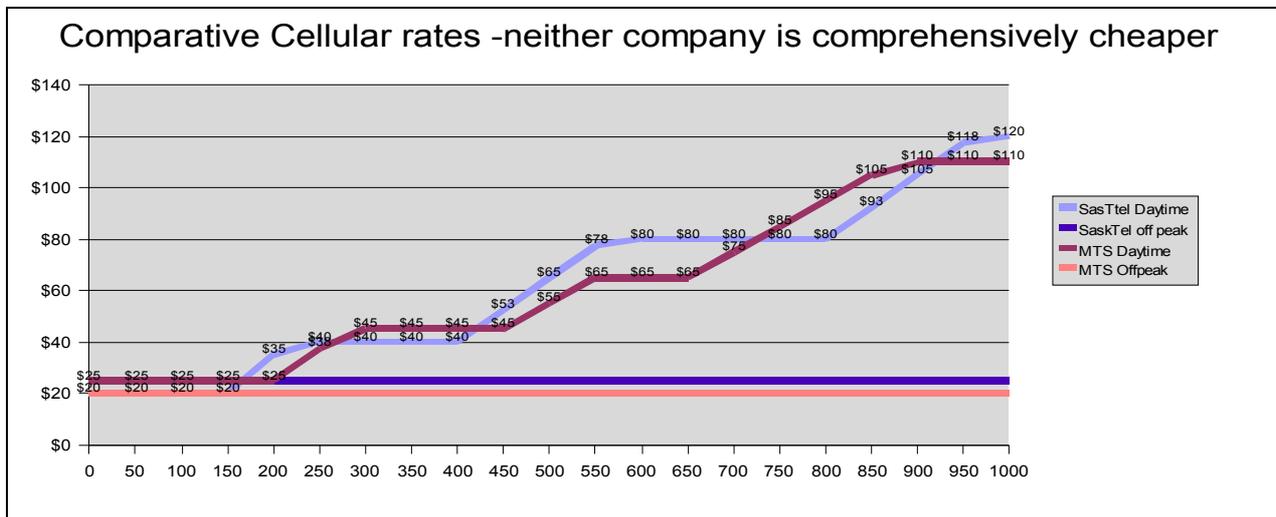


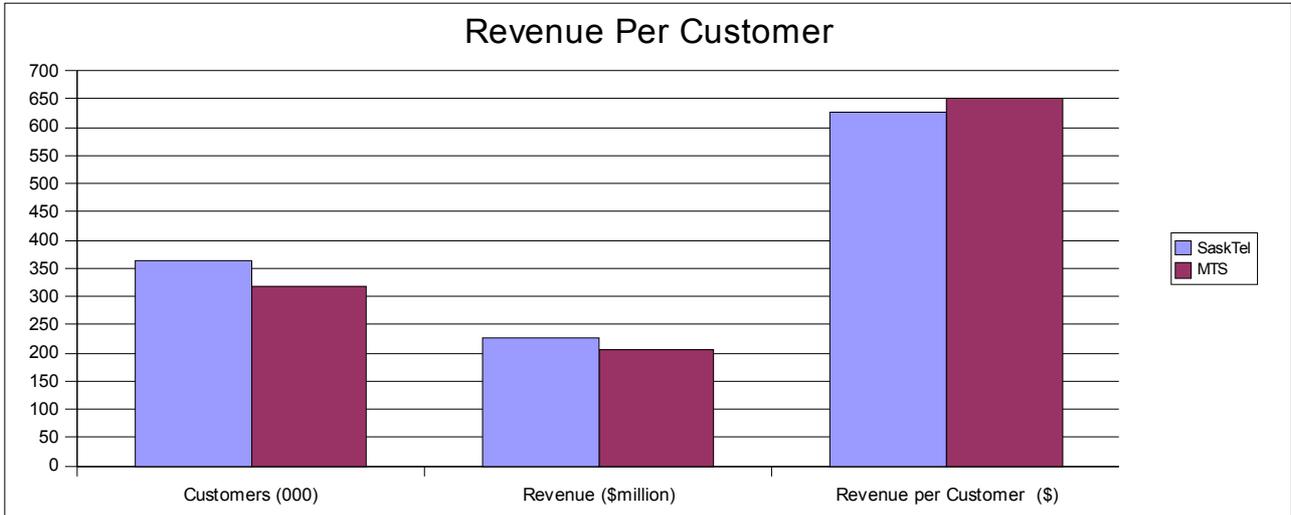
Illustration 1: Comparison of basic cellular rates as advertised on respective company web sites accessed 28-11-06.

for how each company charges its customers based on their usage per month. This comparison finds that off-peak rates in the weekend and evenings are comparable, with MTS offering unlimited calling for \$20 per month compared with SaskTel's \$25.

* Plus administration fee of \$1.95
⁶ Company web sites and helpline investigation 29-11-06

Comparing mobile revenue per customer might show a small difference. However, this measure does not necessarily reflect value for money. Higher revenue per customer could reflect greater usage in response to higher prices or simply higher prices for similar usage rates.

In conclusion, MTS's and SaskTel's mobility prices show no differences that can be interpreted as reflecting the effects of privatization or otherwise.



Internet

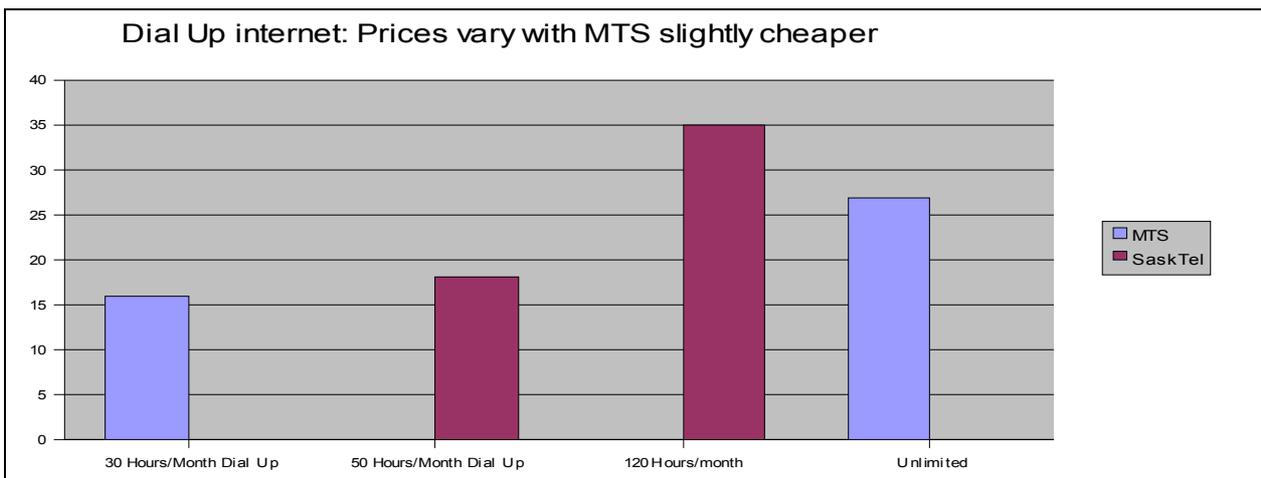
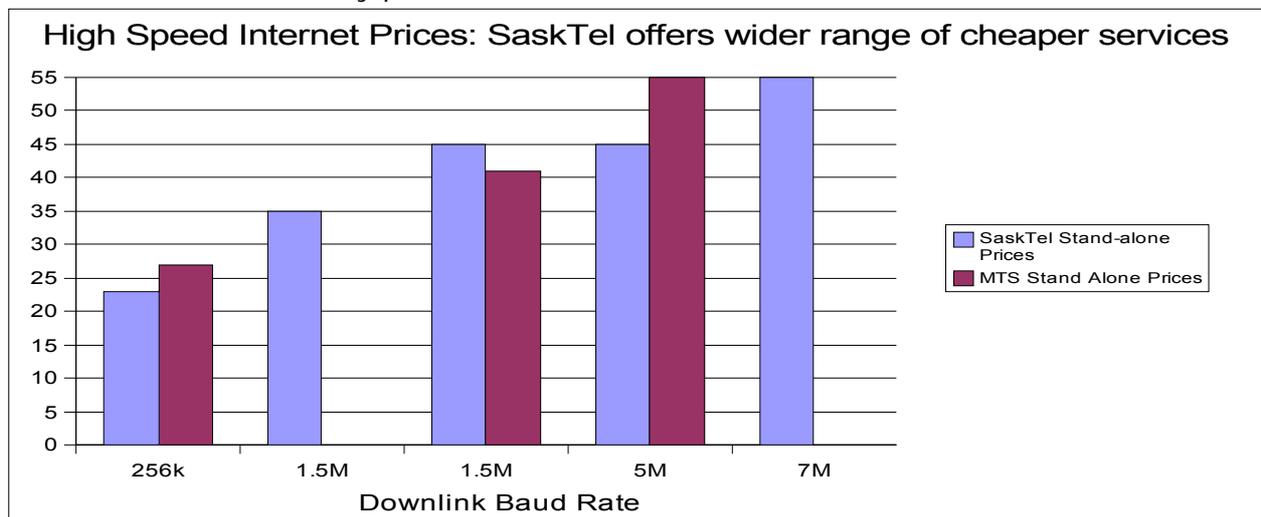


Illustration 2: Dial-up Internet prices, assuming province-wide availability. Prices sourced from company web sites.

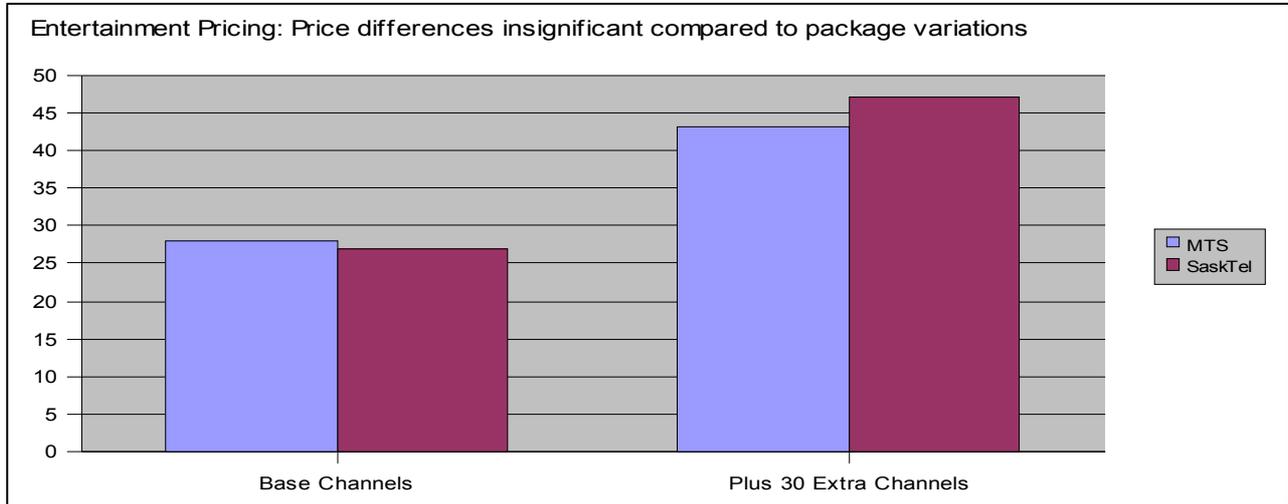
Dial-up Internet charges show no compelling difference; while services are not identical, similar services are similarly priced.



High speed internet shows Sasktel delivers superior pricing and performance for high-end products.

Entertainment

Similar to cellular services, entertainment packages are highly flexible, with customers tailoring their own bundles. Content is largely similar, sourced mainly from U.S. networks. Comparing each provider's entry-level package (30 channels) and their packages containing an extra 30 channels shows that there is no price difference significant enough to outweigh variations in packages.

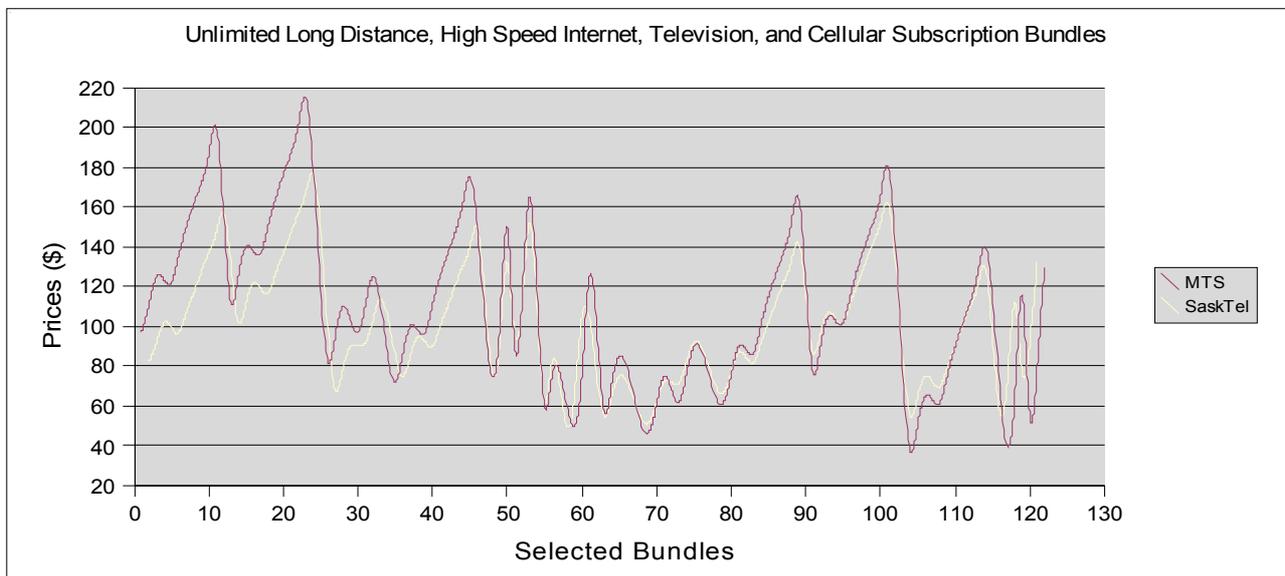


Bundles

Both companies aggressively market bundle packages where consumers receive progressively bigger discounts as they subscribe to more services. Both companies apply bundling discounts to almost all products. To get a simplified snapshot of what each company offers through bundling, combinations of the following were compared:

- Unlimited North American fixed-line calls.
- High Speed Internet: 256k, 1.5M, 5M, 7M.
- Cable Television: basic and 30 extra channels.
- Mobile subscriptions: unlimited night and weekend, 400 minutes any time and 800 minutes any time.

To repeat, the comparison is between a selection of bundles and does not reflect all possibilities or the selections most popular amongst consumers. Averaging the prices of all bundles in the selection from each provider gives values of \$110.17/month from MTS and \$104.61/month from SaskTel.



Plotting the calculated prices of each of bundle and applying a line of best fit give a visual comparison of the two companies' bundles. The chart shows two areas where there is a significant difference between the two companies' bundle prices. SaskTel is significantly cheaper for the first 25 selected bundles and the 40th-46th bundles, in both cases reflecting the generous discount offered by SaskTel for bundling MAX TV and high speed Internet.

For most of the bundles plotted, the two companies' prices are very similar.

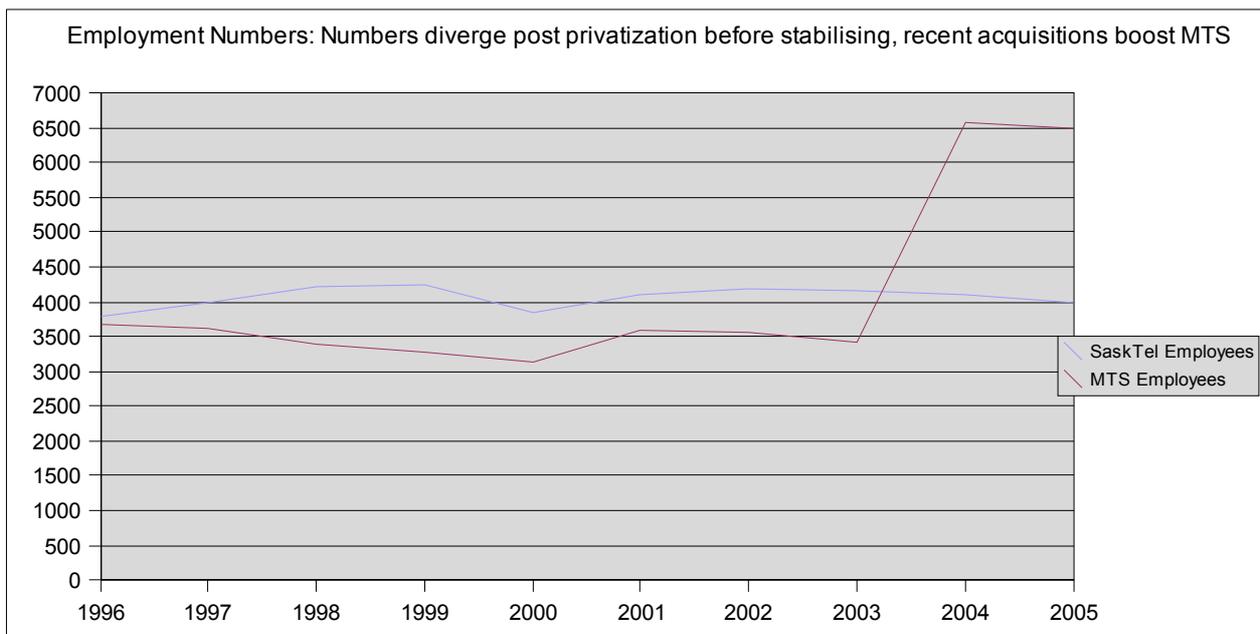
Conclusion

Across the four products compared, there is a slight price difference in favour of SaskTel customers. The average of the bundles selected suggests that this difference may be in the order of \$5/month for customers subscribing to multiple services from their provider.

Employment Opportunities

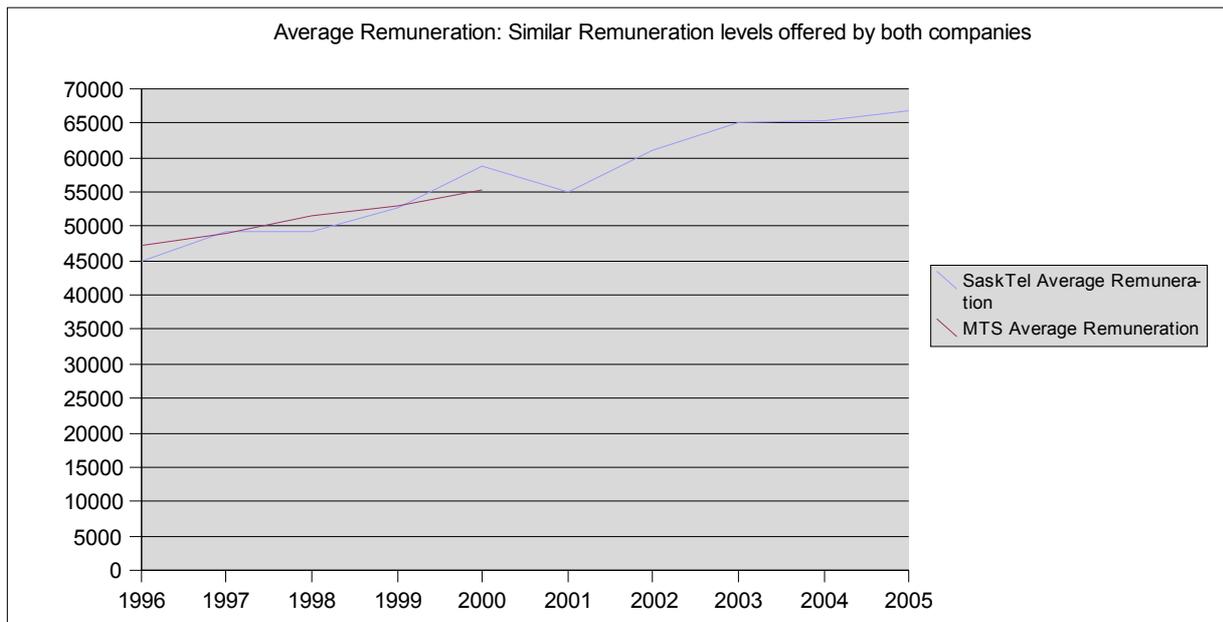
It is often claimed that one of the advantages of retaining Crown corporations as provincial assets is the provision of employment for citizens. This study evaluates the employment of citizens in the two major corporations and their subsidiaries to test the claim that retention results in more and better-paid employment in the telecommunications industry for the citizens of Saskatchewan.

Employment Numbers



Employment numbers show three trends. Initially there is divergence, where MTS sheds workers and SaskTel grows for the three years post-privatization. For the following five years through to 2003, the numbers are well correlated before MTS's acquisition-based expansion led to an almost doubling of staff numbers while SaskTel numbers were in a slow decline for the past several years. Moreover, SaskTel figures report only full-time employees whereas the MTS figures report all employees. It might be claimed that workers were forced to work less, but dividing aggregate remuneration by the number of employees shows that the average employee at each company is similarly remunerated, despite the possibility that more MTS workers are part-time.

Employment Remuneration



Remuneration levels show no significant difference in long-term remuneration. The only difference is that for the years where data are available, MTS rates grew at a steadier pace.

Involvement in the Community

Moving from collective state ownership to private ownership might be expected to diminish a company's commitment to the community in which it operates. In economic terms, many community contributions would be seen as an externality. Only a portion of an activity's benefits is accrued to the company, so it practices the activity less than the community would like. With this in mind, it might make more sense for a company owned by the whole community to contribute in this way than for a privately owned company to do so. In assessing the effects of MTS's privatization, let us consider how each company has been involved in the community over the past decade.

It is also worth considering why a company would be involved in corporate social responsibility. As we will see, both companies give donations in cash and employee time to their communities; both also run programs with environmental goals. Two obvious drivers for these activities are employee fulfillment and brand enhancement, which apply to a private company as much as to a collectively owned one. This raises the question of how any contributions SaskTel might make beyond what a private company would find expedient are funded. The answer must be that any such contributions come at a cost to SaskTel's returns to its shareholders, the people of Saskatchewan. But, should a telecommunications company be deciding how to spend the people's money?

SaskTel claims that providing remote communities with Internet connections through its CommunityNet scheme amounts to a community contribution. However, earlier sections of this paper investigated coverage for all services and found that there is no appreciable difference in the ability of either company to reach all of its community.

Both companies report that they contribute to events in their respective provinces. Both report that they sponsor their employees to do community work through the SaskTel Pioneers' and MTS Pioneers' programs. SaskTel reports that it is involved in paint recycling through its Pioneers, while MTS reports that it runs a cellphone-handset recycling program.^{7,8} MTS reports that it has a special support relationship with Olympian Cindy Klassen.⁹

In conclusion, it is difficult to detect a decisive difference between the community involvement

⁷ MTS 2005 Annual Report p37

⁸ SaskTel 2005 Annual Report p8-9

⁹ MTS 2005 Annual Report p8

of MTS and SaskTel, and even harder to reason why greater community involvement by SaskTel would be of net benefit to the people of Saskatchewan.

Conclusion

This study set out to evaluate MTS and SaskTel in their ability to deliver services, investment and jobs to their respective provinces of Manitoba and Saskatchewan. It focused on the period 1996-2005, during which Manitoba was privatized and SaskTel was retained in state ownership by the people of Saskatchewan. By comparing the two companies' performances, we were able to evaluate the effects of privatization, which have been well isolated in this case.

The findings are that there is a slight advantage to SaskTel in subscriber numbers. However, these numbers correlate extremely well during the period of privatization, suggesting that the difference is caused by pre-privatization factors rather than by privatization itself.

Neither company appears to have a decisive advantage in reaching the people of its province. Availability of mobility and high speed Internet services is remarkably similar in both provinces. It is worth noting that Manitoba's more concentrated population in Winnipeg may make serving a large proportion of the population easier.

Comparisons of service charges show that there is no clear advantage to customers of either MTS or SaskTel. Differences between most price offers are obscured by differences in the choices of combinations of services by individual customers. Comparing service charges does not show any decisive advantage to either company's ownership model.

For different periods in the post-privatization era, each company has significantly out-invested the other in terms of capital expenditure in its home province. However, MTS's acquisition of Allstream means that it has expanded twice as fast as SaskTel.

Employment has shown some differentiation at the point of privatization, with MTS numbers dropping for several years after 1996, while SaskTel employee numbers increased at a similar rate. There is a case to be made that privatization led to an adjustment period in which the MTS staff shrunk against industry trends or that in the same period the SaskTel workforce grew unnecessarily. After this period, we find that the numbers correlated well, presumably reacting to external conditions applying to both companies. Only MTS's acquisition of Allstream in 2004 broke this trend. Average employee remuneration has been very similar for the period during which figures are available, 1996-2000.

The overall finding is that MTS and SaskTel represent two quite different models of ownership; however, the services they deliver to their respective provinces are remarkably similar. Aside from the ability to invest and expand, there is no difference that can be held up as a reflection of their respective ownership models.