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**EVIDENCE**

**Wednesday, December 12, 2018**

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**Chair**

**The Honourable Kevin Sorenson**



## Standing Committee on Public Accounts

Wednesday, December 12, 2018

• (1600)

[English]

**The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)):** Good afternoon, everyone.

I hesitate to bang the gavel and start, but we do have quorum and it's not fair to our guests if we don't at least hear their testimony.

I am told that we may be interrupted with votes in a few minutes. If we are, then we have another tough decision to make on whether we make our rounds of questions and invite you back in February or January, or continue. In the meantime, we want to welcome you here.

We are televised today. This is meeting number 124 of the Standing Committee on Public Accounts for Wednesday, December 12, 2018.

We are here today in consideration of “Report 1—Connectivity in Rural and Remote Areas” of the 2018 fall reports of the Auditor General of Canada.

We are honoured to have with us, from the Office of the Auditor General, Mr. Jerome Berthelette, assistant auditor general, and Philippe Le Goff, principal. From the Department of Industry, we have Mr. John Knuble, deputy minister; Lisa Setlakwe, senior assistant deputy minister, strategy and innovation policy sector; and, Michelle Gravelle, director general, audit and evaluation branch. From the Canadian Radio-television and Telecommunications Commission, we have Mr. Ian Scott, chairperson and chief executive officer, as well as Christopher Seidl, executive director, telecommunications, and Ian Baggeley, director general, telecommunications.

We will now turn it over to Mr. Berthelette.

The bells are ringing.

**Mr. David Christopherson (Hamilton Centre, NDP):** I move that we continue for another 15 minutes.

(Motion agreed to)

**The Chair:** I'll turn to Mr. Berthelette, please. We await your statement.

**Mr. Jerome Berthelette (Assistant Auditor General, Office of the Auditor General):** Mr. Chair, thank you for this opportunity to discuss our fall 2018 report on connectivity in rural and remote areas.

Joining me at the table is Monsieur Philippe Le Goff, who is the principal responsible for the audit.

This audit focused on whether Innovation, Science and Economic Development Canada and the Canadian Radio-television and Telecommunications Commission, according to their respective roles and responsibilities, monitored the state of connectivity and developed and implemented a strategy to meet the connectivity needs of Canadians in rural and remote areas.

[Translation]

Over the past 12 years, detailed examinations of the state of broadband access in Canada have included recommendations that the federal government lead the creation of a national broadband strategy. However, at the end of our audit, the government still hadn't agreed to take that step. Innovation, Science and Economic Development Canada indicated that it was reluctant to establish a strategy with an objective that couldn't be reached with the available funding.

The department continued to follow an approach that expanded broadband coverage to underserved parts of the country according to when funds were available. This approach left people in rural and remote parts of the country with less access to important online services, such as education, banking, and health care, and without information about when they could expect to have better access.

On October 26, 2018, the Minister of Innovation, Science and Economic Development announced that the federal, provincial, and territorial ministers for innovation and economic development agreed to make broadband a priority and to develop a long-term strategy to improve access to high-speed Internet services for all Canadians. The ministers committed to a goal of establishing universal access to Internet speeds of 50 megabits per second download and 10 megabits per second upload.

With respect to the state of connectivity in Canada, we found that the department relied on complete and accurate data to inform policy-making aimed at addressing the connectivity gap in rural and remote areas.

[English]

In 2016 the department launched its Connect to Innovate funding program to bring high-speed Internet to 300 rural and remote communities in Canada. We examined whether the department designed and managed this program to maximize the value for money for Canadians. We found that the department did not implement the program in a way that ensured the maximum broadband expansion for the public money spent. This program did not include a way to mitigate the risk that government funds might displace private sector investments.

We also found that the department did not provide key information to potential applicants for funding under the program. As a result, some applicants had to invest more effort in preparing their proposals, and all applicants lacked full knowledge of the basis for selecting funding proposals.

For example, there were a number of considerations to select projects, but the application guide did not specify the relative weight of each criterion used in the project selection process. Also, projects were less likely to be funded if they did not align with provincial and territorial priorities; however, these priorities were not made public.

In our view, the department should have made the weights and priorities public. Many Canadians in rural and remote areas had to rely on fixed wireless broadband solutions. We found that small Internet service providers did not have sufficient access to high-quality spectrum to support broadband deployment in rural and remote areas.

For example, the department auctioned spectrum licences for geographic areas that were too large for smaller service providers to bid on. The secondary market for unused spectrum did not function well, partly because licensees had little business incentive to make unused spectrum available for subordinate licensing. In addition, the information on unused spectrum was not readily available to interested Internet service providers.

• (1605)

[Translation]

Innovation, Science and Economic Development Canada and the Canadian Radio-television and Telecommunications Commission have agreed with our six recommendations. We understand that the department has prepared a detailed action plan.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have. Thank you.

[English]

**The Chair:** Thank you very much, Mr. Berthelette.

We will now move to Mr. Knubley, please.

**Mr. John Knubley (Deputy Minister, Department of Industry):** Thank you, Mr. Chair.

I would like to acknowledge that this is likely a final appearance at the public accounts committee in this wonderful room, and I think it is a significant moment.

[Translation]

I want to start by thanking the Auditor General and his office for their report. This is an extremely important set of issues. We accept the recommendations and are moving forward to improve rural and remote connectivity.

[English]

As I said, I think it is a very important set of issues. As officials, we are doing our utmost, working with the CRTC, to improve rural and remote connectivity.

Our three sets of comments related to the Auditor General's report, by way of introduction, are first on strategy, second on programs and third on spectrum.

On strategy, we agree on the need for a connectivity strategy, particularly in light of the CRTC decision in December of 2016 declaring broadband a basic service. I personally believe that this declaration has created a significant inflection point, which has required us to move from an evolutionary step-by-step approach to a more collaborative integrated approach to broadband.

The department's broadband programs predate this announcement of broadband as a basic service. They were designed to address specific gaps in services, coverages and speed. We focused on closing the gap in speeds between urban and rural areas, in a way that carefully balances public interest and private investment. I would also add that connectivity is very much a moving target. Technology is constantly changing and improving, and in this context a strategy is important, particularly as we set specific goals.

As indicated earlier, work is already well under way. This past spring, we established a federal-provincial-territorial connectivity committee. This committee worked to examine service levels, priorities, principles and gaps and to coordinate plans of action.

In June, the department launched a national digital and data strategy consultation where connectivity was the foundational component. On September 25, Minister Bains released the economic strategy tables report, which focused in six sectors on the importance of digital infrastructure for the economic growth of the economy. On October 26, federal, provincial and territorial ministers for innovation and economic development agreed to make broadband a priority. They agreed to a set of connectivity principles and agreed to develop a long-term strategy to improve access to high-speed Internet and mobile services for all Canadians.

I do want to stress the three principles that were announced: one, access to ensure reliable high-quality services; two, collaboration to leverage all partners and to end fragmentation; and, three, effective instruments especially targeting market failures so that government supports this where it is most needed in the rural context.

I would like to end the comments on the strategy to remind members that there was in 2001 a national broadband task force, led at that time by David Johnston. It started in January 2001. If you look at their principles, you will see that they are remarkably similar to the ones that are at the heart of our new strategy.

Second, on programs, the audit scoped in two programs. Connecting Canadians is a \$240-million five-year program launched in 2014 to install last-mile connection for 280,000 households that did not have access to Internet speeds of five megabits per second for downloading data and one megabit per second for uploading data. The second program, Connect to Innovate, is a \$500-million five-year program launched in 2016 to support new backbone infrastructure to connect institutions such as schools and hospitals and to ensure communities have access to that backbone infrastructure.

I want to stress that the findings of the audit focused solely on the design phase of the Connect to Innovate program. That means the program was in the early stages of program rollout and the assessments were made in that context.

• (1610)

I am pleased to report—and I have been asked to do so by Minister Bains—that the program will connect 900 communities across Canada. That's three times the program's original target. Of the 900 communities, 190 are indigenous communities, some in the direst need of better high-speed Internet. I want to stress that, above all, what was targeted in this program were the areas of highest need for rural broadband.

[Translation]

In total, projects funded under the program will provide \$1 billion towards improved connectivity.

[English]

In terms of other programs, I thought it would be important to mention that we have two other initiatives under way that are of relevance to rural broadband.

First, I'd like to note that budget 2018 committed \$100 million to support projects that relate to lower-orbit satellites and next-generation rural broadband. These low earth orbit satellites have considerable potential to provide Canadians living in rural and remote areas, especially in the north, with significantly improved access to Internet and wireless services at more affordable prices.

I also want to mention our initiative that we've called Connecting Families, which is an important public-private partnership oriented to low-income households. To date, nine industry service providers have voluntarily partnered with the government to offer low-cost home Internet service to hundreds of thousands of eligible low-income Canadian families. Already, nearly 3,000 families have signed up for \$10 Internet in the first two weeks. This is not, of course, all rural; nevertheless, it is significant in that context.

Last, in terms of spectrum and the issues raised there by the Auditor General, we agree that the impact on rural and remote areas is an important consideration when developing a licensing framework and spectrum activities. We continue to develop policies that

encourage service into rural areas to ensure that all Canadians will benefit from high-quality services, coverage and affordable prices.

For example, we've just published a consultation on the development of similar geographic service areas for spectrum licence, which is known as the tier 5 consultation. What we're doing there is trying to drill down to a smaller geographical area so that we have a better understanding and mapping of what can be available in a smaller geographic area.

Also, in March 2019, the 600 megahertz spectrum auction is scheduled to take place. This spectrum can provide expanded rural coverage specifically because we set aside 40% of the spectrum for regional service providers. In this context, we put in place stringent deployment requirements to ensure the spectrum is used across the country, including in rural areas.

Let me conclude by saying that we recognize how important affordable high-speed connectivity is for rural communities and Canadians. We continue to work as hard as we can to service them. We see connectivity as a critical enabler of economic growth, and that is why we agree with the Auditor General concerning the need for a strategy, pursuing value for money whenever and wherever we can, and fully considering rural dimensions in spectrum auctions.

Thank you, Mr. Chair.

• (1615)

**The Chair:** Thank you very much, Mr. Knuble, our deputy minister of industry.

We'll now move to the CRTC and Mr. Ian Scott, chairperson and chief executive officer.

[Translation]

**Mr. Ian Scott (Chairperson and Chief Executive Officer, Canadian Radio-television and Telecommunications Commission):** Thank you, Mr. Chair.

[English]

We appreciate the opportunity to appear before this committee to discuss the findings of the Office of the Auditor General and, perhaps more important, to explain the CRTC's role in increasing connectivity for Canadians living in rural and remote areas of the country.

As the Auditor General's report on connectivity in rural and remote areas noted, the commission has a limited but important part to play. Our job as an independent regulator is to ensure Canadians have access to a world-class communication system that promotes innovation and enriches their lives. The CRTC believes that all Canadians, no matter where they live, should have access to broadband Internet services on both fixed and mobile networks.

As the Auditor General's report underlines, connectivity is vital in today's world—

**The Chair:** Excuse me just one moment, please. Do we have copies made?

**A voice:** Can we get a copy?

**The Chair:** We'll make sure that you get a copy here. I think we'll carry on. Because of the bells, we may be relying on the text to prepare ourselves for questions, which will end up being in the new year.

We want to finish with you, Mr. Scott, so I am going to ask you to continue, because we have about 10 minutes left.

**Mr. David Christopherson:** Are we adjourning after we've heard from the witnesses and then we would do the other half of the meeting—

**The Chair:** That's my intent.

**Mrs. Alexandra Mendès:** We have about five minutes.

**The Chair:** We have 13 minutes, so I think we can make it.

Carry on, Mr. Scott.

**Mr. Ian Scott:** Broadband is the critical tool we use to communicate with each other, educate and entertain ourselves, find information, apply for jobs, and do routine activities from banking to accessing health care and other government services. To be clear, then, Canadians need access to an unfettered Internet experience.

[*Translation*]

While CRTC doesn't hold all the levers, there are areas where it can and must help to advance this goal. A perfect example is CRTC's December 2016 announcement that broadband Internet is now considered a basic telecommunications service.

[*English*]

At the same time, we established a new universal service objective. It calls for all Canadians to have access to fixed broadband services at download speeds of at least 50 megabits per second, upload speeds of 10 megabits per second, and access to an unlimited data option. The latest mobile wireless technology, which is currently called "long-term evolution", better known as LTE, should also be available, not only in Canadian homes and businesses but also on major roads in Canada. By the end of 2021, we expect that 90% of Canadian households will have access to speeds matching the universal service objective. By our estimate, it may take as much as another decade after that for the remaining 10%.

Today, 84% of Canadians have access to the Internet at those new target speeds. However, many people living in rural and remote areas can only dream of that level of service. While 97% of households in urban areas have access to service that meets the universal service objective, only 37% in rural areas have similar access.

• (1620)

[*Translation*]

As a result, 16% of Canadian households or nearly two million Canadians still don't have access to the universal service objective speeds or unlimited data option. Fast, reliable and high-quality Internet is simply out of reach, both physically and financially, in many parts of the country.

That message came through loud and clear during CRTC's public hearing on basic telecommunications services. We heard from more than 50,000 people, including individual Canadians, business

owners and leaders of Indigenous communities. Many of them told us they're being left behind in the digital age.

[*English*]

Coverage gaps vary by region. Smaller maritime and prairie communities often do not enjoy the high speeds of major urban centres. The worst off and most in need are almost always found in Canada's north. Efforts to close these gaps need to be coordinated, as they are a shared responsibility among numerous players. Beyond the CRTC, this includes Innovation, Science and Economic Development, but also provinces and territories, indigenous governments, the telecommunications industry itself, and non-governmental organizations.

For its part, the CRTC has announced a new broadband fund. It will provide up to \$750 million over the next five years to help pay for infrastructure to extend Internet and mobile wireless services to underserved areas. Our objective is to ensure that rural residents have service comparable to that available in urban areas.

Of the \$750 million to be made available, up to 10% of the annual total will be provided to improve services in satellite-dependent communities. These are communities that rely on satellite transport to receive one or more such telecommunications services as telephone, fixed or mobile wireless, or Internet access services. Of course, when we launch our first call for applications next year, it will be important for potential applicants to know where the greatest needs are located. We agree with the Auditor General's report on this issue.

[*Translation*]

Last month, we published maps indicating the areas of the country that don't have access to broadband speeds of 50 megabits per second for download and 10 megabits per second for upload. The maps also identify communities without high-capacity transport infrastructure and where homes or major roads don't have access to LTE mobile wireless service. These are the areas of the country that don't currently meet our universal service objective. We've asked Internet and wireless service providers to verify the accuracy of our maps.

This is consistent with our overall approach regarding broadband data. We make information available to the public in as much detail as possible, while respecting the confidentiality provisions of the Telecommunications Act. In fact, we'll soon publish an update to our annual communications monitoring report that will provide fresh data on broadband availability and other related information.

[English]

Moreover, a memorandum of understanding was established a number of years ago between the CRTC and ISED. That agreement governs our collaboration and ensures that data is shared between our organizations. We're committed to sharing information on broadband infrastructure to support evidence-based decision-making.

We're also committed to working with all levels of government as part of a collaborative effort to provide broadband Internet service to underserved Canadians. Since announcing the details of our broadband fund earlier this fall, we have met with representatives from all provincial and territorial governments as well as federal departments to explain exactly how our fund will work and to understand their broadband funding programs.

In conclusion, extending broadband and mobile coverage to underserved households, businesses and along major roads will require billions of dollars of investment in infrastructure. There is no doubt that this objective is an ambitious one, in part because of our vast geography and shorter construction seasons in many areas of the country.

The CRTC's broadband fund is obviously just one part of this equation. It is meant to be complementary to, not a replacement for, existing and future public funding and private investment. Having detailed, accurate and up-to-date information at the disposal of the public and policy-makers will ensure that funds are being directed to the most appropriate projects and communities.

There also is no question that much work remains to be done, but I'm confident that this objective will be met in the same manner that railways and electrical grids were built in the past—by connecting one community at a time.

● (1625)

[Translation]

Thank you. We would be pleased to answer your questions.

[English]

**The Chair:** Thank you very much. We appreciate that.

We will be adjourning very quickly to get to our votes. We have time; we have four minutes to get there.

The other point is that the Auditor General came here with his report. For Monsieur Massé, me, and Mr. Dreeshen, who doesn't normally sit on this committee, these are very important issues to our rural constituencies. This was the first one we decided to call after the new audit report.

On behalf of everyone, I apologize for the disruption we had with the votes today. Thank you for your testimony. We will call you back in the new year. Hopefully, you will be available then.

I want to wish all of you very happy holidays, merry Christmas, and whatever else. We trust that you'll have a good break.

To our committee, I wish you all the same. Have a very good break. Come back refreshed and ready to study more.

We are now adjourned.

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