Telecom Decision CRTC 2005-55

Ottawa, 19 September 2005

Follow-up to *Access to pay telephone service*, Telecom Decision CRTC 2004-47 - Aliant Telecom Inc.'s request to recover costs associated with upgrading pay telephones with teletypewriter units

Reference: 8678-A53-200505365

In this Decision, the Commission ***approves*** *for Aliant Telecom Inc. the recovery of certain costs associated with upgrading pay telephones with teletypewriter units through draw downs from the company's deferral account.*

The application

1. The Commission received a submission by Aliant Telecom Inc. (Aliant Telecom), dated 28 January 2005, pursuant to *Review and disposition of deferral accounts for the second price cap period*, Telecom Public Notice CRTC 2004-1, 24 March 2004 (Public Notice 2004-1). The company requested that it be permitted to recover the costs of upgrading certain pay telephones with teletypewriter (TTY) units through annual draw downs from its deferral account. The company noted that the requirement to deploy TTY units was a result of *Access to pay telephone service*, Telecom Decision CRTC 2004-47, 15 July 2004 (Decision 2004-47). The company requested an annual draw down of $3.4 million from its deferral account for four years to recover estimated costs of $11.8 million. In support of its submission, the company filed a Phase II cost study.[1]

Process

2. In a letter dated 5 May 2005, the Commission notified Aliant Telecom that its submission for the recovery of the costs associated with upgrading its pay telephones with TTY units would be considered separately from the proceeding initiated by Public Notice 2004-1.

3. The Commission issued interrogatories to Aliant Telecom, dated 5 May 2005. The Commission received the company's response, dated 27 May 2005.

4. The Commission received no comments with respect to the submission.

Background

5. In *Price cap regulation and related issues*, Telecom Decision CRTC 97-9, 1 May 1997 (Decision 97-9), the Commission determined that an exogenous factor would be a component of the price cap formula in the initial price cap regime. An exogenous factor flows through the impact associated with events not captured by other elements of the price cap formula, provided the events or initiatives:

[1] Response to interrogatory Aliant(CCTA)11Mar05-6 PN2004-1.

- are legislative, judicial, or administrative actions which are beyond the control of the company;

- are addressed specifically to the telecommunications industry; and

- have a material impact on the Utility segment of the company.

6. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission concluded that the criteria for exogenous events set out in Decision 97-9, modified to measure materiality in relation to the total company, remained appropriate.

7. In Decision 2004-47, the Commission directed Aliant Telecom, Bell Canada, MTS Allstream Inc. (MTS Allstream), Saskatchewan Telecommunications Inc., Société en commandite Télébec, and TELUS Communications Inc. (TCI), collectively the incumbent local exchange carriers (ILECs), to upgrade certain pay telephones with TTY units over a period from 2004 to the end of 2010. In that Decision, the Commission stated that the ILECs could file requests for an exogenous factor to recover the costs of upgrading their respective pay telephones with TTY units if the companies were of the view that they qualified for such treatment.

8. In *Follow-up to* Access to pay telephone service, *Telecom Decision CRTC 2004-47, 15 July 2004: Requests to recover costs associated with upgrading pay telephone with teletypewriter units,* Telecom Decision CRTC 2005-23, 14 April 2005 (Decision 2005-23), the Commission found that Bell Canada's, MTS Allstream's, and TCI's costs of upgrading pay telephones with TTY units were significant and material for each company and found that the companies' proposals met the three criteria for exogenous treatment.

9. In Decision 2005-23, the Commission stated that, considering that the TTY upgrades would benefit consumers in general, it was of the view that the use of the deferral account to fund the TTY upgrade program would be consistent with Decision 2002-34. The Commission found it appropriate that Bell Canada, MTS Allstream, and TCI be compensated for the costs associated with their TTY upgrades through draw downs from their deferral accounts.

10. In determining the amounts that the companies would be permitted to draw down from their deferral accounts, the Commission made the following determinations with respect to Bell Canada's, MTS Allstream's, and TCI's proposals:

- The TTY upgrade costs would only reflect the installed TTY equipment costs and the associated service provisioning costs. The operating expenses proposed by the companies in their TTY cost studies associated with the ongoing incremental operation of the TTY service were not costs to upgrade pay telephones with TTY units and were therefore omitted.

- A 10-year study period was appropriate as a common study period length in determining each company's annual draw down associated with the TTY upgrades.

- Their installation cost estimates for the TTY upgrades should be similar across the companies given that the procedures, expertise and labour rates to install TTY equipment would be similar across the companies. As a result, the Commission found it appropriate to reduce Bell Canada's and MTS Allstream's installation costs by 50 percent.

- One-time service provisioning expenses, defined as expenses related to the issuance of service orders and the dispatch of technicians to equip existing pay telephones with TTY units, were considered as part of the TTY upgrade costs. As a result, the Commission found it appropriate to include a service provisioning expense, based on Bell Canada's expense estimates, in the annual draw down amounts for each of the companies.

- The costs associated with the TTY upgrades would be recovered over a seven-year period.

11. The Commission also found that the proposed TTY capital and service provisioning costs, as adjusted by the Commission, represented appropriate estimates of the TTY upgrade costs, and therefore, tracking of installation or other costs was not warranted.

Eligibility of TTY upgrade costs for treatment as an exogenous adjustment

12. Aliant Telecom noted that following the issuance of Decision 2004-47 it undertook a Phase II cost study to assess the costs of implementing the TTY deployment program as directed by the Commission. The company further noted that it had identified these costs to be in excess of $10 million. The company argued that any expenditure of that magnitude was clearly significant and material. The company requested that the Commission allow it to recover the costs of upgrading its pay telephones with TTY units in the form of annual draw downs from its deferral account.

Commission's analysis and determinations

13. The Commission notes that it has previously determined in Decision 2005-23 that the costs associated with upgrading pay telephones with TTY units met the first two exogenous event criteria. The Commission considered that the requirement to implement the upgrades resulted from the Commission's directives in Decision 2004-47, and therefore, qualified as a legislative, judicial, or administrative action that was both beyond the control of the company and addressed specifically to the telecommunications industry.

14. The Commission notes that Aliant Telecom estimated that the TTY upgrade program will cost $11.8 million. As discussed in the following section, the Commission has reduced certain elements of the company's cost estimate, which will reduce the approved TTY upgrade program costs to $4.5 million. The Commission considers that the costs associated with upgrading pay telephones with TTY units are significant and material for the company, and therefore meet the third criteria for an exogenous event. Accordingly, the Commission finds that these costs qualify for exogenous treatment.

15. The Commission considers that, consistent with Decision 2005-23, it is appropriate for Aliant Telecom to use its deferral account to fund the exogenous adjustment.

The Phase II cost studies

16. In support of its proposal, Aliant Telecom submitted a Phase II cost study reflecting the costs associated with upgrading its pay telephones with TTY units, pursuant to the TTY upgrade program detailed in Decision 2004-47. The company included the installed TTY equipment costs for the upgrades and the associated operating expenses, including service provisioning and maintenance expenses, in the cost study.

17. Aliant Telecom noted that it included the costs associated with setting up a pay telephone inventory system as a component of its expenses causal to the service. The company submitted that these costs consisted of labour costs related to the development of a pay telephone inventory system; the cost of hiring a contractor to complete a survey of all pay telephones in the company's operating territory; and a contingency allowance to accommodate deviations from forecast costs.

18. Aliant Telecom argued that, in order to effectively implement the Commission's directives in Decision 2004-47 with respect to deployment of TTY units at banks of pay telephones and certain stand-alone pay telephones, it became necessary for the company to be able to track and identify its pay telephones by bank. The company submitted that, absent Decision 2004-47, it would not have undertaken the development of a pay telephone inventory system and would not have incurred the associated expenses. The company argued that the costs related to the development of a pay telephone inventory system were therefore clearly causal to the implementation of the TTY program and that the inclusion of the associated costs as a component of its proposed expenses was reasonable and appropriate.

19. Aliant Telecom indicated that it had no previous experience with respect to permanently equipping outdoor pay telephones with TTY units. The company submitted that it expected significantly higher vandalism costs for outdoor TTY units, compared to such costs for indoor TTY units. The company also submitted that the estimates of the installation and maintenance costs for outdoor TTY units used in its cost study were conservative, and further, that it might be necessary to revise the cost estimates for outdoor TTY units upward and to request an additional draw down.

Commission's analysis and determinations

20. In Decision 2005-23, the Commission found it appropriate for Bell Canada, MTS Allstream, and TCI to recover only the costs specific to upgrading pay telephones with TTY units from their respective deferral accounts. The Commission considers that the determinations in Decision 2005-23 should also apply to Aliant Telecom with regard to determining the upgrade costs that the company will be permitted to draw down from its deferral account. Accordingly, the Commission considers that Aliant Telecom's TTY upgrade costs should consist of the equipment costs for the TTY units, the associated installation costs, and the associated one-time order fulfilment process costs.

Upgrade costs

21. The Commission notes that Aliant Telecom's TTY upgrade costs reflect the forecasted TTY demand estimates stemming from the requirements of Decision 2004-47. The Commission is of the view that the TTY demand estimates proposed by the company meet the requirements of Decision 2004-47.

22. The Commission notes that Aliant Telecom's TTY cost study relies on a 20-year study period. Consistent with Decision 2005-23, the Commission considers that a 10-year study period is appropriate for the TTY upgrade program. The Commission notes that, in response to Commission interrogatories, Aliant Telecom provided cost sensitivity results using a 10-year study period. Accordingly, the Commission has calculated Aliant Telecom's permitted annual draw down amount based on a 10-year study period.

23. The Commission notes that Aliant Telecom's proposed equipment costs vary based on the quantity purchased and are unjustifiably higher than those proposed by the other companies. The Commission considers that the equipment cost estimates should be fairly consistent among the ILECs. Accordingly, the Commission considers it appropriate to reduce the company's equipment costs by 10 percent to bring them more in line with those approved for the other ILECs.

24. In Decision 2005-23, the Commission indicated that it expected the costs of installing TTY equipment to be similar across the companies. The Commission notes that Aliant Telecom's proposed average installation cost estimates are significantly higher than those approved for the other companies in Decision 2005-23. Accordingly and consistent with its determinations in Decision 2005-23, the Commission considers it appropriate to reduce Aliant Telecom's installation costs by 50 percent in order to ensure that the installation costs are comparable to those approved for the other companies.

25. The Commission notes that Aliant Telecom has included the costs associated with setting up a pay telephone inventory system as a component of its expenses causal to the service. The Commission is of the view that tracking pay telephone inventories would, in general, be beneficial to the company and that the need for such a system cannot be solely attributed to the TTY upgrade program. The Commission is therefore of the view that TTY upgrade costs should not include the costs associated with such activities. Accordingly, the Commission considers it appropriate to remove this cost from Aliant Telecom's TTY upgrade costs.

26. The Commission notes that Aliant Telecom has included one-time expenses related to order fulfilment process, which include the issuance of service orders and the dispatch of technicians to equip existing pay telephones with TTY units that are consistent with the Commission's determinations in Decision 2005-23. Accordingly, the Commission considers it appropriate to include in Aliant Telecom's annual draw down amounts the costs for the order fulfilment process based on the company's cost estimate for this function.

27. The Commission notes that Aliant Telecom proposed to track costs associated with outdoor TTY units. Consistent with Decision 2005-23, the Commission does not consider it necessary to track installation or other costs. The Commission considers that the proposed TTY capital costs and service provisioning costs, as adjusted above, represent appropriate estimates of the TTY upgrade costs.

Recovery period

28. The Commission notes that Aliant Telecom provided annual draw down estimates corresponding to its present worth of annualized costs for the TTY capital costs and operating expenses spread over a four-year recovery period. In Decision 2005-23, the Commission noted that Bell Canada, MTS Allstream, and TCI were to install their TTY units over a period of seven years and indicated that a seven-year period to recover these costs would be comparable to the life expectancy of similar equipment. Accordingly, the Commission considers it appropriate for Aliant Telecom to recover the costs of equipping pay telephones with TTY units over a seven-year recovery period.

Annual draw down amounts to Aliant Telecom's deferral account

29. In light of the above, the Commission **approves** for Aliant Telecom an annual draw down amount of $870,000, for a period of seven years, for the purpose of recovering the costs associated with upgrading pay telephones with TTY units.

Secretary General