



Telecom Decision CRTC 2007-93

Ottawa, 28 September 2007

Implementation of local competition in NorthernTel, Limited Partnership's serving territory – ExaTEL Inc. and Ontera

Reference: 8663-N51-200608979 and 8663-N51-200706856

In this Decision, the Commission approves, with some modifications, NorthernTel, Limited Partnership's (NorthernTel) implementation plan for local competition with ExaTEL Inc. and Ontera. The Commission approves NorthernTel's costs for the implementation of local competition and local number portability in the amount of \$1,448,900 in non-recurring costs and \$522,445 per year in recurring costs, and determines that these costs qualify for exogenous factor treatment.

Introduction

1. In Telecom Decision 2006-14, the Commission directed, among other things, each small incumbent local exchange carrier (SILEC) to file an implementation plan for local competition with the Commission within 30 days following a formal signed expression of interest from a local exchange carrier (LEC) or other carrier requesting to use competitor services within the SILEC's serving territory.
2. Following formal signed expressions of interest from ExaTEL Inc. (ExaTEL) and Ontera, NorthernTel, Limited Partnership (NorthernTel) filed applications in which it proposed an implementation plan for local competition in its serving territory and a plan for the recovery of local competition and local number portability (LNP) implementation costs for these two competitors.
3. In its applications, NorthernTel identified the services and network components that it planned to make available to competitive local exchange carriers (CLECs). NorthernTel estimated that it would incur \$1,448,900 in non-recurring costs and an average of \$522,445 per year in recurring costs to implement local competition and LNP in its serving territory. NorthernTel proposed that these costs be recovered from (a) its customers through an exogenous factor, and (b) its competitors by way of a one-time charge for each network access service (NAS) moving to that competitor.
4. The Commission received submissions, comments, and/or responses to interrogatories¹ from the Canadian Cable Systems Alliance Inc. (the CCSA), NorthernTel, Ontera, and TELUS

¹ By Commission letter dated 5 February 2007, NorthernTel was asked to provide responses to a number of Commission interrogatories. Interested parties were given the opportunity to provide comments on the company's responses, and NorthernTel was allowed to file reply comments. In that same letter, the Commission noted that the Governor in Council had recently issued *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006 (the Policy Direction). Noting that the Policy Direction applied to NorthernTel's application, the Commission reminded parties to this proceeding that they might want to address the Policy Direction at the same time as they filed their comments.

Communications Company (TCC). The record of this proceeding closed on 1 June 2007 with NorthernTel's second revised response to a Commission interrogatory.

The Policy Direction

5. The Governor in Council's *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006 (the Policy Direction) applies to the disposition of NorthernTel's applications. In the Commission's view, the directives of the Policy Direction that are pertinent to the applications are as follows:

1(a) the Commission should (i) rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives, and (ii) when relying on regulation, use measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet the policy objectives;

1(b) the Commission, when relying on regulation, should use measures that satisfy the following criteria, namely, those that (i) specify the telecommunications policy objective that is advanced by those measures and demonstrate their compliance with this Order, (ii) if they are of an economic nature, neither deter economically efficient competitive entry into the market nor promote economically inefficient entry, ... (iv) if they relate to network interconnection arrangements or regimes for access to networks, buildings, in-building wiring or support structures, ensure the technological and competitive neutrality of those arrangements or regimes, to the greatest extent possible, to enable competition from new technologies and not to artificially favour either Canadian carriers or resellers.

6. With reference to subparagraph 1(a)(i) of the Policy Direction, the Commission considers that in territories such as NorthernTel's, where facilities-based local competition has yet to be implemented, market forces cannot be relied upon to ensure the achievement of the telecommunications policy objectives outlined below.
7. The Commission is of the view that its determinations regarding the implementation of local competition in NorthernTel's territory will advance the following policy objectives in section 7 of the *Telecommunications Act* (the Act):

7(b) to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada;

7(f) to foster increased reliance on market forces for the provision of telecommunications services and to ensure that regulation, where required, is efficient and effective; and

7(h) to respond to the economic and social requirements of users of telecommunications services.

8. The Commission notes that the remaining relevant provisions of the Policy Direction will be addressed in subsequent sections of this Decision.

Issues

9. The Commission considers that the parties' submissions in this proceeding raise the following issues:
 - I. Services and network components for competitors
 - II. Local competition and LNP costs
 - III. Cost recovery mechanism

I. Services and network components for competitors

10. In Telecom Decision 2006-14, the Commission determined that a SILEC would be required to make available tariffs for competitor services in response to a request for those services from a LEC or other carrier. The Commission further considered that a SILEC's implementation plan to make those tariffs available for competitors should be guided by the following principles:
 - the interconnection framework that exists in the large incumbent local exchange carriers' (ILECs) territories should apply in the SILECs' territories;
 - when a SILEC receives a request from a LEC to make available unbundled network elements, such as local loops, those competitor services should be implemented in a manner similar to that of the large ILECs; and
 - a SILEC, if requested, should make co-location space available to another competitor or a digital subscriber line service provider, where space is available, under similar terms and conditions as those established for co-location services for the large ILECs.
11. In paragraphs 167 and 168 of Telecom Decision 2006-14, the Commission stated the following:

... the Commission concludes that whenever a SILEC is approached by a competitor requesting access to competitive services including resale, the request should be channelled through a CSG [carrier services group].

... the Commission considers that where resource restrictions do not allow for a dedicated CSG to be established within a SILEC's territory, alternative arrangements should be explored, such as the use of an appropriate third party, a joint CSG serving a number of SILECs, or

the establishment of one CSG per province. The operation of the CSG function should be addressed by each SILEC in its implementation plan.

12. In Telecom Decision 2006-14, the SILECs' services were grouped into four separate baskets,² each with its own pricing constraints. Competitor services were assigned to the fourth price cap basket and the price for a service in that basket was allowed to increase up to any rate approved by the Commission for the same service offered by another ILEC. The Commission also determined that a SILEC tariff application which proposed rate increases over and above an approved ILEC rate had to be accompanied by an economic (Phase II) study.
13. The Commission considers that NorthernTel's applications give rise to the following five sub-issues with respect to services and network components for competitors:
 - a) Tariff filings
 - b) Third-party type agreements
 - c) Quality of service indicators
 - d) Carrier Services Group
 - e) Other non-cost related issues

a) Tariff filings

14. In its implementation plans for ExaTEL and Ontera, NorthernTel submitted a list of tariff items and filing requirements, and indicated that several of the required tariff items noted in Telecom Decision 2006-14 were already available in its territory but that other tariff items would have to be developed. NorthernTel indicated that several of the required tariff items would require extensive enhancements. The company proposed that its tariff enhancements and new tariffs would be filed with the Commission within 60 and 90 days, respectively, of the Commission's approval of its implementation plan.

Commission's analysis and determinations

15. The Commission notes NorthernTel's submission that several of the required tariff items are already available in its territory. For the other tariffs that are not available, the Commission notes that NorthernTel may adopt the terms and conditions of service, as well as the rates, for competitor services approved for other ILECs, without having to provide an economic study demonstrating that the proposed rates meet the imputation test. Furthermore, NorthernTel has been aware of ExaTEL's and Ontera's requirements for a number of months and, other than the timing, there have been no disagreements on the record as to the tariffs required. The Commission therefore considers that it is not necessary to provide NorthernTel with a lengthy delay to file these tariff applications. Accordingly, the Commission directs NorthernTel to file all the required tariffs within 30 days of the date of this Decision.

² See paragraphs 39 to 42 of Telecom Decision 2006-14 for a description of the four price cap baskets for the SILECs' local exchange services.

b) Third-party type agreements

16. NorthernTel submitted that it would negotiate third-party type agreements on behalf of the CLECs, and identified certain services to which this would apply. NorthernTel also submitted that the CLECs would have to make the necessary arrangements with Bell Canada or other third-party service providers with respect to 9-1-1 emergency services, Bell Canada Relay Service, operator services directory assistance and CCS7 [common channel signalling 7].

Commission's analysis and determinations

17. The Commission notes that obtaining services from third-party service providers will require agreements between the CLECs and the third-party service providers. Therefore, CLECs such as ExaTEL and Ontera may need to negotiate with the third-party service providers such as Bell Canada. At the same time, the Commission notes that third-party service providers within the company's territory would be known to NorthernTel. The Commission considers that NorthernTel's assistance to CLECs in obtaining these services would accelerate the implementation of local competition in NorthernTel's territory. Accordingly, NorthernTel is directed to provide information and assistance in the negotiation process, as required, in order that the implementation of local competition occurs as quickly as possible.

c) Quality of service indicators

18. NorthernTel was of the view that a complaint-based system would provide the Commission with enough assurance that all competitors would be treated fairly by the company. In this regard, the company submitted that this type of system was better suited to the size of NorthernTel's operations than a system based on monthly indicators and standards, and a rate rebate plan for competitors.

Commission's analysis and determinations

19. The Commission notes that, as a follow-up to Telecom Decision 2006-14, it initiated a show-cause proceeding to determine whether the competitor quality of service regime set out for the large ILECs in Telecom Decision 2005-20 should apply to the SILECs. The Commission has yet to issue its decision in that proceeding. Accordingly, the Commission considers that NorthernTel's proposal to use a complaint-based system is appropriate, as an interim measure, until the Commission issues its decision with respect to that issue in the above-noted show-cause proceeding.

d) Carrier Services Group

20. As noted above, the Commission concluded in Telecom Decision 2006-14 that whenever a SILEC was approached by a competitor requesting access to competitive services including resale, the request should be channelled through a CSG. In that Decision, the Commission considered that where resource restrictions did not allow for a dedicated CSG to be established within a SILEC's territory, alternative arrangements should be explored, such as the use of an appropriate third party, a joint CSG serving a number of SILECs, or the establishment of one CSG per province. The Commission added that the operation of the CSG function should be addressed by each SILEC in its implementation plan.

Commission's analysis and determinations

21. The Commission notes that NorthernTel did not address the operation of the CSG function in its implementation plan. NorthernTel is directed to indicate to the Commission and interested parties to this proceeding, within 30 days of the date of this Decision, whether the company will establish its own CSG or use alternative arrangements, providing details of any such arrangements. At the same time, the company is directed to provide details of the proposed procedure for dealing with competitor access requests and competitor information.

e) Other non-cost related issues

22. The Commission notes that the guiding principle set out in Telecom Decision 2006-14 is that the interconnection framework that is in place in the large ILECs' territories should apply in the SILECs' territories. Accordingly, in implementing all aspects of local competition in its serving territory, including but not limited to technical and network interconnection, the Commission directs NorthernTel to abide by the existing rules outlined in the various public notices, decisions, orders, and letters issued by the Commission pertaining to local competition.
23. Commission staff will be available to assist the parties in resolving any technical and other issues that may arise in implementing local competition in the SILECs' territories as soon as possible. The Commission encourages the parties to seek Commission staff's assistance in resolving these issues.

II. Local competition and LNP costs

24. In Telecom Decision 2006-14, the Commission considered that the implementation plan for local competition should include, among other things, costs for the implementation of local competition and LNP.

Positions of parties

25. NorthernTel provided estimates of the non-recurring and recurring costs it would incur to meet the requests of both ExaTEL and Ontera for the implementation of local competition in its territory. In support of its application, the company provided an economic study.
26. NorthernTel indicated that any additional expense to be incurred if and when a CLEC would announce its intention to compete with NorthernTel in its territory had not been included in the initial costs. NorthernTel also indicated that its cost study did not contain the following costs:
 - costs related to location portability;
 - costs resulting from the implementation of local competition and/or LNP and which were related to long distance services;
 - costs which may be recovered by pre-determined tariffs; and
 - costs for reporting competitor quality of service indicators (if required).

27. NorthernTel indicated that its costs for the implementation of local competition and LNP would be associated with the following components: LNP software, core and network security, updating of information systems and procedures, software maintenance, network and business operations, and other costs. The company provided detailed costing information in support of each of these components. Over the five-year study period, NorthernTel estimated that it would spend \$1,448,900 in non-recurring costs, and an average of \$522,445 per year in recurring costs to implement local competition and LNP in its serving territory.
28. NorthernTel noted that it was filing its cost recovery proposal in advance of knowing its final costs. The company submitted that its actual costs for the implementation of local competition and LNP would not be known until it had completed the implementation plan for ExaTEL and Ontera. The company submitted that, to the best of its ability, it was confident that all the requirements had been reviewed and its cost estimates were valid. The company requested that the Commission, in its Decision, extend permission to revisit the non-recurring and recurring costs for the implementation of local competition and LNP once its actual costs were known in early 2008, in the event that those costs were different than what had been projected.

Commission's analysis and determinations

29. The Commission has carefully reviewed NorthernTel's estimated local competition and LNP non-recurring and recurring costs and considers them acceptable. Accordingly, the Commission **approves** NorthernTel's estimates of \$1,448,900 in non-recurring costs and \$522,445 in annual recurring costs for the implementation of local competition and LNP. The Commission further considers that NorthernTel should be allowed to recover its non-recurring costs over a period of five years.
30. The Commission considers that should NorthernTel wish to recover additional costs with respect to ExaTEL's and Ontera's requests for local competition in the future, it should file another application for approval, identifying the additional costs and the rationale for the company being entitled to the recovery of these costs at that time.

III. Cost recovery mechanism

31. In Telecom Decision 2006-14, the Commission directed each SILEC to include in its implementation plan for local competition a proposal as to how the SILEC would recover the costs to implement local competition, including LNP if appropriate.

Positions of parties

32. NorthernTel proposed to recover the costs for the implementation of local competition and LNP from both NorthernTel's customers, by way of an exogenous factor, and its competitors, by way of a one-time charge for each NAS moving to that competitor. Based on cost allocation among services on the basis of NAS, where business NAS were weighted by a factor of 1.5, NorthernTel indicated that the associated exogenous factor would result in a rate increase of \$1.12 for its single-line residential customers and \$1.68 for its single-line business customers. Under the company's proposal, the one-time charge to the competitors would be \$158.03 and \$237.05 for each residential NAS and business NAS, respectively, moving to the competitor. The company further indicated that the competitor would have the option of paying this amount in a single payment or over a five-year period.

33. NorthernTel submitted that its proposal to recover these costs from both its customers and its competitors was fair to both NorthernTel and its competitors. In support of its view, NorthernTel argued that competitors should not reap the benefits of competition at the expense of the incumbent which happens to be a SILEC. NorthernTel further argued that the policy objective of local competition could only be achieved in NorthernTel's territory if those costs were recovered from both NorthernTel's customers and its competitors.
34. NorthernTel submitted that the costs for the implementation of local competition and LNP could not realistically be recovered only from the small base of customers in its operating territory. Based on cost allocation among services on the basis of NAS, where business NAS were weighted by a factor of 1.5, NorthernTel indicated that a scenario whereby these costs would be recovered from NorthernTel's customers only would result in a rate increase of \$1.36 for its single-line residential customers and \$1.98 for its single-line business customers.
35. NorthernTel argued that the Commission should not necessarily approach the cost recovery aspect of local competition implementation in the SILECs' territories with the same assumptions that were part of the determinations that resulted in the large ILECs' cost recovery decisions. The company submitted that the SILECs' size, the relative impact of the local competition implementation costs on them, and the need for a balanced approach towards the SILECs, their customers and the CLECs, should guide the Commission in adopting a cost recovery methodology that might differ from that of the large ILECs, but that would still be in keeping with the public interest. In support of its submission, NorthernTel indicated that the Commission had, in the past, applied different regulatory regimes to the SILECs. NorthernTel indicated that, in Decision 2001-756, the Commission took into consideration the specifics of the SILECs in establishing a simplified regulatory regime for those companies. NorthernTel also indicated that, in Telecom Decision 2006-14, the Commission basically extended, with some minor modifications, the simplified regime adopted in 2001; specifically, the Commission indicated that it needed a balanced approach between the various stakeholders and also wanted to impose a minimum regulatory burden on the SILECs.
36. The company submitted that the exogenous factor approach set out in Telecom Order 99-239 for the large ILECs was not appropriate for NorthernTel as it would place a burden that would be much too large on its limited customer base and its local service rates and would raise affordability concerns if NorthernTel's customers alone were required to pay for the costs for the implementation of local competition and LNP. The company further submitted that, in the case of the large ILECs, the presence of large deferral accounts and the relatively low level of the ILECs' local service rates, as compared to NorthernTel's, made a huge difference in the final outcome for their respective customers in terms of rate impact. The company indicated that prices currently paid by NorthernTel's customers were generally much higher than those paid by the customers of large ILECs, and argued that further increases could jeopardize the fundamental objective of affordability.
37. Ontera was of the view that NorthernTel's proposal was not justified. In support of its position, Ontera argued that, as had been established in previous Commission's determinations, each carrier should be responsible for the recovery of its own costs associated with the implementation of local competition. Further, Ontera submitted that cost recovery from competitors would penalize competitors and would delay local competitive entry. Ontera

submitted that when faced with the prospect of NorthernTel's proposed five-year entry toll, potential competitors might simply decide not to enter the market for five years. Ontera was of the view that this would be inefficient and undesirable.

38. TCC was of the view that NorthernTel's proposal was at odds with the Commission's established practice concerning the implementation of local competition in other ILECs' territories. TCC submitted that, in Telecom Decision 2006-14, the Commission determined that local competition in the territories of the SILECs ought to be implemented as it was in the territories of the large ILECs. TCC also submitted that the Commission, in that same Decision, contemplated the recovery of the costs for the implementation of local competition and LNP from a SILEC's subscriber base by way of an exogenous adjustment.
39. TCC argued that while the Commission, in Telecom Decision 2007-11, permitted cost recovery from TCC's deferral account, this did not diminish the long-standing policy that the ILEC subscribers in the territory in question ought to fund the costs for the implementation of local competition and LNP because it was these subscribers that were the ultimate beneficiaries of such market-opening activities. TCC submitted that recovery of these costs from the deferral account still had the effect of recovering the costs in question from subscribers in the ILEC territory where local competition was being implemented.
40. TCC submitted that the common thread to Telecom Order 99-239 and Telecom Decision 2007-11 was that the Commission agreed that the costs in question in those cases should be recovered through an exogenous adjustment. TCC further submitted that affordability concerns raised by NorthernTel were not justified. Scrutiny of the potential associated rate increases revealed that they would not materially represent amounts more than the rate of inflation, and that they would be nominal as compared with the Commission's recently approved increase of \$2 per month per residential line for Northwestel Inc. (Northwestel) customers in Telecom Decision 2007-5. In this regard, TCC argued that Northwestel's customers, like those of NorthernTel, were in high-cost serving areas (HCSAs).

Commission's analysis and determinations

41. In its implementation plan for ExaTEL, NorthernTel referred to the recovery of costs for implementing local competition and LNP through a mechanism that would draw from the National Contribution Fund (NCF). The Commission notes, however, that NorthernTel did not propose to use this approach in its implementation plan for Ontera or in its cost recovery proposal for either ExaTEL or Ontera. Accordingly, the Commission will not consider that cost recovery mechanism in this Decision. In any event, the Commission notes that the NCF was established to subsidize basic local service in HCSAs and not to subsidize the implementation of competition.
42. The Commission notes that the issue is whether NorthernTel should be allowed to recover these costs, in whole or in part, from its competitors and customers, as proposed by NorthernTel, or whether the Commission's established principle that the carrier should be responsible for the recovery of its own costs for the implementation of local competition and LNP, by way of an exogenous factor, is appropriate in the case of NorthernTel.

43. The Commission notes NorthernTel's submission that the Commission should be guided by a number of factors in adopting a cost recovery methodology that may differ from that of the large ILECs, but that would still be in keeping with the public interest. The Commission also notes NorthernTel's proposal that, notwithstanding past Commission determinations, it be permitted to recover these costs from its customers, by way of an exogenous factor, and its competitors, by way of a one-time charge for each NAS moving to that customer. In support of its position, NorthernTel submitted that competitors should not reap the benefits of competition at the expense of the incumbent which happens to be a SILEC.
44. The Commission notes that in Telecom Order 97-591 it established the principle that each carrier would be responsible for the recovery of its own costs associated with the implementation of LNP. The Commission determined that competitors should not pay for the recovery of the LNP implementation costs of the incumbent telephone company. In Telecom Decision 97-8, the Commission established the same principle with regard to the costs of the large ILECs associated with the implementation of local competition. In subsequent decisions on the same issue, the Commission has consistently reached the same conclusions.³
45. The Commission is of the view that requiring competitors to recover not only their own costs for the implementation of local competition and LNP but also to subsidize those of NorthernTel would deter economically efficient competitive entry into NorthernTel's serving territory. With particular reference to subparagraph 1(b)(iv) of the Policy Direction, the Commission considers that requiring the competitors to subsidize NorthernTel's costs would not be competitively neutral.
46. Accordingly, the Commission finds that recovery of NorthernTel's costs for the implementation of local competition and LNP from its competitors would not be appropriate.
47. The Commission notes that in Telecom Order 99-239, the Commission considered it appropriate to permit the large ILECs to recover their local competition and LNP non-recurring and recurring costs through the use of an exogenous factor. The Commission also adopted this approach in Telecom Decisions 2005-76 and 2007-11 when making its determinations regarding the recovery of local competition and LNP non-recurring and recurring costs incurred by Télébec, Limited Partnership⁴ and by TCC in its serving territory in Quebec.
48. With respect to NorthernTel's submission about affordability and the need to keep its rates low, the Commission notes that an exogenous adjustment would give the company the flexibility to recover its costs for implementing local competition and LNP. The Commission further considers that, even if NorthernTel opted for fully recovering these costs from its subscribers, the rate increases would not be excessive. In this regard, the Commission considers that any such rate increases would not be unlike the rate increases approved for other ILECs operating in HCSAs. In Telecom Decision 2007-5, for example, the Commission approved Northwestel's

³ For example, in Telecom Decisions 2005-76 and 2007-11, the Commission found that certain large ILECs' non-recurring and recurring costs for implementing local competition and LNP qualified for exogenous treatment and that these costs could be recovered from draw-downs from their deferral accounts.

⁴ Then known as Société en commandite Télébec.

proposed \$2.00 increase to its residential monthly rate and its proposed \$5.00 increase to its business monthly rate, representing rate increases of 7 and 10 percent, respectively. If NorthernTel was to recover its costs for the implementation of local competition and LNP from its customers, the potential rate increase could be up to \$1.36 for its residential customers and up to \$1.98 for its business customers. These potential rate increases represent a 4.1 percent increase for residential customers and a 3.4 percent increase for business customers. The Commission notes that NorthernTel's customers, like Northwestel's customers, are located in HCSAs, and the Commission did not find Northwestel's proposed rate increases to be unreasonable.

49. The Commission further considers that the rates resulting from a potential rate increase would also not be excessive. In this regard, the Commission notes that NorthernTel's current single-line residential service monthly rate is \$33.28 and its current single-line business service monthly rate is \$58.68. If NorthernTel were to implement a rate increase to recover its costs for the implementation of local competition and LNP, its residential rate could increase up to \$34.64 and its business rate could increase up to \$60.66. The Commission notes that NorthernTel's current rates are reasonable and considers that a residential rate of \$34.64 and a business rate of \$60.66 would also be reasonable.
50. The Commission recognizes that unlike most of the large ILECs, NorthernTel does not have a deferral account. The Commission considers, however, that NorthernTel could recover its costs for implementing local competition and LNP, as noted above, by way of an exogenous adjustment.
51. In Telecom Decision 2006-14, the Commission determined that it would continue to use the methodology established in Decision 2001-756 to determine whether an event was exogenous. In Decision 2001-756, the Commission determined that an exogenous factor adjustment would be considered for events that satisfied the following criteria:
 - a) they were legislative, judicial, or administrative actions which were beyond the control of the company;
 - b) they were addressed specifically to the telecommunications industry; and
 - c) they had a material impact as measured against the total company.
52. The Commission considers that its directives to the SILECs in Telecom Decision 2006-14 regarding the establishment of local competition and LNP clearly meet the first two criteria for exogenous events since they were administrative actions beyond the control of the company and were specifically addressed to the telecommunications industry. The Commission further considers that the third criterion is also met in that the impact of these directives on NorthernTel, estimated at \$1,448,900 in non-recurring costs and an average of \$522,445 per year in recurring costs, will have a material impact in relation to the total company. These directives therefore meet the three criteria for an exogenous event.
53. With reference to subparagraph 1(a)(ii) of the Policy Direction, the Commission considers that the approval of an implementation plan that allows NorthernTel to recover its non-recurring and recurring costs from its customers through an exogenous adjustment to its rates would not

result in excessive rate increases or rates, and, accordingly, would interfere with the operation of market forces to the minimum extent necessary to meet the policy objectives of the Act outlined above.

54. The Commission also considers that approving an implementation plan for local competition which permits NorthernTel to recover its non-recurring and recurring costs from its customers would not promote economically inefficient competitive entry into NorthernTel's serving territory, as the potential rate increases and resulting rates, as noted above, would not be excessive.
55. In light of the above, the Commission determines that an exogenous factor would be an appropriate mechanism to allow NorthernTel to recover its costs for implementing local competition and LNP. By ensuring that each telecommunications service provider is responsible for recovering its own costs, the Commission considers that it is not artificially favouring Canadian carriers or resellers.
56. The Commission further determines that NorthernTel's costs for implementing local competition and LNP are not to be allocated only to single-line local residential and single-line local business customers. The Commission notes that subscribers to other residential and business services, including those in the fourth price cap basket such as Centrex Service, would also benefit from the introduction of local competition. Accordingly, the Commission determines that when allocating these costs to residential and business services, a portion is to be allocated to other residential and business services, in the first, second, and fourth price cap baskets. However, the Commission determines that an exogenous adjustment is not to be applied to services in the third price cap basket, which contains services that address social obligation issues. Further, the Commission determines that, similar to the methodology approved in Telecom Order 99-239, these costs should be allocated on the basis of NAS, where business NAS are weighted by a factor of 1.5.
57. Should NorthernTel file an application proposing rate increases to recover some or all of its non-recurring and recurring costs for the implementation of local competition and LNP, the company would have to demonstrate compliance with the above determinations at that time.

Compliance with the Policy Direction

58. In light of the above, the Commission considers that its approval of NorthernTel's implementation plan for local competition and LNP with ExaTEL and Ontera, as modified above, is consistent with the Policy Direction.

Conclusions

59. In this Decision,
 1. The Commission **approves** NorthernTel's implementation plan in regard to the services and network components related to competitors, subject to the following:
 - a) NorthernTel is to file all the required tariffs by **29 October 2007**.

- b) NorthernTel is to provide information and assistance to the CLECs in the negotiation process, as required, in order to allow the implementation of local competition as quickly as possible.
 - c) With respect to quality of service, NorthernTel's proposal to use a complaint-based system is appropriate, as an interim measure.
 - d) NorthernTel is directed to inform the Commission and interested parties to this proceeding, by **29 October 2007**, whether the company will establish its own CSG or use alternative arrangements, providing details of any such arrangements. At the same time, the company is to provide details of the proposed procedure for dealing with competitor access requests and competitor information.
 - e) In implementing all aspects of local competition in its serving territory, including but not limited to technical and network interconnection, NorthernTel is to abide by the existing rules as outlined in the various public notices, decisions, orders, and letters issued by the Commission pertaining to local competition.
2. The Commission **approves** the following for NorthernTel:
- an exogenous factor of \$356,000 per year for recovery of non-recurring costs over a period of five years; and
 - an exogenous factor of \$522,445 for the recovery of recurring costs each year.
3. The Commission finds that NorthernTel is responsible for its own costs and notes that NorthernTel may file a proposal for an exogenous factor adjustment and a tariff application with a view to recovering those costs. When allocating these costs to residential and business services, NorthernTel is directed to abide by the Commission's determinations set out in paragraph 56 above.

Secretary General

Related documents

- *Follow-up to Decision 2002-43 – TELUS Communications Company's request to recover the start-up costs for local competition and local number portability within its incumbent serving territory in Quebec*, Telecom Decision CRTC 2007-11, 19 February 2007
- *Price cap regulation for Northwestel Inc.*, Telecom Decision CRTC 2007-5, 2 February 2007

- *Revised regulatory framework for the small incumbent local exchange carriers*, Telecom Decision CRTC 2006-14, 29 March 2006
- *Follow-up to Decision 2002-43 – Société en commandite Télébec's request to recover the start-up costs for local competition and local number portability*, Telecom Decision CRTC 2005-76, 22 December 2005
- *Finalization of quality of service rate rebate plan for competitors*, Telecom Decision CRTC 2005-20, 31 March 2005
- *Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001
- *Local competition start-up costs proceeding, Telecom Public Notice CRTC 98-10*, Telecom Order CRTC 99-239, 12 March 1999
- *Local competition*, Telecom Decision CRTC 97-8, 1 May 1997
- *Responsibility for Carrier Specific Costs for the Provision of Local Number Portability*, Telecom Order CRTC 97-591, 1 May 1997

This document is available in alternative format upon request, and may also be examined in PDF format or in HTML at the following Internet site: <http://www.crtc.gc.ca>