



Telecom Decision CRTC 2008-65

Ottawa, 22 July 2008

Bell Aliant Regional Communications, Limited Partnership and Bell Canada's request to recover the net incremental operating costs to implement an expanded local calling area in the city of Greater Sudbury

Reference: 8678-B54-200802894

In this Decision, the Commission approves the use of an exogenous adjustment of \$285,379 per year for a three-year period to recover Bell Aliant and Bell Canada's (collectively, Bell Canada et al.) net incremental operating costs to implement an expanded local calling area for the city of Greater Sudbury. The Commission also approves Bell Canada et al.'s request to recover a portion of these costs from Bell Canada's deferral account.

Introduction

1. The Commission received an application from Bell Aliant Regional Communications, Limited Partnership (Bell Aliant) and Bell Canada (collectively, Bell Canada et al.), dated 21 February 2008, requesting the recovery of the net incremental operating costs, estimated at \$769,009,¹ to implement an expanded local calling area (ELCA) for the city of Greater Sudbury (Sudbury ELCA).² Bell Canada et al. submitted that these costs were material and proposed that they be recovered over a three-year period by way of an annual exogenous adjustment of \$285,379³ allocated to certain service categories in Bell Aliant's central serving territory.
2. The Commission received no comments on the application. The public record of this proceeding, which closed on 22 March 2008, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings."
3. The Commission has identified the following two issues to be addressed in its determinations:
 - I. Does the implementation of the Sudbury ELCA qualify for exogenous treatment?
 - II. How should the net incremental operating costs to implement the Sudbury ELCA be recovered?

¹ This amount represents the total present worth of annual costs.

² The proposal to implement the Sudbury ELCA was filed under Tariff Notice 144, dated 5 December 2007. The Commission approved the proposal in Telecom Order 2008-180.

³ The annualized value of \$285,379 is equivalent to a present worth of annual costs of \$769,009.

I. Does the implementation of the Sudbury ELCA qualify for exogenous treatment?

4. In Telecom Decision 2002-56, the Commission considered that it would be appropriate to compensate incumbent local exchange carriers (ILECs) in those circumstances where there would be a material increase in net incremental operating costs as a result of the implementation of an ELCA. The Commission found that the most appropriate method of compensation would be to treat any material increase in these operating costs as an exogenous adjustment on local rates in accordance with the regulatory framework applicable to the ILEC involved.
5. The Commission notes that Bell Canada et al. indicated that the costs at issue were incurred by Bell Canada and included ELCA-related implementation costs, such as costs associated with modifying the companies' service order systems, product code databases, website URLs, and methods and training procedure manuals.
6. The Commission has reviewed Bell Canada et al.'s costs and finds \$769,009 to be reasonable to implement the Sudbury ELCA, and to be material. Therefore, the Commission finds that the net incremental operating costs incurred by Bell Canada et al. to implement the Sudbury ELCA qualify for exogenous treatment.

II. How should the net incremental operating costs to implement the Sudbury ELCA be recovered?

7. Bell Canada et al. proposed that the \$769,009 be recovered over a three-year period. Bell Canada et al. further proposed to allocate the annual exogenous adjustment of \$285,379 per year to the Residential Services baskets in high cost serving areas (HCSAs) and non-high cost serving areas (non-HCSAs), the Business Services basket, the Other Capped Services basket and the Uncapped Services basket, using the 2006 average network access services (NAS) weights, applicable within the Ontario and Quebec portion of Bell Aliant's central serving territory.
8. The Commission notes that Bell Canada et al. indicated that this resulted in \$113,530 of the Sudbury ELCA-related recoverable costs being allocated to the Residential Non-HCSAs Services basket.⁴ Bell Canada et al. further proposed to draw down from Bell Canada's recurring balance in its deferral account, on an annual basis, for a period of three years, in order to compensate Bell Aliant for the amount assigned to the Residential Non-HCSAs Services basket.
9. In Telecom Decision 2007-124, the Commission approved the use of an exogenous adjustment to permit Bell Canada to recover the net operational costs to implement ELCA's for the cities of Ottawa, Hamilton, and Gatineau over a three-year period. In that Decision, the Commission noted that weights based on NAS would be the best means of allocating the ELCA costs.

⁴ Bell Canada indicated that it had an annualized recurring amount of \$16.4 million in its deferral account as of 1 June 2007 pertaining to residential local exchange services within the non-HCSA portions of the serving territories of Bell Canada and Bell Aliant.

10. The Commission notes that Bell Aliant has updated its price cap model, which now reflects 2007 NAS weights and the removal of forborne NAS.
11. Accordingly, the Commission considers that Bell Canada et al.'s Sudbury ELCA-related costs should be allocated to the Residential Services baskets in HCSAs and non-HCSAs, the Business Services basket, the Other Capped Services basket, the Uncapped Services basket, and forborne NAS using the 2007 average NAS weights applicable within the Ontario and Quebec portion of Bell Aliant's serving territory.
12. Regarding Bell Canada et al.'s request to recover the ELCA costs over a three-year period, the Commission considers that this time frame is similar to the three-year period over which ELCA-related forgone toll revenues are permitted to be recovered, and is consistent with the recovery period approved in Telecom Decision 2007-124. The Commission, therefore, considers that Bell Canada et al.'s proposal is reasonable.
13. In Telecom Decision 2002-34, the Commission established the deferral account mechanism and was of the view that the use of the deferral account would be an efficient means of addressing regulatory adjustments.
14. The Commission is of the view that former Bell Canada customers who are now Bell Aliant customers should be allowed to benefit from monies in Bell Canada's deferral account. The Commission, therefore, considers reasonable Bell Canada et al.'s request to draw down from Bell Canada's recurring balance in its deferral account to compensate Bell Aliant for the portion of the annual operating costs of implementing the Sudbury ELCA that was assigned to the Residential Non-HCSAs Services basket.
15. Accordingly, the Commission **approves** the use of an exogenous adjustment of \$769,009 that will allow Bell Aliant to recover its net incremental operating costs of implementing the Sudbury ELCA over a three-year period. The Commission also **approves** the use of Bell Canada's deferral account to recover the portion of these costs assigned to the Residential Non-HCSA Services basket.
16. The Commission directs Bell Aliant to issue an update to its 2008 price cap filing to reflect the allocation of costs to implement the Sudbury ELCA.

Secretary General

Related documents

- Telecom Order CRTC 2008-180, 26 June 2008
- *Bell Aliant and Bell Canada – Application seeking recovery of the net incremental operating costs associated with the implementation of certain expanded local calling areas*, Telecom Decision CRTC 2007-124, 7 December 2007

- *Framework for the expansion of local calling areas*, Telecom Decision CRTC 2002-56, 12 September 2002
- *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002, as amended by Telecom Decision CRTC 2002-34-1, 15 July 2002

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>