



Telecom Decision CRTC 2009-199

Ottawa, 17 April 2009

MTS Allstream Inc. – Application seeking exogenous treatment of wireline-related costs for the implementation of wireless number portability

File number: 8678-M59-200816507

In this decision, the Commission finds that its directive to MTS Allstream to implement wireless number portability (WNP) meets the criteria for an exogenous event and determines that the wireline-related WNP implementation costs incurred by MTS Allstream qualify for exogenous treatment.

The Commission approves the use of an exogenous adjustment of \$1 million per year for a six-year period to allow MTS Allstream to recover its WNP implementation costs. The Commission also approves drawing down the amount assigned to the Residential Non-High Cost Serving Areas Services basket from the recurring balance in MTS Allstream's deferral account. In addition, the Commission approves an increase of \$0.18 per network access service per month to the price ceilings on stand-alone residential primary exchange service in forborne markets.

Introduction

1. The Commission received an application by MTS Allstream Inc. (MTS Allstream), dated 9 December 2008, requesting that the Commission approve the recovery of the costs it had incurred to modify its wireline network to enable wireless number portability (WNP). MTS Allstream estimated these costs to be \$3.9 million¹ and proposed an annual exogenous adjustment of \$1 million over a six-year period in order to recover these costs. MTS Allstream proposed to recover these costs through a combination of rate increases and annual drawdowns from the recurring balance in its deferral account.
2. The Commission received no comments on this application. The record of this proceeding, which closed on 4 March 2009, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings", or by using the file number provided above.
3. The Commission has identified the following two issues to be addressed in its determinations:
 - I. Do the WNP implementation costs qualify for exogenous treatment?
 - II. Are MTS Allstream's costs reasonable and is the method by which MTS Allstream proposes to recover its wireline-related WNP costs appropriate?

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

I. Do the WNP implementation costs qualify for exogenous treatment?

4. MTS Allstream noted that in Telecom Decision 2007-27 the Commission outlined criteria for determining whether events or initiatives qualify for exogenous treatment under the price cap framework adopted in that decision.² These criteria require that the events or initiatives must
 - a) be legislative, judicial, or administrative actions beyond the control of the company;
 - b) be addressed specifically to the telecommunications industry; and
 - c) have a material impact as measured against the total company.
5. MTS Allstream submitted that its WNP implementation costs met all of these conditions. In addition, MTS Allstream noted that the Commission had approved the recovery of WNP implementation costs by Bell Canada via an exogenous adjustment in Telecom Decision 2007-88.
6. The Commission notes that in Telecom Decisions 2007-88 and 2008-115, it determined that its directive in Telecom Decision 2005-72 to implement WNP satisfied the criteria for an exogenous event as set out in Telecom Decision 2007-27. Consistent with its determinations in those decisions, the Commission determines that the wireline-related costs incurred by MTS Allstream to implement WNP satisfy the criteria for an exogenous event and, therefore, qualify for exogenous treatment.

II. Are MTS Allstream's costs reasonable and is the method by which MTS Allstream proposes to recover its wireline-related WNP costs appropriate?

Reasonableness of MTS Allstream's costs

7. In support of its application, MTS Allstream filed a cost study in which it proposed to recover the wireline portion of its WNP implementation costs over a period of six years.
8. MTS Allstream submitted that its WNP implementation costs included costs for software updates for its switches and business support systems, as well as costs for order fulfillment and administrative activities resulting from intermodal porting. MTS Allstream also submitted that its calculations resulted in WNP costs that are consistent with those of Bell Canada, which were approved by the Commission in Telecom Decision 2007-88. It further submitted that it had not included any costs related to modifications to MTS Mobility's wireless network systems or processes.
9. The Commission has reviewed the WNP-related costs identified by MTS Allstream in its cost study and is satisfied that they reflect causal costs associated with WNP implementation. The Commission is also satisfied that the costing approach used by MTS Allstream is consistent with the Commission's Phase II costing methodology.

² The Commission had previously set out these criteria in Telecom Decisions 2002-34 and 2002-43.

Implementation period

10. The Commission notes that MTS Allstream's proposal to recover its WNP implementation costs over a six-year period is consistent with the period over which it approved the recovery of WNP implementation costs in past decisions. Accordingly, the Commission considers that MTS Allstream's proposal is reasonable.

Allocation of costs to service baskets

11. MTS Allstream proposed to allocate its WNP costs to the following on the basis of single-line residential and business network access services (NAS):
 - the Residential High-Cost Serving Areas (HCSAs) Services basket;
 - the Residential Non-High-Cost Serving Areas (Non-HCSAs) Services basket;
 - the Business Services basket; and
 - services that are forborne from regulation.
12. In response to Commission interrogatories, MTS Allstream confirmed that it would also allocate its WNP costs to the Uncapped Services basket since it had introduced bundles that resulted in NAS being assigned to this basket in 2008.
13. In Telecom Decision 2007-88, the Commission considered that the most competitively neutral methodology for recovering Bell Canada's exogenous WNP implementation costs would be to allocate these costs to the appropriate services. The Commission also determined that, consistent with the approach taken in Telecom Order 99-239, the best means of allocating these costs to residential and business primary exchange service (PES) would be on the basis of NAS.
14. In the Commission's view, MTS Allstream's proposed method for allocating its wireline-related WNP implementation costs to single-line residential and business PES is consistent with the Commission's past directives and is reasonable.
15. Accordingly, the Commission determines that MTS Allstream's wireline-related WNP implementation costs are to be allocated on the basis of single-line residential and business NAS to the Residential HCSAs Services basket, the Residential Non-HCSAs Services basket, the Business Services basket, the Uncapped Services basket, and services that are forborne from regulation.

Allocation of costs to the deferral account

16. MTS Allstream proposed recovering the amount assigned to the Residential Non-HCSAs Services basket by drawing down the recurring balance in its deferral account. MTS Allstream noted that it had a remaining recurring balance of \$838,000 in its deferral account as of 13 June 2007.

17. The Commission notes that in Telecom Decision 2006-9, it concluded that assigning rate reductions to the Residential Local Services in non-HCSAs and Residential Optional Local Services in non-HCSAs sub-baskets would be an appropriate way to clear recurring amounts in the incumbent local exchange carriers' (ILECs) deferral accounts. The Commission directed the ILECs to file proposals to eliminate the recurring amounts in their deferral accounts.
18. The Commission considers that allowing MTS Allstream to recover the portion of costs assigned to the Residential Non-HCSAs services basket through annual drawdowns from the recurring balance in its deferral account for a period of six years would be consistent with the Commission's directives in Telecom Decision 2006-9 regarding rate reductions in this basket. The Commission also considers that were it to deny MTS Allstream's proposal, MTS Allstream could increase its rates, which would counteract the rate reductions the company was directed to make pursuant to Telecom Decision 2006-9.
19. In light of the above, the Commission considers that MTS Allstream's proposal to draw down the recurring balance from its deferral account to recover the exogenous amount assigned to the Residential Non-HCSAs Services basket is reasonable.

Residential PES in exchanges forborne from regulation

20. MTS Allstream proposed that the portion of WNP costs allocated to forborne residential services be used to increase the price ceilings that were set when forbearance was granted. It also proposed that these price ceilings be increased by \$0.18 per NAS per month.
21. The Commission notes that in establishing the local forbearance framework in Telecom Decision 2006-15, it considered it important to ensure that the affordability of residential PES not be compromised in a forborne market. The Commission therefore imposed price ceilings on stand-alone residential PES in forborne markets in order to provide vulnerable customers with a safeguard against unreasonable price increases.
22. The Commission also notes that in Telecom Decision 2008-115, it approved a request by TELUS Communications Company (TCC) to increase the price ceilings on stand-alone residential PES in forborne markets by \$0.05 per NAS per month as a result of WNP implementation in its territories. The Commission stated that this increase would allow TCC the opportunity to recover its adjusted WNP implementation costs and thus would not constitute an unreasonable rate increase within the meaning of Telecom Decision 2006-15.
23. The Commission considers that MTS Allstream's request to increase the price ceiling on stand-alone residential PES in forborne markets is consistent with its determinations in Telecom Decision 2008-115. The Commission further considers that, in these circumstances, this increase to the applicable price ceiling will give MTS Allstream the opportunity to recover its WNP implementation costs and does not constitute an unreasonable rate increase within the meaning of Telecom Decision 2006-15. Therefore, the Commission considers that an increase of \$0.18 per NAS per month to the price ceilings for MTS Allstream's stand-alone residential PES in forborne markets is reasonable.

Conclusion

24. In light of the above, the Commission **approves**
- the use of an exogenous adjustment of \$1 million per year for a six-year period;
 - an annual drawdown from the recurring balance in MTS Allstream's deferral account to recover the exogenous amount assigned to the Residential Non-HCSAs Services basket; and
 - an increase of \$0.18 per NAS per month to MTS Allstream's price ceilings on stand-alone residential PES in forborne markets.
25. The Commission directs MTS Allstream to allocate its wireline-related WNP implementation costs on the basis of single-line residential and business NAS to the Residential HCSAs Services basket, the Residential Non-HCSAs Services basket, the Business Services basket, the Uncapped Services basket, and services that are forborne from regulation.
26. The Commission directs MTS Allstream to issue, within 30 days of the date of this decision, an update to its 2008 service basket limits to reflect the allocation of costs associated with WNP implementation across the service baskets identified above.

Secretary General

Related documents

- *TELUS Communications Company – Application seeking exogenous treatment of wireline-related costs associated with the implementation of wireless number portability*, Telecom Decision CRTC 2008-115, 10 December 2008
- *Bell Canada – Application seeking exogenous treatment of wireline-related costs associated with the implementation of wireless number portability*, Telecom Decision CRTC 2007-88, 14 September 2007
- *Price cap framework for large incumbent local exchange carriers*, Telecom Decision CRTC 2007-27, 30 April 2007
- *Forbearance from the regulation of retail local exchange services*, Telecom Decision CRTC 2006-15, 6 April 2006, as amended by Order in Council P.C. 2007-532, 4 April 2007
- *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2006-9, 16 February 2006

- *Implementation of wireless number portability*, Telecom Decision CRTC 2005-72, 20 December 2005
- *Implementation of price regulation for Télébec and TELUS Québec*, Telecom Decision CRTC 2002-43, 31 July 2002
- *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002, as amended by Telecom Decision 2002-34-1, 15 July 2002
- *Local competition start-up costs proceeding*, Telecom Public Notice CRTC 98-10, Telecom Order CRTC 99-239, 12 March 1999

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